



*TAS
Research
and Related
Studies &
Literature
Reviews*

Volume 2

NATIONAL TAXPAYER ADVOCATE

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2017

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Volume 2

TAS RESEARCH AND RELATED STUDIES

**Study of Financial Circumstances of Taxpayers
Who Entered Into Installment Agreements
and Made Payments While Their Debts Were
Assigned to Private Collection Agencies**

Study of Financial Circumstances of Taxpayers Who Entered Into Installment Agreements and Made Payments While Their Debts Were Assigned to Private Collection Agencies

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EXECUTIVE SUMMARY

Pursuant to its private debt collection (PDC) initiative, since April 2017 the IRS has outsourced the collection of certain tax debt to private collection agencies (PCAs). PCAs may offer taxpayers who cannot pay their debts in full an installment agreement (IA), not to exceed five years. PCAs do not gather any financial information from taxpayers and have no obligation or incentive to inquire whether taxpayers are in economic hardship. The TAS studied the financial circumstances of 2,102 taxpayers who, between April 10, 2017 and September 28, 2017, entered into an IA while their debts were assigned to a PCA and made a payment on which the PCA received a commission. Among our findings:

- Almost fifty percent of these taxpayers agreed to make payments even though their incomes were less than their Allowable Living Expenses (ALEs), according to IRS measures; if these cases were worked by the IRS, these taxpayers could be put into “Currently Not Collectable” status;
- More than a fifth had incomes less than the federal poverty level, yet these taxpayers paid \$544 on average; and
- Virtually all (94 percent) of taxpayers who receive Social Security Administration (SSA) retirement income and entered into these IAs have incomes below 250 percent of the poverty level. The IRS does not seek to collect these taxpayers’ debts pursuant to an automatic levy program, the Federal Payment Levy Program (FPLP), yet it assigns their debts to PCAs for collection.

The National Taxpayer Advocate recommends that the IRS exclude the debts of SSA retirement income recipients whose incomes are less than 250 percent of the federal poverty level from assignment to PCAs and require PCA employees, before offering taxpayers an IA, to: inform taxpayers that they are not required to enter into an IA for an amount that would leave them unable to pay their reasonable basic living expenses; and refer them to the IRS webpage that sets out the ALEs that would apply to them, or, if the taxpayer prefers, print and mail them that information.

INTRODUCTION

In 2017, the IRS began assigning the debts of some taxpayers to private collection agencies (PCAs) pursuant to IRC § 6306. IRC § 6306 requires the IRS to outsource the collection of “inactive tax receivables,” a term defined in the statute, provided such receivables are included in “potentially collectible inventory,” a term that is undefined in the statute or applicable regulations.¹ The National Taxpayer Advocate has been advised by Chief Counsel that the IRS has discretion to define “potentially collectible inventory” to exclude the debts of SSA retirement income recipients with incomes less than 250 percent of the federal poverty level.² As discussed earlier in this report, the IRS has not acquiesced

1 Internal Revenue Code (IRC) § 6306(c)(2).

2 See National Taxpayer Advocate 2016 Annual Report to Congress 172-191 (Most Serious Problem: *Private Debt Collection (PDC): The IRS Is Implementing a PDC Program in a Manner That Is Arguably Inconsistent With the Law and That Unnecessarily Burdens Taxpayers, Especially Those Experiencing Economic Hardship*). For purposes of administering the IRS’s automatic levy program, the Federal Payment Levy Program (FPLP), the IRS adopted 250 percent of the federal poverty level as a measure that serves as a proxy for economic hardship. The Social Security Administration (SSA) retirement income of taxpayers with incomes less than 250 percent of the federal poverty level is not subject to FPLP levies. See Internal Revenue Manual (IRM) 5.19.9.3.2.3, *Low Income Filter (LIF) Exclusion* (Oct. 20, 2016). See also the U.S. Dept. of Health and Human Resources, *Poverty Guidelines* (Jan. 31, 2017), <https://aspe.hhs.gov/poverty-guidelines>, showing that the poverty level for a single person in 2017 was \$12,060. Thus, 250 percent of the 2017 federal poverty level for a single person was \$30,150.

to that position, and assigns these taxpayers' debts to PCAs.³ Overall, 44 percent of taxpayers who made payments while their debts were assigned to a PCA had incomes below 250 percent of the federal poverty level, according to their recently filed returns.⁴

Pursuant to IRC § 6306, a PCA may contact a taxpayer and, if the taxpayer cannot fully pay the liability, the PCA may offer to arrange an IA for up to five years, or seek IRS approval for an IA up to six or seven years in duration.⁵ In exchange for their services, the IRS is authorized to pay the PCAs a fee of up to 25 percent of the amount they collect.⁶ According to the IRS's contract with the PCAs, commissions are payable with respect to payments the IRS receives after ten days from assignment of the debt to the PCA (these payments are referred to as commissionable payments).⁷ As described earlier in this report, taxpayers entered into IAs and made commissionable payments while their debts were assigned to PCAs even though, according to their recent returns, 45 percent of the time their incomes were less than their ALEs.⁸ This study extends the analysis to taxpayers who did not file recent returns.

BACKGROUND

Taxpayers who owe \$50,000 or less in delinquent tax and cannot immediately satisfy their tax liabilities in full may be eligible for a "streamlined" IA, which allows them to pay the liability in installments over a period of up to six years.⁹ Taxpayers can request a streamlined IA without providing any financial information to the IRS.¹⁰

Some taxpayers cannot immediately pay their liability in full and are not eligible for, or cannot afford, a streamlined IA. In that case, they may request that the IRS consider an IA for a period of longer than six years, or consider collection alternatives.¹¹ These requests must be supported by financial

3 See Most Serious Problem: *Private Debt Collection: The IRS's Private Debt Collection Program Is Not Generating Net Revenues, Appears to Have Been Implemented Inconsistently with The Law, and Burdens Taxpayers Experiencing Economic Hardship*, *supra*.

4 *Id.* In contrast, this volume 2 study considers the financial condition of taxpayers who entered into IAs after their debts were assigned to a PCA, including those who did not file recent returns.

5 IRC § 6306(b). The National Taxpayer Advocate has serious concerns about the IRS's use of PCAs to enter into installment agreements (IAs) exceeding five years. See National Taxpayer Advocate 2016 Annual Report to Congress 172-191 (Most Serious Problem: *Private Debt Collection: The IRS Is Implementing a PDC Program in a Manner That Is Arguably Inconsistent With the Law and That Unnecessarily Burdens Taxpayers, Especially Those Experiencing Economic Hardship*).

6 IRC § 6306(e)(1). The IRS is also permitted to retain for itself up to 25 percent of the amount PCAs collect. IRC § 6306(e)(2).

7 Under section 2.3 of the IRS's contract with the PCAs, commissions are generally payable on any payment received 11 days or more after the date the account is transferred to a PCA and up to ten calendar days after the account is returned to the IRS.

8 See Most Serious Problem: *Private Debt Collection: The IRS's Private Debt Collection Program Is Not Generating Net Revenues, Appears to Have Been Implemented Inconsistently with The Law, and Burdens Taxpayers Experiencing Economic Hardship*, *supra*.

9 See IRM 5.14.5.2, *Streamlined Installment Agreements* (Dec. 23, 2015), providing that streamlined installment agreements may be approved for taxpayers where the aggregate unpaid balance of assessments is \$50,000 or less.

10 See *Apply Online for a Payment Agreement or Plan*, <https://www.irs.gov/payments/online-payment-agreement-application>. IRS, *Streamlined Processing of Installment Agreements* (last visited Oct. 17, 2017). Taxpayers must have filed all required returns to be eligible for any IA. IRM 5.14.1.2 (8)(f), *Installment Agreements and Taxpayer Rights* (Jan. 1, 2016).

11 See IRM 5.14.1.4 (2), *Installment Agreement Acceptance and Rejection Determinations* (Sept. 19, 2014). For example, the IRS may designate the liability as currently not collectible (CNC) due to the taxpayer's economic hardship. See IRM 5.16.1.1, *Currently Not Collectible Overview* (Aug. 25, 2014); IRM 5.16.1.2.9, *Hardship* (Aug. 25, 2014); IRM 5.15.1.16, *Making the Collection Decision* (Nov. 17, 2014). The IRS is also authorized to accept an offer-in-compromise under IRC § 7122 and Treas. Reg. § 301.7122-1(b)(2). Pursuant to IRM 5.14.2.1, *Overview* (Mar. 11, 2011), the IRS may approve a partial-payment IA.

information provided by the taxpayer.¹² To determine whether to approve a request for a non-streamlined IA or a collection alternative, Congress has required the IRS to develop ALE standards to ascertain the extent to which a taxpayer is able to make payments on their tax liabilities.¹³ The ALE standards determine how much money taxpayers need for basic living expenses such as housing and utilities, food, transportation, and health care, based on family size and where they live.¹⁴ When compared with taxpayer income, the ALE standards determine the taxpayer's ability to pay his or her tax debt and at what level. If the ALE standards exceed the taxpayer's income, the taxpayer is unable to pay his or her basic living expenses and may be placed in "Currently Not Collectible" hardship status.¹⁵

By the end of fiscal year (FY) 2017, the IRS had assigned about \$920 million of receivables, owed by about 128,000 taxpayers, to one of four PCAs with which it had entered into "qualified tax collection contracts."¹⁶

Pursuant to procedures implemented by the IRS as part of the PDC initiative, PCAs may solicit immediate full payment from taxpayers, and if that is not forthcoming, PCAs may offer taxpayers an IA of up to five years.¹⁷ If the taxpayer cannot fully pay within five years, but can pay within six or seven years (and the period of limitations on collection will not expire in the meantime), the PCA is required to obtain IRS approval of the proposed IA for that length of time.¹⁸

TAS reviewed the financial circumstances of 2,102 taxpayers who entered into an IA and made commissionable payments while their debts were assigned to a PCA.¹⁹ The analysis included a comparison of the taxpayer's ALE and income shown on a recently filed return or, in the absence of a recently filed return, an estimate of the taxpayer's income based on third-party payor documents supplied to the IRS. We also considered the size of the liability.

12 IRM 5.14.1.2 (3), *Installment Agreements and Taxpayer Rights* (Jan. 1, 2016).

13 IRC § 7122(d), relating to offers in compromise. See IRM 5.15.1.7(2), *Financial Analysis Handbook, Allowable Expense Overview* (Oct. 2, 2012).

14 See IRS, *Collection Financial Standards*, <https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>. The allowable living expenses (ALEs) are guidelines. The IRS may allow additional amounts for basic living expenses if the taxpayer substantiates the need to deviate from the standards. IRM 5.15.1.7(5), *Financial Analysis Handbook, Allowable Expense Overview* (Oct. 2, 2012).

15 See IRM 5.16.1, *Currently Not Collectible* (Jan. 1, 2016); IRM 5.16.1.2.9, *Hardship* (Mar. 21, 2017), noting that "hardship exists if a taxpayer is unable to pay reasonable basic living expenses." See also IRM 5.15.1.7(2), *Financial Analysis Handbook, Allowable Expense Overview* (Oct. 2, 2012), describing ALEs and noting that "the total necessary expenses establish the minimum a taxpayer and family needs to live."

16 PDC Program Scorecard for Fiscal Year 2017, reporting operational data through Sept. 14, 2017 and IRS costs through Sept. 30, 2017, showing that \$ 919,593,380 of tax receivables were assigned, corresponding to the debts of 128,344 taxpayers.

17 The PDC program is implemented in part through the private collection agency (PCA) Policy and Procedure Guide (PPG). PPG Section 10, *Payment Options*, contains the procedures for soliciting payment from taxpayers.

18 The IRS must generally collect tax within ten years after assessment. See IRC § 6502. For a description of these arrangements as an "end-run" around the five-year limit on IAs that can be offered by PCAs in IRC § 6306(b), see National Taxpayer Advocate 2016 Annual Report to Congress 172, 179 (Most Serious Problem: *Private Debt Collection (PDC): The IRS Is Implementing a PDC Program in a Manner That Is Arguably Inconsistent With the Law and That Unnecessarily Burdens Taxpayers, Especially Those Experiencing Economic Hardship*).

19 Of these taxpayers, 1,676 filed recent returns (i.e., for tax year 2014 or later); their income characteristics are described here and also earlier in this report. See Most Serious Problem: *Private Debt Collection: The IRS's Private Debt Collection Program Is Not Generating Net Revenues, Appears to Have Been Implemented Inconsistently with The Law, and Burdens Taxpayers Experiencing Economic Hardship, supra*.

RESEARCH QUESTIONS

Of taxpayers who entered into an IA when their debts were assigned to a PCA and made a commissionable payment:

1. What is the relationship of income to the federal poverty level and ALE, stratified by the level of the last recorded balance due; and
2. To what extent were those who entered into IAs recipients of SSA retirement income and what were these taxpayers' incomes compared to the federal poverty level.

METHODOLOGY

TAS Research queried the IRS Compliance Data Warehouse (CDW) to find data on taxpayers with IAs initiated while their debts were assigned to a PCA and who made a commissionable payment on their tax liability. We identified taxpayers who entered into an IA while their debts were assigned to a PCA and made payments during that time through Individual Master File (IMF) transaction codes. We computed ALEs for four categories:

- Food, clothing, and other items;
- Housing and utilities,
- Transportation; and
- Health care.²⁰

We computed poverty levels according to the guidelines published by the U.S. Department of Health and Human Services.²¹

We used data from two sources to determine taxpayers' income to which the ALEs would be compared. We considered:

- The income shown on the taxpayer's most recently filed 2014-2016 individual federal income tax return; and
- The taxpayer's income from the Information Returns Master File (IRMF) wage and Form 1099 income (for example, Social Security Administration, miscellaneous, interest, dividend, and Individual Retirement Account (IRA), and pension income).²²

We applied the following guidelines:

1. If a taxpayer filed a 2014-2016 return:
 - a. We used the total positive income (TPI) shown on the most recent tax year return;²³

20 See IRM 5.15.1.7(2), Financial Analysis Handbook, *Allowable Expense Overview* (Oct. 2, 2012), describing ALEs and noting that "the total necessary expenses establish the minimum a taxpayer and family needs to live." In this analysis, we used the 2017 ALE standards.

21 The guidelines are available at <https://aspe.hhs.gov/poverty-research>.

22 Form 1099, *U.S. Information Return*, is an income information document supplied to the taxpayer and the IRS from third party payors. See IRC § 6041(a).

23 The Total Positive Income is the amount of total income excluding losses. It is reported in positive whole dollars. It is zero if not present.

- b. For purposes of calculating the applicable poverty level and ALEs, we used the family size, zip code, and ages of the primary and secondary taxpayers who were reported on that return.²⁴
 - c. The annual ALE total for a given taxpayer was computed by multiplying the monthly ALE total by twelve.²⁵ A taxpayer was designated as below ALE when his or her TPI was lower than that taxpayer's annual ALE total.
 2. Where the taxpayer did not file a return for 2014-2016:
 - a. We estimated income using third-party data reported for tax year 2016; and
 - b. For purposes of calculating the applicable poverty level and ALEs, we treated the taxpayer as under age 65, with a family size of one, and residing in the continental United States in the location with the least amount of allowable housing and transportation costs (with no transportation operating cost).²⁶
 3. The annual ALE total for a given taxpayer was computed by multiplying the monthly ALE total by twelve. A taxpayer was designated as below ALE when his or her TPI was lower than that taxpayer's annual ALE total.
 4. To measure a taxpayer's balance due, we aggregated the Total Module Balance Due from the Accounts Receivable Dollar Inventory (ARDI) for Individual Master File (IMF) taxpayers for debts assigned to PCAs.

FINDINGS

Some taxpayers who entered into IAs and made payments while their debts were assigned to PCAs had incomes that were less than their ALEs. This was particularly true of taxpayers whose incomes were less than 250 percent of the federal poverty level. As Figure 1.1 below shows, of the 2,102 taxpayers who entered into an IA and made commissionable payments while their debts were assigned to a PCA:

- Almost half had incomes less than their ALEs.
- More than a fifth had incomes less than the federal poverty level. All of these taxpayers' incomes were less than their ALEs, but they paid \$544 on average.
- More than a quarter had incomes at or above the federal poverty level but less than 250 percent of the federal poverty level. More than eight out of ten of these taxpayers' incomes were less than their ALEs.

24 We used the poverty guidelines from the U.S. Dept. of Health and Human Services website for the year of the return.

25 For purposes of computing ALEs, we applied transportation ownership and operating expenses only for primary and secondary taxpayers reported on those returns.

26 We used the poverty guidelines from the U.S. Dept. of Health and Human Services website for 2016. The 2017 ALE monthly minimum amount was \$1,927, consisting of \$639 for food, clothing, and other items; \$754 for housing and utilities; \$485 for transportation; and \$49 for health care.

FIGURE 1.1, Relationship of Income to the Federal Poverty Level and to Allowable Living Expenses of 2,102 Taxpayers Who Entered Into Installment Agreements and Made Commissionable Payments while Their Debts Were Assigned to PCAs

Income Compared to Poverty Level	Number of Taxpayers	Percent of Taxpayers	Number of Taxpayers With Income Less Than Allowable Living Expenses	Percent of Taxpayers With Income Less Than Allowable Living Expenses	Average Amount Paid
Income Below the Federal Poverty Level	452	22%	452	100%	\$544
Income At or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	553	26%	465	84%	\$472
Income At or Above 250 Percent of the Federal Poverty Level	1,097	52%	55	5%	\$655
Total	2,102	100%	972	46%	

All of the IAs were for debts that were less than \$50,000. As shown by Figure 1.2 below:

- The lower the amount of tax owed, the more likely it was to be owed by taxpayers with incomes less than ALEs.
- The lower the amount owed, the more likely it was to be owed by taxpayers with incomes of less than 250 percent of the federal poverty level;
- The ALEs always exceeded the incomes of taxpayers whose incomes were below the federal poverty level. These taxpayers may have foregone necessary living expenses to make payments. Yet in general, the more tax they owed the more they paid on average.

FIGURE 1.2, Relationship of Income to Allowable Living Expenses and Federal Poverty Level of 2,102 Taxpayers Who Entered Into Installment Agreements and Made Commissionable Payments While Their Debts Were Assigned to PCAs, Stratified by Amount Owed

Amount Owed	Income Compared to Federal Poverty Level	Number of Taxpayers	Number of Taxpayers with Income Less Than Allowable Living Expenses	Percent of Taxpayers with Income Less Than Allowable Living Expenses	Average Amount Paid
Less Than \$2,000	Income Below the Federal Poverty Level	151	151	100%	\$217
	Income At Or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	150	127	85%	\$173
	Income At Or Above 250 Percent of the Federal Poverty Level	214	17	8%	\$286
	Subtotal	515	295	57%	
\$2,000 or More and Less Than \$4,000	Income Below the Federal Poverty Level	133	133	100%	\$384
	Income At Or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	161	137	85%	\$327
	Income At Or Above 250 Percent of the Federal Poverty Level	280	12	4%	\$426
	Subtotal	574	282	49%	
\$4,000 or More and Less Than \$8,000	Income Below the Federal Poverty Level	98	98	100%	\$593
	Income At Or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	139	119	86%	\$437
	Income At Or Above 250 Percent of the Federal Poverty Level	282	15	5%	\$596
	Subtotal	519	232	45%	
\$8,000 or More and Less Than \$10,000	Income Below the Federal Poverty Level	14	14	100%	\$1,414
	Income At Or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	34	28	82%	\$816
	Income At Or Above 250 Percent of the Federal Poverty Level	86	2	2%	\$704
	Subtotal	134	44	33%	
More Than \$10,000	Income Below the Federal Poverty Level	56	56	100%	\$1,501
	Income At Or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	69	56	81%	\$1,359
	Income At Or Above 250 Percent of the Federal Poverty Level	235	9	4%	\$1,317
	Subtotal	360	121	34%	
Total	Overall Total	2,102	974	46%	\$ -

As noted above, the SSA retirement income of taxpayers with incomes less than 250 percent of the federal poverty level is not subject to FPLP levies. The group of taxpayers who entered into IAs and made commissionable payments while their debts were assigned to PCAs included 101 SSA retirement income recipients. As shown by Figure 1.3 below:

- Half had incomes below the federal poverty level;
- 94 percent had incomes below 250 percent of the federal poverty level.

FIGURE 1.3, Relationship of Income to the Federal Poverty Level of 101 Social Security Retirement Income Recipients Who Entered Into Installment Agreements and Made Commissionable Payments while Their Debts Were Assigned to PCAs²⁷

Income Compared to Federal Poverty Level	Number of Taxpayers	Percent of Taxpayers
Income Below the Federal Poverty Level	50	50%
Income At or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	45	45%
Income At Or Above 250 Percent of the Federal Poverty Level	6	6%
Total	101	100%

Moreover, as Figure 1.4 below shows:

- SSA retirement income recipients were most likely to owe the lowest incremental amount, less than \$2,000;
- The 95 SSA retirement income recipients with incomes less than 250 percent of the federal poverty level paid a total of \$46,938, or \$494 on average.

²⁷ Rounding causes the total to appear greater than 100.

FIGURE 1.4, Income and Amount Paid by 101 Social Security Retirement Income Recipients Who Entered Into Installment Agreements and Made Commissionable Payments While Their Debts Were Assigned to PCAs, Stratified by Amount Owed

Income Compared to Federal Poverty Level	Amount Owed	Percent of Taxpayers	Total Amount Paid
Income Below the Federal Poverty Level	<\$2,000	44%	\$4,939
	>=\$2,000 to <\$4,000	26%	\$2,376
	>=\$4,000 to <\$8,000	24%	\$10,563
	>=\$8,000 to <\$10,000	2%	\$275
	>=\$10,000	4%	\$456
Income At or Above the Federal Poverty Level and Below 250 Percent of the Federal Poverty Level	<\$2,000	44%	\$3,125
	>=\$2,000 to <\$4,000	18%	\$3,053
	>=\$4,000 to <\$8,000	18%	\$2,836
	>=\$8,000 to <\$10,000	2%	\$230
	>=\$10,000	18%	\$19,084
	Subtotal		\$46,938
Income At Or Above 250 Percent of the Federal Poverty Level	<\$2,000	33%	\$353
	>=\$2,000 to <\$4,000	33%	\$300
	>=\$4,000 to <\$8,000	33%	\$350
	>=\$8,000 to <\$10,000		
	>=\$10,000		
	Subtotal		\$1,003

CONCLUSION

In FY 2017 when taxpayers entered into IAs while their debts were assigned to a PCA, there was an almost fifty percent probability that they agreed to make payments even though their incomes were less than their ALEs. This was especially true of taxpayers whose incomes were below 250 percent of the federal poverty level. Virtually all taxpayers who receive SSA retirement income and entered into these IAs had incomes below 250 percent of the poverty level. Recognizing that SSA retirement income recipients with incomes below 250 percent of the poverty level are likely in economic hardship, the IRS does not seek to collect their debts through FPLP levies, yet it assigns their debts to PCAs for collection.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Exclude the debts of SSA retirement income recipients whose incomes are less than 250 percent of the federal poverty level from assignment to PCAs.
2. Require PCA employees, before offering taxpayers an IA, to:
 - a. inform taxpayers that they are not required to enter into an IA for an amount that would leave them unable to pay their reasonable basic living expenses, and
 - b. refer them the IRS webpage that sets out the ALEs that would apply to them, or, if the taxpayer prefers, print and mail them that information.

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Volume 2

TAS RESEARCH AND RELATED STUDIES

Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently In Error and Were Not Audited But Were Sent an Educational Letter From the Taxpayer Advocate Service, Part 2: Validation of Prior Findings and the Effect of an Extra Help Phone Number and a Reminder of Childless-Worker EITC



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EXECUTIVE SUMMARY

This study corroborates and expands upon a 2016 study, described in the National Taxpayer Advocate's 2016 Annual Report to Congress, of taxpayers who were sent an educational letter from TAS in January of 2016.¹ The letter was sent to taxpayers who appeared to have erroneously claimed the Earned Income Tax Credit (EITC) on their 2014 returns. The letter explained the requirements for claiming EITC and identified the error the taxpayer appeared to have made. The 2016 study explored the extent to which the letter affected taxpayers' subsequent compliance.

This year, TAS sent the same letter to taxpayers who appeared to have erroneously claimed EITC on their 2015 returns, except that this year's letter also reminded taxpayers they could be eligible for the childless-worker EITC. In addition, TAS sent a separate letter to a group of taxpayers who appeared to have erroneously claimed EITC because the residency test for claiming EITC was not met. The letter to this group was the same as the letter sent to other taxpayers who appeared to not have met the residency test, except that it included a toll-free number taxpayers could call to speak to a TAS employee about their eligibility for EITC. This study explores the effect of both letters on taxpayers' subsequent compliance.

Among the study findings:

- Overall, the TAS letter averted erroneous EITC claims among taxpayers who claimed EITC in 2016, mostly because taxpayers who were sent TAS letters were less likely to repeat on a 2015 return the same error that appeared to have been made on the 2015 return compared to unaudited taxpayers who did not receive a TAS letter;
- For taxpayers who appeared to not meet the *residency requirement*, the TAS letter with an extra help telephone number averted erroneous EITC claims more effectively than not sending a letter, sending a letter without the additional phone number, or auditing the taxpayer. Sending the TAS letter with the extra help phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted more than \$44 million in erroneous EITC claims;
- For taxpayers who appeared to not meet the *relationship requirement*, the TAS letter averted erroneous EITC claims more effectively than not sending a letter. Sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted nearly \$53 million of erroneous EITC claims;
- For audited taxpayers who appeared to have claimed the same qualifying child as another taxpayer (*i.e.*, there were duplicate claims) who then claimed EITC in the subsequent year, the audits were the least effective in modifying their behavior; and
- This year's TAS letter sent to taxpayers who appeared not to have met the residency test that included the extra help phone number (as opposed to the letter sent to all taxpayers reminding them of the childless-worker EITC) resulted in more taxpayers claiming the childless-worker EITC on their 2016 returns, compared to those taxpayers who received the last year's TAS letter without the notification that the taxpayer may still be entitled to the childless-worker EITC.

¹ National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 32-52 (Research Study: *Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate*).

INTRODUCTION²

Internal Revenue Code (IRC) § 32 provides for the Earned Income Tax Credit (EITC), a refundable credit received by over 27 million workers and families in 2015.³ The amount of EITC available is a function not only of a taxpayer's earned income but also the number of "qualifying children" in the household.⁴ A "qualifying child" is a person who among other things meets age requirements, bears a specified relationship to the taxpayer, and has the same principal residence as the taxpayer for more than half the year.⁵ Taxpayers usually receive EITC with respect to qualifying children.⁶ However, for tax year (TY) 2015, taxpayers who did not have a qualifying child accounted for 25 percent of all returns processed that claimed EITC.⁷ In this situation, the credit may be referred to as a "childless-worker" credit.

The IRS selects returns that claim EITC for audit using the Dependent Database (DDb) workload selection tool. The Department of the Treasury describes the DDb as follows:

The IRS's Dependent Database refers to an IRS process that combines data from IRS and third-party sources such as the Social Security Administration and the Federal Case Registry. When returns are filed, they are compared against these data and scored for the probability of noncompliance. This process incorporates filters for characteristics that are strong indicators of noncompliance.⁸

EITC is available to workers whose earned incomes do not exceed certain amounts.⁹ In the past, the IRS did not receive third party income reports (such as Forms W-2, *Wage and Tax Statement*) until the filing season ended. It thus released claimed refunds, including refunds due to claimed EITC, before the claimant's income could be verified.¹⁰

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- 2 The principal authors of this study are Jeff Wilson, Senior Advisor to the National Taxpayer Advocate and Jill MacNabb, Senior Attorney Advisor.
 - 3 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing data for tax year (TY) 2015 Earned Income Tax Credit (EITC) returns processed in 2016).
 - 4 Internal Revenue Code (IRC) § 32(c)(1) sets out the definition of "eligible individual" and IRC § 32(b) contains the calculation of the amount of allowable credit.
 - 5 IRC §§ 32(c)(3); 152 (c) (providing that a qualifying child is an individual who is the taxpayer's son, daughter, stepchild, foster child, or a descendant of any of them (e.g., a grandchild), or a child who is a sibling, stepsibling, or half-sibling of the taxpayer, or a descendant of any of them).
 - 6 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing that for TY 2015 EITC returns processed in 2016, taxpayers with one qualifying child accounted for 37 percent, taxpayers with two qualifying children accounted for 26 percent, and taxpayers with three or more qualifying children accounted for 12 percent).
 - 7 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing that for TY 2015 EITC returns processed in 2016, EITC was received without respect to a qualifying child 25 percent of the time).
 - 8 Dept of the Treasury, *Report to Congress on Strengthening Earned Income Tax Credit Compliance through Data Driven Analysis 14* (July 5, 2016), <https://www.treasury.gov/resource-center/tax-policy/Documents/Report-EITC-Data-Driven-Compliance-2016.pdf>.
 - 9 See IRC § 32(b).
 - 10 Income reports such as Forms W-2, *Wage and Tax Statement*, and Form 1099-Misc, *Miscellaneous Income* (used to report non-employee compensation) were required to be filed with the Social Security Administration (SSA) by the last day of February (or March, if filed electronically). The IRS received the data from the SSA only after the filing season had ended and could begin matching data in the summer.

The Protecting Americans from Tax Hikes (PATH) Act of 2015 accelerated the due dates for filing Forms W-2 and 1099-MISC with the SSA to January 31.¹¹ This new deadline allows the IRS to receive data from SSA in time to compare return data against the data reported by employers — before paying out refunds. In addition, the PATH Act mandated a delay of any refund that includes a claim for EITC until February 15 of each filing year.¹² Because banking and financial systems then needed time to process the deposits, the IRS advised taxpayers not to expect EITC refunds claimed on 2016 returns until the week of February 27, 2017.¹³

BACKGROUND

In 2016, TAS studied a representative sample of taxpayers who were identified by the DDb as having erred in claiming EITC on their 2014 returns.¹⁴ The study was undertaken to determine whether these taxpayers' subsequent compliance was affected by an educational letter from the National Taxpayer Advocate that explained the requirements for claiming EITC and identified the error the taxpayers appeared to have made on their returns. The study compared the level of compliance of these taxpayers' 2015 returns to the level of compliance of a representative sample of 2015 returns filed by taxpayers whose unaudited 2014 returns had similar characteristics as those who received the TAS letter, but who were not sent the TAS letter (the control group). The study also compared the level of compliance of taxpayers who were sent the TAS letter to a representative sample of 2015 returns filed by taxpayers whose 2014 returns had similar characteristics as those who received the TAS letter but were not sent the TAS letter, and whose 2014 returns were audited by the IRS.

The study findings for the population studied were statistically valid at the 95 percent confidence level. As described below, the study showed that taxpayers' improved compliance behavior depended on the type of DDb rule that was broken.

The 2016 Study Showed That Taxpayers' Improved Compliance Behavior Depended on the Type of DDb Rule That Was Broken

When the error on the 2014 return appeared to be that the *relationship test* was not met, taxpayers who were sent the TAS letter were less likely to repeat that error on their 2015 returns than taxpayers in the control group. Specifically, those in the control group repeated their error 77.3 percent of the time, compared to 74.7 percent for the TAS group, an improvement of 2.6 percent, which is statistically significant. Taking into account the number of 2014 returns that appeared to repeat this error (and only this error) in 2015, the TAS letter could have averted about 20,000 erroneous EITC claims in 2015. Because the average amount of EITC paid to 2014 claimants was more than \$2,400, we projected that sending the TAS letter to all taxpayers who did not appear to meet the relationship test would have averted about \$47 million of erroneous EITC claims. We did not quantify the cost of sending letters to the nearly 1.2 million taxpayers who appeared to have made this error, but even if the cost would be \$2

11 Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, Title II, § 201, 129 Stat. 2242, 3076 (2015) (codified at IRC § 6071(c)).

12 *Id.*

13 See, e.g., IRS News Release IR-2016-167, *2017 Tax Filing Season Begins Jan. 23 for Nation's Taxpayers, Tax Returns Due April 18* (Dec. 9, 2016), <https://www.irs.gov/newsroom/2017-tax-filing-season-begins-jan-23-for-nations-taxpayers-with-tax-returns-due-april-18>. For a discussion of the 2017 filing season, including the earlier deadline for information reporting documents, see National Taxpayer Advocate 2018 Objectives Report to Congress 6, 9 (*Review of the 2017 Filing Season*).

14 National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 32-52 (Research Study: *Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate*).

per letter, for a total cost of \$2.4 million, the cost of sending the letter would be far outweighed by the increased compliance.

When the error on the 2014 return was that there were *duplicate claims* (i.e., another person claimed the same qualifying child or children), the TAS letter prevented taxpayers from filing returns on which they claimed EITC, compared to the control group. This suggested that taxpayers may have interpreted the TAS letter as indicating that they would not qualify for EITC *at all*, when in fact they may have qualified for the childless-worker EITC. To test this hypothesis, and to better inform taxpayers of their rights, the 2017 letter sent to all taxpayers (regardless of which DDb rule their return appeared to have broken) reminded them of the childless-worker EITC.

In cases of *duplicate claims*, audited taxpayers were less likely to file EITC returns compared to taxpayers who received the TAS letter, and were less likely to file EITC returns compared to the control group. However, audited taxpayers were more likely to trip a different EITC DDb rule on those returns than taxpayers who received the TAS letter or taxpayers in the control group.

When the error on the 2014 return appeared to be that the *residency* test was not met, taxpayers who received the TAS letter were slightly less likely to repeat the same error on their 2015 returns than taxpayers in the control group, but this result was not statistically significant. This suggested that household arrangements and EITC rules, which may be too complex to address in a simple letter, might be better understood when discussed by phone. To test this hypothesis, and to better support taxpayers' *right to quality service* and *right to be informed*, this year we identified a separate group of taxpayers who appeared to not meet the residency requirement. These taxpayers were sent a separate letter identical to the one sent to other taxpayers in the study who appeared to not meet the residency test, except that it provided a toll-free number the taxpayer could call to discuss EITC requirements with a TAS employee.

Using similar methodology as for the 2016 study, in 2017 TAS conducted a study of a representative sample of taxpayers who were not audited but appeared to have erroneously claimed EITC on their 2015 returns. Unless otherwise noted, statistical significance is at the 95 percent confidence level (5 percent level of significance).

RESEARCH QUESTIONS

1. The extent to which the study corroborates the findings of the 2016 study with respect to three types of DDb rule breaks: residency, relationship, and duplicate claims.
2. The extent to which providing taxpayers with an additional phone number to call to talk with a TAS employee about their eligibility for the EITC affected future compliance.
3. The extent to which the reference to the childless-worker EITC in the TAS letter affected the rate at which taxpayers claimed it.

METHODOLOGY

Of the 27 million returns on which taxpayers claimed the EITC in TY 2015, the IRS selected over 380,000 returns (about 1.4 percent) for audit.¹⁵ Most of these audited returns (about 77 percent) were selected because they broke DDb rules. There were nearly 6.7 million returns that broke the DDb rules but were not selected for audit. Of these returns, 1,965,182 broke a single rule of the type indicated below:

- 648,924 returns tripped a DDb rule because the residency test did not appear to have been met;
- 1,101,422 returns tripped a DDb rule because the relationship relationship did not appear to have been met; and
- 56,602 returns tripped a DDb rule because another taxpayer claimed the same qualifying child or children.

TAS Research identified a random sample of taxpayers from each of these three groups. The sample sizes were equal among the groups, consisting of 1,200 returns each. TAS Research then adjusted the records in each sample to remove those with an inadequate address and those of deceased taxpayers. Prior to removing letters that were returned as undeliverable, the resulting data file included 8,343 returns:

- There were 2,309 returns in the representative sample of the group that tripped a DDb rule because the relationship test did not appear to have been met;
- There were 2,255 returns in the representative sample of the group that tripped a DDb rule because the residency test did not appear to have been met; and
- There were 2,340 returns in the representative sample of the group that tripped a DDb rule because another taxpayer claimed the same qualifying child or children.

The National Taxpayer Advocate sent one of three versions of a letter to each taxpayer (or taxpayers, for joint returns) who filed one of the 6,904 returns. The letters, which appear in the Appendices A-D, informed the taxpayers that their 2015 returns may have contained an error and explained the error that appeared to have been made (relationship test not met, residency test not met, another taxpayer claiming the same qualifying child or children). The letters also noted “if you cannot claim a child for the EITC, you may still be able to receive the ‘childless-worker’ EITC,” a reminder that did not appear in the letter sent as part of the 2016 study.

In addition to the 2,255 returns that tripped a DDb rule because the residency did not appear to have been met, TAS Research identified a random sample, after excluding letters that were returned as undeliverable, of 967 taxpayers who were not already selected as part of a random sample for this study.¹⁶ These taxpayers were sent a letter that was identical to the letter sent to other taxpayers who appeared to have not met the residency test, except that these 967 taxpayers were told: “If you would like to talk with a Taxpayer Advocate Service employee about your eligibility for the EITC, you can call [toll-free phone number] for assistance.” To minimize the possibility of taxpayers not being able to immediately speak to a TAS employee due to the volume of calls generated by the letter, there were four versions of this letter, each with a different toll-free number. The TAS employees designated to respond to each number were alerted that the letter had been sent and were briefed on the purpose of the letter.

¹⁵ Individual Returns Transaction File on IRS Compliance Data Warehouse for Tax Year 2015; FY 2016 IRS Data Book.

¹⁶ TAS originally selected a sample of 1,200 taxpayers; however, after removing deceased taxpayers and undeliverable mail the sample only contained 967 taxpayers.

The letters used in the study appear in Appendices A-D. All letters were mailed in an envelope, which appears in Appendix E, that carried the notation, in red capital letters, “Important Tax Information” and a TAS return address.

Taxpayers who were sent the TAS letter were in the sample group; taxpayers who were not sent a TAS letter and were not audited were in the control group. We attempted to ensure that the sample cases and control group cases had DDb scores at least as high as those audited by the IRS because of relationship, residency, or the claiming of an EITC dependent already claimed on another tax return.¹⁷ We only selected returns where the DDb rule break occurred in one of aforementioned categories. However, the taxpayer could have incurred other DDb rule breaks related to other issues. The sample and control group initially had returns with nearly identical DDb scores. However, we did not send some taxpayers in the sample group the test letter because of issues associated with the taxpayer address or because the taxpayer was deceased. Of the original 8,400 sample taxpayers, we mailed 7,871 an educational letter regarding claiming the EITC. We adjusted the sample group accordingly. We analyzed all of the audited returns with corresponding rule breaks, regardless of the DDb score. The following table depicts the average and median DDb scores and EITC (allowed by the IRS after math error processing) for the three categories of returns in our study.

FIGURE 2.1

	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	\$ 3,789	\$ 3,359	7,016	\$ 2,958	\$ 3,069	14,272	\$ 3,018	\$ 3,133	8,343
DDb Score	59.4	59.0	7,016	51.4	44.5	14,272	51.7	44.0	8,343

The mean and median DDb scores of the sample and control groups were nearly identical. However, as mentioned, earlier the audited group of taxpayers had higher DDb scores. On average, the test group, as a whole, claimed \$60 more EITC than the control group, while the audited group of taxpayers claimed over \$700 more EITC than either the sample or control groups. Prior to beginning our analysis, we removed cases where the TAS educational letter was returned as undeliverable and cases where the IRS disposed of the audit as undeliverable. The following table shows the comparison of the DDb scores and EITC claimed from the TY 2015 return, after removing the undeliverables:

¹⁷ In the previous year’s study, taxpayers in all three groups had nearly identical Dependent Database (DDb) scores. However, in the current study, the IRS selected returns for audit which had somewhat higher DDb scores than we were able to select for the test and control groups.

FIGURE 2.2

	Residency								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,661	\$3,359	2,125	\$2,881	\$2,957	4,674	\$2,977	\$3,077	3,222
DDb Score	54.9	50.0	2,125	47.1	35.0	4,674	49.1	38.0	3,222
	Relationship								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,945	\$4,038	2,051	\$3,185	\$3,235	4,800	\$3,236	\$3,324	2,309
DDb Score	63.4	62.0	2,051	61.8	60.0	4,800	61.6	59.0	2,309
	Duplicate Dependents								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,785	\$3,359	2,328	\$2,807	\$2,950	4,798	\$2,826	\$2,979	2,340
DDb Score	59.6	60.0	2,328	45.2	33.0	4,798	45.0	33.0	2,340

Overall, the DDb scores are similar among test and control groups, as is the amount of EITC claimed. However, particularly for the residency and duplicate dependent groups, the audited taxpayers claimed significantly more EITC and had higher DDb scores. When comparing the sample group and the control group, the TY 2015 DDb score is slightly higher in the control group, for relationship and duplicate dependent issues, but somewhat lower for residency issues.

As noted above, unlike last year's letters, this year's TAS educational letters included a message that the taxpayer may be eligible for the childless-worker EITC. To evaluate the effect of the added sentence about potential eligibility for the childless-worker EITC, we compared the prevalence of TAS letter recipients claiming childless-worker EITC last year to the frequency with which taxpayers receiving the TAS letter this year claimed the childless-worker EITC.

DATA COLLECTION

There were 472 TAS letters that were returned as undeliverable.¹⁸ TAS Research reviewed IRS records to determine how many taxpayers whose letters were not returned as undeliverable filed a return for 2016. Of this group, TAS researched:

- How many taxpayers claimed EITC;
- Of those who claimed EITC on their 2016 return, how many appeared to have done so erroneously (*i.e.*, the return broke a DDb rule); and
- Of the 2016 returns that broke a DDb rule, how many appeared to break the same DDb rule as appeared to have been broken in the 2015 return (*i.e.*, the reason for the apparent error was the same as that identified in the TAS letter).

TAS Research collected the same information about taxpayers:

- Who broke the same TY 2015 DDb rules as those who received the TAS letter but did not receive the TAS letter and were not audited; and
- Who broke the same TY 2015 DDb rules as those who received the TAS letter and were audited.

Of the 1,200 TAS letters that contained the additional toll-free phone number, 233 had been returned as undeliverable.¹⁹

FINDINGS

I. Overall, the TAS letter averted erroneous EITC claims among taxpayers who claimed EITC in 2015, mostly because taxpayers who were sent TAS letters were less likely to repeat on a 2016 return the same error that appeared to have been made on the 2015 return compared to unaudited taxpayers who did not receive a TAS letter

We first considered the same three groups as in last year's study: taxpayers who were sent the TAS letter (which last year did not include the extra help phone number), taxpayers who were not sent a TAS letter and were not audited, and taxpayers whose 2015 returns were audited. Taxpayers whose 2015 returns were audited were significantly less likely to file 2016 returns, and those who filed were significantly less likely to claim EITC, compared to the other two groups. Audited taxpayers' 2016 returns were less likely to claim EITC in error and much less likely to repeat the same error that appeared to have been made on their 2015 returns than 2016 returns filed by taxpayers who did not receive a TAS letter.

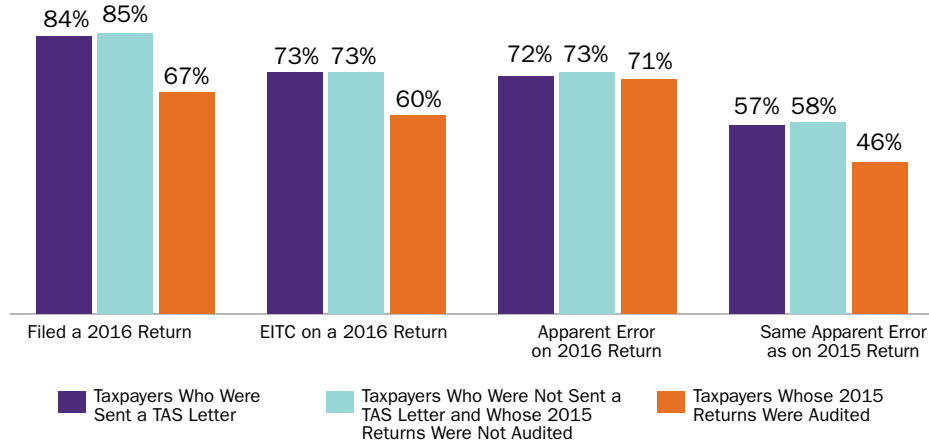
Figure 2.3 summarizes the overall data.

18 We actually received 496 of these letters, which were returned as undeliverable; however, only 472 could be matched to the names of taxpayers who were selected to receive one of these letters.

19 Of the 1,200 letters with the additional phone number, 233 were returned as undeliverable. We do not know why this sample group contained more undeliverable letters than the other sample groups.

FIGURE 2.3

**Overall Outcomes for Taxpayers in the Study,
Not Including Those Who Received a TAS Letter with an Extra Help Phone Number**



- A. Of the 7,871 taxpayers who were sent a TAS letter, and the letter was not returned as undeliverable:
1. 6,644, or 84 percent, filed a return for TY 2016;
 2. 4,849, or 73 percent, of the 2016 returns claimed EITC;
 3. Of the 4,849 returns filed for 2016 that claimed EITC, it appeared that 1,364, or 28 percent, qualified for the credit and it appeared that 3,485, or 72 percent, did not qualify for the credit, according to DDb rules; and
 4. Of the 4,849 EITC returns filed for 2016, for 2,766 returns, or 57 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 14,272 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have been eligible for the EITC claimed on their 2015 returns:
1. 12,190, or 85 percent, filed a return for TY 2016;
 2. Of the 12,190 returns filed for 2016, 8,893, or 73 percent, claimed EITC;
 3. Of the 8,893 returns filed for 2016 that claimed EITC, it appeared that 2,428, or 27 percent, qualified for the credit and it appeared that 6,465, or 73 percent, did not, according to the DDb; and
 4. Of the 8,893 EITC returns filed for 2016, for 5,189 returns, or 58 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, 58 percent of taxpayers who were not sent a TAS letter repeated on their 2016 returns what appeared to be the same error as appeared to have been made on the 2015 return, compared to 57 percent where taxpayers were sent a TAS letter, a difference that is not statistically significant.

- C. Of the 6,504 taxpayers in the study whose 2015 returns were audited:
1. 4,369, or 67 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 84 or 85 percent) that is statistically significant;

2. Of the 4,369 returns filed for 2016, 2,614, or 60 percent, claimed EITC, a lower frequency than for returns in the other two groups (73 percent) that is statistically significant;
3. Of the 2,614 returns filed for 2016 that claimed EITC, it appeared that 763, or 29 percent, qualified for the credit and it appeared that 1,851 or 71 percent did not, according to DDb rules; and
4. Of the 2,614 EITC returns taxpayers filed for 2016, for 1,207 returns, or 46 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a lower frequency than for taxpayers in the other two groups (57 or 58 percent) that is statistically significant.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited were much less likely to file a return the following year (67 percent for audited taxpayers compared to at least 84 for the other two groups). Those who did file a return were much less likely to claim EITC (60 percent for audited taxpayers compared to 73 percent for the other two groups). Those who claimed EITC were also less likely to have done so erroneously than taxpayers who did not receive a TAS letter and the error was significantly less likely to have been the same error that appeared to have been made on the 2015 return (46 percent for audited taxpayers compared to 58 percent for those who did not receive a TAS letter). These findings are consistent with the findings of last year's report.

Taxpayers in this year's study may have been more compliant in some respects than taxpayers in last year's study. For example, for all three groups, taxpayers who filed returns and claimed EITC did so in error at a lower rate than last year. Specifically, the rate of erroneous EITC claims declined:

- From 75 percent last year to 72 percent this year, for taxpayers who received the TAS letter;
- From 76 percent last year to 73 percent this year, for unaudited taxpayers who did not receive a TAS letter; and
- From 73 percent to 71 percent this year for audited taxpayers.

The rate at which taxpayers repeated their error on their 2016 returns also declined for all three groups. The decline in these rates could have been affected by taxpayers' awareness of the change in due dates for third party reporting, discussed above, the IRS's consequent capability of matching return information before issuing refunds, and the possibility that taxpayers anticipated greater IRS scrutiny of their returns.

II. Because the TAS letter with the extra help phone number prevented taxpayers who appeared to not meet the residency test on their 2015 returns from making any error on their 2016 returns, sending the TAS letter with the additional phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted more than \$44 million of erroneous EITC claims

As described above, 967 taxpayers who appeared to not to have met the residency test on their 2015 returns were sent a separate letter that contained an additional phone number to call to talk with a TAS employee. Only 35 taxpayers called the additional phone number and spoke with a TAS employee.²⁰ Thus, the results described below appear to be attributable to providing the additional phone number,

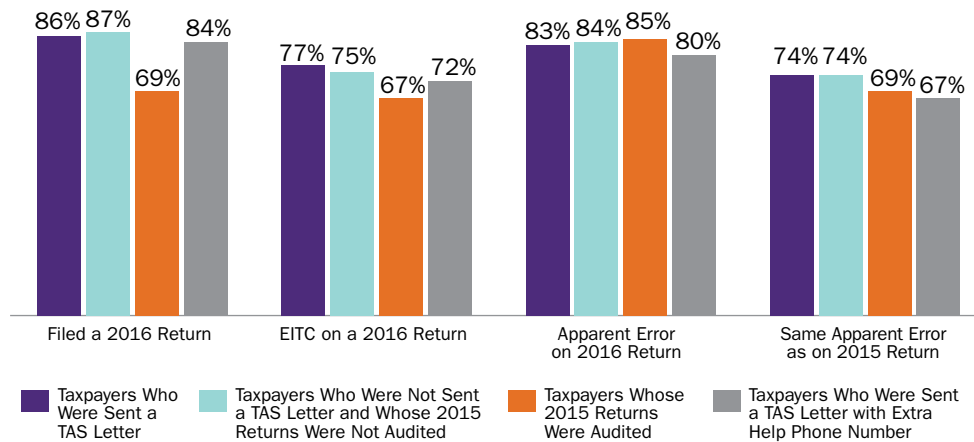
²⁰ As discussed earlier in this report, callers who used the additional phone number asked repeatedly about two areas: the rules for claiming another taxpayer as a dependent versus claiming EITC with respect to another taxpayer, and the rules that apply when parents have shared custody of a qualifying child. See Most Serious Problem: *Earned Income Tax Credit (EITC): The IRS Continues to Make Progress to Improve Its Administration of the EITC, But It Has Not Adequately Incorporated Research Findings That Show Positive Impacts of Taxpayer Education on Compliance*, *supra*.

rather than taxpayers actually availing themselves of this additional resource. *For taxpayers who appeared to not meet the residency requirement, providing an extra help telephone number averted erroneous EITC claims more effectively than not sending a letter, sending a letter without the additional phone number, or auditing the taxpayer.* We first discuss the effect of the TAS letter with the extra help phone number. We then present the data for the three groups analogous to last year, where the TAS letter did not contain the additional help phone line.

Figure 2.4 summarizes the data:

FIGURE 2.4

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because the Residency Test Was Not Met, According to Dependent Database Rules



Of the 967 taxpayers who were sent a letter with an additional phone number:

- A. 809, or 84 percent, filed a 2016 return, compared to 86 percent of taxpayers who received a letter from TAS without the additional phone number, 87 percent of taxpayers who did not receive a letter from TAS, and 69 percent of taxpayers who were audited;
- B. 579, or 72 percent claimed EITC with respect to a qualifying child on the 2016 return, compared to 77 percent of taxpayers who received a letter from TAS without the additional phone number, 75 percent of taxpayers who did not receive a letter from TAS, and 67 percent of taxpayers who were audited;
- C. 464, or 80 percent, appeared to erroneously claim EITC with respect to a qualifying child on the 2016 return, compared to 83 percent of taxpayers who received a letter from TAS without the additional phone number, 84 percent of taxpayers who did not receive a letter from TAS, and 85 percent of taxpayers who were audited; and
- D. 389, or 67 percent, appeared to claim EITC in error on the 2016 return, with the apparent error the same as the apparent error on the 2015 return, compared to 74 percent of taxpayers who received a letter from TAS without the additional phone number, 74 percent of taxpayers who did not receive a letter from TAS, and 69 percent who were audited.

Thus, taxpayers who received the TAS letter that provided the additional phone number were less likely to file returns, less likely to claim EITC on returns they did file, less likely to claim EITC in error, and less likely to repeat an error in claiming EITC, compared to taxpayers who received the TAS letter without the additional phone number and compared to taxpayers who did not receive a TAS letter. These results are all statistically significant at the 90 percent confidence level.

Compared to audited taxpayers, taxpayers who were sent the TAS letter that provided the additional phone number were more likely to file returns and more likely to claim EITC on the returns they filed. Taxpayers who received the TAS letter that provided the additional phone number and filed an EITC return were less likely to claim EITC in error, compared to audited taxpayers who claimed EITC. These results are all statistically significant (at least) at the 90 percent confidence level. They were also less likely to repeat their error, compared to audited taxpayers who claimed EITC but the difference was not statistically significant.

Projecting these results to the relevant population, there were about 649,000 returns for 2015 that appeared to erroneously claim EITC because the residency requirement had not been met.²¹ Unaudited taxpayers who were not sent a TAS letter and in 2015 appeared to not meet the residency test filed 2016 returns that claimed EITC with eligible children at the rate of 66 percent, which amounts to about 428,000 returns.²² However, compared to taxpayers who did not receive the TAS letter, taxpayers who received the TAS letter were 4.2 percent less likely to claim EITC in error. Thus, the TAS letter with the extra help line would have averted about 18,000 erroneous EITC claims.²³ Because the average amount of EITC paid to 2015 claimants was about \$2,470, sending the TAS letter with the extra help phone number to all taxpayers who did not appear to meet the residency test would have averted more than \$44 million of erroneous EITC claims.²⁴

We did not quantify the cost of sending letters to all 649,000 taxpayers who appeared to have made this error, but even if the cost was \$2 per letter, for a total cost of \$1.3 million, the cost of sending the letter would be far outweighed by the increased compliance.

As Figure 2.4 above shows, where the residency test appears to not have been met, and the TAS letter with extra help was not sent, audits were most effective in averting noncompliance.

The following data summarizes outcomes analogous to the data presented in last year's study, where the TAS letter did not contain an extra help phone number.

- E. Of the 2,255 taxpayers who were sent a TAS letter advising them that the residency test did not appear to have been met with respect to EITC claimed on their 2015 return, but the letter did not offer the additional toll-free phone number to call, and the letter was not returned as undeliverable:
 1. 1,934, or 86 percent, filed a return for TY 2016;

21 There were 648,942 returns processed in 2016 (which generally equates to returns filed for TY 2015) that appeared to contain this error. Data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for processing year (PY) 2016, which generally corresponds to returns filed for TY 2015.

22 As discussed below, there were 4,674 taxpayers in the study who appeared to have not met the residency test on their 2015 returns, were not audited, and did not receive the TAS letter. Of these taxpayers, 3,072, or 66 percent, filed returns for 2016 on which they claimed EITC (with children). 66 percent of 648,942 is 428,290.

23 4.2 percent of 428,290 is 17,988.

24 Average EITC was \$2,470. \$2,470 times 17,988 is \$44.4 million. See IRS, *Statistics for Tax Returns with EITC*, <https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-eitc>.

2. 1,484, or 77 percent, of the 2016 returns claimed EITC;
 3. Of the 1,484 returns filed for 2016 that claimed EITC, it appeared that 256, or 17 percent, qualified for the credit and it appeared that 1,228, or 83 percent, did not qualify for the credit, per DDb rules; and
 4. Of the 1,484 EITC returns filed for 2016, for 1,096, or 74 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- F. Of the 4,674 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the residency test for EITC claimed on their 2015 returns:
1. 4,076, or 87 percent, filed a return for TY 2016;
 2. Of the 4,076 returns filed for 2016, 3,072, or 75 percent, claimed EITC;
 3. Of the 3,072 returns filed for 2016 that claimed EITC, it appeared that 481, or 16 percent, qualified for the credit and it appeared that 2,591, or 84 percent, did not, per DDb rules; and
 4. Of the 3,072 EITC returns filed for 2016, for 2,282, or 74 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.

Thus, there were no significant differences in outcomes between the group of taxpayers who received the TAS letter and taxpayers who did not.

- G. Of the 2,125 taxpayers in the study whose 2015 returns were audited because they appeared to not meet the residency test for EITC claimed on their 2015 returns:
1. 1,458, or 69 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 86 or 87 percent) is statistically significant;
 2. Of the 1,458 returns filed for 2016, 983, or 67 percent claimed EITC, a lower frequency than for returns in the other two groups (75 or 77 percent) that is statistically significant;
 3. Of the 983 returns filed for 2016 that claimed EITC, it appeared that 151, or 15 percent, qualified for the credit. It appeared that 832, or 85 percent, did not qualify for the credit (according to the DDb), about the same rate as for taxpayers who did not receive the TAS letter (83 or 84 percent) and were not audited; and
 4. Of the 983 EITC returns taxpayers filed for 2016, for 681, or 69 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.

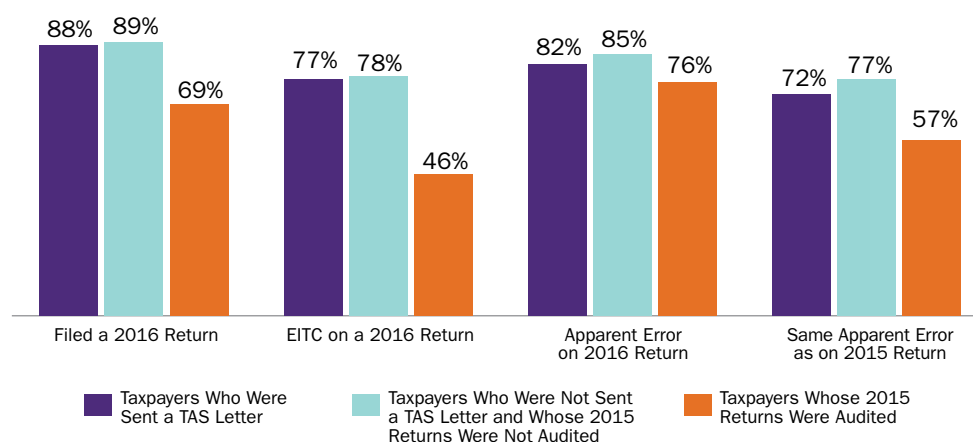
Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited because they did not appear to meet the residency test for claiming EITC were less likely to file a return the following year. Those who did file a return were less likely to claim EITC. Those who claimed EITC were about as likely as taxpayers who were not sent a TAS letter to have done so erroneously. Taxpayers who were audited were less likely to make the same mistake that appeared to have been made on the 2015 return as taxpayers in the other two groups.

III. Because the TAS letter prevented taxpayers who appeared to not meet the relationship test on their 2015 returns from making any error on their 2016 returns, sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted nearly \$53 million of erroneous EITC claims

Figure 2.5 summarizes the data.

FIGURE 2.5

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because the Relationship Test Was Not Met, According to Dependent Database Rules



- A. Of the 2,309 taxpayers who were sent a TAS letter advising them that the relationship test did not appear to have been met with respect to EITC claimed on their 2015 return, and the letter was not returned as undeliverable:
 1. 2,033, or 88 percent, filed a return for TY 2016;
 2. 1,570, or 77 percent of the 2016 returns claimed EITC;
 3. Of the 1,570 returns filed for 2016 that claimed EITC, it appeared that 282, or 18 percent, qualified for the credit and it appeared that 1,288, or 82 percent, did not qualify for the credit (according to DDb rules); and
 4. Of the 1,570 EITC returns filed for 2016, for 1,132, or 72 percent it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 4,800 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the relationship test for EITC claimed on their 2015 returns:
 1. 4,270, or 89 percent, filed a return for TY 2016;
 2. Of the 4,270 returns filed for 2016, 3,340, or 78 percent, claimed EITC;
 3. Of the 3,340 returns filed for 2016 that claimed EITC, it appeared that 509, or 15 percent, qualified for the credit and it appeared that 2,831, or 85 percent, did not, according to DDb

rules. This rate is higher than for taxpayers who were sent the TAS letter (82 percent) and is statistically significant; and

4. Of the 3,340 EITC returns filed for 2016, for 2,580, or 77 percent, the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules. This rate is higher than for taxpayers who were sent the TAS letter (72 percent) and is statistically significant.

Thus, taxpayers who were sent the TAS letter because they appeared to not meet the relationship test on their 2015 returns were less likely to claim EITC in error on their 2016 returns, a result that is statistically significant. Those who did not receive the TAS letter appeared to claim EITC in error on their 2016 returns 84.8 percent of the time, compared to 82 percent for the TAS group, an improvement of 2.8 percent. In addition, taxpayers who received the TAS letter and who erroneously claimed EITC on their 2016 returns were less likely to repeat the same error on their 2016 returns they made on their 2015 returns. Those who did not receive the TAS letter repeated their error 77.2 percent of the time, compared to 72.1 percent for the TAS group, a statistically significant improvement of 5.1 percent.

Projecting these results to the relevant population, there were about 1.1 million returns for 2015 that appeared to erroneously claim EITC because the relationship requirement had not been met.²⁵ Unaudited taxpayers who did not receive a TAS letter and in 2015 appeared to not meet the relationship test filed 2016 EITC returns that claimed EITC with eligible children at the rate of over 69 percent, which amounts to about 760,000 returns.²⁶ However, compared to taxpayers who did not receive the TAS letter, taxpayers who received the TAS letter were 2.8 percent less likely to claim EITC in error. Thus, the TAS letter would have averted 21,279 erroneous EITC claims.²⁷ Because the average amount of EITC paid to 2015 claimants was about \$2,470, sending the TAS letter to all taxpayers who did not appear to meet the relationship test would have averted nearly \$53 million of erroneous EITC claims.²⁸

We did not quantify the cost of sending letters to all 1.1 million taxpayers who appeared to have made this error, but even if the cost was \$2 per letter, for a total cost of \$2.2 million, the cost of sending the letter would be far outweighed by the increased compliance.

- C. Of the 2,051 taxpayers in the study whose 2015 return was audited because they appeared to not meet the relationship test for EITC claimed on their 2015 returns:
 1. 1,414, or 69 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 88 or 89 percent) that is statistically significant;
 2. Of the 1,414 returns filed for 2016, 655, or 46 percent, claimed EITC, a lower frequency than for returns in the other two groups (77 or 78 percent) that is statistically significant;
 3. Of the 655 returns filed for 2016 that claimed EITC, it appeared that 160, or 24 percent, qualified for the credit. It appeared that 495, or 76 percent, did not, according to DDb

25 There were 1,101,422 returns processed in 2016 (which generally equates to returns filed for TY 2015) that appeared to contain this error. The data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for PY 2016, which generally corresponds to returns filed for TY 2015.

26 4,800 taxpayers in the study who appeared to have not met the relationship test on their 2015 returns, were not audited, and did not receive the TAS letter. Of these taxpayers, 3,340 or more than 69 percent, filed returns for 2016 on which they claimed EITC. 69 percent of 1,101,422 is 759,981.

27 2.8 percent of 759,981 is 21,279.

28 Average EITC was \$2,470. \$2,470 times 21,279 is \$52.6 million. Moreover, the TAS letter also impeded taxpayers from repeating this error on their 2016 returns.

rules, a lower frequency than for taxpayers in the other two groups (82 or 85 percent) that is statistically significant; and

4. Of the 655 EITC returns taxpayers filed for 2016, for 374, or 57 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a lower frequency than for taxpayers in the other two groups (72 or 77 percent), that is statistically significant.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited because they did not appear to meet the residency test for claiming EITC were less likely to file a return the following year. Those who did file a return were much less likely to claim EITC. Those who claimed EITC were less likely than taxpayers in the other two groups to have done so erroneously, and they were less likely to make the same mistake that appeared to have been made on the 2015 return as taxpayers in the other two groups.

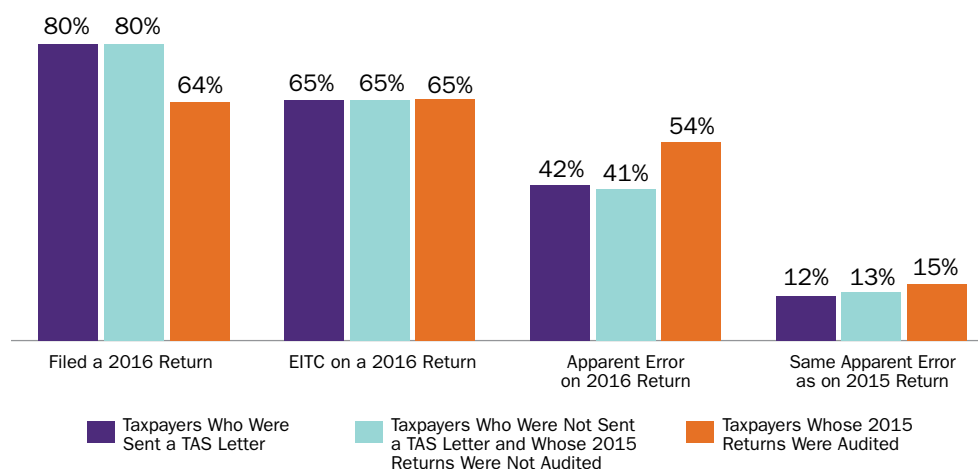
IV. Where the error appeared to be a duplicate claim, audits were the least effective in preventing erroneous claims or repeat errors

Taxpayers whose returns were audited because their 2015 returns contained a duplicate claim for EITC were less likely to file 2016 returns but those who filed returns were just as likely to claim EITC, compared to taxpayers in the other two groups. However, the 2016 returns of audited taxpayers were more likely to contain an error than taxpayers in the other two groups.

Figure 2.6 summarizes the data.

FIGURE 2.6

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because Another Taxpayer Claimed the Same Qualifying Child, According to Dependent Database Rules



- A. Of the 2,340 taxpayers who were sent a TAS letter advising them that another taxpayer appeared to have claimed the same qualifying child on their 2015 return, and the letter was not returned as undeliverable:
1. 1,868, or 80 percent, filed a return for TY 2016;
 2. 1,216, or 63 percent, of the 2016 returns claimed EITC;
 3. Of the 1,216 returns filed for 2016 that claimed EITC, it appeared that 661, or 57 percent, qualified for the credit and it appeared that 505, or 43 percent, did not qualify for the credit, according to DDb rules; and
 4. Of the 1,216 EITC returns filed for 2016, for 149, or 13 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 4,798 taxpayers in the study who were not audited and were not sent the TAS letter, but another taxpayer appeared to have claimed the same qualifying child on a 2015 return:
1. 3,844, or 80 percent, filed a return for TY 2016, the same as for those who received the TAS letter;
 2. Of the 3,844 returns filed for 2016, 2,481, or 65 percent, claimed EITC, a slightly lower rate than those who received the TAS letter, but the difference is not statistically significant;
 3. Of the 2,481 returns filed for 2016 that claimed EITC, it appeared that 1,458, or 59 percent, qualified for the credit and it appeared that 1,023, or 41 percent, did not, according to DDb rules, not statistically different than the same frequency with which taxpayers who received the TAS letter appeared to not qualify for the credit (42 percent); and
 4. Of the 2,481 EITC returns filed for 2016, for 327, or 13 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, the same as for taxpayers who received the TAS letter.

Thus, there were no statistically significant differences in outcomes between the group of taxpayers who received the TAS letter advising that there appeared to be a duplicate claim and the group of unaudited taxpayers who did not receive the TAS letter.

- C. Of the 2,328 taxpayers in the study whose 2015 return was audited because they appeared to have claimed the same qualifying child as another taxpayer on their 2015 returns:
1. 1,497, or 64 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 80 percent) is statistically significant;
 2. Of the 1,497 returns filed for 2016, 976, or 65 percent, claimed EITC, a frequency that is about the same for returns in the other two groups (63 percent and 65 percent);
 3. Of the 976 returns filed for 2016 that claimed EITC, it appeared that 452, or 46 percent, qualified for the credit and it appeared that 524, or 54 percent, did not, according to DDb rules. The higher rate at which the claim for EITC appeared erroneous compared to the other two groups (43 and 41 percent) is statistically significant; and
 4. Of the 976 EITC returns taxpayers filed for 2016, in 148 cases, or 15 percent, the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a higher frequency than for taxpayers in the other two groups (13 percent). This finding is statistically significant at the 95 percent confidence level with a seven percent significance level.

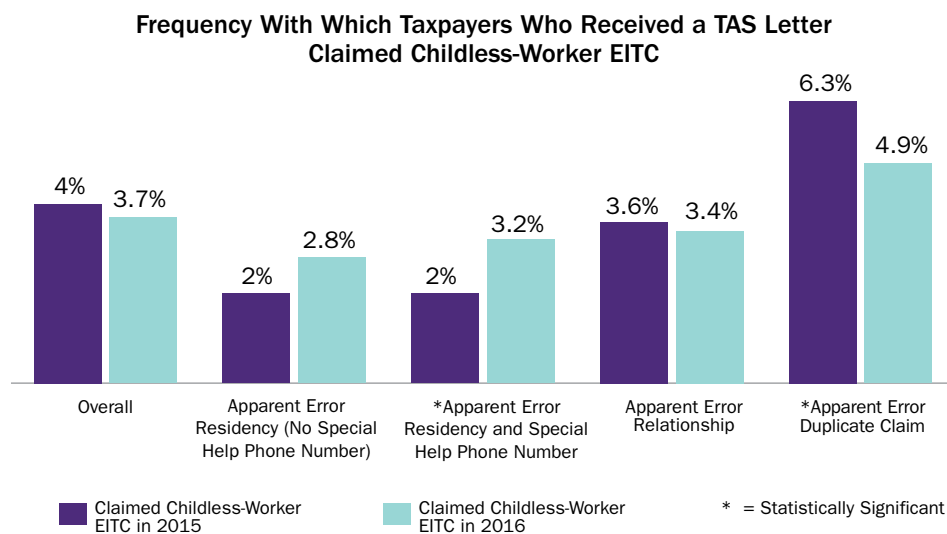
One hypothesis for the apparent ineffectiveness of audits in preventing taxpayers from appearing to erroneously claim EITC on their 2016 returns is that the audit of the 2015 return did not change the outcome (*i.e.*, the taxpayer was entitled to the claimed EITC). Thus, the taxpayer may have claimed EITC on the 2016 return on the basis of the positive outcome of the prior year's audit. On the other hand, as noted above, this year audited taxpayers claimed more EITC and had higher DDb scores, which suggests that they were actually more likely to be noncompliant. TAS will explore this possibility in 2018.

V. The TAS letter, when it included the extra help phone number, was effective in educating taxpayers about the availability of the childless-worker EITC

As described above, the TAS letter used in last year's study, sent in January 2016, did not contain a reference to the childless-worker credit. Taxpayers who received this year's letter, which reminded them of the availability of the childless-worker EITC, claimed it more often when they were among those who appeared not to meet the residency test and who received the TAS letter with the extra help phone number.

Figure 2.7 summarizes the data.

FIGURE 2.7



- A. Overall: Of all the taxpayers who received the TAS letter in 2016, 4 percent then claimed the childless-worker credit on their 2015 returns. Of all the taxpayers who received a TAS letter in 2017, which reminded them of the childless-worker credit, 3.7 percent claimed the childless-worker on their 2016 returns, a difference in outcome that is not statistically significant.
- B. Residency Test, No Extra Help Number: Of the taxpayers who received the TAS letter in 2016 because they appeared to not have met the residency test on their 2014 returns, 2 percent claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 advising them they appeared not to have met the residency test on their 2015 returns, and

the letter did not contain the extra help phone number, 2.8 percent claimed the childless-worker EITC on their 2016 returns. This difference is not statistically significant.

- C. Residency Test: Extra Help Number: Of the taxpayers who received the TAS letter in 2017 advising them they appeared not to have met the residency test on their 2015 returns, but the letter provided the extra help phone number, 3.2 percent claimed the childless-worker EITC on their 2016 returns. This difference (from 2 percent in 2015) is statistically significant.
- D. Relationship Test: Of taxpayers who received the TAS letter in 2016 because they appeared to have broken the relationship rule on their 2014 returns, 3.6 percent claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 because they appeared to have broken the relationship rule on their 2015 returns 3.4 percent claimed the childless-worker EITC on their 2016 returns. This difference is not statistically significant.
- E. Duplicate Claims: Of taxpayers who received the TAS letter in 2016 letter advising them that another taxpayer appeared to have claimed the same qualifying child on their 2014 returns, 6.3 percent, claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 advising them that another taxpayer appeared to have claimed the same qualifying child on their 2015 return, 4.9 percent, claimed the childless-worker EITC on their 2016 returns, a difference in outcome that is statistically significant.

CONCLUSION

This year's study is generally consistent with the findings of last year's study. As hypothesized last year, sending a TAS letter that included an extra help phone number to taxpayers who appeared not to have met the residency test was particularly effective. Sending the TAS letter with the additional phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted about \$44 million of erroneous EITC claims. The TAS letter was particularly effective when the apparent error was that the relationship requirement had not been met. Sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted about \$53 million of erroneous EITC claims. There may be reason to send a group of these taxpayers a letter with an additional help phone number to learn whether the additional resource would further enhance compliance. Where the apparent error was that another taxpayer claimed EITC for the same qualifying child, audited taxpayers who claimed EITC actually made mistakes more frequently than taxpayers in the other two groups and also made the same mistake more frequently than taxpayers in the other two groups. The TAS letter reminding taxpayers of the potential availability of the childless-worker EITC was effective for taxpayers who appeared not to have met the residency test and who were sent the TAS letter with the extra help phone number.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS send letters similar to the TAS letter to EITC claimants the IRS does not have current plans to audit as follows:

1. To taxpayers who appear not to have met the residency test. Include in the letter an extra help phone number taxpayers can call to speak directly with an IRS employee, because this year's study shows that doing so resulted in more taxpayers claiming the childless-worker EITC (compared to the prior year's TAS letter that did not mention the possibility of the childless-worker EITC) and averted erroneous EITC claims in this study, while an educational letter without the extra help number did not affect the rate at which these taxpayers claimed EITC in error or the rate at which they claimed the childless-worker EITC;
2. To taxpayers who appear not to have met the relationship test, because such a letter appears to prevent these taxpayers from claiming EITC in error; and
3. To taxpayers who appear to have claimed EITC with respect to the same qualifying child or children as another taxpayer. Include in the letter an extra help phone number because while it is unknown whether the extra help phone number would avert noncompliance, it is known that an educational letter alone does not affect the rate at which these taxpayers claim EITC in error.

APPENDIX A: TAS LETTER, VERSION ONE: RESIDENCY AT ISSUE



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040.

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2015 Form 1040 may not have lived with you for more than six months of the year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX B: TAS LETTER, VERSION TWO: RELATIONSHIP AT ISSUE



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test**.

It appears that you may not have an eligible relationship with the child or children claimed on your 2015 Form 1040. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX C: TAS LETTER, VERSION THREE: THE SAME CHILD OR CHILDREN CLAIMED BY ANOTHER TAXPAYER



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2015 Form 1040 were also claimed on another person's tax return for that year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX D: TAS LETTER, VERSION FOUR: RESIDENCY AT ISSUE, “EXTRA HELP” PHONE NUMBER PROVIDED



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040.

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

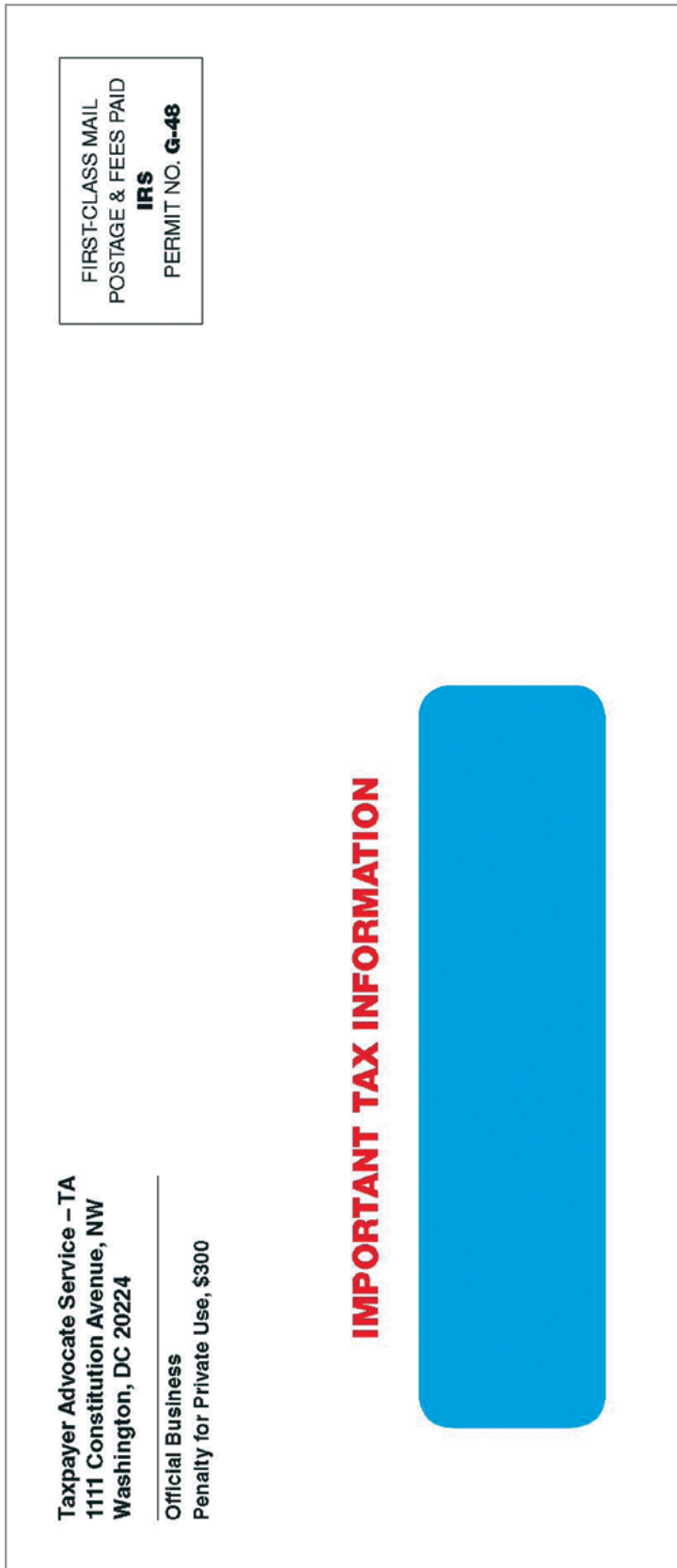
It appears that the child or children claimed on your 2015 Form 1040 may not have lived with you for more than six months of the year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the “childless-worker” EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you would like to talk with a Taxpayer Advocate Service employee about your eligibility for the EITC, you can call 1-844-852-5944 for assistance. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX E: ENVELOPE USED TO SEND TAS LETTERS



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Volume 2

TAS RESEARCH AND RELATED STUDIES

A Study Of The IRS Offer In Compromise Program

A Study Of The IRS Offer In Compromise Program¹

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¹ The principal authors of this study are Kate Leifeld, Stacie Swanson, and Jeff Wilson.

EXECUTIVE SUMMARY

Internal Revenue Code (IRC) § 7122 authorizes the IRS to accept less than the full amount of tax, penalties, or interest due. As a condition of acceptance for an offer in compromise (OIC), the taxpayer must agree to remain compliant with his or her filing and paying requirements for the five years following the acceptance of the OIC. Therefore, although the IRS agrees to settle a tax debt for less than the full amount due, the IRS secures future filing and payment compliance for the next five years. As a result, the IRS benefits by obtaining an extensive period of compliance, hopefully developing better taxpayer habits, which extend into the foreseeable future, while also collecting an amount that it is unlikely to collect otherwise. On the other hand, the taxpayer is no longer saddled with a debt that cannot be satisfied.

In 2004, the Office of Program Evaluation and Risk Analysis (OPERA) completed a study of the IRS OIC program. The study found:

- Low rates of taxpayers submitting multiple offers in a relatively short period of time;
- High rates of subsequent compliance among taxpayers with accepted offers; and
- An often overly optimistic IRS view of the collection potential from taxpayers with rejected offers.

This current study of the IRS OIC program was designed to be similar to the 2004 OPERA study. The specific objectives of this study were to:

- Quantify the number of taxpayers who have submitted multiple OICs in a short amount of time (churning);
- Examine the subsequent filing and payment compliance for the five years after the IRS accepts a taxpayer's OIC;
- Determine if subsequent compliance continues beyond the five years required as part of the accepted OIC agreement;
- Compare the amount the IRS could have collected per the terms of a rejected or returned OIC to the amount actually collected subsequent to the offer; and
- Determine if the IRS realizes its estimation of the reasonable collection potential when it rejects an offer.

This study shows that fewer than ten percent of taxpayers “churn,” defined as submitting multiple OICs within a six-month period. Furthermore, nearly half of the taxpayers who churn ultimately receive an accepted OIC, suggesting that taxpayers are not trying to game the system, but are legitimately seeking an acceptable offer. This also raises the question of whether the IRS could save resources by engaging more with taxpayers on their original offers rather than creating additional burden for both the IRS and taxpayers by rejecting or returning offers.

Taxpayers with accepted OICs were significantly more likely (16 percent) to *timely* file their subsequent income tax returns for the next five years when compared to taxpayers whose OICs were not accepted. For the first five years after the offer, taxpayers with accepted offers are also much more likely to pay their subsequent income taxes than taxpayers whose OICs were not accepted (72 percent compared to 52 percent).

Taxpayers with accepted OICs continued to be more compliant with filing and payment requirements even after the five years the taxpayer is required to remain compliant under the terms of the accepted OIC. Most notably, taxpayers are 11 percent less likely to file a late return and 20 percent less likely to file an unpaid balance due return.

The IRS secures at least as much (often more) than the offered amount in 60 percent of the OICs it returns or rejects. However, on average, in the remaining 40 percent, the IRS has only collected a third of the amount offered through subsequent payments. *Overall, even after we factor in refunds offset to satisfy the delinquent liabilities, the IRS still collects significantly less than the amount offered on rejected or returned OICs.*

In fact, when examining rejected OICs, the IRS determined reasonable collection potential was over 15 times the amount offered, and over 40 times the amount actually collected. While the rejection of the OIC is sometimes appropriate, in many instances, the IRS often has an exaggerated view of the taxpayer's reasonable collection potential, with the dollars collected being less than the amount offered, and significantly less than the amount the IRS determined as the taxpayer's reasonable collection potential.

In view of the findings in this study, the National Taxpayer Advocate has made the following recommendations:

- The IRS should consider devoting more resources to obtaining acceptable OICs from taxpayers who seek to compromise their liabilities. Securing acceptable OICs could save IRS money by preventing resources from being spent collecting the uncompromised delinquency and by obtaining the increased filing and payment compliance that generally accompanies accepted OICs. Such an approach could also decrease the resources wasted as a result of taxpayers submitting multiple OICs within a short period of time.
- The IRS should study a sample of returned and rejected OICs to determine factors which indicate that the IRS is likely to actually collect an amount less than what has been offered to compromise the liability. Given the huge differential between Reasonable Collection Potential (RCP) and the amount offered for rejected OICs, taxpayers may become discouraged, distrustful, and unwilling to amend their OICs upward. As part of this study, the IRS should also determine what factors lead to an inflated RCP, so that in future situations with similar circumstances, the IRS could determine a more realistic amount of RCP, which may result in more accepted OICs.

INTRODUCTION

The IRS collects taxes from taxpayers with balances due from various tax obligations. In general, taxpayers are required to pay their tax obligations in full. While the IRS seeks an immediate, complete satisfaction of an outstanding liability, some taxpayers are not able to immediately pay their tax debts. In such cases, the IRS offers payment arrangements for taxpayers to satisfy their debts through a series of monthly payments (referred to as installment agreements).² If the taxpayer is financially unable to pay their tax debts, the IRS may report the liability as currently uncollectible.³ In such cases, the IRS monitors the income of the taxpayer and will reactivate the account when a previous IRS financial analysis indicates assets may become available to satisfy the tax obligation, or a recently filed tax return

2 Internal Revenue Code (IRC) §6159; Internal Revenue Manual (IRM) 5.14.1.1.1, *Securing Installment Agreements, Overview* (Jan. 1, 2016).

3 IRM 5.16.1.1, *Currently Not Collectible Overview* (Aug. 25, 2014).

indicates that the taxpayer's income has increased to a level where it appears that taxpayers can afford to begin making payments. Even though a tax delinquency may be paid over time or reported currently not collectible, penalties and interest continue to accrue during the ten-year (or more) period in which the IRS has to collect the liability.⁴

Additionally, IRC § 7122 authorizes the IRS to accept less than the full amount of tax, penalties, or interest due. This collection tool is known as an OIC.⁵ This statute instructs the IRS to establish procedures to determine when an OIC is sufficient.⁶ Furthermore, Congress directed the IRS to “develop and publish schedules of national and local allowances designed to provide that taxpayers entering into a compromise have an adequate means to provide for basic living expenses”.⁷ Low-dollar OICs will not be rejected out of hand.⁸ In turn, as part of the compromise, the taxpayer agrees to remain fully compliant with his or her filing and paying requirements for five years after acceptance of the OIC.⁹

Treasury Regulations provide three grounds for an OIC:

- Doubt as to liability;¹⁰
- Doubt as to collectability;¹¹ and
- Effective tax administration (ETA).¹²

The law requires two things before an OIC can be deemed processable. First, an OIC submission must include a partial payment (referred to as a “TIPRA payment”).¹³ Second, the taxpayer must pay any applicable user fee.¹⁴ Additionally, Treasury Regulations require that the OIC be made in writing, be

4 The IRS generally has ten years to collect a tax debt once it is assessed, which is referred to as the collection statute expiration date (CSED). IRC § 6502. Some events may extend or suspend the CSED. In particular, the CSED is suspended during the period an offer in compromise (OIC) is pending, for 30 days immediately following the rejection of the OIC, and for any period when a timely filed appeal from the rejection is being considered by Appeals. Treas. Reg. § 301.7122-1(i). In some cases, the IRS may choose to reduce the liability to judgment. This means the IRS would bring suit in federal district court. Once the judgment is in place, the IRS is not limited to the 10-year CSED period. 28 U.S.C. § 3201.

5 See also, IRM 5.8.1.2.1, *Offer in Compromise, Definition* (Sept. 23, 2008).

6 IRC § 7122(d)(1).

7 IRC § 7122(d)(2).

8 IRC § 7122(d)(3).

9 IRS, Form 656-B, *Offer In Compromise 5* (Mar. 2017).

10 Treas. Reg. 301.7122-1(b)(1). Doubt as to liability exists where there is a genuine dispute as to the existence or amount of the correct tax liability under the law. Doubt as to liability does not exist where the liability has been established by a final court decision or judgment concerning the existence or amount of the liability.

11 Treas. Reg. 301.7122-1(b)(2). Doubt as to collectability exists in any case where the taxpayer's assets and income are less than the full amount of the liability.

12 Treas. Reg. 301.7122-1(b)(3). There are two grounds for Effective Tax Administration (ETA) offers: 1) If the Secretary determines that, although collection in full could be achieved, collection of the full liability would cause the taxpayer economic hardship within the meaning of Treas. Reg. § 301.6343-1 and; 2) If there are no grounds for an offer under the other OIC criteria, the IRS may compromise to promote effective tax administration where compelling public policy or equity considerations identified by the taxpayer provide a sufficient basis for compromising the liability. Compromise will be justified only where, due to exceptional circumstances, collection of the full liability would undermine public confidence that the tax laws are being administered in a fair and equitable manner.

13 IRC §§ 7122(c)(1), 7122(d)(3)(C). For lump sum offers, the partial payment must be 20 percent of the OIC amount. For a periodic payment OIC, the partial payment must consist of the first installment payment. IRC §§ 7122(c)(1)(A)–(B).

14 IRC § 7122(c)(2)(B). If an individual taxpayer qualifies for the low income waiver, he or she will not be required to send any payment with the OIC. IRS, Form 656-B, *Offer in Compromise* (Mar. 2017).

signed by the taxpayer under penalty of perjury, and contain all of the information “prescribed or requested by the Secretary”.¹⁵ If an OIC meets the minimum criteria for consideration, it is deemed processable.¹⁶

An OIC may be returned as unprocessable for a variety of reasons, including the taxpayer did not provide the application fee or applicable initial payment, the taxpayer is in bankruptcy, etc.¹⁷ In April 2016, the IRS announced that OICs submitted by a taxpayer who had not filed all necessary tax returns (based on internal research) would be returned to the taxpayer as not processable.¹⁸ In February 2017, the IRS announced another change in practice, whereby the IRS will keep the payments sent with OICs that are not processed and returned for lack of filing compliance.¹⁹

An OIC may be rejected for many reasons such as the facts do not support acceptance, acceptance is not in the government’s best interest, or other public policy reasons.²⁰ A rejected OIC differs from a returned OIC in that the IRS has reviewed the facts of the case prior to rejection and the taxpayer receives appeal rights when the OIC is rejected.²¹ When an OIC is rejected, the IRS keeps any required TIPRA payments made by the taxpayer.²²

The objectives of the OIC program are to:

- Affect collection of what can reasonably be collected at the earliest possible time and at the least cost to the government;
- Achieve a resolution that is in the best interest of both the individual taxpayer and the government;
- Provide the taxpayer a fresh start toward future voluntary compliance with all filing and payment requirements; and
- Secure collection of revenue that may not be collected through any other means.²³

Taxpayers that have an accepted offer are required to stay in compliance for five years following the acceptance of their offer, meaning they have to file and pay timely.²⁴ If they fail to comply, the entire liability, minus the amount paid with the offer, plus penalties and interest may be reinstated.²⁵ Thus, as discussed below, OICs represent an opportunity for the IRS to transform a taxpayer’s noncompliant behavior into compliant behavior, with the public fisc completely protected against failure.

15 Treas. Reg. § 301.7122-1(d)(1).

16 IRM 5.8.2.3, *Centralized Offer in Compromise Initial Processing and Processability, Processability* (May 14, 2013). Centralized OIC (COIC) employees make the initial determination of processability. IRM 5.8.2.3, *Centralized Offer in Compromise Initial Processing and Processability, Processability* (May 14, 2013).

17 IRM 5.8.2.3.1, *Centralized Offer in Compromise Initial Processing and Processability, Determining Processability* (July 28, 2015).

18 IRS, *Memorandum for Director, Specialty Collection Offers, Liens & Advisory, Offer in Compromise Filing Compliance and Case Perfection*, SBSE-05-0416-0015 (Apr. 13, 2016).

19 IRS, *Memorandum for Director, Collection Policy, Offer in Compromise Filing Compliance and Case Perfection* (Feb. 23, 2017).

20 IRM 5.8.7.7, *Return, Terminate, Withdraw, and Reject Processing, Rejection* (Oct. 7, 2016).

21 *Id.* This study includes an examination of all rejected or returned offers in compromise submitted from individual taxpayers, whether the OIC was based on doubt as to collectability, doubt as to liability, or effective tax administration.

22 IRM 5.8.2.7.1 *Processable Offers - Payment Processing* (May 14, 2013).

23 IRM 1.2.14.1.17, *Policy Statement 5-100* (Jan. 30, 1992); IRM 5.8.1.2.4, *Overview, Objectives* (Sept. 23, 2008).

24 IRS, Form 656-B, *Offer In Compromise 5* (Mar. 2017).

25 IRM 5.8.9.4, *Actions on Post-Accepted Offers, Potential Default Cases* (Jan. 12, 2017).

Congress has long viewed the OIC as a viable and reasonable collection alternative.²⁶ The Senate intended that the IRS would adopt a “liberal acceptance policy for [offers] to provide an incentive for taxpayers to continue to file tax returns and continue to pay their taxes”.²⁷ This view was also adopted in the conference report for the IRS Restructuring and Reform Act of 1998 (RRA 98):

The conferees believe that the IRS should be flexible in finding ways to work with taxpayers who are sincerely trying to meet their obligations and remain in the tax system. Accordingly, the conferees believe that the IRS should make it easier for taxpayers to enter into offer in compromise agreements, and should do more to educate the taxpaying public about the availability of such agreements.²⁸

However, the IRS accepts fewer than half of the OICs submitted by taxpayers each year. While good reasons exist for the IRS to reject or return many offers, both the IRS and the taxpayer benefit from an accepted OIC. The IRS not only resolves the current delinquencies, but also generally ensures future filing and payment compliance for at least the next five years, and often longer. Therefore, the IRS does not continue to expend its resources on the current liabilities or future delinquencies. The taxpayer obtains a clean start, free from the existing tax debt and has incentive to avoid future debts for the next five years, which often translates into the development of good filing and payment compliance habits well into the future.

This study includes all types of OICs submitted by individual taxpayers, including doubt as to collectability offers, doubt as to liability offers, and effective tax administration offers. The report will begin by exploring the frequency with which taxpayers submit multiple offers within a six-month period. The IRS may be concerned that taxpayers could engage in a practice of submitting multiple unacceptable offers for the primary purpose of delaying collection actions, which the IRS might use to collect on the delinquency.²⁹ This report will also examine the taxpayers’ filing and payment compliance subsequent to an accepted OIC, and how the amount actually collected on liabilities where the OIC was returned or rejected compares to what the IRS has actually been able to collect, and for rejected OICs, what the IRS determined to be the RCP.³⁰

26 IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206 (1998); H.R. CONF. REP. 599, 105th Cong., 2d Sess. 288-89 (1998).

27 S. REP. NO. 105-174 at 90 (1998).

28 RRA 98, Pub. L. No. 105-206 (1998); H.R. REP. NO. 105-599, at 288-89 (1998) (Conf. Rep.).

29 IRS Offers in Compromise, *An Analysis of Various Aspects of the OIC Program 2004*. Per IRM 5.11.1.4.11, *Offers in Compromise* (Aug. 1, 2014), notices of levy cannot be served while an OIC is pending, within 30 days after an OIC is rejected, or while a rejected OIC is being appealed. IRM 5.8.4.20, *Offer Submitted Solely to Delay Collection* (May 10, 2013), describes IRS procedures when the IRS believes an OIC is submitted solely to delay collection.

30 This study includes an examination of all rejected or returned OICs submitted by individual taxpayers, whether the OIC was submitted based on doubt as to collectability, doubt as to liability, or effective tax administration.

BACKGROUND

Per Policy statement in 5-100 in IRM 1.2.14.1.17, the Service will accept an OIC when it is unlikely that the tax liability can be collected in full and the amount offered reasonably reflects collection potential. Unless special circumstances exist, OICs will not be accepted if the IRS believes the liability can be paid in full as a lump sum, or by installment payments extending through the remaining statutory period for collection, or through other means of collection.³¹ The IRS first conducts an analysis to see if the taxpayer can afford to pay the liability through the liquidation of existing assets or an installment agreement. Once the IRS confirms that the taxpayer will not be able to pay the debt through an installment agreement, the IRS then determines the RCP for the taxpayer.³² Unless special circumstances exist, the RCP will serve as the basis for an acceptable OIC amount.³³ The taxpayer has the option to pay the offered amount in a “lump sum,” which means the OIC will be paid in five or fewer payments within five or fewer months, or through periodic payments, of six or more installments which are limited to a maximum of two years.³⁴

In FY 2001, shortly after initiating new OIC procedures in response to the RRA98, the IRS accepted over 34 percent of its disposed OICs. However, in the subsequent FYs from 2002 to 2007, the IRS accepted less than 25 percent of taxpayer OICs.³⁵

In 2004, the OPERA completed a study on the IRS OIC program that included the following significant findings regarding subsequent compliance and the amount collected:³⁶

- Approximately 60 percent of the Individual Master File (IMF) taxpayers included in their analysis remained in full compliance with their filing and paying requirements. When adjusted to exclude taxpayers who received the first collection notice, but no subsequent notices, approximately 80 percent of these taxpayers essentially remained in compliance.
- In 44 percent of rejected OICs and 59 percent of returned OICs, the IRS collected less than 50 percent of the amount offered. Of rejected or withdrawn OICs from individuals, 37 percent remained in active collection status, while 56 percent of the modules on returned OICs remained in active collection status. For tax modules included in rejected or withdrawn OICs submitted by individuals, 20 percent were in Currently Not Collectible (CNC) status, including those where the collection statute expiration date (CSED) has expired.

Figure 1 depicts the OIC receipts, dispositions, and acceptances since FY 2010. As shown, the IRS began accepting a larger percentage of OICs in FY 2011, and reached its high-water mark of OIC acceptances at 43.7 percent in 2013. The current rate of OIC acceptances remains about 40 percent.³⁷

31 IRM 5.8.1.2.3, *Policy* (May 5, 2017).

32 IRM 5.8.5.2, *Ability to Pay* (Sept. 30, 2013).

33 IRM 5.8.1.2.3, *Policy* (May 5, 2017).

34 IRC § 7122(c). Periodic payment agreements are limited to a maximum of two years. IRM 5.8.1.13.4, *Payments* (May 5, 2017).

35 National Taxpayer Advocate 2007 Annual Report to Congress 374-87, 374 (Most Serious Problem: *Offer in Compromise*); *IRS Collection Activity Report, NO-5000-108* (FY 2001 – FY 2007).

36 *IRS Offers in Compromise, An Analysis of Various Aspects of the OIC Program 2004*.

37 The acceptance rate is the numbers of accepted OICs in a fiscal year divided by the total number of OIC investigations closed by the IRS during that same fiscal year.

FIGURE 1, OIC Receipts, Dispositions and Acceptances since 2010³⁸

FY	Receipts	Acceptances	Dispositions	Acceptance Rate
2010	56,539	13,886	52,104	26.7%
2011	59,411	19,562	57,836	33.8%
2012	63,801	23,628	62,597	37.7%
2013	74,217	30,840	70,622	43.7%
2014	67,935	26,924	64,332	41.9%
2015	66,600	27,417	64,479	42.5%
2016	62,937	26,663	65,858	40.5%
2017	62,243	25,326	66,549	38.1%

While the IRS has accepted more OICs in recent years, the National Taxpayer Advocate is concerned that IRS continues to reject a sizeable percent of offers even though the amount ultimately collected is less than the amount offered and far less than what the IRS determined as RCP.³⁹ In this situation, not only does the IRS collect less than what many individual taxpayers with rejected or returned OICs offered to satisfy their tax liabilities, but the IRS must continue to devote additional resources to collecting these liabilities, while missing a significant opportunity to change taxpayer behavior toward future voluntary filing and payment compliance.

OBJECTIVES

- Since 2007, quantify the number of taxpayers who have submitted multiple OICs in a short amount of time (churning);
- Examine the subsequent filing and payment compliance for the five years after the IRS accepts a taxpayer's OIC;
- Determine if subsequent compliance continues beyond the five years required as part of the accepted OIC agreement;
- Compare the amount the IRS could have collected on a rejected or returned OIC to the amount actually collected subsequent to the offer; and
- Determine if the IRS realizes its estimation of the reasonable collection potential when it rejects an offer.

38 IRS Collection Activity Report, NO-5000-108 (Fiscal Year (FY) 2010 – FY 2017).

39 This study includes an examination of all rejected or returned OICs submitted by individual taxpayers, whether the OIC was submitted based on doubt as to collectability, doubt as to liability, or effective tax administration.

METHODOLOGY

To request approval to compromise tax liabilities for less than the total amount due, the taxpayer submits Form 656, *Offer in Compromise*, with the additional required financial documentation and user fee. For the first three objectives, TAS Research analyzed the accounts of individual taxpayers who submitted an offer from 2007 through 2017 to the IRS to compromise their tax liability for less than the full amount due.⁴⁰

To determine if the taxpayer was churning, TAS research selected all OICs closed as rejected,⁴¹ withdrawn/terminated,⁴² or returned as not processable.⁴³ The 2004 OPERA report defined churning taxpayers as those who submitted a new OIC within 180 days after one of the previously indicated OIC disposition types.⁴⁴ TAS Research identified the taxpayers that had an OIC accepted⁴⁵ to distinguish them from taxpayers whose OIC was returned or rejected.

For the second and third objectives regarding filing and payment compliance, TAS Research analyzed the collection status codes of the modules for income tax returns due after the offer was submitted.⁴⁶ For accepted offers, we examined the status of income tax returns due within the five years after the OIC acceptance and for unaccepted offers, we examined the five years subsequent to the OIC return, rejection, or withdrawal. Where sufficient time had elapsed, we also examined the filing and payment compliance of taxpayers' individual income tax liabilities for the years beyond five years.⁴⁷ For both our filing and payment compliance analysis, we compared the account statuses of individual taxpayers with an accepted OIC to taxpayers where the IRS did not accept their OIC.

In our analysis of filing compliance, we analyzed the IMF to determine if the subsequent returns were timely filed, late filed, or not filed.⁴⁸ In order to determine if the subsequent returns were filed timely, TAS Research compared the filing date with the expected filing date of the return (considering any extensions). In our analysis of payment compliance, we compared taxpayers with accepted OICs to those taxpayers whose OIC was not accepted by the IRS by examining the collection status of these taxpayer's income tax returns subsequent to the offer. We detected if any payment delinquency was present and if a payment delinquency reached Taxpayer Delinquent Account (TDA) status.⁴⁹

Finally, for the fourth and fifth objectives, TAS Research requested and obtained from the IRS a list of individual taxpayers whose OICs were returned or rejected by the IRS from 2009 through 2013, the amount of these OICs, and, in the case of rejected OICs, the amount of RCP determined by the

40 TAS Research used the Individual Master File (IMF) table on the Compliance Data Warehouse (CDW) to select cases with a Transaction Code (TC) 480 after 2007; the latest Transaction Code date of the data was April 24, 2017.

41 TC 481.

42 TC 482.

43 TC 483.

44 IRS Offers in Compromise, *An Analysis of Various Aspects of the OIC Program 2004 2*.

45 TC 780.

46 Data is from the IMF on the IRS CDW.

47 The terms of an OIC require the taxpayer to remain in filing and payment compliance for the income tax returns due five years after the year in which the IRS accepts the OIC. IRS, Form 656-B, *Offer In Compromise 5* (Mar. 2017).

48 The taxpayers that filed their returns generally have a collection status code of 12 or greater, while unfiled returns show a collection status code of less than 10; those that file an extension have a status of 4.

49 Any tax return with a status greater than 12 indicates that the return has been in balance due status. In addition, a status of 22, 24, or 26 indicates a Taxpayer Delinquent Account (TDA).

IRS.⁵⁰ The IRS defines RCP as the amount that can be collected from all available means, including administrative and judicial collection remedies. RCP is generally the sum of taxpayers' assets, future income, amounts collectible from third parties (e.g., assets involved in a fraudulent conveyance from the taxpayer), and taxpayer assets which are beyond the reach of the government (e.g., taxpayer assets in foreign countries).⁵¹ We compared the amount actually collected from subsequent payments by these taxpayers to the amount that was submitted on the rejected OIC and to the IRS determined RCP.⁵²

FINDINGS

Quantify the number of taxpayers who have “churned” since 2007.

Churned OICs are ones in which the taxpayer makes multiple offer submissions within a 180-day period. In other words, churning occurs when a taxpayer submits another OIC soon after the IRS rejects their prior OIC or returns it as unprocessable. The IRS returns a taxpayer's OIC as unprocessable when the taxpayer submits an OIC of zero dollars, does not submit the required user fee or TIPRA payment (unless they qualify for the low income waiver), when the taxpayer has unfiled returns from tax years ending prior to the OIC submission, or when the taxpayer is involved in a bankruptcy proceeding.⁵³ Unless special circumstances are present, the IRS will reject an OIC if it determines that the amount offered is not sufficient based on an analysis of the amount the IRS believes it could reasonably collect from the taxpayer, known as the RCP.⁵⁴ The IRS may have concerns that taxpayers engage in churning as a way to forestall collection actions.⁵⁵ Therefore, a taxpayer may want to cure the problem (for example, file his or her tax return) before attempting the OIC process again.

TAS Research identified about 450,000 unique individual taxpayers who submitted an OIC since 2007. Of these, approximately 44,000, or less than 10 percent, churned, meaning they submitted a second OIC within six months of having the first one withdrawn, rejected, or returned. The following figure depicts the percentage of churned OICs since 2007 by year of first submitted OIC:

50 This study includes an examination of all rejected or returned OICs, whether the OIC was submitted based on doubt as to collectability, doubt as to liability, or effective tax administration. However, the IRS generally only computes reasonable collection potential for rejected OICs.

51 IRM 5.8.4.3.1, *Components of Collectibility* (Apr. 30, 2015).

52 The amount offered was obtained from an extract provided by the IRS from its Automated OIC System. Subsequent payments are captured by the IRS as TC 670. For rejected OICs, the Transaction Code 670 date was used only if it was after the date of the first TC 480.

53 IRM 5.8.2.3.1, *Determining Processability* (July 28, 2015), contains a complete list of reasons causing the IRS to deem an OIC as unprocessable. The change in processability for OICs submitted by taxpayers who are not in filing compliance is a relatively new change in procedure. IRS, *Memorandum for Director, Specialty Collection Offers, Liens & Advisory, Offer in Compromise Filing Compliance and Case Perfection*, SBSE-05-0416-0015 (Apr. 13, 2016).

54 IRM Exhibit 5.8.1-1, *Common Abbreviations Used in the IRM* (May 5, 2017).

55 Per IRM 5.11.1.4.11, *Offers in Compromise* (Aug. 1, 2014), the IRS normally suspends collection activity during the time in which it considers an OIC. IRM 5.8.4.20 describes IRS procedures when the IRS believes an OIC is submitted solely to delay collection. See also, IRS Offers in Compromise, *An Analysis of Various Aspects of the OIC Program 2004*.

FIGURE 2, Churning Cases Broken Out by Year of First TC 480⁵⁶

Year of First Submitted OIC	Count Of OICs Submitted	Churning Count	Percent Churning
2007	34,820	4,285	12.3%
2008	33,810	4,169	12.3%
2009	40,649	4,643	11.4%
2010	42,906	4,355	10.2%
2011	44,751	5,031	11.2%
2012	50,083	5,191	10.4%
2013	53,755	5,025	9.3%
2014	49,539	4,550	9.2%
2015	47,870	3,877	8.1%
2016	42,198	2,597	6.2%
2017	11,783	93	0.8%
Total	452,164	43,816	9.7%

While the figure above shows the percentage of taxpayers who churned, the following figure shows the IRS ultimately accepted the OICs of nearly half of those taxpayers who churned:

FIGURE 3, Churning Cases Accepted vs. Not Accepted⁵⁷

Year of First Submitted OIC	Churning Count	With an Accepted OIC	Percent churning with an Accepted OIC
2007	4,285	1,823	42.5%
2008	4,169	1,816	43.6%
2009	4,643	2,242	48.3%
2010	4,355	2,296	52.7%
2011	5,031	2,709	53.9%
2012	5,191	2,871	55.3%
2013	5,025	2,672	53.2%
2014	4,550	2,235	49.1%
2015	3,877	1,479	38.2%
2016	2,597	633	24.4%
2017	93	4	4.3%
Total	43,816	20,780	47.4%

56 At the time, data was extracted for analysis, sufficient time had not elapsed to determine the churning rate of OICs submitted in 2017; however, even excluding this year still results in a churn rate under ten percent. Taxpayers with accepted OICs have a TC 780 on their compromised accounts. The data is extracted from the IMF.

57 At the time, data was extracted for analysis, sufficient time had not elapsed to determine the churning rate of OICs submitted in 2017; however, even excluding this year, still results in a churn rate of under ten percent. The table is produced from data contained in the IMF.

While the IRS may be concerned that taxpayers churn OICs to avoid or delay collection action, Figure 3 shows that nearly half of the taxpayers who churn ultimately receive an accepted OIC, suggesting that taxpayers are not trying to game the system, but are legitimately seeking an acceptable OIC. While the IRS certainly has reason to reject or return some OICs, the data indicates that many taxpayers are really trying to resolve their tax delinquencies. When the IRS returns or rejects an OIC and the taxpayer subsequently submits a new OIC, the IRS expends additional resources by reworking the OIC.⁵⁸

Examine the subsequent filing and payment compliance for the five years required by the terms of the accepted OIC.

The conditions associated with the acceptance of an OIC include the agreement of the taxpayer to remain fully compliant with filing and paying all of their tax liabilities for the five years after the OIC is accepted. Therefore, although the IRS agrees to settle a tax debt for less than the full amount due, the IRS secures future filing and payment compliance for the next five years.⁵⁹ As a result, the IRS benefits by obtaining an extensive period of compliance, hopefully developing good taxpayer habits, which extend the compliance into the foreseeable future, while also collecting an amount on the previously accrued liability that it determines to be at least the reasonable collection potential and is unlikely to be otherwise collected. On the other hand, the taxpayer is no longer saddled with a debt that cannot be satisfied.

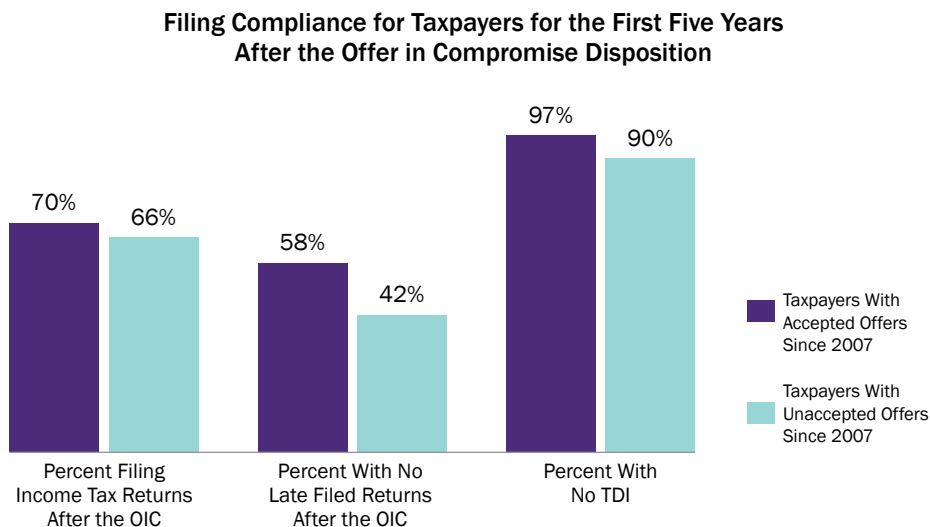
TAS Research analyzed the filing compliance data for OICs submitted from 2006 through 2016⁶⁰ to determine the percentage of taxpayers that filed, filed timely, or had an unfiled return reach Taxpayer Delinquency Investigation (TDI) status. Figure 4 compares the filing compliance of those taxpayers where the IRS accepted their OIC and those taxpayers where the IRS did not accept their OIC.

58 In 2016, the IRS announced that OICs submitted by a taxpayer who had not filed all necessary tax returns (based on internal research) would be returned to the taxpayer as not processable. IRS, *Memorandum for Director, Specialty Collection Offers, Liens & Advisory, Offer in Compromise Filing Compliance and Case Perfection*, SBSE-05-0416-0015 (Apr. 13, 2016). Prior to this change, if the IRS determined that a taxpayer was not in filing compliance, the IRS would process the OIC and give the taxpayer time to file his or her late tax returns. IRM 5.8.3.6.1, *Field Cases - Case Building* (May 14, 2013); IRM 5.8.3.7.1, *Case Building for COIC Offers* (May 14, 2013). In February 2017, the IRS announced another change in practice, whereby the IRS will keep the payments sent with OICs that are not processed and returned for lack of filing compliance. IRS, *Memorandum for Director, Collection Policy, Offer in Compromise Filing Compliance and Case Perfection* (Feb. 23, 2017).

59 The IRS will default an OIC and reinstate the original liability for failure to file or pay taxes due for five years subsequent to the acceptance of the offer. The taxpayer is given a grace period to rectify the noncompliance. IRM 5.19.7.2.19.4, *Failure to Adhere to Compliance Terms* (Aug. 25, 2017).

60 If less than five years has elapsed, we consider the number of years elapsed since the IRC closed the OIC when determining the taxpayer's filing compliance.

FIGURE 4, Filing Compliance for Taxpayers for the First Five Years After the OIC Disposition



As Figure 4 indicates, taxpayers with accepted OICs were somewhat more likely (four percent) to file their income tax returns for the next five years than taxpayers whose OICs over the same time period were not accepted by the IRS. However, taxpayers with accepted OICs were *significantly* more likely (16 percent) to *timely* file their subsequent income tax returns for the next five years than taxpayers whose OICs were not accepted.⁶¹ Thus, OIC acceptance appears to promote filing compliance. Timely filed tax returns reduce IRS resources, which it must expend to pursue collection of these returns. Taxpayers with accepted OICs are also seven percent more likely to not have a return delinquency reach TDI status.⁶²

We see a similar difference between rates of payment compliance for the first five years after the OIC, depending on whether the IRS accepted the taxpayer's OIC. The following figure chronicles the payment compliance for these two groups:

61 TAS Research also determined that only 52 percent of taxpayers whose unfiled return reached Taxpayer Delinquency Investigation (TDI) status in 2012 did not have an account reach TDI or Taxpayer Delinquent Account (TDA) status for the next five years. IMF data on the IRS CDW.

62 When a taxpayer's unfiled return reaches TDI status, the IRS has assigned the delinquent return for active research by Collection personnel to determine if the return has tax due and, if so, to secure the return from the taxpayer.

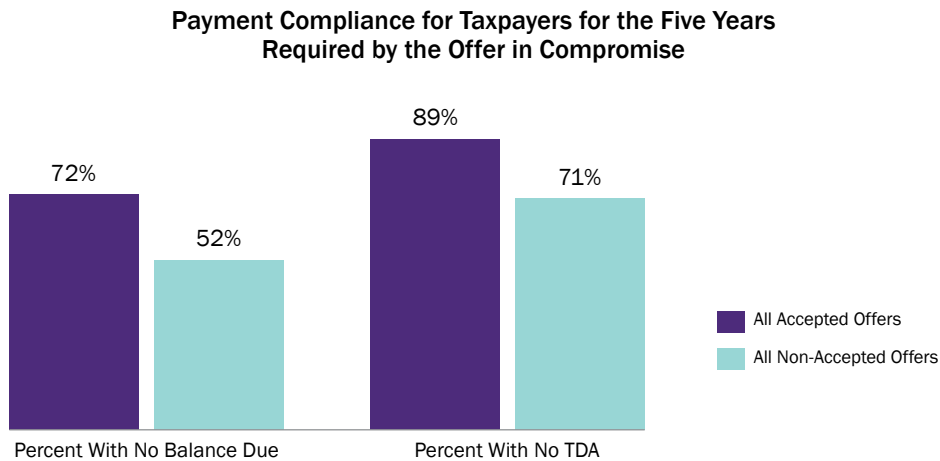
FIGURE 5, Payment Compliance for Taxpayers for the Five Years Required by the OIC⁶³

Figure 5 shows that for the first five years after the OIC, taxpayers with accepted OICs are much more likely to pay their subsequent income taxes than taxpayers whose OICs were not accepted (72 percent compared to 52 percent). Taxpayers who continue to have unresolved liabilities (or unfiled returns) risk the IRS reinstating the full amount of the compromised liability, so there is a strong incentive to remain in compliance.⁶⁴ The IRS must expend additional resources on taxpayers who accrue additional liabilities including sending additional payment notices, and in the case of liabilities that reach TDA status, assigning the delinquency to collection personnel for resolution.⁶⁵ As with filing compliance, OIC acceptance also appears to promote payment compliance.

Examine the subsequent filing and payment for the years beyond the five required by the terms of the accepted OIC

Ideally, the taxpayer not only will remain in filing and payment compliance for the five years required under the terms of the accepted OIC, but will remain compliant long after the terms of the OIC are completed. The following figure shows the subsequent taxpayer payment compliance after the five years required by the OIC:⁶⁶

⁶³ We derived the presence of unfiled returns and balances due by examining the collection status of the module from the IMF.

⁶⁴ The IRS will default an OIC and reinstate the original liability for failure to file or pay taxes due for five years subsequent to the acceptance of the OIC. The tax period is given a grace period to rectify the noncompliance. IRM 5.19.7.2.19.4, *Failure to Adhere to Compliance Terms* (Aug. 25, 2017).

⁶⁵ When a taxpayer's unfiled return reaches TDA status, the IRS has assigned the delinquent account for active collection action by Collection personnel.

⁶⁶ The length of time elapsed after the five years of filing and payment compliance depends on the year in which the OIC was accepted. For example, for OICs accepted in 2007, individual Income Tax returns will be due for Tax Years 2007 (due in 2008) through 2011 pursuant to the terms of the accepted OIC, and five more Individual Income Tax returns will have been due subsequent to those first five years (Tax Years 2012, 2013, 2014, 2015, and 2016). Accordingly, for OICs accepted in 2008, four years of Individual Income Tax returns (Tax Years 2013–2016) will be due after the five years required by the terms of the accepted OIC.

FIGURE 6, Filing and Payment Compliance for Taxpayers for the Beyond Five Years After the Accepted OIC

	Percent with Filing Compliance	Percent with no Late files	Percent with no TDI ⁶⁷	Percent with no Balance Due	Percent with no TDA ⁶⁸
All Accepted Offers	53%	39%	94%	60%	83%
All Non-Accepted Offers	49%	28%	82%	40%	62%

In those instances where sufficient time has elapsed to examine taxpayers' filing and payment compliance beyond five years after the initial offer, Figure 6 indicates that the better compliance of taxpayers with accepted offers continues beyond the five years required by the terms of the accepted OIC. Although the percent of taxpayers remaining in filing and payment compliance declines after the five years required by the terms of the accepted OIC, taxpayers with accepted offers are still 12 percent less likely to have an unfiled return reach TDI status. Similarly, taxpayers who had an accepted OIC are 20 percent less likely to file a balance due return and 21 percent less likely to have an account reach TDA status, when compared to those taxpayers whose OIC the IRS did not accept.

Compare the amount the IRS could have collected on a rejected OIC to the amount actually collected subsequently

From 2009 through 2013, the IRS has rejected or returned nearly 100,000 offers from individual taxpayers who were ultimately not able to compromise their tax liabilities.⁶⁹ As indicated by Figure 7 below, overall, the IRS has collected about 800 million more than the amount offered.

FIGURE 7, Dollars Offered and Dollars Collected on Rejected or Returned OICs From 2009 Through 2013⁷⁰

	Mean	Median	Total
Collected Amounts	\$18,600	\$4,500	\$1.8 billion
Offered Amounts	\$10,500	\$2,700	\$1 billion

While the IRS collected overall significantly more on these rejected or returned OICs, *about 40 percent of the offered amounts exceeded what the IRS has actually collected.* Although in many cases, the statutory period for collecting taxes has not expired, it is also true that, on average, the IRS collects less than ten percent of the total amount collected beyond three years after the inception of the liability.⁷¹

67 When a taxpayer's unfiled return reaches TDI status, the IRS has assigned the delinquent return for active research by Collection personnel to determine if the return has tax due and, if so, to secure the return from the taxpayer.

68 When a taxpayer's balance due account reaches TDA status, the IRS has assigned the delinquent account for active collection action by Collection personnel (or the account is queued awaiting assignment to Collection personnel).

69 As we saw earlier, many taxpayers churn, and the IRS eventually accepts the OICs of almost half of these taxpayers. This study only examines the liabilities of individual taxpayers. The IRS also compromises the liabilities of taxpayers with business tax liabilities (e.g., employment taxes). TAS will conduct a study of Business Master File (BMF) offers for the 2018 Annual Report to Congress. TAS only requested to receive returned or rejected OICs from 2009 through 2013.

70 IRS IMF and Automated OIC System.

71 National Taxpayer Advocate 2015 Annual Report to Congress vol. 2, 39 (Research Study: *IRS Collectibility Curve Study*).

The following figure displays the mean, median and total amounts offered and the amounts collected for the approximately 40,000 taxpayers that offered amounts in their OICs exceeding what the IRS has been able to collect.

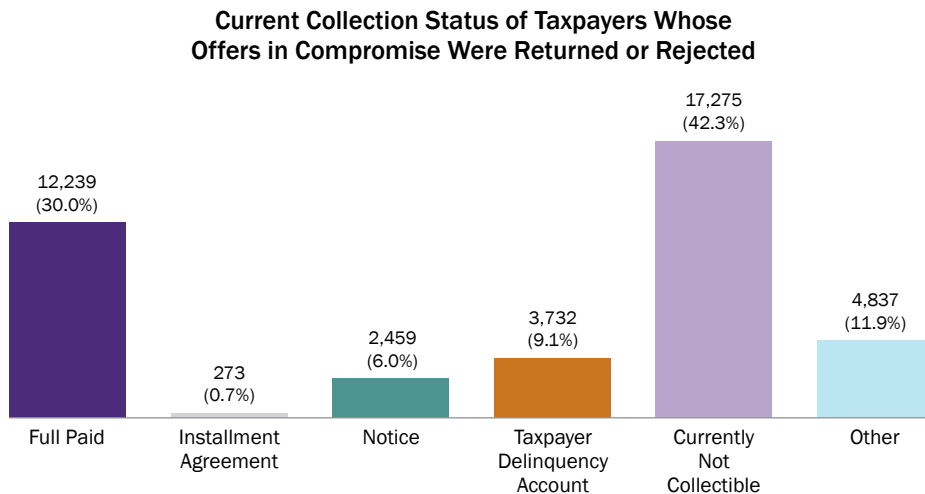
FIGURE 8, Offer Amounts vs. Collected Amounts for Rejected Offers Where Offered Amount Is More Than Collected Amount⁷²

	Mean	Median	Total
Collected Amounts	\$4,400	\$480	\$177 million
Offered Amounts	\$13,000	\$3,500	\$530 million

As the prior figure indicates, the IRS has only collected slightly over a third of the amount offered.⁷³ Of course, not all offers should be accepted, and some of the offers may have been returned or rejected because of the taxpayer's failure to become filing compliant or provide requested documentation. However, taxpayers with accepted OICs have significantly better subsequent filing and payment compliance. Therefore, it may be prudent for the IRS to invest additional resources into perfecting an offer and considering documentation alternatives, instead of spending even more resources attempting to resolve subsequent filing and payment delinquencies. Doing so could not only save on overall IRS resources, but the taxpayers could also achieve a final resolution of their tax debt.

As shown in the following figure, 30 percent of the taxpayers with returned or rejected OICs satisfied their liabilities. However, 40 percent of taxpayers whose OICs were returned or rejected from 2009 through 2013 rejected have been deemed by the IRS to be CNC.

FIGURE 9, Current Collection Status of Taxpayers Whose OICs Were Returned or Rejected



⁷² IRS IMF and Automated OIC System.

⁷³ The IRS also collected slightly over 193 million in refund offsets on returned and rejected OICs; however, the IRS still collected \$160 million less than the OIC it returned or rejected. Refund offsets generally account for the fact that 30 percent of the OICs where the amount offered exceeded the amount of subsequent payments ultimately resulted in full paid liabilities. However, it is also true that the terms of an accepted OIC result in the IRS offset of refunds for tax periods extending through the calendar year in which the IRS accepted the OIC.

We further analyzed those taxpayers where the delinquent liability was reported as CNC even though the offer was returned or rejected. The following figure shows that the amount collected from these taxpayers is about one-fourth of the amount offered.

FIGURE 10, Dollars Offered and Dollars Collected on Rejected or Returned OICs from 2009 through 2013 Where the IRS has Reported the Delinquent Accounts as Currently not Collectible⁷⁴

	Mean	Median	Total
Offer Amount	\$10,378	\$2,744	\$179,277,958
Payment Amount	\$2,659	\$210	\$45,930,465

We also stratified the collections between returned and rejected offers. The following figure depicts these results:

FIGURE 11, Comparison of Dollars Offered and Dollars Collected Depending on Whether the Offer Was Returned or Rejected From 2009 Through 2013

Rejected Offers						
Count	Amount Offered			Amount Collected		
	Total	Mean	Median	Total	Mean	Median
17,017	\$267,111,002	\$15,697	\$4,800	\$98,100,113	\$5,765	\$900
Returned Offers						
Count	Amount Offered			Amount Collected		
	Total	Mean	Median	Total	Mean	Median
25,213	\$301,090,864	\$11,942	\$3,000	\$94,734,934	\$3,757	\$319

We see that when considering the many instances where the offered amount exceeded the dollars actually collected, the IRS collects, on average, over 50 percent more from taxpayers with rejected OICs as compared to taxpayers with returned OICs and shows a median amount collected of nearly three times as much as is collected from taxpayers with returned offers. These statistics are not surprising, as most IRS rejections of OICs are because it determines the offered amount does not equal or exceed what it could expect to collect through its normal procedures. In the next objective, we will briefly explore how the amount actually collected compares to the RCP determined by the IRS.

74 IRS IMF and Automated OIC System.

Determine if the IRS realizes its estimation of the reasonable collection potential when it rejects an offer.

The 2004 OPERA study on the IRS OIC program determined that the IRS is often overly optimistic when determining RCP.⁷⁵ Our analysis of rejected offers from taxpayers who submitted their offers from 2009 to 2013 also shows that the IRS frequently overestimated reasonable collection potential. Figure 11 compares the IRS determined RCP, the amounts offered, and the amounts actually collected from rejected OICs when the offered amount exceeds the dollars actually collected through subsequent payments.

FIGURE 12, Comparison of Dollars Offered and Dollars Collected Depending on Whether the OIC Was Returned or Rejected From 2009 Through 2013

Rejected OICs Where OIC Amount Exceeded Amount Actually Collected Through Subsequent Payments		
Reasonable Collection Potential		
Total	Mean	Median
\$4,079,813,262	\$272,169	\$68,841
Amount Offered		
Total	Mean	Median
\$267,111,002	\$15,697	\$4,800
Amount Collected		
Total	Mean	Median
\$98,100,113	\$5,765	\$900

As the figure above demonstrates, the IRS determined reasonable collection potential was over 15 times the amount offered, but over 40 times the amount actually collected. While the rejection of the OIC is sometimes appropriate, in many instances, the IRS often has an exaggerated view of the RCP, with the dollars collected being less than the amount offered and significantly less than the amount the IRS determined as the taxpayer's RCP.

CONCLUSIONS

- Overall, since 2007, the percentage of taxpayers who have a submitted an OIC and subsequently churn is approximately 10 percent. Furthermore, the churn rate has generally been declining over the past 10 years. The IRS accepted the OICs of nearly half of those taxpayers who churned, suggesting that taxpayers are often trying to submit good OICs and the IRS could save resources by working with these taxpayers to perfect offers rather than return them.
- Taxpayers with accepted OICs remain in filing and payment compliance at a much higher rate for the five years after the IRS accepts the OIC than other individual taxpayers whose OICs were not accepted.
- Taxpayers with accepted OICs continue to remain in filing and payment compliance beyond the required five years from the year of offer acceptance.

75 IRS Offers in Compromise, *An Analysis of Various Aspects of the OIC Program* 2004 11.

- The IRS has only collected subsequent payments of less than a third of the amount offered in about 40 percent of the returned and rejected OICs.
- The IRS often overestimates taxpayer's reasonable collection potential. The IRS has subsequently determined that the tax delinquencies of over 40 percent of the taxpayers with returned or rejected OICs are currently not collectible. For those taxpayers with rejected OICs whose amounts offered exceed the amount actually collected, the IRS determined the reasonable collection potential was over 40 times the amount offered, but the IRS has only actually collected 36.7 percent of the amount offered.

RECOMMENDATIONS

Congress intended for the IRS to take a flexible approach in utilizing the OIC as a collection tool. While the IRS accepts many OICs, the percentage of accepted OICs has declined since FY 2013. The IRS also returns or rejects many taxpayer OICs even though it fails to collect as much as the taxpayer offered to satisfy the liability. Yet, as a whole, taxpayers with accepted OICs have better subsequent filing and payment compliance. With these facts in mind, the National Taxpayer Advocate makes the following recommendations:

- The IRS should consider devoting more resources to obtaining acceptable OICs from taxpayers who seek to compromise their liabilities. Securing acceptable OICs could actually save IRS money by preventing resources from being spent collecting the uncompromised delinquency and by obtaining the increased filing and payment compliance that generally accompanies accepted OICs. Such an approach could also decrease the resources wasted as a result of taxpayers submitting multiple OICs within a short period of time.
- The IRS should study a sample of returned and rejected OICs to determine factors which indicate that the IRS is likely to actually collect an amount less than what has been offered to compromise the liability. Given the huge differential between RCP and the amount offered for rejected OICs, taxpayers may become discouraged, distrustful, and unwilling to amend their OICs upward. As part of this study, the IRS should also determine what factors lead to an inflated RCP, so that in future situations with similar circumstances, the IRS could determine a more realistic amount of RCP, which may result in more accepted OICs.

Volume 2

TAS RESEARCH AND RELATED STUDIES

A Further Exploration of Taxpayers' Varying Abilities and Attitudes Toward IRS Options for Fulfilling Common Taxpayer Service Needs

A Further Exploration of Taxpayers' Varying Abilities and Attitudes Toward IRS Options for Fulfilling Common Taxpayer Service Needs¹

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¹ The principal authors of this study are Mike Nestor, Jeff Wilson, and Carol Hatch, TAS Research and Analysis.

EXECUTIVE SUMMARY

Since fiscal year (FY) 2010, the National Taxpayer Advocate has expressed concerns that the overall quality of the Internal Revenue Service's (IRS) taxpayer service has eroded. Over the long term, this erosion could increase taxpayer burden, weaken taxpayers' faith in the tax system, and undermine voluntary compliance. To help the IRS operate in a challenging budget environment, TAS and the Wage & Investment (W&I) Division developed a service priorities matrix to identify where the IRS should focus its limited service resources.

Critical to the success of the matrix was acquiring survey data from different kinds of taxpayers to determine what they need and prefer in terms of service. Unfortunately, the data required to develop the matrix was not readily available and thus project implementation was delayed. For a report in the 2016 ARC, TAS acquired a dataset of survey respondents, but due to its limited size, we were incapable of thoroughly analyzing the needs and preferences of taxpayers. However, for this report, we used a complete dataset and were able to develop our analyses further.

The basic purposes of this report are to:

- Determine the population's access and use of the internet and broadband;
- Determine the ability and desire of taxpayers to use different services and delivery channels; and
- Identify how issue resolution affects taxpayer satisfaction.

TAS based the analysis in this report on 3,735 survey responses obtained as of February 2017. Our design used Random Digit Dialing (RDD) to contact and recruit eligible survey respondents. For analyses of services and delivery channels, we reweighted the data by demographic criteria to more closely mirror IRS service users.

Our most notable research results were the following:

- Overall, we estimate that more than 11 million taxpayers never use the Internet, with a minimum of at least six million in any one of the vulnerable groups (that is, seniors, the taxpayers with disabilities, and low income taxpayers). Nearly 14 million are unlikely to have Internet access at home. Taxpayers indicated that about 28 percent did not have broadband, which translates to over 41 million taxpayers without this type of access. A lack of broadband was more prevalent among vulnerable groups. Approximately half of taxpayers reported they did not feel comfortable sharing personal financial information over the Internet and nearly forty percent did not like sharing personal information with the government.
- Personal circumstances, preferences, and abilities affect the delivery channels that individuals choose to use to obtain IRS services (for instance, those without broadband or Internet are less likely to use the IRS website). Taxpayers preferred the first channel that they used to receive service. Given options about delivery channels, taxpayers did not attempt to use the same delivery channel for every service issue. The most frequently cited service need was to get a form or publication, which one of every three taxpayers needed. More than one of every four taxpayers reported a need for answers to tax law questions. The next most frequently needed services were to: 1) get information about a refund; and 2) obtain transcripts or a copy of a prior year tax return. We also noted that a sizeable group reported needing help with an IRS notice or letter. This group is larger than we would expect to need this service and suggests that there may be a greater need for assistance with notices or letters than the IRS might anticipate. Roughly one in five taxpayers wants to talk with an IRS employee about a notice or letter (either on the phone or

face to face). Only one in twenty prefers that service online. The most preferred way to set up a payment plan was in person contact.

- Resolution was a key factor in driving channel choice and taxpayer satisfaction. Regardless of delivery channel used, approximately one of every three individuals who sought help from the IRS were not successful at completely resolving their issue. Resolution ratings for the automated phone service were lower than TACs, the website, and other IRS information sources, but were not statistically different from phone representative ratings. TAC locations and the IRS website received the highest customer satisfaction ratings. The primary drivers of the lower telephone satisfaction rating were the amount of time it took to get through on the phone and the number of steps required to get to someone that could help the caller.

Our findings show that millions of taxpayers — particularly among the vulnerable taxpayer groups — are still reliant on personal services to address their taxpayer service needs. Moreover, the finding that only a minority of all taxpayers feels secure sharing personal financial information over the Internet has serious implications for IRS Future State expectations that taxpayers will engage with an online IRS account. Just as taxpayers have differing requirements for IRS Services, delivery channel options are not equally suited for providing each type of service. Service needs as well as individual circumstances (including access to communication tools, technical abilities, and prior experiences) influence how service users seek help. These needs range from simple to complex, varied to repetitive, one-time to recurring. Our findings also show a need for the IRS to monitor its assistance programs. Studies of taxpayers' needs, use of services, abilities, and willingness to use various delivery channels should be gathered on a regular basis to enhance the effectiveness of IRS service offerings and taxpayers' understanding of their tax obligations.

Given these circumstances, it is readily apparent that taxpayers need more robust tax assistance platforms and multiple help options — that is, an omnichannel service environment.

INTRODUCTION

Since fiscal year (FY) 2010, the National Taxpayer Advocate has expressed concerns that the overall quality of the Internal Revenue Service's (IRS) taxpayer service has eroded. Over the long term, this erosion compounds taxpayer burden, weakens taxpayers' faith in the tax system, and may undermine voluntary compliance. Understandably, the IRS has endured budget reductions since 2010, which account for much of this erosion.² However, as outlined in the National Taxpayer Advocate's recent *Special Focus* discussion, IRS policy decisions regarding allocation of service priorities and a lack of understanding of taxpayer needs and preferences has also contributed significantly to this decline in service quality and offerings.³

To help the IRS operate in this environment, TAS and the Wage & Investment (W&I) Division developed a matrix to identify where the IRS should focus its limited service resources.⁴ The matrix takes taxpayers' needs and preferences into account, while balancing them against the IRS's need to conserve its limited resources, thus enabling the IRS to make resource allocation decisions that will

2 The IRS's budget increased slightly in 2016, but it was still much lower than the 2010 budget.

3 See National Taxpayer Advocate 2016 Annual Report to Congress (Special Focus: *IRS Future State: The National Taxpayer Advocate's Vision for a Taxpayer-Centric 21st Century Tax Administration*).

4 See National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 1-30, (Research Study: *The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services*).

optimize the delivery of taxpayer service activities given resource constraints.⁵ Congress will also be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities.

Unfortunately, the data needed to develop and implement the matrix was not readily available and delayed the project. To address this limitation, TAS designed a survey to provide most of the missing data. In March 2016, TAS hired a contractor to administer this survey to IRS service users. The survey was aimed to collect data on taxpayers' experience with different IRS service options (channels) to accomplish various service tasks, the method the taxpayer used to obtain the service, and taxpayers' willingness to use a delivery method in the future. The targeted time for TAS to receive survey responses was the end of September 2016, but due to unforeseen problems, the contractor was unable to complete the surveys in the timeframe projected. Accordingly, TAS was only able to publish a preliminary report based on the data received by late 2016.⁶ However, by the end of the second quarter of 2017, the contractor completed and delivered the survey data sample, weighted to represent the population of U.S. taxpayers in tax year (TY) 2015. For analyses of services and delivery channels, we reweighted the data to more closely mirror IRS service users.

This report updates the limited data provided in the preliminary Service Priorities report in the 2016 Annual Report to Congress (ARC) and, more importantly, summarizes the key findings of the survey. We will also explore the results from incorporating this data into the Service Priorities matrix. Specifically, we will summarize the data by the service task, and the delivery channel used by the taxpayer to obtain the service. Where sufficient data is available, we will also report on the results by combination of service task and the channel used by the taxpayer to obtain the service. This analysis will consider whether the taxpayer was able to accomplish the desired task, as well as taxpayers' satisfaction with the interaction.⁷

A separate section of this report focusses on taxpayers who may experience more difficulty obtaining IRS services, including elderly taxpayers, taxpayers with disabilities and those taxpayers with little or no access to the internet. As part of its Future State initiative, the IRS began to promote its website as the preferred way to obtain a variety of IRS services. However, taxpayers without ready access to the internet will have difficulty availing themselves of these services. Research studies have shown that the elderly and low income taxpayers are less likely to have ready access to the internet.⁸

Finally, an important factor to consider when evaluating these results is that between the time when the Service Priorities matrix was developed and when this survey data was obtained to finish populating the matrix, the landscape of IRS service offerings has changed significantly. For example, the IRS has continued to decrease the scope of services offered at its Taxpayer Assistance Centers (TACs or walk-in sites). Also, taxpayers are now generally required to make an appointment before traveling to

5 We use the word "optimize" to mean that the ranking methodology will provide the IRS with a rigorous way to select the combination of competing taxpayer service initiatives that maximizes the "value" of service delivery given available resources.

6 See National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 1-30 (Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*).

7 As we discuss in the Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*, *supra*, private industry has determined that First Contact Resolution and the customer's overall experience are the best indicators of comprehensive customer satisfaction.

8 See National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 1-30 (Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*).

a TAC to obtain personal assistance, and are often turned away by TACs when they show up without an appointment.⁹ Accordingly, the volume of taxpayers assisted in the TACs has decreased from 5.5 million to 3.2 million taxpayers served from FY 2014 to 2017. Over time, the IRS's level of service on its Customer Accounts Services phone lines decreased significantly, and it ceased answering tax law questions after April 15th, both on the telephone and in TACs. At the same time, the IRS has worked to promote the presence of its web based services. Thus, the IRS has made these service allocation decisions without the benefit of the significant research and analysis this study, and Service Priorities matrix, provides.

BACKGROUND

In the 2013 ARC, TAS presented a Volume 2 report that recommended a ranking methodology for adoption by TAS and W&I.¹⁰ The report described the rationale for the development of the Service Priorities matrix, as follows:

- The goal of the ranking methodology would be to identify, from both the government perspective and the taxpayer perspective, the value of each taxpayer service activity. The IRS would be able to use the methodology to make resource allocation decisions that would optimize the delivery of taxpayer service activities given resource constraints. In addition, Congress would be able to use the results of the methodology to determine whether it is adequately funding core service activities;
- The IRS would be able to use this ranking methodology to make resource allocation decisions based on highest valued services in the face of budget or staffing constraints; and
- The methodology would measure “value” using separate sets of criteria for taxpayers and the IRS.

However, subsequent to the agreement to pursue the Service Priorities matrix, but prior to the availability of the data to populate large sections of the matrix, the IRS launched its Future State initiative that focused on automation in lieu of personal service and encouraged taxpayers to use the IRS website rather than other service delivery channels. In the Special Focus to her 2016 Annual Report to Congress, the National Taxpayer Advocate wrote, “the IRS has failed to adequately study and incorporate into its “Future State” plans the needs and preferences of United States taxpayers.” She further states, “it is not a recipe for good government if a large portion of U.S. taxpayers are alienated from and distrustful of the one government agency they interact with at least annually throughout their adult lives.” In particular, she is concerned that the IRS is attempting to compensate for its limited taxpayer service budget with methods that will inhibit many taxpayers, primarily those without access to the internet or without internet savvy — the vulnerable population — from obtaining needed IRS services.

Because of the limited survey data available for last year's Annual Report to Congress Volume 2 Service Priorities report, TAS produced only an interim report on the Service Priorities Project. This data allowed us to make initial observations regarding vulnerable taxpayers (*e.g.*, low income, elderly, and

9 See Most Serious Problem: *Taxpayer Assistance Centers (TACs): Cuts to IRS Walk In Sites Have Left the IRS With a Drastically Reduced Community Presence and Severely Impaired Taxpayer Ability to Receive In-Person Assistance*, *supra*.

10 See National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 57-66 (Research Study: *The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services*).

those with reported disabilities) and their use of technology.¹¹ To explore this objective, TAS conducted the following analyses with breakouts for different groups of vulnerable taxpayers:

- Internet access, proficiency, and concerns;
- Service usage by channel (that is, website, phone, in-person visits to TACs); and
- Willingness and importance for service activities (for example, tax law questions, help with notices, obtaining a copy of a prior year return) by channel.

The analyses concluded that vulnerable taxpayers face greater challenges accessing and navigating the Internet than other taxpayers generally do. Specifically, we noted:

- All the vulnerable groups were less likely to have broadband access at home than the not low income group and were also less likely to have internet access at home;
- Over 33 million taxpayers did not have broadband access;
- More than 14 million taxpayers did not have internet access at home;
- The vulnerable groups were more likely to access the internet infrequently (less than once a week or not at all) than the not low income group;
- The vulnerable groups reported that they feel less skilled doing internet research than the not low income group; and
- The vulnerable groups reported that they feel less secure providing personal financial information over the internet than the not low income group.

These findings showed that millions of taxpayers still rely on in-person services to address their taxpayer service needs. TAS also reported that a minority of all taxpayers feels secure providing personal financial information over the Internet. We noted that because of this circumstance, the IRS would likely face serious obstacles engaging taxpayers through online accounts.

In this year's Annual Report to Congress, in addition to updating the Service Priorities Report in the 2016 Report, we used a larger amount of data to delve into the following issues:

- Taxpayers' access and use of the internet; Common reasons why taxpayers contact the IRS for assistance (service tasks);
- Methods of contacting the IRS to obtain IRS services (delivery channels);
- Taxpayers' use of delivery channels to accomplish various services;
- Resolution of issues for which taxpayers require help;
- Taxpayer satisfaction with various IRS services;
- Taxpayer satisfaction with various IRS delivery channels for specific services; and
- Taxpayers' delivery channel preferences and their willingness to use the various delivery channels in the future.

¹¹ Based on the complete data set, we estimated the size of the vulnerable population groups at the 95 percent confidence level and +/- five percent confidence interval. Estimates for the vulnerable groups are shown in millions. The low income group contains approximately 68.2 million taxpayers, the senior group is estimated at 26.0 million, while taxpayers with disabilities account for about 34.7 million taxpayers. These groups are not mutually exclusive, meaning one taxpayer could belong to more than one group. This means you cannot simply add these categories to obtain an estimate of the vulnerable population. In contrast, the not low income group is estimated at 76.9 million.

This report will primarily focus on the IRS's website, personal telephone assistance, and service obtained through the TACs. Where significant differences arise, we will also report on automated telephone services; however, this channel is only available for a few services (*e.g.*, to check on the status of a refund).

OBJECTIVES

- Determine the population's access and use of the internet, and taxpayers' ability and willingness to use the online services;
- Quantify the common reasons taxpayers seek assistance from the IRS;
- Determine and quantify taxpayers use of various delivery channels, the relative importance of delivery channels to taxpayers, and whether they differ by taxpayer segments;
- Determine taxpayers' ability to use various delivery channels;
- Determine if taxpayers prefer to use different IRS delivery channels to complete certain tasks;
- Measure issue resolution for taxpayers' service needs;
- Identify how resolution affects taxpayer satisfaction;
- Determine taxpayer satisfaction with IRS services; and
- Identify taxpayer willingness to use different services and delivery channels.

METHODOLOGY

TAS hired a contractor in March 2016 to administer a survey to capture taxpayers' experiences obtaining common services from the IRS.

We considered the IRS's four major channels (avenues) for taxpayers to obtain needed services:

- The IRS website;
- Taxpayer Assistance Centers (where taxpayers can receive in-person assistance);
- Toll-Free telephone assistance; and
- Automated telephone assistance.

We also designed the survey to capture taxpayers' views of the importance of various delivery channels and their willingness to use the different IRS delivery channels. We asked the taxpayer to identify the first channel chosen to obtain an IRS service and to rate this channel on a variety of factors including the number of steps necessary to receive service, the time it took to receive the service, how well the taxpayer understood any information received, the accuracy of the information provided through this delivery channel, the overall satisfaction, and whether the taxpayer could resolve their issue. If the taxpayer was unable to resolve the issue through the first channel chosen, we asked the taxpayer to answer the same questions on their experience with the channel that was finally able to resolve their service need.

The survey focused on the following ten common services for which taxpayers routinely seek IRS assistance:

1. Get a form or publication;
2. Get transcripts or prior year tax return information;

3. Get answers to tax law questions *such as information on withholding, dependents, deductions, or tax credits*;
4. Get tax return preparation help such as *help filling out forms*;
5. Get information or assistance about an IRS notice or letter;
6. Make a payment;
7. Get information about making payments not including setting up a payment plan;
8. Set up a payment plan;
9. Get information about a refund; and
10. Get an Individual or Employer Tax Identification Number (ITIN, EIN).

We chose these tasks in accordance with how the IRS generally categorizes taxpayer service requests. In the event the respondent had sought assistance from the IRS for more than one service in the preceding year, the vendor administering the survey asked the respondent to focus on the rarer service as indicated by the responses previously received. The survey also allowed the taxpayer to specify a service task that did not fit into one of these ten categories; however, nearly all surveyed taxpayers chose one of the standard categories.

The survey study design called for the contractor to use Random Digit Dialing (RDD) to contact eligible survey respondents. We required the RDD sampling frame to be representative of the population of both landline and cell phone numbers. Ultimately, the study sample showed a 60/40 split between landline and cell numbers. Respondents were advised that the survey would take approximately 20 minutes to complete. The contractor administered the survey to 500 taxpayers who had filed a Form 1040, U.S. Individual Income Tax Return, but who had not used an IRS service within the prior year. However, we administered the survey to over 3,000 taxpayers filing a Form 1040, *U.S. Individual Income Tax Return*, who had used an IRS service within the past year. This report primarily focuses on the survey results from the IRS service users; however, we also report on non-service users' willingness to use a specific IRS channel and the importance of the four primary IRS delivery channels.

Ultimately, TAS obtained 3,735 survey responses in February 2017 for analysis.¹² We utilized the demographic data from the survey respondents to assign weights to all respondents. We used filing status and income provided by the respondents to weight the data to be more reflective of all service users based on an analysis of previous IRS surveys of service users.

For most survey questions, the respondents used a five point Likert scale to rate their experiences with the IRS services, including their willingness to use the delivery channel again, their perception of the resolution of the issue and their overall satisfaction. When comparing average responses, we used t-tests to detect if a statistical difference existed between the items being compared. Unless otherwise indicated, we noted statistical significance when a difference existed at the 95 percent confidence level (five percent significance level). We also developed some basic regression models to determine correlations between various factors influencing the taxpayer experience (*e.g.*, how the timeliness of the IRS service affected overall satisfaction).

The appendix contains a complete copy of the survey document. We have also provided the weighted and unweighted responses to the survey questions. This study collected information about taxpayer

¹² See the *Limitations, infra*, for a discussion of the total number of surveys obtained.

rights and responsibilities and taxpayer trust toward government, but they are not the focus of this report and thus not included. Furthermore, to constrain the survey length to approximately 20 minutes, the questions on taxpayer rights and the question regarding taxpayers' trust in the IRS were removed from the survey relatively early in the data collection process. TAS is currently conducting an in-depth survey on taxpayer rights and trust in government.¹³

Limitations

We encountered the following data limitations in this year's analysis:

- Due to the way the survey was designed and conducted, we did not obtain as many responses from users of IRS telephone assistance or TAC as intended. To increase survey responses from more infrequent types of services, we asked the vendor to conduct the survey on the more infrequent types of services; however, this approach had an unintended consequence. For example, if the respondent contacted the IRS for more than one service need and one of the delivery channels was telephone assistance or assistance was from a TAC, the telephone interviewer recorded this fact upfront and counted the respondent as meeting the telephone or TAC quota. However, if the respondent's other service task were a rarer type of service, the survey would capture the taxpayer's experiences with this service task even though the delivery channel was the IRS website. Therefore, the final survey data contained more responses for the IRS website and fewer responses from the telephone or TAC delivery channels.
- Because of the data structure, by service and channel, the "not full resolution" category is an estimate. This category may contain some that have full/part resolution for a particular service on a delivery channel, but it is a small minority. Since there are a small number of full/part resolution scores included in the not full resolution category, the satisfaction scores for not full resolution presented here are a conservative estimate; *i.e.*, in reality these satisfaction scores are probably lower than reported because the overlapping full resolution scores raise the average.
- We originally contracted for 4,000 completed surveys, 500 from non-service users, 1,750 from respondents who had utilized IRS web based services and 1,750 who had used an IRS telephone service or who had received in-person assistance from a TAC. However, the vendor was often spending more than 20 minutes conducting each survey; therefore, we agreed to reduce the number of required responses from 4,000 to 3,735.

13 See Research Study: *Audits, ID Theft Investigations, and Taxpayer Attitudes: Evidence from a National Survey*, vol. 2, *infra*.

FINDINGS

Several factors affect taxpayers' ability to accurately complete and file their tax returns, and resolve account issues with the IRS. Taxpayers' ability to understand and use IRS information and services, as well as their willingness to use the methods available to obtain the needed information, ultimately affects the IRS and its workload. For instance, if a taxpayer understands and uses information to accurately complete and file his or her tax return, then little additional work is required by the IRS; it must simply process the tax return and issue a refund, if needed. However, if the individual has an error on his or her return, IRS must correct the error and take additional action, such as issuing a math error notice. Thus, it is in the IRS's and the taxpayer's interest to get things right the first time.

Taxpayers seeking IRS services have several options including the IRS website, TACs, and Toll-Free telephone numbers. Internet access, transportation services, and telephone service are prerequisites for using these services. Internet access, particularly broadband access, is important for those choosing to use the website. Access speeds drive users' willingness to use internet sites. Slow download times may drive users to other delivery channel options, particularly if individuals without broadband are trying to download tax forms, instructions, or publications, or search the approximately 140,000 web pages on irs.gov for answers to tax law questions.¹⁴

Objective: Determine the population's access and use of the internet, and taxpayers' ability and willingness to use online services.

Using the final dataset, we refined estimates for those without internet or broadband access at home. Figures 4.1 and 4.2 show updated estimates for service users without internet or broadband access. *Nearly 14 million are unlikely to have internet access at home.*¹⁵

Based on the complete data set, we estimate the size of the population without internet access at home (based on survey responses) at 13.6 million taxpayers. The Low Income group contains approximately 9 million, the Seniors group has nearly 7 million, over 5 million taxpayers with disabilities, and about 4.5 million that are in the Not Low Income group do not have internet access at home. These groups total to more than 13.6 million because of group overlap — some taxpayers are counted in more than one group, e.g. they may be both low income and a senior.

FIGURE 4.1, Whether Taxpayers Have Internet Access at Home

Access	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Internet Access	131.4	128.4	133.9
No Internet Access	13.6	11.2	16.7

14 In 2014, the IRS implemented a policy to limit when and what information it would provide in TACs and on telephones. IRS would provide answers only to basic tax law questions and only during the tax filing season (January – mid-April) in TACs or on the phone.

15 We found that the estimate for the number of taxpayers reporting they do not have internet access changed slightly from the interim data set to the final data set, from 14.4 million to 13.6 million.

Survey respondents also indicated that about 28 percent do not have broadband access, which translates to over 41 million taxpayers without this type of access.¹⁶ This is more prevalent within the vulnerable population groups including low income taxpayers (at or below 250 percent of poverty level based on household size, income, and location), seniors (age 65 and older), and taxpayers with disabilities (long term condition self-reported in the survey).

FIGURE 4.2, Whether Taxpayers Have Broadband Access at Home

Access	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Broadband Access	104.0	99.2	108.5
No Broadband Access	41.1	36.6	45.8

The vulnerable population’s use of, and experience with, online services and activities often differ considerably from the general population. For instance, seniors are less likely to have broadband at home and more likely not to have internet access at home than their younger counterparts. Moreover, internet access is a challenge for the vulnerable population groups within the almost 14 million U.S. taxpayers who have no internet access at all at home. More than one in five of the not low income group does not have broadband service at home. This suggests that even portions of the population one might expect to be good candidates for online service use may not be. Several figures below illustrate these distinctions.

FIGURE 4.3, Percent of Demographic Groups without Broadband or Internet Access at Home¹⁷

	No Broadband at Home			No Internet at Home		
	Estimate	95% Confidence Interval		Estimate	95% Confidence Interval	
		Lower	Upper		Lower	Upper
Not Low Income	21.8%	18.9%	25.1%	5.7%	4.2%	7.7%
Low Income	35.5%	29.8%	41.8%	13.6%	10.4%	17.7%
Senior	41.7%	35.3%	48.3%	27.3%	21.4%	34.2%
Taxpayers with Disabilities	31.2%	24.9%	38.3%	14.2%	10.2%	19.6%

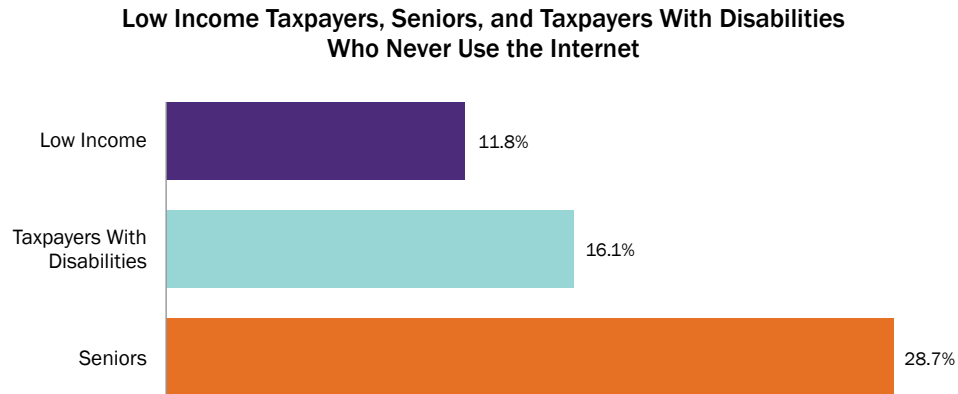
All the vulnerable groups reported never going onto the internet more frequently than their less vulnerable counterparts. Overall, we estimate that more than 11 million taxpayers never use the

16 These estimates are higher than original estimates presented in the National Taxpayer Advocate 2016 Annual Report to Congress, which included partial sample data. Final results showed greater percentages of individuals in the not low income (21.8 percent), low income (35.5 percent), and senior (41.7 percent) categories without broadband access while slightly fewer individuals with disabilities (31.2 percent) reported not having broadband access. We also found that the estimate for the number of taxpayers reporting they do not have internet access changed slightly with the final data set from 14.4 million to 13.6 million. Total population figures differ slightly due to rounding.

17 In this study, we represent the group of taxpayers who are generally not vulnerable as the “not low income” group, since the vulnerable groups tend to be low income taxpayers.

internet, with a minimum of at least six million in any one of the vulnerable groups.¹⁸ This suggests that any policy restricting access to only online tools would negatively affect these population segments.

FIGURE 4.4, Percent of Vulnerable Groups Who Never Use the Internet



Other factors affecting taxpayers' adoption and use of IRS's internet site as their delivery channel of choice is the individual's willingness and ability to use the internet, as well as his or her computer skills and ability to find the information for which he or she is searching. The following figures denote the percentages of the respondents in the vulnerable populations who stated they never use the internet. This compares with three to five percent of the non-vulnerable populations reporting they never go on the internet.

FIGURE 4.5, Taxpayers Who Reported Never Using the Internet

	Never Use Internet		
	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	4.3%	3.1%	6.1%
Low Income	11.8%	8.6%	16.0%
Senior	28.7%	22.3%	36.0%
Taxpayers with Disabilities	16.1%	11.4%	22.3%

When asked to rate their ability to find information they are seeking on the internet, 60 percent of the respondents who use the internet, agreed that they could always find the information they were looking for online. However, some of the vulnerable groups reported less confidence in their online search abilities. For instance, less than one in three seniors reported that they could always find the information for which they were looking, compared with nearly two of every three for younger respondents. Taxpayers with disabilities also reported being less confident in their abilities to always find information on the internet, 47 percent versus nearly 64 percent of those without disabilities. Similarly,

¹⁸ Estimates for the 11.3 million taxpayers who report never using the internet include: 3.4 million for the not low income group, 7.9 million for low income taxpayers, 7.1 million seniors, and 6.1 million taxpayers with disabilities.

as shown in figure 4.6 below, the vulnerable populations were more likely to disagree with the statement ‘I am skilled at doing research on the internet’.

FIGURE 4.6, Percentage of Survey Respondents Who Disagreed with the Statement “I am skilled at doing research on the Internet.”

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	7.0%	5.2%	9.3%
Low Income	14.1%	9.2%	21.1%
Senior	22.9%	17.2%	29.9%
Taxpayers with Disabilities	17.8%	11.4%	26.8%

Low income seniors reported using the internet less often than other taxpayers. Of this group, those who reported having a disability used the internet less than those who did not report a disability. As shown below, low income seniors are more than twice as likely to report never going on the internet when compared to their higher income counterparts (44.6 percent versus 16.3 percent).

FIGURE 4.7, Reported Frequency of Internet Use for Senior Groups

How Often Do You Use the Internet		Estimate	95% Confidence Interval	
			Lower	Upper
Not Low Income Senior	One or more times a day	59.9%	52.1%	67.2%
	Several times a week	13.8%	9.1%	20.4%
	Once a week	5.1%	2.4%	10.4%
	Less than once a week	4.9%	2.4%	9.7%
	Never	16.3%	11.3%	22.8%
	Total	100.0%		
Low Income Senior	One or more times a day	28.0%	19.8%	38.1%
	Several times a week	13.1%	7.2%	22.7%
	Once a week	4.0%	1.4%	10.9%
	Less than once a week	10.2%	5.1%	19.4%
	Never	44.6%	33.0%	56.8%
	Total	100.0%		

The next section will focus on taxpayers’ use of IRS services and delivery options. This encompasses several study objectives.

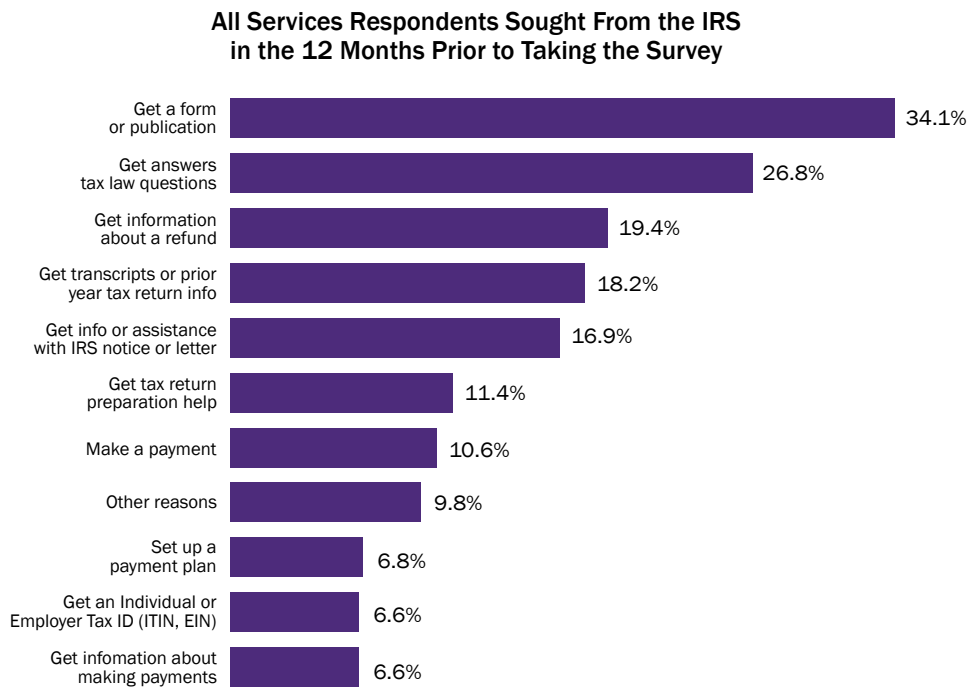
Services

As previously discussed, the service options included in the survey were based on IRS service categories originally provided in the IRS’s TAC offices (*i.e.*, prior to 2014). Figure 4.8 shows the services that respondents sought in the 12 months prior to taking the survey, from most requested service to least requested. Respondents may have needed more than one service, so numbers total to more than 100 percent.

Objective: Quantify the common reasons taxpayers seek assistance from the IRS.

The most frequently cited service need was to get a form or publication, which one of every three respondents needed. More than one of every four respondents reported a need for answers to tax law questions. The next most frequently needed services were to get information about a refund and obtain transcripts or a copy of a prior year tax return – nearly one of every five needed these services. The services identified as needed least frequently related to payments, either learning about payment options or setting up a payment plan, and to establishing a tax identification number. We would expect these services to be in less demand since limited numbers of taxpayers owe the IRS money or need to establish a new tax account for a business or individual. We also noted that a sizeable group reported needing help with an IRS notice or letter. This group is larger than we would expect to need this service and suggests that there may be a greater need for assistance with notices or letters than the IRS might anticipate.¹⁹

FIGURE 4.8, Taxpayers' Service Needs for All Service Uses



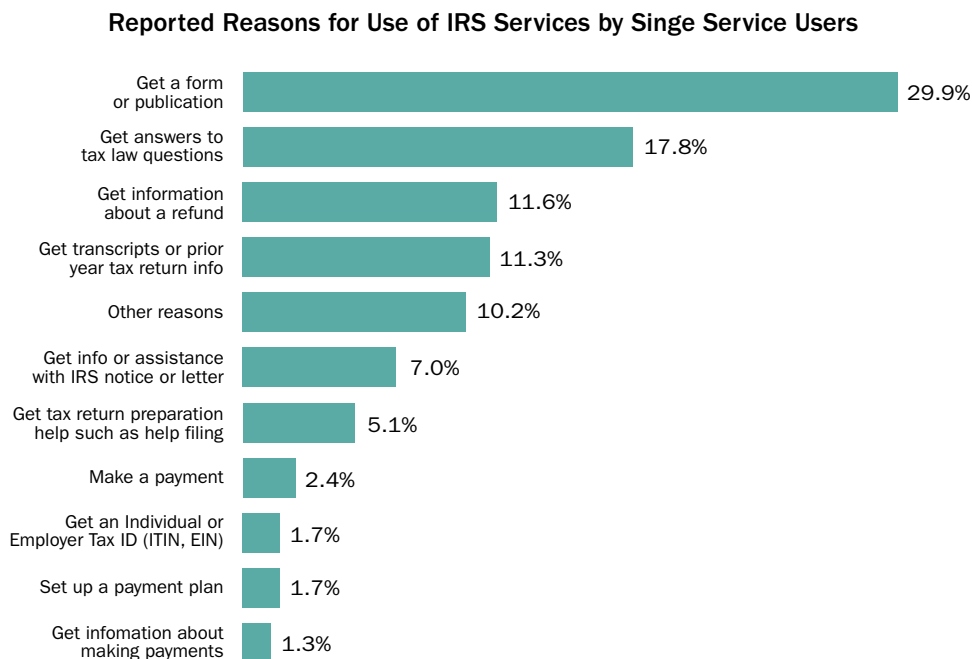
Service users reported using any number of different IRS services ranging from one to nine. On average, taxpayers who reported they had used IRS services within the last year prior to completing this survey, stated they needed IRS help with about two different tasks.²⁰ Most people (over 80 percent) identified two or fewer issues on which they required assistance, but over nine percent reported needing help with four or more tasks.

19 Several factors may contribute to this high reported demand, e.g., survey administration timing, or the fear often associated with receiving a letter or notice from the IRS, may enhance respondents' recall for this particular service.

20 Respondents used an average of 1.7 tasks each.

About two of every three in our sample reported only needing IRS help for one service. The figure below shows the type of service used by those needing only one IRS service. The types of services used differ slightly for those using only one service as compared with all services used, although the most frequently sought services hold true against both groups.

FIGURE 4.9, Taxpayers' Service Needs for Those Using Only One Service



Delivery Channels

The IRS's main avenues for delivering services to taxpayers include the IRS website, IRS Toll-Free Telephone Lines, and IRS TACs. The IRS also provides limited services via social media, and Automated Telephone Lines. This study did not collect information about social media related channels and will only discuss Automated Telephone Lines where significant. In general, individuals do not knowingly call a phone line to hear a recorded message. However, in some instances, the recorded message is helpful and satisfies the caller's need.

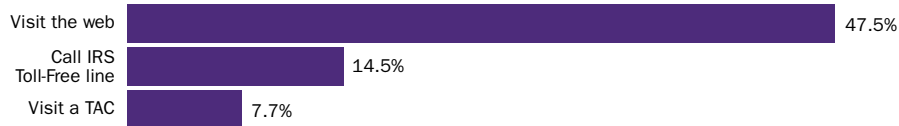
Objective: Determine and quantify taxpayers use of various delivery channels, the relative importance of delivery channels to taxpayers, and whether they differ by taxpayer segments.

Most service seekers (about 70 percent) reported using only one IRS delivery channel to obtain services. In contrast, nearly five percent of taxpayers reported using all three different IRS delivery channels. The figures below show the channels and the percentage of participants who used the specified channels. The Other category includes those who contacted another source (such as the IRS Refund smartphone or tablet application (app)), used more than three IRS delivery channels, or who later identified they did not use an IRS delivery channel to get help. Unfortunately, we are unable to identify the order of channel use or how many channels were used for each service need, if more than one service was used.

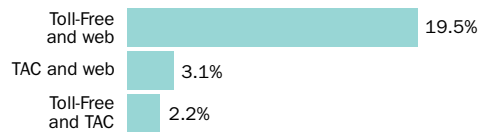
FIGURE 4.10, Taxpayers' Use of Delivery Channels Grouped by the Number of Different Channels Used

Taxpayers' Use of Delivery Channels, by Number of Channels Used

One Delivery Channel Used



Two Delivery Channels Used



Three or More Delivery Channels Used

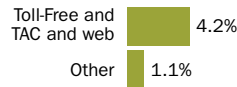


FIGURE 4.11, Taxpayers' Use of Delivery Channels Grouped by the Number of Different Channels Used

Delivery Channel(s) Used	Estimate	95% Confidence Interval	
		Lower	Upper
Used One Delivery Channel			
Visit the Web	47.5%	45.5%	49.6%
Call IRS Toll-Free line	14.5%	13.1%	16.1%
Visit a TAC	7.7%	6.6%	9.0%
Used Two Delivery Channels			
Toll-Free & Web	19.5%	18.0%	21.1%
TAC & Web	3.1%	2.5%	4.0%
Toll-Free & TAC	2.2%	1.7%	2.9%
Used Three or More Delivery Channels			
Toll-Free & TAC & Web	4.2%	3.4%	5.2%
Other	1.1%	0.7%	1.8%
Total	100.0%		

This study found that generally, taxpayers prefer the first channel that they used to receive service. Conversely, overall taxpayers who did not use a channel prefer not to use that channel. For example, if a taxpayer did not use a TAC, they do not want to use it. Taxpayers who use the telephone as their first channel are more flexible about using a different channel than either web or TAC users.

Objective: Determine taxpayers' ability to use various IRS delivery channels.

Taxpayers Abilities to Use Channels

Personal circumstances, preferences, and abilities affect the choice of delivery channel individuals choose to use to obtain IRS services. For instance, overall, *those without broadband or internet are less likely to use the IRS website.* This is shown in figure 4.12. below which displays the first delivery channel chosen by service users, broken out by whether the individual has internet or broadband access at home. Taxpayers with broadband or internet access at home are more likely to choose the internet as the first delivery channel for service as compared with taxpayers who do not have broadband or internet service at home. About 65 percent of broadband users visit the IRS website first, compared with over 40 percent of those without broadband service. Those with internet access at home are nearly three times as likely to visit the IRS website first when compared to those without internet service. This shows that those without these communication services at home are much more likely to rely on IRS telephone or TAC services.

With an estimated 41 million taxpayers without broadband access at home, and approximately 13.6 million taxpayers without internet service at home, a significant portion of taxpayers cannot readily access the IRS website for services and thus require other options to obtain needed IRS services. Taxpayers without internet service are more likely to visit a TAC for assistance, whereas those without broadband still use the IRS website, but also use the telephone considerably more often than those with internet or broadband services at home.

However, the figure below also shows that a significant portion of IRS service users who have internet or broadband service do not turn to the IRS website first for help. When considering taxpayers who used only a single channel, we estimate over 22 million taxpayers with broadband or internet service at home, more than one of every three, use the Toll-Free Telephone Line, an IRS TAC site, or another IRS information source first to try to resolve their service need.²¹ If we assume that the 41 million taxpayers without broadband service at home do not use the IRS website first, then over 63 million taxpayers, or 44 percent of the population, would have difficulty obtaining IRS services over its website.²² Not only is there is a substantial vulnerable taxpayer population who require non-internet service options to obtain assistance, but a significant minority of broadband users do not use the IRS website first and require alternative ways to access help.

21 In contrast to Figure 4.2, which estimates the entire U.S. individual taxpayer population, the 22 million is based on an estimate of about 64 million IRS service users.

22 For tax year 2015, approximately 145 million individuals filed income tax returns with the IRS. Data are from IRS, Compliance Data Warehouse (CDW), Individual Returns Transaction File (IRTF), Form 1040, Tax Year (TY) 2015.

FIGURE 4.12, First Delivery Channel Used Based on Whether the Taxpayer has Internet or Broadband Access at Home²³

First Delivery Channel Used, by Taxpayers With Internet or Broadband Access at Home

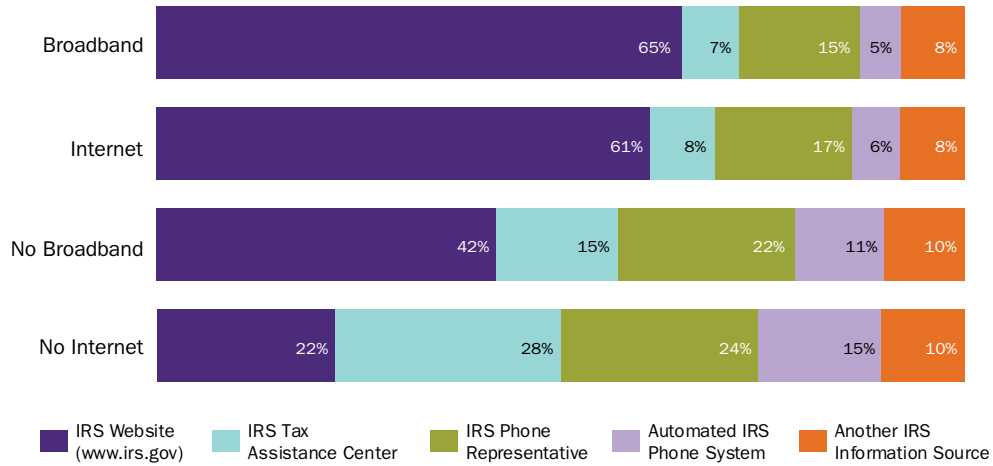


FIGURE 4.13, First Delivery Channel Used Based on Whether the Taxpayer has Internet or Broadband Access at Home

Delivery Channel	Broadband	Internet	No Broadband	No Internet
IRS Website (www.irs.gov)	65%	61%	42%	22%
IRS Tax Assistance Center	7%	8%	15%	28%
IRS phone representative	15%	17%	22%	24%
Automated IRS phone system	5%	6%	11%	15%
Another IRS information source	8%	8%	10%	10%
Total	100.0%	100.0%	100.0%	100.0%

Who are these individuals without internet or broadband access?

As noted earlier, seniors are less likely to have broadband at home and more likely not to have internet access at home than their younger counterparts. Similar patterns are found for low income and taxpayers with disabilities when compared to those without a low income or without disabilities.

Overall, nearly 15 percent of respondents reported going online only once a week or less often. Seniors, low income, and those with disabilities are less likely to access the internet frequently — one or more times daily — than their counterparts. Similarly, these groups are more likely to use the internet once a week or less, or never, than the others.

²³ These percentages are based on an estimate of about 64 million IRS service users.

FIGURE 4.14, Percentage of Taxpayers Accessing the Internet Once a Week or Less

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	9.9%	7.9%	12.4%
Low Income	19.8%	15.4%	25.1%
Senior	40.5%	33.8%	47.6%
Taxpayers with Disabilities	25.3%	19.2%	32.5%
All Filers	14.6%	12.3%	17.3%

The vulnerable populations — seniors, low income, and those with disabilities — are less confident in their ability to find information on the internet, and are more likely to report they are not able to find information, and are less likely to state they always find the information they are seeking. These findings underscore the challenges face by millions of taxpayers to obtain essential tax services via the internet delivery channel.

Participants were asked about their attitudes toward sharing personal information with the government, and how secure they felt sharing personal information over the internet. These are important and relevant factors to consider when trying to shift taxpayers to use IRS services on the internet. Recent widely reported large-scale data breaches and identity theft scams are likely to make individuals' less willing to conduct sensitive business over the internet. Overall, about half of respondents *reported they did not feel comfortable sharing personal financial information over the internet and nearly forty percent did not like sharing personal information with the government*. See the figures below for breakdowns of the vulnerable groups. Generally, these groups were less comfortable sharing information with the government over the internet than the general population. However, nearly 39 percent of the “Not Low Income” population did not feel comfortable sharing personal information with the government and over 45 percent of that population did not feel comfortable sharing personal information over the internet. Thus, we estimate at least 30 million or more of “Not Low Income taxpayers” are not comfortable with the fundamental direction of the IRS Future State vision.²⁴

FIGURE 4.15, Do Not Feel Secure Sharing Personal Information with the Government

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	38.8%	34.7%	43.2%
Low Income	38.9%	31.6%	46.7%
Senior	54.8%	47.7%	61.7%
Taxpayers with Disabilities	40.9%	32.6%	49.8%

24 We estimate that of the not low income group, whom we would expect to be more likely to embrace the IRS Future State strategy, approximately 30.4 million have concerns about sharing personal information with the government. Similarly, an estimated 35.6 million of the not low income group do not feel comfortable sharing personal financial information over the internet.

FIGURE 4.16, Do Not Feel Secure Sharing Personal Financial Information Over the Internet by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	45.4%	41.1%	49.8%
Low Income	54.4%	46.0%	62.5%
Senior	68.2%	61.5%	74.3%
Taxpayers with Disabilities	61.9%	53.1%	70.1%

Service by Channel

Sample size limits the extent to which we can explore taxpayers' service needs by delivery channel. This section includes discussions only of areas with adequate sample sizes. The survey was limited to collecting complete information about only one service task and the channels used to obtain the needed service.

Objective: Determine if taxpayers prefer to use different IRS delivery channels to complete certain tasks.

As one might expect, given options about delivery channels, taxpayers do not attempt to use the same delivery channel for every service issue. Service task complexity and the urgency of the task seem to influence the channel taxpayers choose for a service. For instance, for a relatively simple task such as getting a form or instruction or checking on a tax refund, most respondents chose to use the internet to obtain these services. However, for services such as getting answers to tax law questions or a tax transcript, more respondents called or visited an IRS office. Other factors influencing taxpayers' decision about how to seek services include their personal situation, such as times available to obtain help, internet access and skills, and telephone availability.

We are not able to identify which are the highest demanded delivery channel for all needed services, however we can show the frequency of service use and the channels respondents used if the individual reported he or she only needed one IRS service. The figures below show that taxpayers often prefer to use different delivery channels depending on their service need. Shaded service tasks shown in the table below had a demand of ten percent or higher for at least one delivery channel. Percentages represent the demand proportion for each delivery channel for individuals needing just one service, *e.g.* obtaining a form or publication accounted for 33.3 percent of the services sought by taxpayers who used the website for only one service, 27.8 percent of those who used the IRS TAC site, and 21.5 percent of those calling the IRS Toll-Free Line. Interestingly, a much larger portion of Toll-Free callers were seeking information about an IRS notice or letter than service users of the other delivery channels. While the percentages are lower, we see a similar pattern for service users wanting to establish a payment plan. It is likely that service users calling the IRS Toll-Free Lines have a relatively higher demand for these services because of the issue involves their tax debt or refund, and the individual wants to discuss the issue with someone to gain a complete understanding of the situation.

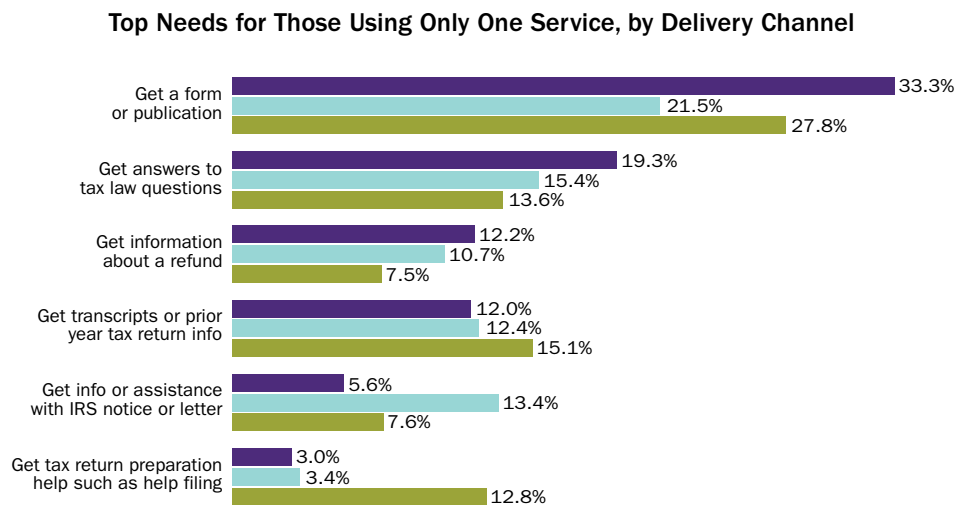
FIGURE 4.17, Delivery Channel Used to Obtain Services when Taxpayer Only Needed One Service.

Demand for Service Tasks for those using Only 1 Service	Visit a local IRS office			Call an IRS Toll-Free line			Visit the IRS website		
	Estimate	95% Confidence Interval		Estimate	95% Confidence Interval		Estimate	95% Confidence Interval	
		Lower	Upper		Lower	Upper		Lower	Upper
Get a form or publication	27.8%	22.0%	33.6%	21.5%	18.0%	25.0%	33.3%	30.7%	35.9%
Get transcripts or prior year tax return information	15.1%	10.5%	19.7%	12.4%	9.8%	15.1%	12.0%	10.2%	13.9%
Get answers to your tax law questions such as information on withholding, dependents, deductions, or tax credits	13.6%	9.1%	18.2%	15.4%	12.3%	18.5%	19.3%	17.1%	21.5%
Get tax return preparation help such as help filling out forms	12.8%	8.2%	17.3%	3.4%	1.8%	5.0%	3.0%	2.0%	3.9%
Other reasons	8.7%	4.9%	12.6%	12.8%	10.1%	15.6%	8.6%	7.1%	10.1%
Get information or assistance about an IRS notice or letter	7.6%	4.2%	11.1%	13.4%	10.5%	16.3%	5.6%	4.3%	6.9%
Get information about a refund	7.5%	4.0%	11.1%	10.7%	8.2%	13.2%	12.2%	10.3%	14.1%
Make a payment	3.2%	1.2%	5.2%	3.0%	1.9%	4.2%	1.9%	1.2%	2.5%
Set up a payment plan	1.7%	0.1%	3.4%	2.8%	1.3%	4.2%	0.8%	0.4%	1.2%
Get an Individual or Employer Tax ID (ITIN, EIN)	1.2%	-0.3%	2.6%	2.5%	0.9%	4.2%	2.0%	1.0%	3.0%
Get information about making payments not including setting up a payment plan	0.7%	0.0%	1.4%	2.1%	0.9%	3.2%	1.3%	0.6%	2.0%

Percentages are for the delivery channel.

The information shown in the figure below highlights the most used services for each delivery channel. We focus on the top three services for each channel, but the graph includes more than three services since not every channel had high demand for the same preferred services. The percentages shown represent the portion of taxpayers who used that particular delivery channel and only needed help with one IRS service. Getting a form or publication was responsible for the highest percentage of the demand for each delivery channel of those who only needed IRS help with one service task. Getting copies of transcripts or prior year returns and getting answers or guidance about how to apply tax laws were also in high demand from those requiring help with one service.

FIGURE 4.18, Top Service Needs of Taxpayers Using Only One Service, Shown by Delivery Channel



The next sections focus on scores for resolution, overall satisfaction, timeliness satisfaction, number of steps taken, understanding satisfaction, and accuracy satisfaction. Timeliness and number of steps taken tend to influence overall satisfaction, particularly for phone and web users (number of steps only). The observations are listed under the various types of service and bold text indicates an overall summary of the responses to that service.

Resolution

From the perspective of both the IRS and taxpayer, resolution is one of the key factors when seeking information or services.²⁵ If the taxpayer is unable to obtain what he seeks, then he will have to invest additional time and effort trying to fulfill his needs. The inability to resolve the taxpayer's need, whether he or she is trying to obtain a tax form or resolve a complex tax issue, adds burden to taxpayers as well as the IRS. Not resolving an issue on the first contact often uses more IRS resources as the taxpayer tries other avenues to resolve the issue. Taxpayers' previous experience with a particular

25 See Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*, *supra*, and the Literature Review: *Improving Telephone Service Through Better Quality Measures*, *infra*, for more information about the link between first contact resolution (FCR) and customer satisfaction.

delivery channel likely influences their future choices. Resolution is a key factor in driving channel choice and taxpayer satisfaction.

Objective: Measure issue resolution for taxpayers' service needs.

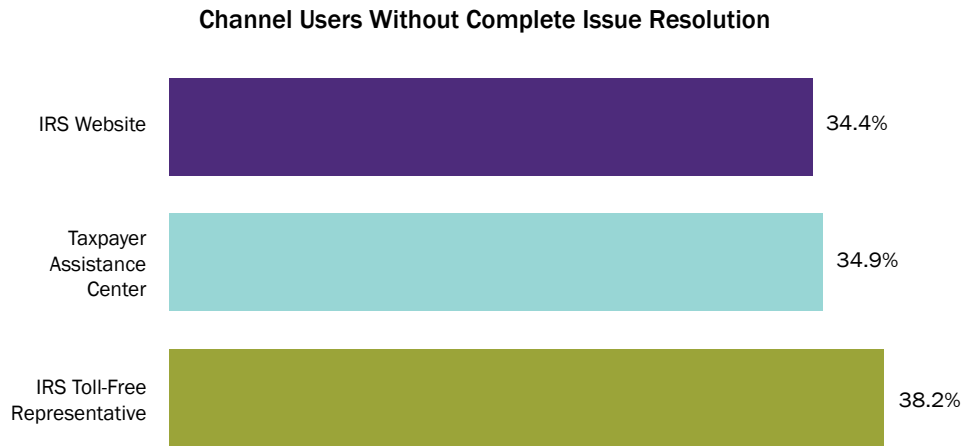
The primary survey question for issue resolution asked respondents to use a Likert scale (1-5), with one meaning not at all, and five meaning completely resolved, needed no further action, to rate how completely their issue was resolved. The figure below shows the average response to the question, *How completely were you able to achieve what you set out to do using _____ (fill-in the channel used) to _____ (fill in the service sought).* The higher the average response, the more fully the issue was resolved from the service user's perspective. Service users gave the IRS fairly high marks for issue resolution with the IRS TAC locations and the IRS website receiving the highest ratings. The phone representative ratings were slightly lower than the website ratings, but were not statistically different than the TACs. Ratings for resolution for the automated phone service are lower than the website, TACs, and other IRS information sources, but are not statistically different than phone representative ratings.

FIGURE 4.19, Issue Resolution Scores by Delivery Channel

RESOLUTION			
Delivery Channel	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	4.28	4.22	4.34
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	4.19	3.95	4.42
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	3.95	3.80	4.10
Automated IRS phone system	3.64	3.37	3.91
Or another IRS information source	4.17	3.97	4.37

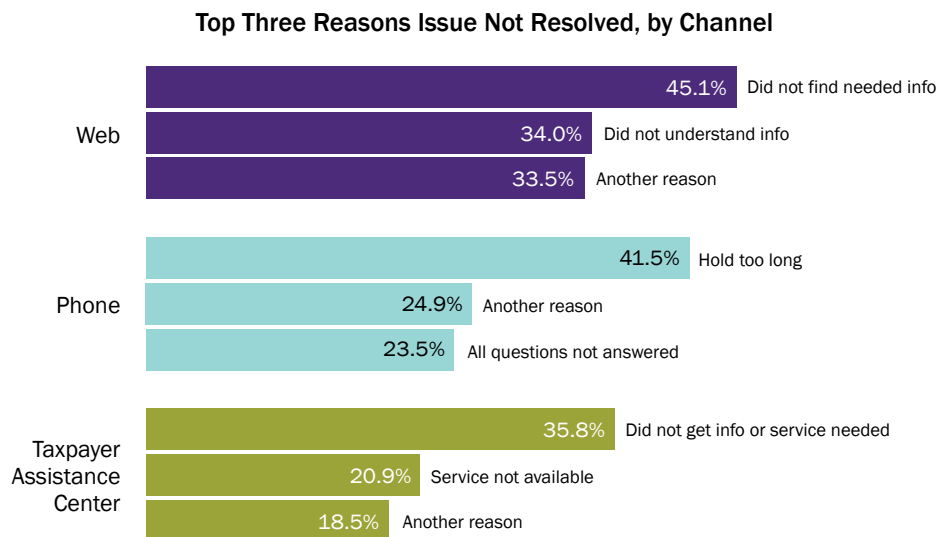
Overall, about 35 percent of service users stated they had not obtained complete resolution for their tax related issue. Service users reported not obtaining resolution for their issues across all delivery channels, with more than one of every three individuals who tried to obtain a service from the IRS reporting they did not fully resolve their issue. The results shown in Figure 4.20 are not statistically different for one channel over another.

FIGURE 4.20, Percent of Taxpayers Who Reported They Did Not Obtain Complete Issue Resolution by Delivery Channel



The survey also captured information on why individuals were not able to obtain complete resolution for their issue. As one would expect, the reasons issues were not resolved varied by delivery channel and the top three reasons for each channel are shown in the figure below. The top reason the issue was not resolved related to not getting the information the individual needed for those using the website or a TAC office and having to hold too long for help for those calling the IRS Toll-Free Lines.

FIGURE 4.21, Top Reasons Issue was Not Resolved, by Delivery Channel



Survey results support intuitive thinking about the types of services that are best suited to each channel. Generally, one would expect that easy to understand, simple tasks are better suited to delivery from the web than more complex tasks that benefit from personal interaction. Three different services showed statistical differences in issue resolution based on the delivery channel used by the respondent. Getting a form, obtaining information about a refund, getting return preparation assistance showed the largest differences. Small sample sizes for some delivery channels limit our ability to observe differences when comparing resolution for services.

Respondents attempting to obtain a form, a simple service available on the web, had a relatively high full resolution at about 78 percent. Resolution for taxpayers using a TAC or the phone delivery channels to get a form or publication is significantly lower at around 60 percent full resolution. This corresponds with IRS actions that severely limited forms available at a TAC and increased wait times for phone service. Most of the reasons the TAC respondent did not find full resolution was they did not get the information or services they were looking for. For the phone service users, the majority said being placed on hold too long was most often cited for less than complete resolution. Survey findings show about 30 percent of the TAC and phone representative respondents did not get complete resolution. Those obtaining a form from the website are also less likely to report their issue was not completely resolved compared to individuals who sought a form at a TAC. This may be, in part, due to the TAC's reduction in the variety of tax forms available. Taxpayers are also more likely to be satisfied with the resolution when obtaining a form via the web compared to obtaining a form from a TAC.

Getting a tax law question answered is likely a more complex and more challenging task on a website without a chat feature. For this service, the web had relatively low full resolution at around 50 percent, while respondents using a TAC or a phone representative channel had around 70-75 percent full resolution. About 75 percent of those who used the web did not get full resolution on a tax law question stated that they could not find the information or understand the information provided. Most who first used the web next went to a phone representative or a non-IRS source as their next channel (about 17 percent and 23 percent, respectively). These findings show that the IRS website is not as effective at meeting taxpayers' needs for the more complex or challenging services compared to the more interactive IRS delivery channels. This finding confirms what private industry has known for a while — that customers need multiple service channels to address their diverse service needs and capabilities — *i.e.*, an omnichannel environment.²⁶ Based on this information, the IRS should consider reviewing its strategy for the web service offerings and prioritize delivery of more simple tasks for online services, and prioritize delivery of more complex tasks like tax law questions and information about notices for channels involving person-to-person contact.

Taxpayers seeking return preparation assistance at a TAC were more likely to report resolution than any other channel. In the past few years, the IRS decided to limit the scope of questions answered at TACs, require appointments for service, and to eliminate tax return preparation. These changes to operations and service offerings will likely affect future use of TAC locations for assistance.

Website users were significantly more likely to obtain complete resolution when trying to obtain information about a refund than those who telephoned the IRS or visited a TAC (90 percent confidence interval). Those wanting to make a payment found they were most likely to obtain resolution by visiting a TAC rather than calling or visiting the IRS website. For the remaining services, (getting a transcript,

26 See Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*, *supra*, and the Literature Review: *Improving Telephone Service Through Better Quality Measures*, *infra*.

obtaining information about a notice, getting information about or setting up a payment plan, or getting an ITIN) respondents rated resolution about the same regardless of delivery channel.

Objective: Identify how resolution affects taxpayer satisfaction.

An underlying assumption when considering IRS service offerings is that taxpayers will rate their satisfaction levels higher if they are able to resolve their issue than if they are not able to resolve their issue. As expected, survey respondents with full/part resolution have higher satisfaction scores than those who did not obtain full resolution for each service need.

Survey results also show that satisfaction with the amount of time and number of steps it takes to obtain service, are correlated to overall satisfaction with the IRS service. These are correlated at the 90 percent confidence level, whereas resolution is correlated at the 95 percent confidence level. Satisfaction scores are discussed next.

Satisfaction with Services

As part of this survey, we explored service users' satisfaction with IRS Service users. Generally, service users gave relatively high satisfaction for IRS services (shading in the following tables indicates statistical significance). Overall satisfaction scores varied by delivery channel.

Objective: Determine taxpayer satisfaction with IRS services.

Respondents stated overall, they were satisfied with the service they received from the IRS. Those calling the IRS were less satisfied than those who used the web or visited a TAC. The primary drivers of the telephone lower satisfaction rating were the amount of time it took to get through on the phone and the number of steps required to get to someone that could help the caller. Those who called also rated the accuracy of the answers they received lower than those who used the web or visited a TAC. The telephone timeliness satisfaction levels are directly affected by IRS staffing levels on the phone lines. In recent years, due at least in part to IRS budget constraints, telephone lines have not been staffed at the same levels as they had been in prior years.²⁷

FIGURE 4.22, Overall Satisfaction Shown by Delivery Channel Used

OVERALL SATISFACTION			
	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	4.12	4.07	4.18
IRS Tax Assistance Center	4.19	4.00	4.38
IRS Toll-Free Phone Representative	3.74	3.59	3.89

Timeliness satisfaction levels for the telephone are lower than both the IRS website and TAC scores. Most IRS Toll-Free callers who did not get full resolution responded that they were placed on hold too long. Others gave another or an unspecified reason for not obtaining complete resolution. One likely

27 See National Taxpayer Advocate FY 2017 Objectives Report to Congress 55-65 (*Filing Season Readiness*). In recent years, callers have often experienced lower levels of service and longer average speed of answer times for telephone services.

cause for this is related to IRS staffing levels on the phone lines. When staffing is reduced, typically wait times increase for calls to an IRS Toll-Free line.²⁸

FIGURE 4.23, Timeliness Satisfaction Shown by Delivery Channel Used

TIMELINESS SATISFACTION			
	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	3.99	3.93	4.05
IRS Tax Assistance Center	4.11	3.92	4.31
IRS Toll-Free Phone Representative	3.34	3.19	3.50

TAC offices and the website received the highest scores for the number of steps taken, meaning individuals were most satisfied with TACs and the website for this service aspect. Toll-Free Telephone Representatives also received lower scores than the other major delivery channels for the number of steps taken. Based on comments collected in the survey, several individuals noted the call was transferred or that they had to take multiple steps to get the information they were seeking.

FIGURE 4.24, Steps Taken Satisfaction Shown by Delivery Channel Used

STEPS TAKEN SATISFACTION			
	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	3.80	3.74	3.86
IRS Tax Assistance Center	4.04	3.83	4.25
IRS Toll-Free Phone Representative	3.32	3.17	3.47

In terms of how well service users understood the information they were provided, all the major delivery channels scored well. There was no statistical difference between the ratings of these three channels.

FIGURE 4.25, How Well Taxpayers Understood the Information Provided Shown by Delivery Channel Used

UNDERSTOOD THE INFORMATION			
	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	4.22	4.17	4.28
IRS Tax Assistance Center	4.27	4.11	4.43
IRS Toll-Free Phone Representative	4.06	3.92	4.19

²⁸ See Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*, supra; National Taxpayer Advocate FY 2017 Objectives Report to Congress 55-65 (*Filing Season Readiness*). In recent years, due at least in part to IRS budget restrictions, telephone lines have not been staffed at the same levels as they had been in prior years. Callers have often experienced lower levels of service and longer average speed of answer times for telephone services.

Overall, for accuracy of information provided, Toll-Free Telephone service users are less satisfied than IRS website or TAC users.

FIGURE 4.26, Accuracy of the Information Provided Shown by Delivery Channel Used

ACCURACY			
	Mean	95% Confidence Interval	
		Lower	Upper
IRS Website (www.irs.gov)	4.38	4.33	4.44
IRS Tax Assistance Center	4.36	4.19	4.52
IRS Toll-Free Phone Representative	4.01	3.87	4.16

Satisfaction by Service Task and Delivery Channel

Because of small sample sizes, we are not always able to report on taxpayers' satisfaction for the combination of each service and delivery channel. Below we show the differences for services with ample responses. In addition to looking at averages and frequency counts, for some questions we also summarized results into those who responded with positive, negative, and neutral scores, to try to understand taxpayers' responses for areas with few responses. Tables found in the appendix show frequency tables of the responses for service and delivery channel questions. Overall, respondents' satisfaction levels differed and depended on the different service need and delivery channels used.

During the survey, respondents were asked to rate the service used by the channel on which it was delivered. Sample size is not always sufficient to compare service users' resolution, satisfaction, willingness, and impact of a delivery channel for each service. Because of this we will focus only on services in which there are differences between ratings of delivery channels, discussing the services with sufficient sample size and notable differences. Further, we will discuss these ratings in the section for that specific measurement such as resolution or satisfaction.

Some patterns appear in respondents' ratings based on the complexity of the task at hand. For instance, generally the website and TAC delivery channels are preferred over the Toll-Free Telephone option for getting a form or publication. However, for help with return preparation, TACs score better on several measures than the website or phone lines. We will discuss individual services with notable differences in resolution, satisfaction, willingness, or impact scores independently and then give general summaries for the remaining services.

In terms of obtaining forms and publications, the web was consistently rated higher than the Toll-Free Lines or TACs for resolution. TACs resolution scores were significantly higher than both the web and Toll-Free Lines for tax return preparation assistance. For getting information about a refund, the web delivery channel scored higher in resolution than the Toll-Free Lines. Transcripts, tax law questions, notices, making a payment, getting information about a payment or setting up a payment plan, and obtaining an ITIN services received scores for resolution that were not statistically different from one delivery channel to another.

Satisfaction scores for services by delivery channel follow similar patterns to those for resolution with a few exceptions. For overall satisfaction when obtaining forms and publications, the web was consistently rated higher than the Toll-Free Lines, but for that service there was no difference between

the web and the TACs. TAC service users were more satisfied (statistically different) with return preparation assistance than those who tried to get help by telephone or over the web (at the 90 percent confidence level). Transcripts, tax law questions, notices, getting information about a payment, setting up a payment plan, and getting an ITIN, received overall satisfaction scores that were not statistically different from one delivery channel to another. The IRS website and TAC (at the 90 percent confidence level) delivery channels scored more highly than the Toll-Free Lines for getting information about a refund and TACs had a significantly higher overall satisfaction score for making a payment than the telephone lines and the IRS website.

Timeliness satisfaction and the number of steps taken scores for services by delivery channel are similar to those for other measures. For timeliness satisfaction and number of steps taken when obtaining forms and publications, the web and TACs were rated higher than the Toll-Free Lines. Tax law questions, notices, making a payment, getting information about a payment, setting up a payment plan, and getting an ITIN, received timeliness satisfaction scores that were not statistically different from one delivery channel to another. The web delivery channel scored more highly than the Toll-Free Lines for getting information about a refund, transcripts, and notices. TACs had a significantly higher timeliness satisfaction score and number of steps taken score for return preparation assistance than the web or telephone lines. TACs also scored higher on timeliness satisfaction for making a payment than the phone lines. The website scored better for steps taken than the telephone lines for transcripts and notices at the 90 percent confidence level.

For understanding satisfaction when getting forms or publications from the IRS website or TAC, both received higher scores than the Toll-Free Lines that denoted a statistical difference between satisfaction levels for these delivery channels. The website's accuracy scores for obtaining a form were also higher than Toll-Free Lines scores. TAC scores for understanding and accuracy related to return preparation assistance were higher (with a statistical difference) than either website or telephone scores at the 90 percent confidence level. Understanding and accuracy satisfaction scores were not statistically different from one another for all three delivery channels for the following services: transcripts, tax law questions, notices, getting information about a payment, setting up a payment plan, and getting an ITIN. For making a payment, scores showed no difference in ratings for understanding satisfaction, but TACs rated significantly higher than the Toll-Free Lines for this service. The web scored higher than the Toll-Free Lines when getting information about a refund, in both understanding and accuracy.

Taxpayers' Willingness to Use and Impact of Service Offering Changes by Channel

Objective: Identify taxpayer willingness to use different services and delivery channels.

Generally, service users prefer the channel they used to obtain the service from the IRS. Because of small sample sizes, we are not always able to report on taxpayers' willingness to use the combination of each service and delivery channel. The summaries below support this finding and show taxpayers' willingness to use different delivery channels for services and how much they would be affected if the service were no longer available through the delivery channel they used.

When considering respondents' willingness to use delivery channels besides the ones they used, we found that individuals are generally less willing to use a different delivery channel to obtain the service needed. Overall, telephone callers are more willing to try the IRS website than the other way around — web to call the Toll-Free Telephone lines. Typically, website users are less willing to try other channels to obtain services. This holds true for all services except for those attempting to get an ITIN or EIN. TAC and telephone service users are consistently more willing to use the delivery channel they used

when trying to: obtain a form, get a transcript, answer to a tax law question, or return preparation assistance. For help with a notice, phone users were more willing (90 percent confidence level) to use the phone than the website, but not a TAC. For services related to payments (making, getting information, or setting up a plan), refunds, or getting an ITIN, TAC users were significantly more willing to use the TAC than another channel. Toll-Free callers were more willing to try the TAC or website for these services.

When considering the impact of no longer being able to use a delivery channel for a specific task, service users unsurprisingly scored the loss of the channel they used as having the biggest impact. Callers to the IRS Toll-Free Lines were less likely to discriminate the importance between delivery channels, they generally felt the discontinuation of any avenues would impact their ability to obtain the service they needed. However, for a few services such as setting up a payment plan or getting an ITIN, respondents scores did not differ by delivery channel. For getting information about payments, getting a form, or for return preparation assistance, the impact of not being able to obtain help over the telephone was significant at the 90 percent confidence level; as it was for those seeking answers to tax law questions when considering losing the option of visiting a TAC for help.

CONCLUSIONS

Many taxpayers need help understanding and meeting their income tax obligations. Just as taxpayers have differing needs for IRS Services, delivery channel options are not equally suited for providing each type of service. Service needs, as well as individual circumstances, including access to communication tools, technical abilities, and prior experiences influence how service users seek help. Needs range from simple to complex, varied to repetitive, one-time to recurring. Given these differences, it makes sense that taxpayers need and use a variety of delivery channels to obtain services. Regardless of delivery channel used, one (or more) of every three individuals who seek help from the IRS are not successful at completely resolving the issue they contacted the IRS about. This finding alone demonstrates that taxpayers need more robust tax assistance and multiple help options — an omnichannel service environment.

The following example shows that even for well-established communication tools, population coverage is a challenge and reinforces the need for service options. A recent survey conducted for the U.S. Department of Health and Human Services, demonstrates this.²⁹ It estimates that three million or more U.S. households do not have any type of telephone service — neither land line nor cell phone. If such an established method of communication is not used by all U.S. taxpayers, then it is unlikely newer communication tools are not utilized by the entire population.

When we consider that vulnerable populations (i.e., low income taxpayers, seniors (age 65 and older), and those with disabilities) face greater challenges accessing and navigating the internet than other taxpayers, we realize the availability of omnichannel service delivery is even more critical to these groups. We compared these groups to those less vulnerable and found:

- All the vulnerable groups are less likely to have broadband access or internet at home than the not low income. Estimates for broadband access at home for the vulnerable groups range around 60-70 percent, while almost 88 percent of the not low income group has broadband access.

29 Blumberg SJ, Luke JV, National Center for Health Statistics, *Wireless substitution: Early release of estimates from the National Health Interview Survey, July–December 2016* (May 2017), <http://www.cdc.gov/nchs/nhis.htm>.

- Overall, we found that about 41 million taxpayers without this broadband access at home and nearly 14 million taxpayers do not have internet access at home.
- The vulnerable groups are more likely to access the internet infrequently (less than once a week or not at all) than the not low income group. Only about four percent of the not low income group stated they never go on the internet, compared with nearly 30 percent of seniors who reported never using the internet. The percentage of the low income and taxpayers with disabilities groups who never use the internet were about 12 and 16 percent, respectively.
- The vulnerable groups report that they feel less skilled doing internet research than the not low income group. With respect to more basic skills, the vulnerable groups are also less likely than the not low income group to report that they feel comfortable sending emails. Millions of taxpayers in all the demographic groups, however, appear to be uncomfortable sending emails, even though this is a basic internet skill. We estimate that nearly 20 million taxpayers do not feel comfortable sending emails.
- The vulnerable groups report that they feel less secure sharing personal financial information over the internet than the not low income group. It should be noted, however, that only a minority of respondents in all the groups report that they feel secure sharing personal financial information over the internet. Conversely, over half of all taxpayers, or more than 74 million, stated they were not comfortable sharing personal financial information over the internet.
- Most taxpayers using IRS services reported contacting the IRS no more than two times over the preceding year. One of every three respondents contact the IRS to obtain a form or publication, and one of four sought answers to tax law question. The next most frequent reasons service users contact the IRS were to obtain information about a refund, get prior year tax returns or transcripts, or for help with an IRS notice or letter.
- Most service users only used a single delivery channel to accomplish a service task. However, when considering service users who did use more than one delivery channel, over half of the respondents called the toll-free telephone line or visited TAC.
- Service users prefer to use different delivery channels, depending on the service task. For relatively simple tasks like obtaining a form or publication, or checking on a refund, taxpayers prefer to use the IRS website. On the other hand, respondents preferred to call the IRS or visit a TAC when obtaining answers to tax law questions or obtaining information about an IRS notice or letter.
- While respondents reported a generally high level of satisfaction with IRS's primary delivery channels, 35 percent of taxpayers reported that they had not obtained complete resolution to their service tax issue. However, respondents reported different reasons why their issue was not fully resolved by delivery channel. Those using the IRS web most commonly reported that they either could not find or could not understand the information. Telephone users reported being on hold too long, while TAC users most commonly reported that they could not obtain the service needed.
- Not surprisingly, respondents who reported that their service task was fully resolved had higher levels of satisfaction than those whose issues was not resolved. The amount of time and the steps necessary to complete a service task are significantly correlated with overall satisfaction.

- Generally, respondents prefer to continue using the delivery channel that they had already used for other future service tasks. Users of the IRS telephone system are generally more willing to consider a different delivery channel in the future. However, telephone users would still prefer to receive assistance with tax law questions over the phone. Taxpayers were significantly more likely to report a negative impact if they could not obtain services related to payments, refunds, or obtaining an ITIN. Similarly, TAC users reported a significant negative impact if they could not obtain answers to tax law questions at a TAC.

These findings show that millions of taxpayers are still reliant on personal services to address their taxpayer service needs. Moreover, the finding that only a minority of all taxpayers feels secure sharing personal financial information over the internet has serious implications for IRS Future State expectations that taxpayers will engage with an online IRS account.

We recommend that the IRS regularly collect information on taxpayers' service needs and use of delivery channels, and consider the taxpayers' perspective for all groups including the vulnerable populations.

APPENDIX – SURVEY QUESTIONS

SECTION A.1: Introduction

Hello, I'm ____ with _____ Research, a national research firm.

We are conducting an anonymous national survey for the Taxpayer Advocate Service, an independent organization that helps taxpayers resolve problems.

This is an opinion survey about YOUR experiences with and feelings about the tax system. Our survey will take about 20 minutes and we'd appreciate your participation.

SECTION A.2: Screening

[CONTINUE w/Q1 — UNLESS YOU DETECT THAT THE RESPONDENT SPEAKS **MAINLY SPANISH**, IN WHICH CASE, ASK HIM/HER TO HOLD WHILE YOU TRANSFER TO A **BI-LINGUAL INTERVIEWER**, WHO WILL SECURE A LANGUAGE PREFERENCE AND CONTINUE THE INTERVIEW.]

1. [WILL BE RECODED INTO OLD #1]

1a. Which of the following categories includes your age, under 45, 45- 74, 75 or older?

1. Under 45
2. 45-74
3. 75 or older
- 11 Not sure/Refused [term]

If (under 45)

1b. Are you ...

- 1 Under 18 [TERM]
- 2 18 to 24 years
- 3 25 to 34 years
- 4 35 to 44 years
- 11 Not sure/Refused [TERM]

If (45–74)

1c. Are you ...

- 5 45 to 54 years
- 6 55 to 59 years
- 7 60 to 64 years
- 8 65 to 74 years
- 11 Not sure/Refused [TERM]

If (75 or older)

1d. Are you ...

- 9 75 to 84 years
- 10 85 years and over
- 11 Not sure/Refused [TERM]

2. Are you the individual most familiar with your Federal individual Income Tax Return (Form 1040 series) that you filed in the last 12 months? READ

- 1 Yes, most familiar
- 2 Equally familiar
- 3 Neither most nor equally familiar
- 4 Did not file a tax return in the last 12 months
- 5 [DNR] Not sure if filed in last 12 months

3. In the past 12 months, did you contact the IRS for any reason, using any of the following methods? You can answer yes or no as I read each one. Did you... [Select all that apply]

1. Call an IRS Toll-Free line
2. Visit a local IRS office (Taxpayer Assistance Center, walk-in center)
3. Visit the IRS website to obtain specific information. Please do not count casual browsing.
4. Contact the IRS by some other method [if did not call or visit, or use IRS website, and if the respondent filed and have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]
5. [ONLY READ IF "no" to all prior items] **Did you contact the IRS** at all outside of filing your return [if the respondent filed and we have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]
6. [DNR] Don't know [Don't read but select if taxpayer doesn't know.] [if the respondent filed and we have fewer than 500 filers who didn't use an IRS service continue to Q4, otherwise TERMINATE]

[CONTINUE IF Q3=1-3 OR UP TO QUOTA OF 500 IF Q3=4-6 and Q2=1-2]

FOR THOSE WHO USED A SERVICE, but did not file a return skip to the Service Usage Section (Q7)

4. Which filing status did you use on the tax return that you filed in the last 12 months?

[DON'T READ UNLESS NEEDED]

1. Single
2. Married, filing jointly
3. Married, filing separately
4. Head of Household which is single with dependent parent or child
5. Or Qualifying widow(er) with dependent child
6. [DNR] Don't know [Terminate if did not use a service, Q3 IS NOT 1-3]]

5. Who prepared your taxes? [DON'T READ UNLESS NEEDED]

1. You yourself, with software [go to 6a]
2. You yourself, without software [go to 6a]
3. A volunteer preparer from a community organization (*do not include a tax software company's promotional events*) [go to 6b]
4. A paid professional [go to 6b]
5. Or an unpaid third party (e.g. friend or family member) [go to 6b]
6. [DNR] Don't know [Terminate if did not use a service]

[ONLY ASK IF Q5= 1 or 2; ELSE SKIP TO Q6b]

6a. Thinking about your most recently filed individual tax return, please rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree

[READ SCALE ONLY ONCE UNLESS ASKED TO REPEAT.]

[IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

1. I had a good understanding of what the IRS expected.
2. I felt competent when doing my taxes.
3. I was confident that the deductions and credits I claimed were correct.

[ONLY ASK IF Q5= 3, 4, or 5; ELSE SKIP TO Q7]

6b. Thinking about your most recently filed individual tax return, rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree:

[READ SCALE ONLY ONCE UNLESS ASKED TO REPEAT.]

[IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

1. I believe my preparer had a good understanding of what the IRS expected.
2. I believe my preparer was competent when doing my taxes.
3. I believe my preparer was confident that the deductions and credits I claimed were correct.

FOR THOSE WHO FILED A RETURN (Q2=1 or 2) BUT DID NOT USE A SERVICE from one of the channels of interest (Q3=4-6), skip to TRUST Section

Section B: Service Usage

[ONLY ASK THIS SECTION TO THOSE WHO HAVE CONTACTED IRS IN Q3; ELSE SKIP TO TRUST SECTION]

7. You mentioned that you have contacted the IRS in the past 12 months. Did you contact the IRS for any of the following reasons? [select all that apply] Please say yes or no to each one.

1. Get a form or publication
2. Get transcripts or prior year tax return information
3. Get answers to your tax law questions (READ, but do not include in following questions in programming) *such as information on withholding, dependents, deductions, or tax credits*
4. Get tax return preparation help such as *help filling out forms*
5. Get information or assistance about an IRS notice or letter (*ONLY IF ASKED for EXPLANATION and do not include in following questions in programming*): *notices are mailed letters about issues such as balances due, overpayments, underpayments, audits, information about tax credits or requests for more information*)
6. Make a payment
7. Get information about making payments (READ, but do not include in following questions in programming) *not including setting up a payment plan*
8. Set up a payment plan
9. Get information about a refund
10. Get an Individual or Employer Tax ID (ITIN, EIN)
11. Or did you contact the IRS for some other reason — specify [Record service used, but do not select as a service to ask the looping questions unless the respondent did not use two of the first 10 services]

[For those with MORE THAN ONE "YES" in Q7 select the category with the fewest responses in Q7 1-10 (only loop on response 11 if individual used 2 or fewer services including 11). Be sure to record the services selected for discussion. Identify which is the first service and which is the second service. Make sure that the responses for questions 8-15 can be associated with the service selected and evaluated in the loop.]

[Complete loop for 2 different services if used more than one service.]

[Begin section]

Loop begins for those using one or more service activity.

FOR this question, select the service identified above with the fewest respondents for Q7.

8. What was the first IRS information source you used to [INSERT service selected in Q7]? Was it ...”

1. IRS Website (www.IRS.gov)
2. IRS Tax Assistance Center (or walk-in site) — *Note to assistor: includes those who set up appointment by phone*
3. IRS phone representative (*includes those calling to make appointment, but issue resolved on phone*)
4. Automated IRS phone system
5. Another IRS information source — specify

9. How completely were you able to achieve what you set out to do when using the [INSERT source selected in Q8] to [INSERT service selected in Q7]?

Please use a 1–5 scale where 1 is not at all and 5 is completely resolved and needed no further efforts. (*Likert 1–5, 1 = not at all, 5 = completely resolved, needed no further efforts*)

[IF Q9= 5 Completely RESOLVED, SKIP to Q10]

[FOR ALL ANSWERS less than completely resolved, branch to I9, P9, T9, or O9 depending on channel. If Q9=5 completely resolved go to Q10.]

Internet

- I9. Why weren't you able to achieve what you set out to do when you visited the IRS website? Was it because ...? (*Select all that apply*)
1. You did not find the information or service you were looking for
 2. You did not understand the information provided
 3. Or another reason — specify

[Go to Q10]

TAC

- T9. Why weren't you able to achieve what you set out to do when you visited the IRS walk-in site? Was it because ...? (*Select all that apply*)
1. All of your questions were not answered
 2. The walk-in site was closed
 3. You did not have an appointment
 4. The service you needed was not available
 5. You left because the wait was too long
 6. You did not understand the information provided
 7. You did not get the information or service you were looking for
 8. You waited for service but were turned away before receiving service
 9. Or another reason specify

[Go to Q10]

Phone

P9. Why weren't you able to achieve what you set out to do when you called the IRS?
Was it because ...? (Select all that apply)

1. All of your questions were not answered
2. Couldn't understand the information provided
3. Kept getting a busy signal
4. Placed on hold too long
5. Kept getting transferred
6. Couldn't understand the menu system
7. Call disconnected
8. Or another reason — specify

[Go to Q10]

Other IRS

O9. Why weren't you able to achieve what you set out to do? Was it because ...? (Select all that apply)

1. You did not get the information you were looking for
2. You did not understand the information provided
3. Or another reason — specify

[Go to Q10]

9a. Capture any additional comments from the respondent here.

10. Overall, how satisfied were you with using [INSERT delivery channel selected in Q8] to [INSERT service selected in Q7]? Please use a 1–5 scale where 1 is very dissatisfied and 5 is very satisfied.
[IF NEEDED: "Please give me a number from 1 to 5 or any number in between."] [5 point Likert: 1 Very dissatisfied to 5 Very satisfied]

11. Please rate your satisfaction with the following aspects related to using [INSERT delivery channel selected in Q8] to [INSERT service selected in Q7]. Please use the same 1–5 scale where 1 is very dissatisfied and 5 is very satisfied.
[5 point Likert: 1 Very dissatisfied to 5 Very satisfied] [ONLY READ SCALE AGAIN IF ASKED TO REPEAT. IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

How satisfied were you with [READ FOR FIRST TWO ITEMS]:

- a. The time it took to achieve what you set out to do
- b. How satisfied are you with the number of steps needed to obtain the information you sought
- c. How well you understood the information you received
- d. The accuracy of the information you received

[IF Q9= 5 Completely RESOLVED, SKIP to Q14 intro]

12. What other information sources did you use when trying to [INSERT service selected in Q7]?**Was it ...?** (Select all that apply)

1. IRS Website (www.IRS.gov)
2. IRS Tax Assistance Center (walk-in site)
3. IRS phone representative (DO NOT READ: *includes those calling to make appointment, but issue resolved on phone*)
4. Automated IRS phone system
5. Other IRS information source — specify
6. Or Other non-IRS source (*do not read*)
7. Was not able to resolve (*do not read*)

13. Which information source ultimately resolved your need to [INSERT service selected in Q7] or were you unable to resolve your need? (DO NOT READ, unless does not say one of these answers)

1. Was not able to resolve
2. IRS Website (www.IRS.gov)
3. IRS Tax Assistance Center (walk-in site)
4. IRS phone representative (DO NOT READ: *includes those calling to make appointment, but issue resolved on phone*)
5. Automated IRS phone system
6. Other IRS information source — specify
7. [DNR] Other non-IRS source

SECTION B: Willingness and Importance

READ: For the next question, please use a 1-5 scale where 1 is not at all willing and 5 is completely willing. [ONLY READ SCALE ONCE UNLESS ASKED TO REPEAT. IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

14. In the future, how willing would you be to [INSERT Q7 activity] by ...

- a. Using the IRS website (irs.gov)
- b. Calling an IRS phone representative
- c. Calling an Automated IRS phone system
- d. Going to an IRS Taxpayer Assistance Center (walk-in site)

[5 point Likert: 1 is **not at all willing** and 5 is **completely willing**]

READ For the next question, please use a 1-5 scale where 1 is no impact at all and 5 is very strong negative impact. [ONLY READ ONCE UNLESS ASKED TO REPEAT. IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

15. How much would you be impacted if you could not [insert Q7 activity] by ...

- a. Using the IRS website (irs.gov).
- b. Calling an IRS phone representative
- c. Calling an Automated IRS phone system
- d. Going to an IRS Taxpayer Assistance Center (walk-in site)

[5 point Likert: 1 is no impact at all and 5 is very strong negative impact]

[If respondent used a 2nd service go to Q8 to loop again for the second service, (be sure to record first and second services discussed in Q8–15); else continue]

DELETE SECTION Section C: TRUST IN IRS

READ: We are almost 80% done.

Section D: Taxpayer Rights and Responsibilities

NEXT ARE SOME QUESTIONS ABOUT YOUR RIGHTS AND RESPONSIBILITIES AS A TAXPAYER. Please answer yes, no, or not sure to the following questions.

17. As a taxpayer, do you believe you have rights before the IRS? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

18. Do you know what your rights are as a taxpayer when dealing with the IRS? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

19. Have you ever heard of Publication 1, which defines your rights as a taxpayer? [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

20. Do you know what your responsibilities are as a taxpayer [DO NOT READ, unless needed]

1. Yes
2. No
3. Not sure

21. How would you like to learn about your rights and responsibilities as a taxpayer?**Would it be from ...?** *(Select all that apply)*

1. A separate publication you could order by phone or get on the IRS web site
2. A separate letter included with IRS notices
3. A page on the IRS web site
4. The home page of the IRS web site
5. [DNR] Not sure
6. [DNR] Or you don't need to learn about your rights and responsibilities as a taxpayer

Section E: Computer and Internet Usage

READ: The following section will ask about your computer skills and internet usage.**22. What kind of internet access do you have at home for your computer? Is it ...?** *(Select all that apply)*

1. Broadband (cable, dsl, high speed internet)
2. Dial-up (telephone)
3. Mobile Data Plan
4. Or do you not have internet access [go to Q24]
5. [DNR] Do not know [go to Q24]
6. I do not use the internet [go to Q25]

[ONLY ASK IF HAVE INTERNET ACCESS AT HOME ELSE SKIP TO Q24]

23. What device do you use to access the internet at home when searching for information? Is it by ...?*(Select all that apply)*

1. Computer
2. Tablet
3. Smart Phone
4. Other (please specify)
5. [DNR] None of these

24. How often do you go on the internet (including weekdays and weekends)? This includes access from home, work, or elsewhere. [READ ONLY IF RESPONSE DOESN'T FIT A CATEGORY]

1. One or more times a day [Go to Q26]
2. Several times a week [Go to Q26]
3. Once a week [Go to Q25]
4. Less than once a week [Go to Q25]
5. Never [Go to Q25]

25. Which of the following are reasons why you don't go online, or go online more often?

(Select all that apply) [READ ONLY IF RESPONSE DOESN'T FIT A CATEGORY]

1. You don't have convenient access to the internet
2. You are worried about the security of your personal information on the Internet
3. Internet access costs too much
4. You don't like spending a lot of time on the internet
5. Or You don't feel comfortable using the internet
6. Other

If Q24=Never, Skip to Demographics]**26. Where do you spend the majority of your time online?** [READ OPTIONS; Single response]

1. Home
2. Work
3. School
4. Library
5. Hotspots (for example, Starbucks, airports, restaurants)
6. Smart Phone
7. [DNR] Other

27. Where are you when you go online to conduct sensitive personal business such as filing a tax return or banking online? (Select all that apply) [READ ONLY IF NEEDED: How about other sensitive personal business?]

1. Home
2. Work
3. School
4. Library
5. Hotspots (for example, Starbucks, airports, restaurants)
6. Smart Phone
7. [DNR] Other (specify)

28. How would you rate your ability to use the internet to find information related to a topic you are interested in? Please use a 1-5 scale where 1 is not able to find information and 5 is always able to find information.

[5 point Likert: 1 not able to find information and 5 is always able to find information]

29. Please tell me the degree to which you agree with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree.

[5 pt Likert: 1 Strongly disagree to 5 Strongly agree, 6= not applicable]

[ONLY READ SCALE ONCE, UNLESS ASKED TO REPEAT;

IF NEEDED: "Please give me a number from 1 to 5 or any number in between."]

- a. I feel comfortable sending emails
- b. I am skilled at doing research on the Internet
- c. I feel secure sharing personal financial information over the Internet
- d. I feel secure sharing personal information with a government agency

30. What concerns do you have when sharing personal financial information over the Internet with a government agency? Are you ... (Select all that apply/yes/no to each one)

1. [READ] Concerned your privacy is not protected
2. [READ] Concerned the Internet is not secure
3. [DNR] Don't have Internet access at home
4. [READ] Or some Other reason (specify)
5. [DNR/REMOVE] confident your privacy is protected
6. [DNR/REMOVE] confident the Internet is secure
7. [DNR] Don't know or unsure
8. [DNR] I have no concerns

SECTION F: DEMOGRAPHICS

READ: Finally I'm going to ask you some demographic questions for classification purposes only. These questions will help us better understand how people with different backgrounds feel about tax issues. We only have a few more questions.

31. What level of education have you completed? (DO NOT READ LIST — Select One Answer.)

1. Elementary school
2. Some high school
3. High school graduate
4. Some college
5. College graduate
6. Post-Graduate work

(DON'T READ BUT CLICK IF:) Prefer not to answer

32. (ONLY ASK IF UNABLE TO DETERMINE) For classification purposes only, are you male or female?

1. Male
2. Female
3. [DNR] Other
4. Not sure/Refused

33. What language do you primarily speak at home? (DO NOT READ CHOICES. CLICK ANSWER.)

- | | |
|---------------|------------------------|
| 1. English | 6. Russian |
| 2. Spanish | 7. French |
| 3. Chinese | 8. German |
| 4. Vietnamese | 9. Some other language |
| 5. Korean | |

(DON'T READ BUT CLICK IF:) Prefer not to answer

34. In which US state do you live? [ENTER 2 character abbreviation]

35. How many family members live in your house, including yourself?

[CLARIFY IF NEEDED: This is not asking for individuals claimed on tax return. This includes family members who are in college but live at home when not at school.]

36. [RECODE BACK TO PREVIOUS Q36]

36. Which of the following categories best describes your household income before taxes for 2015?

READ APPROPRIATE CATEGORIES UNTIL GET TO THE ANSWER.

1. Less than \$35,000
2. \$ 35,000–\$75,000
3. \$75,000–\$200,000
4. Over \$200,000
- 15 [DNR] Prefer not to answer

IF (less than 35,000)

1. Less than \$10,000
2. \$10,000 to less than \$15,000
3. \$15,000 to less than \$20,000
4. \$20,000 to less than \$25,000
5. \$25,000 to less than \$35,000
- 15 [DNR] Prefer not to answer

If (35,000–\$75,000)

6. \$35,000 to less than \$40,000
7. \$40,000 to less than \$50,000
8. \$50,000 to less than \$60,000
9. \$60,000 to less than \$75,000
- 15 [DNR] Prefer not to answer

If (75,000–\$200,000)

10. \$75,000 to less than \$100,000
11. \$100,000 to less than \$150,000
12. \$150,000 to less than \$200,000
- 15 [DNR] Prefer not to answer

If (over \$200,000)

13. \$200,000 to less than \$1 million
14. \$1 million or more
- 15 [DNR] Prefer not to answer

37. Do you have any long-term conditions or disabilities (lasting 6 months or more)?[DO NOT READ UNLESS UNSURE OF RESPONSE] *(Select all that apply)*

1. Deafness
2. Severe Vision Impairment
3. Severe Hearing Impairment
4. Severe Speech Impairment
5. A condition that substantially limits your physical abilities (such as standing or walking)
6. A condition that limits learning or remembering
7. Some other condition
8. Do not have a long-term condition
9. (DON'T READ:) **Prefer not to answer**

SECTION G: Closing

That completes our survey**37a. Capture any additional comments from the respondent here.**

We are required by law to provide you the OMB (Office of Management and Budget) Control Number for this public information request. That number is 1545-1432.

If you have any questions about _____, please log onto our website at _____ and you can verify who we are and our research work.

if you have any comments about the time estimate to complete the survey or ways to improve the survey, you may write to the IRS.

Would you like the address? (IF YES, ADDRESS IS...)

Internal Revenue Service
 Tax Products Coordinating Committee
 SE:W:CAR:MP:T:T:SP
 1111 Constitution Ave. NW
 Washington, DC 20224.

Thank you for your time and for your help with this survey!

Q1. Which of the following categories includes your age?

ALL RESPONDENTS

Age	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
18 to 24 years	410	11.6%	77	2.3%	107	3.3%	78	2.4%
25 to 34 years	726	20.6%	406	12.0%	441	13.6%	394	12.2%
35 to 44 years	590	16.7%	569	16.8%	558	17.3%	559	17.3%
45 to 54 years	608	17.2%	710	21.0%	665	20.6%	705	21.8%
55 to 59 years	306	8.7%	439	13.0%	413	12.8%	420	13.0%
60 to 64 years	258	7.3%	404	11.9%	413	12.8%	405	12.5%
65 to 74 years	362	10.3%	494	14.6%	416	12.9%	444	13.7%
75 to 84 years	180	5.1%	218	6.4%	173	5.3%	182	5.6%
85 years and over	89	2.5%	71	2.1%	47	1.5%	48	1.5%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

Q2. Are you the individual most familiar with your Federal Individual Income Tax Return (Form 1040 series) that you filed in the last 12 months?

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes, most familiar	3038	86.1%	3,180	85.1%	2,742	84.8%	2,743	84.8%
Equally familiar	430	12.2%	271	7.3%	196	6.1%	208	6.4%
Neither most nor equally familiar	61	1.7%	130	3.5%	122	3.8%	130	4.0%
Did not file a tax return in the last 12 months	0	0.0%	142	3.8%	162	5.0%	142	4.4%
[Do Not Read] Not sure if filed in last 12 months	0	0.0%	12	0.3%	12	0.4%	12	0.4%
Total	3,529	100.0%	3,735	100.0%	3,233	100.0%	3,235	100.0%

Q3. In the past 12 months, did you contact the IRS for any reason, using any of the following methods?

CALL AN IRS TOLL-FREE LINE

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	613	17%	1,151	34.0%	1,316	40.7%	1,302	40.2%
No	2,907	82%	2,223	65.6%	1,892	58.5%	1,914	59.2%
Don't Know	10	0%	14	0.4%	26	0.8%	19	0.6%
Total	3,529	100%	3,388	100.0%	3,233	100.0%	3,235	100.0%

VISIT A LOCAL IRS OFFICE (TAXPAYER ASSISTANCE CENTER, WALK-IN CENTER)

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	251	7%	451	13.3%	572	17.7%	513	15.9%
No	3,276	93%	2,934	86.6%	2,659	82.2%	2,717	84.0%
Don't Know	2	0%	3	0.1%	3	0.1%	5	0.2%
Total	3,529	100%	3,388	100.0%	3,233	100.0%	3,235	100.0%

VISIT THE IRS WEBSITE TO OBTAIN SPECIFIC INFORMATION. PLEASE DO NOT COUNT CASUAL BROWSING.

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	1,215	34%	2,276	67.2%	2,426	75.0%	2,499	77.2%
No	2,302	65%	1,103	32.6%	797	24.7%	729	22.5%
Don't Know	12	0%	9	0.3%	10	0.3%	7	0.2%
Total	3,529	100%	3,388	100.0%	3,233	100.0%	3,235	100.0%

CONTACT THE IRS BY SOME OTHER METHOD

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	253	7%	439	13.0%	496	15.3%	483	14.9%
No	3,268	93%	2,931	86.5%	2,709	83.8%	2,727	84.3%
Don't Know	8	0%	18	0.5%	28	0.9%	25	0.8%
Total	3,529	100%	3,388	100.0%	3,233	100.0%	3,235	100.0%

DID NOT CONTACT THE IRS OUTSIDE OF FILING YOUR RETURN

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	650	34%	166	35.3%	-	0.0%	-	0.0%
No	1,274	66%	304	64.7%	-	0.0%	-	0.0%
Total	1,925	100%	470	100.0%	-	0.0%	-	0.0%

Q4. Which filing status did you use on the tax return that you filed in the last 12 months?

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Single	1,643	46.5%	1,096	32.3%	1,530	47.3%	1,031	32%
Married, filing jointly	1,272	36.1%	1,730	51.1%	1,157	35.8%	1,570	49%
Married, filing separately	69	2.0%	87	2.6%	63	1.9%	101	3%
Head of Household which is single with dependent parent or child	543	15.4%	427	12.6%	482	14.9%	457	14%
Or Qualifying widow(er) with dependent child	1	0.0%	48	1.4%	1	0.0%	76	2%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100%

Q5. Who prepared your taxes?

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
You yourself, with software	1,028	29.1%	1201	35.4%	1,129	36.9%	1,149	37.3%
You yourself, without software	242	6.9%	338	10.0%	317	10.4%	324	10.5%
A volunteer preparer from a community organization (do not include a tax software company's promotional events)	133	3.8%	134	4.0%	145	4.7%	122	4.0%
A paid professional	1,851	52.5%	1508	44.5%	1,257	41.1%	1,278	41.5%
Or an unpaid third party (e.g. friend or family member)	275	7.8%	207	6.1%	184	6.0%	183	5.9%
Don't Know	-	0.0%	22	0.6%	26	0.8%	22	0.7%
Total	3,529	100.0%	3388	100.0%	3,058	100.0%	3,078	100.0%

Q6. Likert Scale responses (see question on next page)

	All Respondents			Service Users		
	Estimate	95% Confidence Interval		Estimate	95% Confidence Interval	
		Lower	Upper		Lower	Upper
I had a good understanding of what the IRS expected.	4.10	3.97	4.22	4.12	4.04	4.2
I felt competent when doing my taxes.	4.20	4.1	4.3	4.17	4.1	4.25
I was confident that the deductions and credits I claim...	4.36	4.26	4.45	4.32	4.24	4.4
I believe my preparer had a good understanding of what the IRS...	4.67	4.6	4.73	4.53	4.45	4.61
I believe my preparer was competent when doing my taxes.	4.77	4.72	4.82	4.63	4.56	4.71
I believe my preparer was confident that the deductions and cr...	4.77	4.72	4.83	4.65	4.56	4.74

Q6. Thinking about your most recently filed individual tax return, please rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree.

I HAD A GOOD UNDERSTANDING OF WHAT THE IRS EXPECTED.

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	45	3.5%	72	4.7%	69	4.8%	71	4.8%
2	62	4.9%	66	4.3%	70	4.8%	61	4.1%
3	242	19.1%	237	15.4%	253	17.5%	232	15.8%
4	293	23.1%	361	23.5%	324	22.4%	338	22.9%
Strongly Agree	628	49.4%	803	52.2%	730	50.5%	771	52.3%
Total	1,270	100.0%	1,539	100.0%	1,446	100.0%	1,473	100.0%

I FELT COMPETENT WHEN DOING MY TAXES.

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	38	3.0%	59	3.8%	66	4.5%	59	4.0%
2	78	6.1%	67	4.4%	63	4.3%	60	4.1%
3	136	10.7%	191	12.4%	194	13.4%	188	12.8%
4	357	28.1%	390	25.3%	360	24.9%	367	24.9%
Strongly Agree	662	52.1%	832	54.1%	765	52.9%	799	54.2%
Total	1,270	100.0%	1,539	100.0%	1,446	100.0%	1,473	100.0%

I WAS CONFIDENT THAT THE DEDUCTIONS AND CREDITS I CLAIM...

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	35	2.8%	45	2.9%	57	3.9%	47	3.2%
2	35	2.8%	36	2.3%	33	2.3%	33	2.2%
3	148	11.7%	135	8.8%	140	9.7%	129	8.8%
4	273	21.5%	321	20.9%	317	21.9%	308	20.9%
Strongly Agree	779	61.3%	1002	65.1%	898	62.1%	956	64.9%
Total	1,270	100.0%	1,539	100.0%	1,446	100.0%	1,473	100.0%

I BELIEVE MY PREPARER HAD A GOOD UNDERSTANDING OF WHAT THE IRS...

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	39	1.7%	55	3.0%	68	4.3%	58	3.7%
2	20	0.9%	28	1.5%	23	1.5%	25	1.6%
3	129	5.7%	103	5.6%	107	6.7%	98	6.2%
4	279	12.3%	204	11.0%	178	11.2%	173	10.9%
Strongly Agree	1,792	79.3%	1,459	78.9%	1,210	76.3%	1,229	77.6%
Total	2,259	100.0%	1,849	100.0%	1,586	100.0%	1,583	100.0%

I BELIEVE MY PREPARER WAS COMPETENT WHEN DOING MY TAXES.

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	27	1.2%	38	2.1%	49	3.1%	40	2.5%
2	18	0.8%	32	1.7%	33	2.1%	33	2.1%
3	64	2.8%	63	3.4%	56	3.5%	61	3.9%
4	229	10.2%	182	9.8%	168	10.6%	154	9.7%
Strongly Agree	1,920	85.0%	1,534	83.0%	1,280	80.7%	1,295	81.8%
Total	2,259	100.0%	1,849	100.0%	1,586	100.0%	1,583	100.0%

I BELIEVE MY PREPARER WAS CONFIDENT THAT THE DEDUCTIONS AND CR...

	All Respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	24	1.1%	40	2.2%	43	2.7%	42	2.7%
2	32	1.4%	22	1.2%	31	1.9%	22	1.4%
3	64	2.8%	52	2.8%	51	3.2%	48	3.0%
4	195	8.6%	181	9.8%	157	9.9%	158	10.0%
Strongly Agree	1,944	86.1%	1,554	84.0%	1,305	82.3%	1,313	82.9%
Total	2,259	100.0%	1,849	100.0%	1,586	100.0%	1,583	100.0%

Q7. You mentioned that you have contacted the IRS in the past 12 months. Did you contact the IRS for any of the following reasons? [select all that apply] Please say yes or no to each one.

Service Used	Estimate	Lower	Upper
Get a form or publication	34.1%	32.3%	36.0%
Get answers to your tax law questions such as information on withholding, dependents, deductions, or tax credits	26.8%	25.0%	28.6%
Get information about a refund	19.4%	17.8%	21.1%
Get transcripts or prior year tax return information	18.2%	16.7%	19.8%
Get information or assistance about an IRS notice or letter	16.9%	15.5%	18.5%
Get tax return preparation help such as help filling out forms	11.4%	10.1%	12.8%
Make a payment	10.6%	9.5%	11.9%
Other reasons	9.8%	8.6%	11.1%
Set up a payment plan	6.8%	5.8%	7.8%
Get information about making payments not including setting up a payment plan	6.6%	5.7%	7.7%
Get an Individual or Employer Tax ID (ITIN, EIN)	6.6%	5.6%	7.8%

GET A FORM OR PUBLICATION

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,130	65.9%	2,101	64.9%
Yes	1,103	34.1%	1,134	35.1%
Total	3,233	100.0%	3,235	100.0%

GET TRANSCRIPTS OR PRIOR YEAR TAX RETURN INFORMATION

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,645	81.8%	2,664	82.3%
Yes	588	18.2%	571	17.7%
Total	3,233	100.0%	3,235	100.0%

GET ANSWERS TO YOUR TAX LAW QUESTIONS SUCH AS INFORMATION ON WITHHOLDING, DEPENDENTS, DEDUCTIONS, OR TAX CREDITS

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,367	73.2%	2,355	72.8%
Yes	867	26.8%	880	27.2%
Total	3,233	100.0%	3,235	100.0%

GET TAX RETURN PREPARATION HELP SUCH AS HELP FILLING OUT FORMS

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,865	88.6%	2,911	90.0%
Yes	369	11.4%	324	10.0%
Total	3,233	100.0%	3,235	100.0%

GET INFORMATION OR ASSISTANCE ABOUT AN IRS NOTICE OR LETTER

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,685	83.1%	2,679	82.8%
Yes	548	16.9%	556	17.2%
Total	3,233	100.0%	3,235	100.0%

MAKE A PAYMENT

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,890	89.4%	2,859	88.4%
Yes	344	10.6%	376	11.6%
Total	3,233	100.0%	3,235	100.0%

GET INFORMATION ABOUT MAKING PAYMENTS NOT INCLUDING SETTING UP A PAYMENT PLAN

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,019	93.4%	3,022	93.4%
Yes	215	6.6%	213	6.6%
Total	3,233	100.0%	3,235	100.0%

SETUP A PAYMENT PLAN

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,015	93.2%	3,004	92.9%
Yes	218	6.8%	231	7.1%
Total	3,233	100.0%	3,235	100.0%

GET INFORMATION ABOUT A REFUND

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,605	80.6%	2,651	81.9%
Yes	628	19.4%	584	18.1%
Total	3,233	100.0%	3,235	100.0%

GET AN INDIVIDUAL OR EMPLOYER TAX ID (ITIN, EIN)

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,021	93.4%	3,043	94.1%
Yes	213	6.6%	192	5.9%
Total	3,233	100.0%	3,235	100.0%

OTHER REASONS

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,918	90.2%	2,916	90.1%
Yes	316	9.8%	319	9.9%
Total	3,233	100.0%	3,235	100.0%

Q8. First Delivery Channel Used to Obtain Service

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET A FORM OR PUBLICATION?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	601	76.0%	640	77.9%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	65	8.2%	58	7.1%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	70	8.9%	68	8.3%
Automated IRS phone system	24	3.1%	23	2.8%
Or another IRS information source - (specify)	31	3.9%	33	4.0%
Total	791	100.0%	822	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET TRANSCRIPTS OR PRIOR YEAR TAX RETURN INFORMATION?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	259	62.4%	254	62.4%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	49	11.7%	43	10.6%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	64	15.4%	68	16.7%
Automated IRS phone system	32	7.7%	28	6.9%
Or another IRS information source - (specify)	11	2.8%	14	3.4%
Total	415	100.0%	407	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET ANSWERS TO YOUR TAX LAW QUESTIONS?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	419	71.5%	452	74.5%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	52	8.9%	46	7.6%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	56	9.6%	54	8.9%
Automated IRS phone system	38	6.5%	30	4.9%
Or another IRS information source - (specify)	20	3.4%	25	4.1%
Total	586	100.0%	607	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET TAX RETURN PREPARATION HELP SUCH AS HELP FILLING OUT FORMS?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	140	47.5%	130	52.4%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	73	24.9%	48	19.4%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	37	12.6%	32	12.9%
Automated IRS phone system	7	2.3%	8	3.2%
Or another IRS information source - (specify)	37	12.7%	30	12.1%
Total	295	100.0%	248	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET INFORMATION OR ASSISTANCE ABOUT AN IRS NOTICE OR LETTER?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	137	38.2%	140	38.1%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	29	8.1%	22	6.0%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	130	36.4%	141	38.4%
Automated IRS phone system	32	8.8%	33	9.0%
Or another IRS information source - (specify)	31	8.6%	31	8.4%
Total	358	100.0%	367	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO MAKE A PAYMENT?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	96	45.1%	105	44.9%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	19	8.7%	18	7.7%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	44	20.7%	46	19.7%
Automated IRS phone system	11	5.3%	12	5.1%
Or another IRS information source - (specify)	43	20.2%	53	22.6%
Total	214	100.0%	234	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET INFORMATION ABOUT MAKING PAYMENTS NOT INCLUDING SETTING UP A PAYMENT PLAN?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	92	49.1%	90	48.6%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	20	10.7%	19	10.3%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	49	26.1%	49	26.5%
Automated IRS phone system	12	6.2%	11	5.9%
Or another IRS information source - (specify)	15	7.8%	16	8.6%
Total	188	100.0%	185	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO SET UP A PAYMENT PLAN?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	42	24.8%	49	26.9%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	16	9.4%	17	9.3%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	94	55.1%	93	51.1%
Automated IRS phone system	4	2.6%	5	2.7%
Or another IRS information source - (specify)	14	8.1%	18	9.9%
Total	171	100.0%	182	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET INFORMATION ABOUT A REFUND?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	300	66.4%	294	68.9%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	24	5.2%	19	4.4%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	52	11.5%	49	11.5%
Automated IRS phone system	43	9.6%	41	9.6%
Or another IRS information source - (specify)	33	7.3%	24	5.6%
Total	452	100.0%	427	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET AN INDIVIDUAL OR EMPLOYER TAX ID (ITIN, EIN)?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	98	51.0%	97	55.7%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	20	10.1%	18	10.3%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	21	10.9%	20	11.5%
Automated IRS phone system	29	14.9%	14	8.0%
Or another IRS information source - (specify)	25	13.2%	25	14.4%
Total	193	100.0%	174	100.0%

WHAT WAS THE FIRST IRS INFORMATION SOURCE YOU USED TO GET ANSWERS FOR OTHER SERVICE NEED?

	Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
IRS Website (www.IRS.gov)	138	47.8%	156	53.4%
IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	29	10.1%	29	9.9%
IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	67	23.3%	57	19.5%
Automated IRS phone system	23	8.0%	23	7.9%
Or another IRS information source - (specify)	31	10.8%	27	9.2%
Total	289	100.0%	292	100.0%

For only those using Only One IRS Service by Delivery Channel Used

Demand for Service Tasks for those using Only 1 Service	Visit a local IRS office			Call an IRS Toll-Free line			Visit the IRS website		
	Estimate	95% Confidence Interval		Estimate	95% Confidence Interval		Estimate	95% Confidence Interval	
		Lower	Upper		Lower	Upper		Lower	Upper
Get a form or publication	27.8%	22.0%	33.6%	21.5%	18.0%	25.0%	33.3%	30.7%	35.9%
Get transcripts or prior year tax return information	15.1%	10.5%	19.7%	12.4%	9.8%	15.1%	12.0%	10.2%	13.9%
Get answers to your tax law questions such as information on withholding, dependents, deductions, or tax credits	13.6%	9.1%	18.2%	15.4%	12.3%	18.5%	19.3%	17.1%	21.5%
Get tax return preparation help such as help filling out forms	12.8%	8.2%	17.3%	3.4%	1.8%	5.0%	3.0%	2.0%	3.9%
Other reasons	8.7%	4.9%	12.6%	12.8%	10.1%	15.6%	8.6%	7.1%	10.1%
Get information or assistance about an IRS notice or letter	7.6%	4.2%	11.1%	13.4%	10.5%	16.3%	5.6%	4.3%	6.9%
Get information about a refund	7.5%	4.0%	11.1%	10.7%	8.2%	13.2%	12.2%	10.3%	14.1%
Make a payment	3.2%	1.2%	5.2%	3.0%	1.9%	4.2%	1.9%	1.2%	2.5%
Set up a payment plan	1.7%	0.1%	3.4%	2.8%	1.3%	4.2%	0.8%	0.4%	1.2%
Get an Individual or Employer Tax ID (ITIN, EIN)	1.2%	-0.3%	2.6%	2.5%	0.9%	4.2%	2.0%	1.0%	3.0%
Get information about making payments not including setting up a payment plan	0.7%	0.0%	1.4%	2.1%	0.9%	3.2%	1.3%	0.6%	2.0%

Delivery Channel Used by Broadband Access at Home

FIRST DELIVERY CHANNEL CHOSEN:

BROADBAND		Estimate	95% Confidence Interval	
			Lower	Upper
Do not Have Broad Band	IRS Website (www.IRS.gov)	42.2%	38.6%	46.0%
	IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	15.2%	12.5%	18.3%
	IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	21.5%	18.5%	24.9%
	Automated IRS phone system	11.4%	9.0%	14.3%
	Or another IRS information source	9.6%	7.7%	12.0%
	Total	100.0%	100.0%	100.0%
Have Broadband	IRS Website (www.IRS.gov)	65.3%	63.0%	67.5%
	IRS Tax Assistance Center (or walk-in site; includes those who set up appointment by phone)	7.2%	5.9%	8.8%
	IRS phone representative (includes those calling to make appointment, but issue resolved on phone)	15.0%	13.4%	16.8%
	Automated IRS phone system	4.9%	4.0%	6.0%
	Or another IRS information source	7.5%	6.4%	8.9%
	Total	100.0%	100.0%	100.0%

First Delivery Channel Used Based on Whether the Taxpayer has Internet or Broadband Access at Home

Delivery Channel	Broadband	Internet	No Broadband	No Internet
IRS Website (www.irs.gov)	65%	61%	42%	22%
IRS Tax Assistance Center	7%	8%	15%	28%
IRS phone representative	15%	17%	22%	24%
Automated IRS phone system	5%	6%	11%	15%
Another IRS information source	8%	8%	10%	10%
Total	100.0%	100.0%	100.0%	100.0%

Q9-16. Likert Scale Scores for Resolution, Satisfaction, Willingness, and Impact Questions

GET A FORM	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.54	4.44	4.64	640	3.87	3.34	4.40	58	3.92	3.48	4.37	68
Overall Satisfaction	4.29	4.20	4.38	640	4.11	3.70	4.53	57	3.53	3.08	3.98	68
Timeliness Satisfaction	4.08	3.98	4.18	640	4.00	3.59	4.42	58	2.92	2.48	3.36	68
# of Steps Satisfaction	3.87	3.77	3.98	640	3.92	3.46	4.37	58	2.82	2.37	3.28	68
Understanding the Info. Satisfaction	4.25	4.14	4.35	640	4.22	3.89	4.55	58	3.49	3.02	3.96	68
Accuracy Satisfaction	4.46	4.36	4.56	640	4.20	3.72	4.69	58	3.93	3.53	4.33	68
Willingness to Use the Web to get a Form or Pub	4.56	4.48	4.65	640	3.26	2.73	3.79	58	3.01	2.54	3.49	68
Willingness to Use the Phone Rep. to get a Form or Pub	2.86	2.73	2.99	640	3.56	3.15	3.97	58	3.83	3.44	4.21	68
Willingness to Use the Auto. Phone to get a Form or Pub	2.23	2.11	2.36	640	2.12	1.71	2.53	58	2.67	2.23	3.10	68
Willingness to Use a TAC info to get a Form or Pub	2.35	2.22	2.48	640	4.03	3.62	4.45	58	2.65	2.19	3.12	68
Impact amount if lose the Web	3.75	3.62	3.89	640	3.17	2.63	3.70	58	2.93	2.43	3.43	68
Impact amount if lose a Phone Rep.	2.75	2.62	2.88	640	2.93	2.46	3.40	58	3.63	3.14	4.11	68
Impact amount if lose a Auto. Phone	2.43	2.29	2.56	640	2.70	2.20	3.21	58	2.70	2.24	3.16	68
Impact amount if lose the TAC	2.53	2.40	2.67	640	3.52	3.00	4.05	58	2.68	2.17	3.19	68

Q9-16

GET A TRANSCRIPT	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.22	4.01	4.43	254	4.49	4.15	4.83	43	4.27	3.94	4.61	68
Overall Satisfaction	4.23	4.08	4.38	254	4.06	3.57	4.55	43	4.04	3.69	4.39	68
Timeliness Satisfaction	4.18	4.02	4.34	254	3.90	3.45	4.35	43	3.70	3.34	4.07	68
# of Steps Satisfaction	3.90	3.72	4.07	254	3.90	3.40	4.40	43	3.52	3.15	3.90	68
Understanding the Info. Satisfaction	4.28	4.12	4.44	254	4.21	3.81	4.60	43	4.46	4.22	4.69	68
Accuracy Satisfaction	4.46	4.31	4.61	254	4.58	4.31	4.85	43	4.34	4.07	4.61	68
Willingness to Use the Web to get a Transcript	4.35	4.19	4.52	254	3.22	2.64	3.79	43	3.62	3.17	4.07	68
Willingness to Use the Phone Rep. to get a Transcript	3.19	2.97	3.41	254	3.35	2.90	3.80	43	4.03	3.70	4.35	68
Willingness to Use the Auto. Phone to get a Transcript	2.60	2.38	2.82	254	2.61	2.09	3.14	43	2.62	2.16	3.08	68
Willingness to Use a TAC to get a Transcript	2.84	2.61	3.08	254	4.20	3.74	4.66	43	2.91	2.50	3.31	68
Impact amount if lose the Web	3.67	3.46	3.87	254	3.19	2.67	3.72	43	3.88	3.47	4.28	68
Impact amount if lose a Phone Rep.	3.17	2.94	3.40	254	3.04	2.60	3.49	43	4.00	3.65	4.36	68
Impact amount if lose a Auto. Phone	2.84	2.61	3.07	254	2.68	2.19	3.17	43	2.80	2.34	3.26	68
Impact amount if lose the TAC	2.89	2.65	3.12	254	3.80	3.28	4.32	43	3.13	2.62	3.63	68

TAX LAW QUESTION	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.01	3.89	4.14	452	4.21	3.57	4.85	46	4.50	4.25	4.75	54
Overall Satisfaction	3.85	3.74	3.96	452	4.00	3.47	4.54	46	3.96	3.58	4.35	54
Timeliness Satisfaction	3.68	3.55	3.82	452	3.99	3.52	4.45	46	3.52	3.10	3.94	54
# of Steps Satisfaction	3.52	3.39	3.65	452	3.90	3.28	4.53	46	3.58	3.18	3.99	54
Understanding the Info. Satisfaction	4.08	3.97	4.19	452	4.32	3.85	4.79	46	4.22	3.89	4.55	54
Accuracy Satisfaction	4.35	4.23	4.46	452	4.53	4.22	4.83	46	4.28	3.97	4.58	54
Willingness to Use the Web to get a Tax Law Question Answered	4.28	4.17	4.40	452	2.80	2.15	3.44	46	3.60	3.05	4.15	54
Willingness to Use the Phone Rep. to get a Tax Law Question Answered	2.96	2.80	3.12	452	3.18	2.58	3.78	46	4.29	3.96	4.62	54
Willingness to Use the Auto. Phone to get a Tax Law Question Answered	2.08	1.94	2.21	452	1.93	1.41	2.46	46	2.23	1.78	2.68	54
Willingness to Use a TAC to get a Tax Law Question Answered	2.47	2.32	2.62	452	4.18	3.64	4.72	46	2.92	2.39	3.45	54
Impact amount if lose the Web	3.59	3.43	3.74	452	2.75	2.16	3.34	46	2.99	2.48	3.50	54
Impact amount if lose a Phone Rep.	2.82	2.66	2.99	452	3.07	2.40	3.73	46	3.78	3.32	4.24	54
Impact amount if lose a Auto. Phone	2.36	2.20	2.52	452	2.26	1.67	2.86	46	2.87	2.39	3.35	54
Impact amount if lose the TAC	2.58	2.41	2.74	452	4.10	3.61	4.60	46	3.02	2.52	3.52	54

Q9-16. Thinking about your most recently filed individual tax return, please rate your agreement with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree.

TAX RETURN PREPARATION	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.28	4.08	4.47	130	4.9	4.7	5.0	48	3.7	3.1	4.4	32
Overall Satisfaction	4.10	3.90	4.31	130	4.5	4.1	4.9	48	3.6	2.9	4.3	32
Timeliness Satisfaction	3.95	3.73	4.17	130	4.7	4.5	4.9	48	3.0	2.3	3.8	32
# of Steps Satisfaction	3.81	3.59	4.03	130	4.5	4.1	4.8	48	3.1	2.4	3.7	32
Understanding the Info. Satisfaction	4.06	3.85	4.27	130	4.4	4.0	4.7	48	3.8	3.3	4.4	32
Accuracy Satisfaction	4.28	4.06	4.50	130	4.5	4.1	4.8	48	3.9	3.3	4.5	32
Willingness to Use the Web to get Help with Tax Return Preparation	4.19	3.97	4.41	130	2.6	2.0	3.2	48	3.1	2.4	3.8	32
Willingness to Use the Phone Rep. to get Help with Tax Return Preparation	3.06	2.73	3.38	130	2.6	2.1	3.2	48	3.7	3.1	4.3	32
Willingness to Use the Auto. Phone to get Help with Tax Return Preparation	2.14	1.86	2.42	130	2.3	1.8	2.8	48	2.9	2.3	3.5	32
Willingness to Use a TAC to get Help with Tax Return Preparation	2.56	2.28	2.84	130	4.3	4.0	4.7	48	3.1	2.4	3.8	32
Impact amount if lose the Web	3.67	3.39	3.96	130	2.7	2.1	3.2	48	2.3	1.7	2.9	32
Impact amount if lose a Phone Rep.	2.89	2.57	3.21	130	2.6	2.0	3.1	48	3.0	2.4	3.7	32
Impact amount if lose a Auto. Phone	2.37	2.04	2.70	130	2.1	1.6	2.6	48	2.8	2.1	3.4	32
Impact amount if lose the TAC	2.59	2.25	2.93	130	3.5	2.9	4.0	48	2.2	1.7	2.7	32

NOTICE	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	3.48	3.18	3.79	140	2.98	1.91	4.04	22	3.50	3.18	3.82	141
Overall Satisfaction	3.62	3.34	3.90	140	3.68	2.97	4.39	22	3.42	3.09	3.74	141
Timeliness Satisfaction	3.40	3.10	3.70	140	3.45	2.47	4.43	22	2.87	2.54	3.20	141
# of Steps Satisfaction	3.43	3.17	3.69	140	3.29	2.35	4.23	22	3.06	2.75	3.36	141
Understanding the Info. Satisfaction	3.91	3.65	4.17	140	3.94	3.21	4.67	22	3.98	3.73	4.24	141
Accuracy Satisfaction	3.90	3.63	4.17	140	3.67	2.98	4.37	22	3.65	3.33	3.97	141
Willingness to Use the Web to get info on a Notice	4.11	3.87	4.35	140	3.23	2.35	4.11	22	2.90	2.60	3.20	141
Willingness to Use the Phone Rep. to info on a Notice	3.41	3.09	3.72	140	3.20	2.20	4.20	22	3.95	3.70	4.20	141
Willingness to Use the Auto. Phone to get info on a Notice	2.31	2.03	2.60	140	1.97	1.40	2.55	22	2.17	1.88	2.45	141
Willingness to Use a TAC info on a Notice	3.05	2.75	3.35	140	3.78	3.03	4.54	22	2.71	2.41	3.00	141
Impact amount if lose the Web	3.72	3.38	4.05	140	2.93	2.04	3.83	22	3.04	2.74	3.35	141
Impact amount if lose a Phone Rep.	3.68	3.40	3.97	140	2.97	2.10	3.84	22	3.81	3.54	4.07	141
Impact amount if lose a Auto. Phone	2.90	2.57	3.24	140	2.45	1.70	3.19	22	2.79	2.49	3.09	141
Impact amount if lose the TAC	3.09	2.78	3.40	140	4.03	3.24	4.82	22	2.98	2.68	3.28	141

MAKE A PAYMENT	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.42	4.15	4.68	105	4.85	4.60	5.10	18	4.14	3.60	4.68	46
Overall Satisfaction	4.24	3.96	4.51	105	4.76	4.38	5.13	18	3.82	3.28	4.35	46
Timeliness Satisfaction	3.94	3.63	4.25	105	4.56	4.02	5.10	18	3.56	3.03	4.09	46
# of Steps Satisfaction	3.75	3.43	4.07	105	4.49	3.91	5.08	18	3.65	3.14	4.16	46
Understanding the Info. Satisfaction	4.15	3.85	4.45	105	4.40	3.69	5.11	18	4.17	3.74	4.59	46
Accuracy Satisfaction	4.43	4.19	4.66	105	4.81	4.55	5.08	18	4.03	3.58	4.48	46
Willingness to Use the Web to Make a Payment	4.48	4.22	4.73	105	3.21	2.19	4.22	18	3.43	2.79	4.08	46
Willingness to Use the Phone Rep.to Make a Payment	3.11	2.76	3.45	105	3.60	2.58	4.63	18	3.57	2.91	4.23	46
Willingness to Use the Auto. Phone to Make a Payment	2.29	1.98	2.60	105	3.15	1.94	4.36	18	2.41	1.89	2.93	46
Willingness to Use a TAC info to Make a Payment	2.43	2.08	2.78	105	4.33	3.65	5.00	18	2.50	1.91	3.09	46
Impact amount if lose the Web	3.35	2.98	3.72	105	2.44	1.50	3.38	18	2.87	2.26	3.47	46
Impact amount if lose a Phone Rep.	2.67	2.33	3.00	105	3.62	2.51	4.72	18	2.94	2.46	3.41	46
Impact amount if lose a Auto. Phone	2.08	1.78	2.37	105	3.20	1.94	4.47	18	2.77	2.27	3.28	46
Impact amount if lose the TAC	2.21	1.89	2.52	105	4.31	3.58	5.03	18	2.31	1.79	2.84	46

INFO ABOUT A PAYMENT	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	3.99	3.64	4.34	90	3.46	2.11	4.81	19	4.05	3.59	4.51	49
Overall Satisfaction	3.58	3.25	3.91	90	3.71	2.86	4.57	19	3.91	3.46	4.35	49
Timeliness Satisfaction	3.53	3.19	3.87	90	3.61	2.74	4.48	19	3.41	2.92	3.91	49
# of Steps Satisfaction	3.37	3.05	3.70	90	3.42	2.35	4.49	19	3.32	2.83	3.81	49
Understanding the Info. Satisfaction	4.16	3.90	4.42	90	3.84	3.05	4.64	19	4.20	3.80	4.60	49
Accuracy Satisfaction	3.95	3.66	4.25	90	3.61	2.55	4.67	19	4.04	3.55	4.52	49
Willingness to Use the Web to get info about a Payment	3.99	3.66	4.31	90	2.30	1.45	3.15	19	3.11	2.53	3.69	49
Willingness to Use the Phone Rep. to get info about a Payment	2.88	2.52	3.25	90	3.08	1.75	4.41	19	4.22	3.84	4.59	49
Willingness to Use the Auto. Phone to get info about a Payment	2.18	1.81	2.54	90	2.30	1.25	3.36	19	2.51	1.97	3.06	49
Willingness to Use a TAC to get info about a Payment	2.44	2.09	2.78	90	3.98	3.28	4.69	19	2.96	2.39	3.53	49
Impact amount if lose the Web	3.79	3.44	4.15	90	3.75	2.90	4.61	19	2.75	2.15	3.34	49
Impact amount if lose a Phone Rep.	3.48	3.13	3.83	90	3.51	2.60	4.43	19	3.88	3.36	4.41	49
Impact amount if lose a Auto. Phone	2.81	2.42	3.20	90	2.93	1.90	3.96	19	2.42	1.92	2.93	49
Impact amount if lose the TAC	2.66	2.28	3.04	90	4.02	3.14	4.90	19	2.69	2.19	3.19	49

SET UP A PAYMENT PLAN	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.04	3.56	4.51	49	3.90	3.08	4.71	17	4.39	4.08	4.71	93
Overall Satisfaction	3.82	3.35	4.30	49	3.92	3.26	4.58	17	3.94	3.51	4.37	93
Timeliness Satisfaction	3.78	3.29	4.27	49	3.31	2.51	4.12	17	3.73	3.32	4.14	93
# of Steps Satisfaction	3.62	3.12	4.12	49	3.56	2.72	4.41	17	3.57	3.16	3.98	93
Understanding the Info. Satisfaction	3.92	3.47	4.38	49	3.37	2.63	4.10	17	4.09	3.72	4.46	93
Accuracy Satisfaction	3.98	3.56	4.40	49	3.25	2.50	4.01	17	4.19	3.81	4.57	93
Willingness to Use the Web to Set Up a Payment Plan	3.77	3.23	4.31	49	2.84	2.13	3.55	17	3.08	2.63	3.54	93
Willingness to Use the Phone Rep. to Set Up a Payment Plan	3.49	2.87	4.10	49	2.99	2.06	3.93	17	4.20	3.88	4.53	93
Willingness to Use the Auto. Phone to Set Up a Payment Plan	2.36	1.84	2.89	49	2.50	1.35	3.64	17	2.19	1.88	2.49	93
Willingness to Use a TAC to Set Up a Payment Plan	2.09	1.61	2.57	49	3.82	2.91	4.72	17	2.67	2.27	3.07	93
Impact amount if lose the Web	3.41	2.88	3.94	49	3.04	2.06	4.01	17	3.41	2.96	3.85	93
Impact amount if lose a Phone Rep.	3.96	3.56	4.36	49	3.96	3.09	4.83	17	3.99	3.68	4.31	93
Impact amount if lose a Auto. Phone	3.01	2.42	3.60	49	3.54	2.50	4.58	17	2.76	2.39	3.12	93
Impact amount if lose the TAC	2.37	1.84	2.90	49	3.28	2.21	4.34	17	2.91	2.50	3.33	93

GET INFORMATION ON A REFUND	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.48	4.32	4.64	294	3.30	2.00	4.59	19	3.52	2.92	4.13	49
Overall Satisfaction	4.43	4.30	4.56	294	3.57	2.53	4.62	19	3.44	2.90	3.97	49
Timeliness Satisfaction	4.36	4.22	4.51	294	3.11	1.87	4.34	19	2.87	2.35	3.39	49
# of Steps Satisfaction	4.21	4.06	4.36	294	3.77	2.60	4.95	19	2.84	2.29	3.39	49
Understanding the Info. Satisfaction	4.53	4.39	4.66	294	3.70	2.53	4.86	19	3.70	3.08	4.31	49
Accuracy Satisfaction	4.50	4.36	4.64	294	4.47	3.97	4.97	19	3.74	3.21	4.28	49
Willingness to Use the Web to get info on a Refund	4.69	4.59	4.79	294	3.55	2.38	4.72	19	2.85	2.31	3.40	49
Willingness to Use the Phone Rep. to get info on a Refund	2.95	2.74	3.17	294	3.13	2.10	4.15	19	3.52	2.88	4.16	49
Willingness to Use the Auto. Phone to get info on a Refund	2.55	2.34	2.75	294	1.79	1.08	2.50	19	2.98	2.37	3.58	49
Willingness to Use a TAC to get info on a Refund	2.51	2.31	2.71	294	4.26	3.57	4.95	19	2.70	2.16	3.23	49
Impact amount if lose the Web	3.89	3.71	4.07	294	2.31	1.36	3.26	19	3.12	2.53	3.71	49
Impact amount if lose a Phone Rep.	3.04	2.81	3.26	294	2.38	1.43	3.33	19	3.79	3.24	4.33	49
Impact amount if lose a Auto. Phone	2.71	2.50	2.92	294	2.35	1.34	3.37	19	3.28	2.74	3.82	49
Impact amount if lose the TAC	2.64	2.44	2.85	294	4.35	3.83	4.87	19	3.08	2.47	3.69	49

GET AN ITIN	WEB				TAC				Phone Representative			
	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count	Estimate	95% CI		Unwtd. Count
		Lower	Upper			Lower	Upper			Lower	Upper	
Resolution	4.60	4.35	4.84	97	4.52	3.77	5.27	18	4.15	3.14	5.16	20
Overall Satisfaction	4.29	4.07	4.50	97	4.30	3.54	5.07	18	3.85	2.82	4.88	20
Timeliness Satisfaction	4.23	4.00	4.47	97	4.34	3.59	5.08	18	3.51	2.48	4.54	20
# of Steps Satisfaction	3.92	3.61	4.22	97	4.29	3.54	5.04	18	3.69	2.67	4.71	20
Understanding the Info. Satisfaction	4.43	4.20	4.67	97	4.37	3.65	5.08	18	4.03	3.02	5.04	20
Accuracy Satisfaction	4.65	4.48	4.82	97	4.39	3.64	5.13	18	4.00	2.96	5.03	20
Willingness to Use the Web to get an ITIN	4.47	4.22	4.72	97	4.24	3.44	5.04	18	4.28	3.46	5.10	20
Willingness to Use the Phone Rep. to get an ITIN	2.72	2.34	3.10	97	3.70	2.60	4.80	18	3.54	2.42	4.66	20
Willingness to Use the Auto. Phone to get an ITIN	2.11	1.75	2.46	97	3.45	2.32	4.57	18	2.46	1.55	3.36	20
Willingness to Use a TAC info to get an ITIN	2.60	2.26	2.94	97	4.48	4.00	4.95	18	2.80	1.89	3.72	20
Impact amount if lose the Web	3.74	3.37	4.12	97	3.36	2.31	4.41	18	3.94	2.96	4.92	20
Impact amount if lose a Phone Rep.	3.20	2.83	3.56	97	3.70	2.63	4.78	18	4.05	2.96	5.13	20
Impact amount if lose a Auto. Phone	2.63	2.24	3.02	97	3.44	2.36	4.52	18	3.39	2.29	4.48	20
Impact amount if lose the TAC	2.75	2.36	3.14	97	4.05	3.29	4.80	18	3.46	2.33	4.59	20

RESOLUTION

Service Users Whose Issue was Not Completely Resolved by Delivery Channel Used

Channel	Percent not completely resolved
IRS Toll-Free Representative	38.2%
TAC	34.9%
IRS website	34.4%
IRS Toll-Free Automated	36.5%

Q17. As a taxpayer, do you believe you have rights before the IRS?

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	2,356	72.9%	2,343	77.1%
No	413	12.8%	403	13.3%
Not sure	463	14.3%	292	9.6%
Total	3,233	100.0%	3,038	100.0%

Q18. Do you know what your rights are as a taxpayer when dealing with the IRS?

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	1,125	34.8%	1,186	39.0%
No	1,581	48.9%	1,343	44.2%
Not sure	527	16.3%	509	16.8%
Total	3,233	100.0%	3,038	100.0%

Q19. Have you ever heard of Publication 1, which defines your rights as a taxpayer?

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	591	18.3%	712	23.4%
No	2,526	78.1%	2,226	73.3%
Not sure	116	3.6%	100	3.3%
Total	3,233	100.0%	3,038	100.0%

Q20. Do you know what your responsibilities are as a taxpayer?

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Yes	2,675	82.7%	2,615	86.1%
No	413	12.8%	270	8.9%
Not sure	145	4.5%	153	5.0%
Total	3,233	100.0%	3,038	100.0%

**Q21. How would you like to learn about your rights and responsibilities as a taxpayer?
Would it be from...**

A SEPARATE PUBLICATION YOU COULD ORDER BY PHONE OR GET ON THE IRS WEBSITE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,484	70.4%	2,493	73.6%
Yes	1,045	29.6%	895	26.4%
Total	3,529	100.0%	3,388	100.0%

A SEPARATE LETTER INCLUDED WITH IRS NOTICES

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,306	65.3%	2,378	70.2%
Yes	1,223	34.7%	1,010	29.8%
Total	3,529	100.0%	3,388	100.0%

A PAGE ON THE IRS WEB SITE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,339	66.3%	2,338	69.0%
Yes	1,190	33.7%	1,050	31.0%
Total	3,529	100.0%	3,388	100.0%

THE HOME PAGE OF THE IRS WEB SITE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	1,887	53.5%	1,924	56.8%
Yes	1,642	46.5%	1,464	43.2%
Total	3,529	100.0%	3,388	100.0%

NOT SURE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,400	96.4%	3,257	96.1%
Yes	129	3.6%	131	3.9%
Total	3,529	100.0%	3,388	100.0%

YOU DON'T NEED TO LEARN ABOUT YOUR RIGHTS AND RESPONSIBILITIES AS A TAXPAYER

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,329	94.3%	3,245	95.8%
Yes	200	5.7%	143	4.2%
Total	3,529	100.0%	3,388	100.0%

Q22. What kind of internet access do you have at home for your computer? Is it...?**BROADBAND**

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	998	28.3%	951	28.1%
Yes	2,531	71.7%	2,437	71.9%
Total	3,529	100.0%	3,388	100.0%

DIAL-UP

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,391	96.1%	3,275	96.7%
Yes	138	3.9%	113	3.3%
Total	3,529	100.0%	3,388	100.0%

MOBILE DATA PLAN

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,883	81.7%	2,930	86.5%
Yes	646	18.3%	458	13.5%
Total	3,529	100.0%	3,388	100.0%

DO NOT HAVE INTERNET ACCESS

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,196	90.6%	3,138	92.6%
Yes	333	9.4%	250	7.4%
Total	3,529	100.0%	3,388	100.0%

DO NOT KNOW

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,424	97.0%	3,306	97.6%
Yes	105	3.0%	82	2.4%
Total	3,529	100.0%	3,388	100.0%

I DO NOT USE THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,507	99.4%	3,349	98.8%
Yes	22	0.6%	39	1.2%
Total	3,529	100.0%	3,388	100.0%

Whether Taxpayers Have Internet Access at Home

Access	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Internet Access	131.4	128.4	133.9
No Internet Access	13.6	11.2	16.7

Whether Taxpayers Have Broadband Access at Home

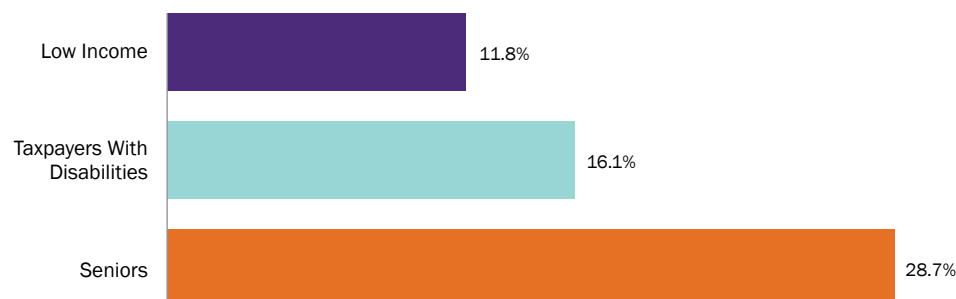
Access	Estimate (in millions)	95% Confidence Interval	
		Lower	Upper
Broadband Access	104.0	99.2	108.5
No Broadband Access	41.1	36.6	45.8

Percent of Demographic Groups without Broadband or Internet Access at Home

	No Broadband at Home			No Internet at Home		
	Estimate	95% Confidence Interval		Estimate	95% Confidence Interval	
		Lower	Upper		Lower	Upper
Not Low Income	21.8%	18.9%	25.1%	5.7%	4.2%	7.7%
Low Income	35.5%	29.8%	41.8%	13.6%	10.4%	17.7%
Senior	41.7%	35.3%	48.3%	27.3%	21.4%	34.2%
Taxpayers with Disabilities	31.2%	24.9%	38.3%	14.2%	10.2%	19.6%

Percent of Vulnerable Groups Who Never Use the Internet

Low Income Taxpayers, Seniors, and Taxpayers With Disabilities Who Never Use the Internet



Q23. What device do you use to access the internet at home when searching for information (check all that apply)? Please select all that apply. Is it by...?

FOR THOSE THAT HAVE INTERNET ACCESS AT HOME

COMPUTER	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	923	28.9%	866	27.6%
Yes	2,272	71.1%	2,272	72.4%
Total	3,196	100.0%	3,138	100.0%

TABLET	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,287	71.5%	2,266	72.2%
Yes	909	28.5%	872	27.8%
Total	3,196	100.0%	3,138	100.0%

SMART PHONE	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	1,681	52.6%	2,049	65.3%
Yes	1,515	47.4%	1,089	34.7%
Total	3,196	100.0%	3,138	100.0%

OTHER	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,156	98.7%	3,105	98.9%
Yes	40	1.3%	33	1.1%
Total	3,196	100.0%	3,138	100.0%

NONE OF THESE	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,169	99.2%	3,118	99.4%
Yes	26	0.8%	20	0.6%
Total	3,196	100.0%	3,138	100.0%

Q24. How often do you go on the internet (including weekdays and weekends)?

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
One or more times a day	2,277	70.9%	2,264	75.5%
Several times a week	466	14.5%	369	12.3%
Once a week	110	3.4%	97	3.2%
Less than once a week	107	3.3%	86	2.9%
Never	252	7.8%	183	6.1%
Total	3,211	100.0%	2,999	100.0%

Reported Frequency of Internet Use for Senior Groups

How Often Do You Use the Internet		Estimate	95% Confidence Interval	
			Lower	Upper
Not Low Income Senior	One or more times a day	59.9%	52.1%	67.2%
	Several times a week	13.8%	9.1%	20.4%
	Once a week	5.1%	2.4%	10.4%
	Less than once a week	4.9%	2.4%	9.7%
	Never	16.3%	11.3%	22.8%
	Total	100.0%	100.0%	100.0%
Low Income Senior	One or more times a day	28.0%	19.8%	38.1%
	Several times a week	13.1%	7.2%	22.7%
	Once a week	4.0%	1.4%	10.9%
	Less than once a week	10.2%	5.1%	19.4%
	Never	44.6%	33.0%	56.8%
	Total	100.0%	100.0%	100.0%

Percentage of Taxpayers Accessing the Internet Once a Week or Less

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	9.9%	7.9%	12.4%
Low Income	19.8%	15.4%	25.1%
Senior	40.5%	33.8%	47.6%
Taxpayers with Disabilities	25.3%	19.2%	32.5%
All Filers	14.6%	12.3%	17.3%

**Q25. Which of the following are reasons why you don't go online, or go online more often?
(select all that apply) Is it because...?**

For those who never go on the internet

YOU DON'T HAVE CONVENIENT ACCESS TO THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	137	54.5%	112	61.2%
Yes	115	45.5%	71	38.8%
Total	252	100.0%	183	100.0%

YOU ARE WORRIED ABOUT THE SECURITY OF YOUR PERSONAL INFORMATION ON THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	199	79.2%	155	84.7%
Yes	52	20.8%	28	15.3%
Total	252	100.0%	183	100.0%

INTERNET ACCESS COSTS TOO MUCH

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	213	84.4%	164	89.6%
Yes	39	15.6%	19	10.4%
Total	252	100.0%	183	100.0%

YOU DON'T LIKE SPENDING A LOT OF TIME ON THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	202	80.2%	157	85.8%
Yes	50	19.8%	26	14.2%
Total	252	100.0%	183	100.0%

YOU DON'T FEEL COMFORTABLE USING THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	157	62.2%	121	66.1%
Yes	95	37.8%	62	33.9%
Total	252	100.0%	183	100.0%

OTHER

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	202	80.4%	150	82.0%
Yes	49	19.6%	33	18.0%
Total	252	100.0%	183	100.0%

Q26. Where do you spend the majority of your time online? (Single response)

For those who go online.

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Home	1,889	63.8%	1,781	63.2%
Work	550	18.6%	638	22.7%
School	56	1.9%	36	1.3%
Library	39	1.3%	40	1.4%
Hotspots (for example, Starbucks, airports, restaurants)	33	1.1%	21	0.7%
Smart Phone	351	11.9%	265	9.4%
[Do Not Read] Other	40	1.4%	35	1.2%
Total	2,959	100.0%	2,816	100.0%

Q27. Where are you when you go online to conduct sensitive personal business such as filing a tax return or banking online?

For those who go online.

HOME	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	501	16.9%	468	16.6%
Yes	2,458	83.1%	2,348	83.4%
Total	2,959	100.0%	2,816	100.0%

WORK	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,677	90.4%	2,578	91.5%
Yes	283	9.6%	238	8.5%
Total	2,959	100.0%	2,816	100.0%

SCHOOL	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,939	99.3%	2,801	99.5%
Yes	20	0.7%	15	0.5%
Total	2,959	100.0%	2,816	100.0%

LIBRARY	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,875	97.2%	2,760	98.0%
Yes	84	2.8%	56	2.0%
Total	2,959	100.0%	2,816	100.0%

HOTSPOTS	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,932	99.1%	2,791	99.1%
Yes	27	0.9%	25	0.9%
Total	2,959	100.0%	2,816	100.0%

SMART PHONE	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,682	90.6%	2,660	94.5%
Yes	277	9.40%	156	5.5%
Total	2,959	100.0%	2,816	100.0%

OTHER	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,784	94.1%	2,639	93.7%
Yes	176	5.9%	177	6.3%
Total	2,959	100.0%	2,816	100.0%

Q 28. How would you rate your ability to use the internet to find information related to a topic you are interested in?

For those who go online.

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Not Able to Find Information	67	2.3%	50	1.8%
2	79	2.7%	73	2.6%
3	315	10.6%	280	9.9%
4	721	24.3%	778	27.6%
Always Able to Find Information	1,778	60.1%	1,635	58.1%
Total	2,959	100.0%	2,816	100.0%

Q29. Please tell me the degree to which you agree with the following statements, using a 1-5 scale where 1 is strongly disagree and 5 is strongly agree.

For those who go online.

I FEEL COMFORTABLE SENDING EMAILS

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	222	7.5%	179	6.4%
2	106	3.6%	96	3.4%
3	224	7.6%	239	8.5%
4	331	11.2%	260	9.2%
Strongly Agree	2,058	69.5%	2,026	71.9%
Not Applicable	19	0.7%	16	0.6%
Total	2,959	100.0%	2,816	100.0%

I AM SKILLED AT DOING RESEARCH ON THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	127	4.3%	128	4.5%
2	170	5.7%	83	2.9%
3	349	11.8%	304	10.8%
4	509	17.2%	496	17.6%
Strongly Agree	1,798	60.8%	1,798	63.8%
Not Applicable	6	0.2%	7	0.2%
Total	2,959	100.0%	2,816	100.0%

I FEEL SECURE SHARING PERSONAL FINANCIAL INFORMATION OVER THE INTERNET

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	1,061	35.9%	975	34.6%
2	390	13.2%	390	13.8%
3	698	23.6%	621	22.1%
4	426	14.4%	386	13.7%
Strongly Agree	371	12.5%	422	15.0%
Not Applicable	13	0.4%	22	0.8%
Total	2,959	100.0%	2,816	100.0%

I FEEL SECURE SHARING PERSONAL INFORMATION WITH A GOVERNMENT AGENCY

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Strongly Disagree	829	28.0%	756	26.8%
2	316	10.7%	337	12.0%
3	683	23.1%	593	21.1%
4	551	18.6%	508	18.0%
Strongly Agree	569	19.2%	605	21.5%
Not Applicable	11	0.4%	17	0.6%
Total	2,959	100.0%	2,816	100.0%

Do Not Feel Secure Sharing Personal Information with the Government

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	38.8%	34.7%	43.2%
Low Income	38.9%	31.6%	46.7%
Senior	54.8%	47.7%	61.7%
Taxpayers with Disabilities	40.9%	32.6%	49.8%

Do Not Feel Secure Sharing Personal Financial Information Over the Internet by Demographic Group

	Estimate	95% Confidence Interval	
		Lower	Upper
Not Low Income	45.4%	41.1%	49.8%
Low Income	54.4%	46.0%	62.5%
Senior	68.2%	61.5%	74.3%
Taxpayers with Disabilities	61.9%	53.1%	70.1%

Q30. What concerns do you have when sharing personal financial information over the Internet with a government agency? Are you...

CONCERNED YOUR PRIVACY IS NOT PROTECTED

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	941	31.8%	953	33.8%
Yes	2,019	68.2%	1,863	66.2%
Total	2,959	100.0%	2,816	100.0%

CONCERNED THE INTERNET IS NOT SECURE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	800	27.0%	832	29.5%
Yes	2,160	73.0%	1,984	70.5%
Total	2,959	100.0%	2,816	100.0%

SOME OTHER REASON

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,809	94.9%	2,719	96.6%
Yes	150	5.1%	97	3.4%
Total	2,959	100.0%	2,816	100.0%

CONFIDENT YOUR PRIVACY IS PROTECTED

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,931	99.1%	2,789	99.0%
Yes	28	0.9%	27	1.0%
Total	2,959	100.0%	2,816	100.0%

CONFIDENT THE INTERNET IS SECURE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,939	99.3%	2,794	99.2%
Yes	21	0.7%	22	0.8%
Total	2,959	100.0%	2,816	100.0%

DON'T HAVE INTERNET ACCESS AT HOME

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,927	98.9%	2,799	99.4%
Yes	33	1.1%	17	0.6%
Total	2,959	100.0%	2,816	100.0%

DON'T KNOW OR UNSURE

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,942	99.4%	2,794	99.2%
Yes	18	0.6%	22	0.8%
Total	2,959	100.0%	2,816	100.0%

I HAVE NO CONCERNS

	All respondents			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	2,756	93.1%	2,574	91.4%
Yes	203	6.9%	242	8.6%
Total	2,959	100.0%	2,816	100.0%

DEMOGRAPHICS

Q31. EDUCATION

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Elementary school	30	0.9%	25	0.7%	38	1.2%	29	0.9%
Some high school	113	3.2%	92	2.7%	145	4.5%	108	3.3%
High school graduate	771	21.8%	554	16.4%	590	18.3%	506	15.6%
Some college	1,015	28.8%	821	24.2%	809	25.0%	781	24.1%
College graduate	1,088	30.8%	1,247	36.8%	1,099	34.0%	1,219	37.7%
Post-Graduate work	510	14.5%	640	18.9%	552	17.1%	592	18.3%
(DON'T READ) Prefer not to answer	2	0.1%	9	0.3%	-	0.0%	-	0.0%
Total	3,529	100.0%	3,388	100.0%	3,233	100.00%	3,235	100.0%

Q32. GENDER

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Male	1,703	48.3%	1,587	46.8%	1,420	43.9%	1,473	45.5%
Female	1,825	51.7%	1,798	53.1%	1,814	56.1%	1,762	54.5%
Not sure/Refused	1	0.0%	3	0.1%	-	0.0%	-	0.0%
Total	3,529	100.0%	3,388	100.0%	3,233	100%	3,235	100.0%

Q33. PRIMARY LANGUAGE SPOKEN AT HOME

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
English	3,403	96.4%	3,287	97.0%	3,123	96.6%	3,138	97.0%
Spanish	73	2.1%	55	1.6%	63	2.0%	51	1.6%
Chinese	4	0.1%	4	0.1%	5	0.2%	4	0.1%
Vietnamese	9	0.3%	2	0.1%	4	0.1%	2	0.1%
Russian	1	0.0%	4	0.1%	3	0.1%	4	0.1%
French	1	0.0%	3	0.1%	4	0.1%	5	0.2%
German	-	0.0%	1	0.9%	2	0.1%	1	0.0%
Some other language	32	0.9%	30	0.1%	28	0.9%	27	0.8%
Prefer not to answer	6	0.2%	3	100.0%	3	0.1%	3	0.1%
Total	3,529	100.0%	3,388		3,233	100.0%	3,235	100.0%

Q34. NUMBER OF FAMILY MEMBERS

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
1	927	26.3%	729	21.0%	884	27.3%	673	20.8%
2	1,107	31.4%	1,129	32.5%	940	29.1%	1,025	31.7%
3	570	16.2%	580	16.7%	544	16.8%	562	17.4%
4	518	14.7%	499	14.4%	416	12.9%	471	14.6%
5	233	6.6%	253	7.3%	197	6.1%	232	7.2%
6	121	3.4%	122	3.5%	108	3.3%	121	3.7%
7	19	0.6%	44	1.3%	44	1.4%	47	1.5%
8	18	0.5%	15	0.4%	12	0.4%	15	0.5%
9	3	0.1%	7	0.2%	5	0.2%	7	0.2%
10 or more	12	0.3%	10	0.4%	8	0.2%	10	0.3%
99 (Refused to answer)	-	0.0%	82	2.4%	74	2.3%	72	2.2%
Total	3,529	100.1%	3,470	100.0%	3,233	100.0%	3,235	100.0%

Q36. INCOME

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
Less than \$10,000	332	9.4%	77	2.3%	338	10.4%	116	3.6%
\$10,000 to less than \$15,000	246	7.0%	98	2.9%	249	7.7%	136	4.2%
\$15,000 to less than \$20,000	240	6.8%	112	3.3%	245	7.6%	146	4.5%
\$20,000 to less than \$25,000	217	6.2%	134	4.0%	220	6.8%	154	4.8%
\$25,000 to less than \$35,000	374	10.6%	260	7.7%	381	11.8%	298	9.2%
\$35,000 to less than \$40,000	167	4.7%	228	6.7%	159	4.9%	232	7.2%
\$40,000 to less than \$50,000	302	8.6%	303	8.9%	265	8.2%	311	9.6%
\$50,000 to less than \$60,000	248	7.0%	263	7.8%	212	6.6%	274	8.5%
\$60,000 to less than \$75,000	299	8.5%	325	9.6%	253	7.8%	321	9.9%
\$75,000 to less than \$100,000	364	10.3%	401	11.8%	302	9.3%	417	12.9%
\$100,000 to less than \$150,000	375	10.6%	413	12.2%	314	9.7%	416	12.9%
\$150,000 to less than \$200,000	118	3.3%	183	5.4%	126	3.9%	190	5.9%
\$200,000 to less than \$1 million	54	1.5%	143	4.2%	158	4.9%	173	5.3%
\$1 million or more	16	0.4%	8	0.2%	12	0.4%	51	1.6%
[Do Not Read] Prefer not to answer	177	5.0%	440	13.0%	-			
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

Q37. Do you have any long-term conditions or disabilities (lasting 6 months or more)?

DEAFNESS

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,462	98.1%	3,348	98.8%	3,199	98.9%	3,208	99.2%
Yes	67	1.9%	40	1.2%	34	1.1%	27	0.8%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

SEVERE VISION IMPAIRMENT

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,415	96.8%	3,309	97.7%	3,166	97.9%	3,174	98.1%
Yes	114	3.2%	79	2.3%	68	2.1%	61	1.9%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

SEVERE HEARING IMPAIRMENT

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,431	97.2%	3,317	97.9%	3,187	98.6%	3,187	98.5%
Yes	98	2.8%	71	2.1%	46	1.4%	48	1.5%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

SEVERE SPEECH IMPAIRMENT

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,528	100.0%	3,383	99.9%	3,226	99.8%	3,228	99.8%
Yes	1	0.0%	5	0.1%	8	0.2%	7	0.2%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

A CONDITION THAT SUBSTANTIALLY LIMITS YOUR PHYSICAL ABILITIES

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,211	91.0%	3,091	91.2%	2,894	89.5%	2,944	91.0%
Yes	318	9.0%	297	8.8%	340	10.5%	291	9.0%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

A CONDITION THAT LIMITS LEARNING OR REMEMBERING

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,388	96.0%	3,325	98.1%	3,162	97.8%	3,184	98.4%
Yes	141	4.0%	63	1.9%	71	2.2%	51	1.6%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

SOME OTHER CONDITION

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,204	90.8%	3,078	90.9%	2,909	90.0%	2,926	90.4%
Yes	325	9.2%	310	9.1%	324	10.0%	309	9.6%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

DO NOT HAVE A LONG-TERM CONDITION

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	843	23.9%	812	24.0%	885	27.4%	814	25.2%
Yes	2,686	76.1%	2,576	76.0%	2,349	72.6%	2,421	74.8%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

PREFER NOT TO ANSWER

	All respondents				Service Users			
	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent	Estimate	Weighted Percent	Unweighted Count	Unweighted Percent
No	3,481	98.6%	3,288	97.0%	3,092	95.6%	3,096	95.7%
Yes	48	1.4%	100	3.0%	142	4.4%	139	4.3%
Total	3,529	100.0%	3,388	100.0%	3,233	100.0%	3,235	100.0%

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Volume 2

TAS RESEARCH AND RELATED STUDIES

**Audits, Identity Theft Investigations,
and Taxpayer Attitudes:
Evidence from a National Survey**



Audits, Identity Theft Investigations, and Taxpayer Attitudes: Evidence from a National Survey¹

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EXECUTIVE SUMMARY

This report presents preliminary results from a study of taxpayer attitudes and how they are influenced by IRS audits and identity (ID) theft investigations.² The analysis explores how attitudes among self-employed taxpayers are shaped by different types of audits and different audit outcomes. It also investigates how taxpayer attitudes differ among wage earners who have experienced an ID theft investigation and those who have not. The results are preliminary, and the analysis will need to be further refined to understand how attitudes regarding interactions with the IRS ultimately impact future taxpayer behavior.

To address these questions, we surveyed 3,486 tax filers comprised of 757 wage earners and 2,729 Schedule C filers. Among the Schedule C filers, 1,363 were audited and 1,366 were not audited. Our analysis reveals that nearly 39 percent of audited Schedule C filers do not seem to recall being audited, including about 45 percent of those who received a refund as a result of their examination. Audit recollection is especially poor among taxpayers who have experienced a correspondence examination, which suggests that correspondence examinations may not be perceived as actual audits. For field and office audits, the majority of participants do remember being audited, suggesting that these types of examinations might have a stronger effect on taxpayer attitudes and behavior.

When comparing different types of taxpayers, we find that self-employed taxpayers are more prone to think about cheating. This finding is in line with the literature on the link between opportunity to cheat and noncompliant behaviors. Moreover, we find that self-employed taxpayers perceive higher audit probabilities and higher fines for noncompliance. Consequently, they sense a greater threat of deterrence. Compared to non-audited Schedule C filers, we find that audited Schedule C filers perceive a higher risk of being audited and thus higher levels of coercive power. Surprisingly, audited self-employed taxpayers indicate a stronger sense of procedural justice, information justice, interpersonal justice, and distributive justice than those who have not been audited. This indicates that those who have actually experienced an IRS audit process are more likely to view IRS procedures as transparent, respectful, and appropriate in their outcomes than those who have not. However, this result might be driven by the relatively large share of taxpayers who received either no adjustment or a tax refund as a result of the audit. Under our sampling design, less than half (44 percent) of audited taxpayers in our sample received a positive tax adjustment (*i.e.*, owed additional tax as a result of the audit).

When exploring how attitudes vary across different audit types and outcomes, we find lowest levels of perceived justice among taxpayers who have received a positive adjustment to their taxes.³ Similarly, these taxpayers report the lowest levels of trust in the IRS, the strongest perceptions of enforced compliance, and the greatest audit risk. Moreover, they indicate higher levels of anger and perceived threat when thinking of the IRS. Interestingly, we observe the strongest contrast between different audit outcomes for distributive justice, where taxpayers who receive no tax adjustment⁴ score higher than taxpayers who experience either a positive adjustment or a refund. Likewise, we observe the highest levels of positive sentiments among individuals who receive no audit adjustment in either direction. This suggests that receiving a tax refund does not necessarily induce positive opinions about the IRS. Further analysis on the dynamics between audit outcomes, perceptions of the IRS, and subsequent reporting behavior might contribute to the understanding of differential responses to audits found in prior research (Beer, Kasper, Kirchler, & Erard, 2015).

2 ID theft investigations include cases where the taxpayer is known to be ID theft victim, where the IRS suspects ID theft on the return, or the where the IRS suspects the return does not appear to be a legitimate claim for refund.

3 In other words, the audit determined that these taxpayers owed additional tax.

4 The audit determined these taxpayers had reported the correct amount of tax on the return being examined.

Survey responses of taxpayers who experienced an IRS investigation involving a potentially fraudulent refund claim by someone improperly using their identification reveal that only about one-third of these victims recall the incident. To gain a better understanding of how IRS investigative procedures of alleged, or suspected ID theft or other suspected fraudulent refund claims impact taxpayer attitudes, more research is needed to understand why so many respondents seem unable to recall either being a victim of ID theft or the IRS questioning the legitimacy of their refund claim. Further research is also warranted on how the duration and effectiveness of IRS ID theft or potentially fraudulent refund investigations affects taxpayer attitudes and behavior.

Finally, following the reasoning of the Slippery Slope Framework (Kirchler, 2007), we have analyzed correlations between the survey scales and found that perceptions of audit risk and penalties are closely related to perceived coercive power. Perceptions that the IRS exercises power in legitimate ways and feelings of trust in the tax authority are highly related to tax knowledge, justice perceptions, and social norms. Perceptions of coercive power and trust elicit different emotions, which are related to enforced or voluntary compliance. While enforced compliance correlates positively with thoughts about cheating on taxes, voluntary compliance is negatively related to these thoughts.

INTRODUCTION

This report presents findings from a preliminary study of taxpayer attitudes and how they are influenced by audits and ID theft investigations.⁵ We compare opinions towards the tax system and paying taxes among audited and unaudited self-employed taxpayers (Schedule C filers) as well as wage earners who have and have not experienced an IRS ID theft investigation. In the case of self-employed taxpayers, we investigate how both the type of audit and the outcome of the examination shape taxpayer attitudes. In the case of wage-earners, we explore the attitudinal implications of IRS procedures for handling cases involving potential ID theft and fraudulent tax refund claims.

Despite ongoing efforts to increase compliance, the tax gap remains high, currently estimated to be \$458 billion (IRS, 2016). However, the drivers of tax noncompliance are not fully understood, and relatively little is known about how taxpayer attitudes influence their compliance behavior. Prior work by the Taxpayer Advocate Service (Beers, LoPresti, and San Juan, 2012) finds low levels of trust in both the federal government, overall, and the IRS, in particular, among small business owners who are classified as high-risk (*i.e.*, less compliant taxpayers). The study also found that such individuals perceive both the tax system and the IRS as relatively unfair, which suggests that negative attitudes might contribute to tax noncompliance.

A more recent TAS study shows that operational tax audits, which are generally targeted towards high-risk taxpayers, successfully identify returns with unreported taxes and increase subsequent reporting compliance (Beer *et al.*, 2015). This is in line with a substantial body of evidence on the deterrent effect of audits (*e.g.* Allingham & Sandmo, 1972; Alm, Jackson & McKee, 2009; DeBacker, Heim, Tran, & Yuskavage, 2015; Kleven, Knudsen, Kreiner, Pedersen, & Saez, 2011; Slemrod, Blumenthal, & Christian, 2001). However, for audited taxpayers who do not experience an additional tax assessment, the TAS study finds detrimental audit effects. As the drivers of behavioral responses to audits remain unclear, an important step is to gain a better understanding of how experiencing an audit shapes taxpayer attitudes. For instance, experiencing a coercive enforcement activity could reduce tax morale among honest taxpayers. Likewise, audited taxpayers might infer that the risk of a future

5 ID theft investigations include cases where the taxpayer is known to be ID theft victim, where the IRS suspects ID theft on the return, or the where the IRS suspects the return does not appear to be a legitimate claim for refund.

examination is low given that the IRS was unable to detect additional taxable income. Attitudinal changes, such as a decline in tax morale or a shift in risk attitudes, could explain unexpected behavioral responses to tax audits (Lederman, 2017).

Indeed, the notion that more audits must result in more compliance is increasingly being challenged. A recent study that analyzes panel data from 50 countries finds a U-shaped relationship between audit levels and tax compliance (Mendoza, Wielhouwer, & Kirchler, 2017). This indicates that excessive enforcement might backfire. Moreover, several laboratory experiments that analyze the effects of tax audits on subsequent reporting compliance find “bomb-crater” effects, where compliance decreases in response to audits (Guala & Mittone, 2005; Kastlunger, Kirchler, Mittone, & Pitters, 2009; Maciejovsky, Kirchler, & Schwarzenberger, 2007; Mittone, 2006). Similarly, Gemmell and Ratto (2012) find that random tax audits reduce subsequent reporting compliance among taxpayers who are found to be compliant. One possible explanation is that such taxpayers misperceive the probability of future audits (Mittone, Panebianco, & Santoro, 2017). On the other hand, tax audits might crowd out the intrinsic motivation to comply among honest individuals (Lederman, 2017) or further decrease the willingness to pay among taxpayers whose cheating has not been detected during an audit.

Evidence suggests that a sizeable share of taxpayers do comply with their tax obligations even when faced with very low audit probabilities (Alm, McClelland, & Schulze, 1992). In the absence of high levels of deterrence, a growing body of literature suggests that other factors, such as the interaction climate between tax administrations and taxpayers shape the willingness to cooperate (Alm, Kirchler, & Muehlbacher, 2012). Traditionally, tax authorities have relied heavily on enforcement to combat tax evasion. However, they have also recognized that noncompliant behavior does not always reflect a lack of willingness to cooperate. Some individuals might be committed to pay their fair share of taxes, yet they might be unable to do so (Braithwaite, 2003). It is unlikely that enforcement is the ideal regulatory strategy for such taxpayers. Therefore, tax agencies have increasingly combined “enforcement”, “service”, and “trust” paradigms to establish high levels of compliance (Alm, 2012; Alm & Torgler, 2011). As emphasized by Alm and Torgler (2011), the establishment of an effective compliance strategy typically involves: (i) increasing the number and improving the quality of tax audits; (ii) acting more consumer-oriented and providing high-quality services; and (iii) reducing perceived unfairness and highlighting the link between taxes and government services to promote voluntary compliance.

To improve the interaction climate between taxpayers and the IRS, it is crucial to look beyond audits. In its 2016 Annual Report to Congress, the National Taxpayer Advocate identified fraud detection as one of the most serious problems (TAS, 2016). Taxpayers are increasingly exposed to fraud and ID theft, resulting in improper refunds totaling over \$5 billion for tax year 2010 alone. In response, the IRS has upgraded its screening process and tightened the rules to authenticate tax return information. Yet the false positive rates of IRS fraud detection systems are substantial. Over the first nine months of calendar year 2016, false positive rates reportedly exceeded 50 percent for many IRS filters and business rules for detecting fraudulent returns and ID theft, including one review process with a false positive rate of approximately 91 percent. These false positives led to delays in processing legitimate claims of about \$9 billion in tax refunds of more than 30 days, on average. This not only imposes a financial hardship on taxpayers, it also has the potential to erode trust in the IRS, which could adversely impact voluntary compliance.

Kirchler (2007) proposes a conceptual framework to study how the interaction climate between taxpayers and the tax agency affects willingness to cooperate. The “Slippery Slope Framework” suggests that enforcement capacity (power) and trust affect taxpayers’ willingness to cooperate. When taxpayers

are perceived as potential criminals and treated accordingly, compliance results from the fear of penalties alone. The resulting climate is antagonistic, where the tax agency and taxpayers work against each other. However, when the agency views taxpayers as clients and provides high-quality services, taxpayers are more likely to believe that paying taxes is the right thing to do. The resulting climate is synergistic. We use this framework to assess how the interaction between the IRS and taxpayers shape taxpayer attitudes.

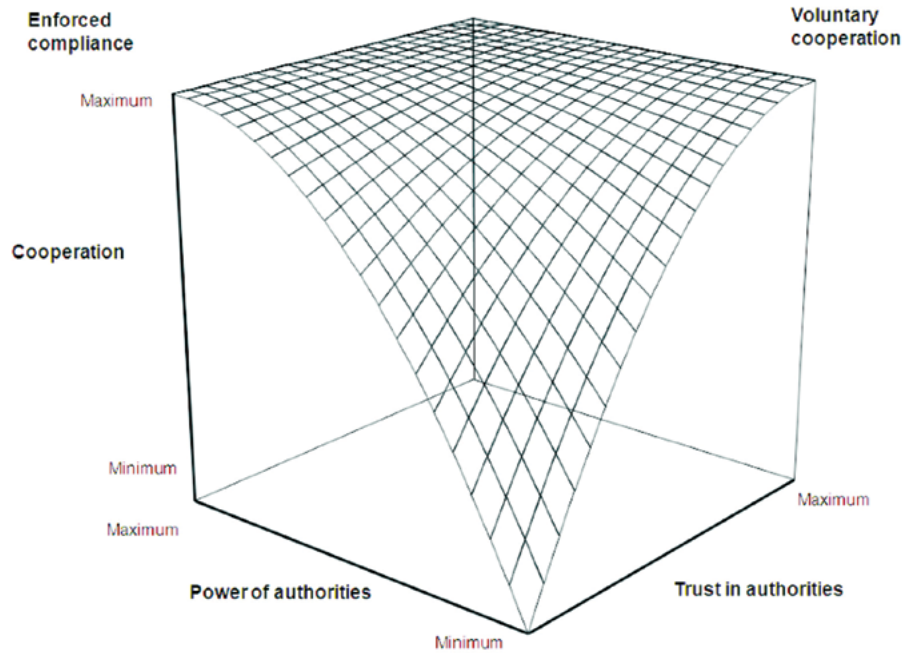
More specifically, we explore how the attitudes of self-employed taxpayers are shaped by different types of audit experiences (office, field, and correspondence) and different audit outcomes (positive tax adjustment, no-change, and refund). We also investigate how the IRS' handling of ID theft cases affects the attitudes of affected wage earners towards paying taxes. To address these questions, TAS commissioned a survey of about 3,500 taxpayers, including both audited and unaudited Schedule C filers as well as wage earners that did and did not experience an ID theft investigation or the questioning of the legitimacy of a claim. Our analysis reveals differences in attitudes among different types of taxpayers. Audited self-employed taxpayers indicate higher perceived levels of audit risk and fines for noncompliance and lower levels of trust in the IRS. They are also relatively more likely to agree strongly with the statement that “paying taxes feels like something is taken away from me rather than a contribution to society” than non-audited self-employed taxpayers. Moreover, our results indicate that taxpayer attitudes vary in accordance with the type of audit they experience and the outcome of the examination. For instance, individuals who have experienced a correspondence audit report lower levels of perceived justice in IRS procedures. Audited taxpayers who have received a positive tax adjustment report a higher perceived audit risk, lower levels of justice and less trust in the IRS than taxpayers experiencing no adjustment to their taxes or a refund. This report sets the groundwork for a more thorough analysis of the dynamics between taxpayer attitudes and tax compliance behavior. Exploring these dynamics will shed light on how taxpayer perceptions of audits shape their opinions and, in turn, affect future compliance behavior.

The remainder of this report is organized as follows. In the following section, we introduce the “Slippery Slope Framework” and summarize the literature on the psychological determinants of tax compliance. Section 3 introduces our research questions, while Section 4 describes our survey instrument, sampling methodology, and data. We report the preliminary findings from our analysis of the research questions in Section 5. Section 6 summarizes our main findings and provides an outlook on promising avenues for future research.

THE SLIPPERY SLOPE FRAMEWORK

The Slippery Slope Framework (SSF, Figure 1) is a conceptual framework that explains tax compliance behavior. It provides an overview of a large body of literature on the determinants of tax compliance (e.g. Alm *et al.*, 1992; Alm & Torgler, 2011, Andreoni, Erard & Feinstein, 1998; Kirchler, 2007). The SSF assumes that tax compliance behavior is a function of both trust in the tax authority and the power of that authority. Taxpayers cooperate voluntarily when they perceive that the tax system is just, when they feel that they are being treated fairly by the tax agency, and when they view paying taxes as a social norm (Tyler *et al.*, 2015). Consequently, building trust elevates voluntary tax compliance. However, taxpayers also respond to coercion. A tax authority's power reflects its capacity to enforce compliance through audits, penalties, and criminal investigations. While enforced compliance results from an extensive decision process under which individuals weigh the costs and benefits of noncompliance, voluntary cooperation is more intuitive and spontaneous (Rand, Greene & Nowak, 2012).

FIGURE 5.1, The Slippery Slope Framework (adapted from Kirchler, 2007; Kirchler, Hoelzl, & Wahl, 2008, p. 212)



Source: Kirchler, Hoelzl and Wahl (2008).

The Slippery Slope framework assumes that a combination of trust and power explains compliance behavior. For low levels of trust and power, compliance is low. But with increasing levels of either trust or power, compliance increases. To achieve high levels of compliance, tax agencies should establish a trustful relationship with taxpayers and provide high-quality services. At the same time, the agency should be able to coerce taxpayers to cooperate when they are not willing to do so. The literature on the relationship between deterrence and compliance originates from Becker's theory of crime (1968), which has been adapted to address the issue of tax compliance by Allingham and Sandmo (1972) and Srinivasan (1973). For instance, Alm, Jackson, and McKee (1992) use laboratory experiments to show that reporting compliance increases with greater audit and penalty rates. On the other hand, a growing body of literature examines the relationship between trust and voluntary compliance (Kirchler, 2007). Below, we summarize the literature on the dynamics between attitudes towards paying taxes, trust, and compliance.

Attitudes towards paying taxes

Attitudes towards paying taxes are generally negative (Eriksen & Fallan, 1996), and aversion to pay taxes even seems to exceed rational economic motivation to avoid monetary costs. A series of experimental studies has revealed that individuals prefer to avoid tax-related costs over avoiding equal, or larger, costs that are not related to taxes (Sussman & Olivola, 2011). One common explanation for negative attitudes towards paying taxes is that the tax burden is perceived to be too high; attitudes towards taxes are lowest among high income individuals (Lewis, 1979). On the other hand, taxpayers who perceive the system as fair also exhibit more positive attitudes toward paying taxes (Wilson & Sheffrin,

2005). Other factors that seem to affect the willingness to cooperate are religious and political beliefs (Wahlund, 1992; Prinz, 2004; Alm & Torgler, 2006) as well as age, gender, education, and income (Hofmann, Voracek, Bock, & Kirchler, 2017).

One approach to studying attitudes towards paying taxes is to evaluate individual's perceptions regarding honest and dishonest taxpayers. For instance, Kirchler (1998) finds that tax evaders are perceived as relatively smart. Honest taxpayers are described as hardworking and intelligent, whereas typical taxpayers are considered to be rather dull and lazy. More recent evidence suggests that the picture is slightly more nuanced (Kasper, Olsen, Kogler, Stark & Kirchler, 2018). Tax evaders are still perceived as significantly smarter than typical taxpayers, yet individuals who save on taxes without breaking the law (tax avoiders) are considered to be even more intelligent. Overall, tax avoiders and honest taxpayers are evaluated more positively than typical taxpayers and tax evaders.

One strand of existing research explores attitudes towards taxes among different occupational groups. Self-employed taxpayers (especially, those in newly established businesses) oppose paying taxes, because taxes are perceived as a restriction on entrepreneurial freedom and are believed to demotivate economic activity (Kirchler, 1998; 1999). Consequently, self-employed taxpayers exhibit a relatively high propensity to evade. Blue-collar workers express equally negative attitudes. They argue that politicians use taxes for their own benefit. Civil servants and wage earners, on the other hand, tend to report more positive attitudes that link taxes to social justice and welfare. Negative attitudes towards paying taxes also result from a perceived waste of tax dollars.

A major driver of negative attitudes towards paying taxes is tax system complexity, particularly in the absence of high-quality taxpayer services. The National Taxpayer Advocate has repeatedly named complexity as one of the most severe impediments to voluntary compliance (see, for instance, TAS, 2012). More specifically, the volume of the federal tax code has increased steadily over the last several decades (Owens & Hamilton, 2004); the tax code is subject to changes at a rate of more than once per day, on average (IRS, 2012). As the tax law is very difficult to understand (Moser, 1994) and most taxpayers are not sufficiently literate to comprehend its specifics (Lewis, 1982), ordinary taxpayers blame the complexity of the system for their lack of competence and interest in taxes (McKerchar, 2001). Not surprisingly, only a fraction of taxpayers feels competent when reporting their taxes (Sakurai & Braithwaite, 2003). Complexity imposes substantial compliance costs on taxpayers (TAS, 2012). At the same time, it presents multinational corporations and high-income earners with ample opportunity to exploit loopholes to avoid paying taxes. This is perceived as unfair and erodes tax morale (*i.e.*, the intrinsic motivation to pay taxes).

Negative attitudes towards paying taxes result from poor tax system design, complexity in tax law, and excessive compliance costs. However, taxpayers' willingness to cooperate is not driven by institutional factors alone. The following sections discuss individual determinants of tax compliance behavior.

Tax Knowledge and Prior Experiences

Several studies investigate the link between tax knowledge and the willingness to comply. On average, levels of tax knowledge are low. For instance, several studies show that taxpayers have inconsistent views on tax policy reform, advocating tax rate cuts and increased public expenditures at the same time (*e.g.*, Kemp, 2008; Kirchler, 1997). Moreover, many taxpayers seem not to understand the concept of progressive taxation (McCaffery & Baron, 2004; Roberts, Hite & Bradley, 1994). At a conceptual level, a majority of taxpayers perceive that a flat tax system is less fair than a progressive system. However, their preference ranking reverses once it is established that doubling one's income increases the tax

burden by more than a factor of two under a progressive tax system. These findings illustrate the difficulty of assessing the degree of public approval of tax policy reform.

Previous research suggests that increasing tax knowledge has positive implications for tax compliance. Eriksen and Fellan (1996) find that advancing tax knowledge alters attitudes towards evasion. Kirchler (1999) shows that owners of business startups oppose paying taxes more strongly than more experienced self-employed taxpayers, and Kirchler and Maciejovsky (2001) observe a positive correlation between knowledge of tax law and tax morale among entrepreneurs. A recent survey of self-employed taxpayers in Austria and Germany finds more positive attitudes towards taxes and a higher willingness to comply voluntarily among taxpayers with high levels of tax knowledge (Olsen *et al.*, 2017). However, Rodriguez-Justicia and Theilen (2017) suggest that the effect of education on tax morale is conditional on net social benefits. While education has a positive impact on tax morale for net beneficiaries, tax morale is low among highly educated net contributors.

Taxpayers learn from past experiences with tax authorities and from communication with each other. For instance, several studies find substantial indirect revenue effects of tax audits. Specifically, taxpayers who have not been audited report more income when they learn that others have been audited (Alm *et al.*, 2009; Dubin, Graetz, & Wilde, 1990; Dubin, 2007). On the other hand, the audit experience itself directly impacts subsequent reporting compliance (*e.g.*, DeBacker *et al.*, 2015; Kleven *et al.*, 2011; Slemrod *et al.*, 2001). A recent TAS study shows that the outcome of an audit affects taxpayers' willingness to comply (Beer *et al.*, 2015). Taxpayers who have received an additional tax assessment increase their reported income in subsequent years. In contrast, taxpayers with no additional assessment report less in the years following the audit. The study provides several different possible explanations. Honest taxpayers may have learned that they had been reporting too much tax, causing them to legitimately report less in future years. Alternatively, perceptions of a coercive enforcement experience may have reduced tax morale, thereby crowding out voluntary compliance (Lederman, 2017). Another possibility is that the lack of an additional tax assessment led some audited taxpayers to perceive the IRS is unable to detect unreported taxes or that the risk of a future examination is low (Mittone *et al.*, 2017). At this point it is unclear which of these explanations prevails and, despite previous research on the link between tax knowledge, prior experiences, and compliance behavior, causal effects remain largely unknown.

Justice Perceptions

Perceived justice is a fundamental determinant of voluntary compliance (Andreoni *et al.*, 1992, Hofmann, Gangl, Kirchler, & Stark, 2014). Fairness in the interaction between tax authorities and taxpayers is achieved by mutual respect, neutrality, and goodwill (Tyler, 2006). Following Colquitt (2001), the literature usually distinguishes between procedural justice, informational justice, interpersonal justice, and distributive justice.

Procedural justice refers to the transparency, consistency, and neutrality of processes. It is affected by individuals' ability to express their views and to influence the outcome of a decision. Informational justice and interpersonal justice relate to fairness in interactions (Bies & Moag, 1986) such as justification (explaining decisions), truthfulness (no deception), respect (politeness), and propriety (no improper remarks). While fairness in explanations establishes informational justice, interpersonal justice relates to sensitivity and respect (Greenberg, 1990). Distributive justice results from a match between the outcome of a decision and the goals of the decision; for instance, improving cooperation or promoting social welfare. To achieve distributive justice, the tax burden should be allocated fairly among taxpayers with equal incomes (horizontal equity) and unequal incomes (vertical equity).

Moreover, Alm *et al.*, (2012) point out that benefits from social goods should be reflected in individual tax payments (exchange fairness).

A professional tax administration is key to achieving fairness in taxation. Tax agencies can strengthen perceived justice by treating taxpayers equally and respectfully, providing high quality services, and ensuring that taxpayers pay their fair share. As large-scale tax avoidance threatens to erode ordinary taxpayers' trust in the system (Kasper, Kogler, & Kirchler, 2015), this is particularly relevant (Hartner, Rechberger, Kirchler, & Wenzel, 2011). One focus of this study is thus to assess whether taxpayers perceive that the tax system is fair, both in general terms and with respect to various IRS administrative procedures.

Social Norms

Social norms play a critical role in tax compliance behavior (Alm, McClelland & Schulze, 1999). The literature typically distinguishes between descriptive and injunctive norms (Wenzel, 2005). Injunctive norms describe individuals' perceptions of which behaviors are socially approved, whereas descriptive norms are individuals' perceptions of how relevant others actually behave. Injunctive and descriptive norms affect the willingness of taxpayers to comply. For instance, perceived levels of tax evasion affect attitudes towards tax noncompliance. The more common that taxpayers perceive noncompliance to be, the less negative is their attitude towards these behaviors and the more likely it is that they will become noncompliant, themselves (Welch, Xu, Bjanason, Petee, O'Donnell, & Magro, 2005). Torgler (2005) finds a relationship between tax morale and descriptive norms; individuals who are personally aware of tax evasion committed by others exhibit lower levels of tax morale. On the other hand, a field experiment in the UK finds that appealing to social norms can result in increased tax compliance (Hallsworth *et al.*, 2016).

Social norms are stronger within relevant reference groups (Wenzel, 2004). That is, taxpayers respond more strongly to the behavior of others when they identify with them. Survey studies find a positive link between patriotism and pro-social behavior (Huddy & Khatib, 2007; Wenzel, 2007), and experimental work suggests a positive effect of patriotism on tax compliance (Gangl, Torgler, & Kirchler, 2016). Social norms thus have the potential to increase or decrease the willingness to cooperate. They help to explain why noncompliance is widespread among certain occupational groups but not tolerated among others.

RESEARCH QUESTIONS (SECTION 3)

This study addresses two research questions. The first question is: “How do attitudes towards paying taxes vary among different types of taxpayers?” For this question, we focus on a comparison of self-employed taxpayers (audited and unaudited) and wage earners (who did or did not experience either IRS ID theft processing procedures or who experienced the IRS questioning the legitimacy of their refund return). The second research question is: Do attitudes among audited self-employed taxpayers vary in accordance with the type of audit and the outcome of the examination?”

As wage income is usually subject to third-party reporting, wage earners tend to have relatively few opportunities for tax noncompliance in comparison with self-employed taxpayers (Kleven *et al.*, 2011). However, it is unlikely that opportunity alone drives tax compliance behavior. Personal beliefs, social norms, and past experiences with the IRS shape taxpayer attitudes. Personal experiences might be particularly relevant for taxpayers who have been victims of tax fraud involving ID theft or who have been suspected of tax fraud. Solving these cases frequently delays legitimate refund claims substantially, which imposes financial hardship on taxpayers, potentially erodes trust in the IRS, and might adversely impact voluntary compliance. Against this background, analyzing the attitudes of different occupational groups will contribute to an understanding of the determinants of tax noncompliance.

Attitudes of self-employed taxpayers who recently experienced an audit might explain differential behavioral responses to examinations (Gemmel & Ratto, 2012; Beer *et al.*, 2015). For instance, audited taxpayers might misperceive the probability of future audits (Mittone *et al.*, 2017). Alternatively, audits might crowd out the intrinsic motivation to comply among honest individuals (Lederman, 2017) or further decrease the willingness to pay of taxpayers whose cheating has gone undetected. Behavioral responses will likely reflect the type and outcome of the examination. Field audits, for instance, might have a more powerful impact on attitudes than correspondence audits. Similarly, taxpayers may have a more positive outlook following an audit that concludes with a tax refund than one that results in an additional tax assessment. However, the attitudinal implications of tax audits that result in no tax change are less clear. In such cases the subjective appraisal of the audit experience might have a strong effect on future reporting behavior.

SURVEY INSTRUMENT AND SAMPLE DESIGN (SECTION 4)

The Slippery Slope Framework was employed as a guide in designing the survey instrument. We have constructed scales from the survey responses to relevant sets of related questions that reflect the various determinants of compliance behavior under this framework. For instance, the perceived audit probability scale is based on a combination of the individual rankings (on a scale from 1 to 9) for two questions on the perceived risk of audit (questions DF1 and DF2).⁶ Figure 5.2 provides an overview of the survey scales. A copy of the survey instrument is provided in Appendix A. The individual survey items, the correlations between these items, and the construction of scales based on these items are presented in Appendix B.

⁶ Some individual questions were specified in a form where the ranking had the opposite interpretation of those provided for related questions. In such cases, the original ranking was subtracted from nine to make it consistent with the other items (as is standard practice).

FIGURE 5.2, List of Survey Scales

Survey Scale	Description
Audit probability	Perceived audit probability
Fines	Perceived severity of fines for noncompliance
Tax knowledge	Subjective competence when filing taxes
Attitudes	General attitude towards paying taxes
Motivation	Subjective motivation to comply (obligation vs. contribution to society)
Justice	
Procedural justice	Perceived justice in IRS procedures (e.g., audit, ID theft)
Informational justice	Perceived transparency in communications with IRS
Interpersonal justice	Perceived fairness of treatment by IRS employees
Distributive justice	Perceived fairness of outcomes of IRS procedures (e.g., audit, ID theft)
Social norms	Perceived compliance levels of other taxpayers
Coercive power	IRS enforcement capacity
Legitimate power	Legitimacy of enforcement
Trust	Trust in the IRS
Emotions	
Fear	Fear of the IRS
Anger	Anger at the IRS
Caution	Feeling cautious regarding the IRS
Threat	Feeling threatened by the IRS
Protection	Feeling protected by the IRS
Enforced compliance	Compliance out of fear for punishment
Voluntary compliance	Compliance out of moral obligation
Thought about cheating	Have taxpayers thought about cheating?

Note: Survey items are provided in Appendix B

Sample Selection

Separate survey samples were drawn for different taxpayer groups. Two samples of wage earners were drawn of approximately 400 respondents each. The first was a random sample of wage earners who appeared to have been subject to an ID theft investigation or a suspected illegitimate refund claim. Ultimately, some of the respondents were dropped from the sample after discovering that they likely did not actually experience such an investigation. After their removal, we were left with 357 respondents. The second wage earner sample was drawn randomly from the overall wage-earner population.

Separate samples of audited and unaudited self-employed taxpayers were selected. To be eligible for selection, an audited taxpayer had to meet the following criteria:

- Had an operational audit between tax years 2010 and 2015.
- Filed a Schedule C return for at least the three years covering the first tax year preceding the audit through the first tax year following the audit.
- All income tax returns were filed chronologically.
- The audit for tax year T was initiated prior to the filing of the tax year T+2 return.
- No examinations were initiated or ongoing two years prior to the audit under consideration.

- The taxpayer was not a resident of Puerto Rico⁷

To explore differences in taxpayer attitudes according to the type of audit (office, field, and correspondence) and the audit outcome (positive tax adjustment, no-change, and tax refund), we drew separate samples of audited self-employed taxpayers for each of the nine (3x3) possible audit type and outcome combinations. For each type of audit, a target of 100 respondents was set for taxpayers receiving a tax refund as a result of the audit, 150 respondents for those experiencing no tax change, and 200 for those experiencing an additional tax assessment. To help insure that a reasonably comparable “control group” of unaudited Schedule C filers could be sampled, we performed a propensity score analysis of the likelihood of an audit. Where possible, we under sampled taxpayers with very high or very low propensity scores and oversampled those with more moderate scores. In certain cases, these targets could not be met, so additional respondents were drawn from a different category in such cases.

Once the surveys of the audit samples were completed, we selected samples of unaudited Schedule C filers meant to be broadly similar to the audited Schedule C respondents. A generalized propensity scoring procedure was employed that matched unaudited self-employed taxpayers to the audit respondents on the basis of the predicted likelihood associated with each of the three types of audit.⁸ This matching process was carried out separately for each audit tax year (2010 through 2015) to account for the fact that the audit selection process tends to vary from year to year. Separate “control samples” were drawn for each audit tax year. Within each year, separate subsamples were randomly drawn for each of six different propensity score classes. The sample sizes were set sufficiently high to ensure that the target number of respondents could be achieved within each subsample.

Sample Characteristics

Ultimately, the sampling process resulted in a combined sample of 3,486 useable responses.⁹ Overall, 61 percent of the respondents are male, and the mean age in the sample is 55 (SD=13.4). A majority of respondents holds at least a high-school degree and works full-time. Our sample includes almost 900 individuals who state that they are currently not working; most of them (622) are retired. The final sample includes 2,729 self-employed taxpayers (1,363 audited and 1,366 non-audited) and 757 wage earners (357 who experienced an ID theft investigation and 400 from the general population.) Some socio-economic and demographic statistics for our sample are presented in Figures 5.3 and 5.4.

⁷ Residents of Puerto Rico were excluded, because most are not required to pay federal individual income tax.

⁸ Additional details on the sample selection process are available from the authors upon request.

⁹ A total of 3,531 surveys were completed; however, as previously mentioned, 45 of the ID theft cases were later dropped, leaving 3,486 total cases.

FIGURE 5.3, Socio-Economic and Demographic Characteristics of Non-Audited Schedule C Taxpayers, Wage Earners and Potential ID Theft Victims¹⁰

	Schedule C, Not Audited	Wage Earners	ID Theft	Total
N	1,366	400	357	2,123
Gender				
Male	870	211	204	1,285
Female	494	189	153	836
Age				
Mean	56.85	50.75	44.78	53.67
SD	12.95	17.04	15.05	14.07
Range	23-99	11-92	21-84	11-99
Education				
Elementary school	D	D	D	11
Some high school	40	10	17	67
High school graduate	220	88	73	381
Some college	296	101	85	482
College graduate	500	132	115	747
Post-graduate work	271	61	56	388
Vocational school	26	D	D	35
Not sure/refused	D	D	D	12
Employment status				
Working part-time	197	54	52	303
Working full-time	796	210	217	1,223
Not working	373	136	88	597
Employment type				
Employed by someone else	287	227	234	748
Self-employed	495	15	16	526
Both	211	22	19	252
Unemployment type				
On temporary layoff from a job	D	0	D	12
Looking for work	18	15	15	48
Retired	271	101	38	410
Disabled	42	10	13	65
Other	36	10	16	62

Under our sampling design, almost 50 percent (1,363 out of 2,729) of the Schedule C taxpayers who were surveyed had experienced fairly recent audits. Table 2 presents some socio-economic and demographic statistics of the audited respondents. We distinguish between different audit types and audit outcomes. Overall, 454 taxpayers received a field audit, 453 an office audit, and 456 a correspondence audit. Further, 603 individuals received an additional assessment, 503 no additional assessment, and 257 taxpayers a tax refund. The mean age of audited Schedule C taxpayers is slightly higher than the sample average (57.41 years, SD=12.44) and 62 percent are male. The majority of audited self-employed taxpayers have at least a college diploma and work full-time. Among those who responded to the questions regarding employment type, most are exclusively self-employed, although some report also working for another employer.

¹⁰ A 'D' indicates a number less than 10, which was sanitized to prevent inadvertent disclosure.

FIGURE 5.4, Social-Economic and Demographic Characteristics of Audited Schedule C Taxpayers¹¹

Audit outcome	Field audit			Office audit			Correspondence audit			Total
	+	0	-	+	0	-	+	0	-	
N	202	182	70	200	168	85	201	153	102	1,363
Gender										
Male	130	113	40	133	115	59	114	89	46	839
Female	72	69	30	67	53	26	87	64	56	524
Age										
Mean	58.44	61.28	59.60	58.15	59.27	57.11	52.83	55.88	53.99	57.41
SD	12.45	11.88	11.11	12.31	12.16	12.36	12.47	12.20	11.94	12.44
Range	27-90	30-89	29-82	25-99	20-84	30-81	26-88	33-82	29-80	20-99
Education										
Elementary school	D	2D	D	D	D	D	D	D	D	13
Some high school	D	D	D	D	D	D	13	D	D	36
High school graduate	35	21	12	28	19	D	35	23	14	196
Some college	41	33	10	39	33	17	46	24	28	271
College graduate	59	66	128	70	54	32	61	59	32	461
Post-graduate work	59	49	117	55	53	25	37	39	19	353
Vocational school	D	D	D	D	D	D	D	D	D	21
Not sure/refused	D	D	D	D	D	D	D	D	D	12
Employment status										
Working part-time	26	32	10	30	30	14	28	33	23	226
Working full-time	136	100	39	138	108	51	128	84	52	836
Not working	40	50	21	32	30	20	45	36	27	301
Employment type										
Employed by someone else	30	20	D	44	24	18	68	45	26	281
Self-employed	100	85	36	88	87	36	50	44	27	553
Both	32	27	D	36	27	11	38	28	22	228
Unemployment type										
On temporary layoff from a job	D	D	D	D	D	D	D	D	D	D
Looking for work	D	D	D	D	D	D	D	D	D	15
Retired	27	42	15	22	24	14	23	26	19	212
Disabled	D	D	D	D	D	D	D	D	D	28
Other	D	D	D	D	D	D	D	D	D	37

Note: Symbols +, 0, - indicate audits with positive outcome, no adjustment, and refund.

PRELIMINARY FINDINGS (SECTION 5)

This section presents the findings of our survey of self-employed taxpayers and wage earners. First, we analyze differences between audited Schedule C taxpayers, non-audited schedule C taxpayers, and wage earners. Second, we investigate the relationship between different audit types (field audit, office audit, or correspondence audit) and outcomes (positive adjustment, no adjustment, refund) and taxpayer attitudes. Third, we analyze how attitudes of taxpayers who are aware that their ID may have been stolen

11 A 'D' indicates a number less than 10, which was sanitized to prevent inadvertent disclosure.

to unlawfully claim a tax refund or who the IRS suspects of an illegitimate refund claim differ from those who are not in this situation. Finally, we examine how the results relate to the assumptions of the Slippery Slope Framework.

Attitudes of Audited and Non-audited Schedule C Taxpayers and Wage Earners

To investigate how attitudes vary among taxpayers, we have performed a multivariate analysis of covariance (MANCOVA) using taxpayer type (Schedule C audited, Schedule C non-audited, and wage earners) as the explanatory variable and survey scales (as presented in Figure 5.5) as the dependent variables.¹² After controlling for gender and age, we find significant effects of taxpayer type ($F(42, 5986) = 6.87, p < .001, \eta^2 = .046$); gender ($F(21,2992) = 5.22; p < .001, \eta^2 = .035$), and age ($F(21,2992) = 10.37; p < .001, \eta^2 = .068$). Figure 5.5 shows the adjusted means and standard errors of the survey scales by taxpayer type. These survey scales represent the mean of the responses to the relevant survey items.

FIGURE 5.5, Estimated means and standard errors of survey scales by taxpayer type

Survey Scale	Schedule C Audited	Schedule C Not Audited	Wage Earners
N	1,306	1,324	387
Audit probability	4.36 (0.05)a	4.00 (0.05)b	3.74 (0.10)c
Fines	6.57 (0.06)a	6.70 (0.06)a	6.30 (0.11)b
Tax knowledge	5.21 (0.08)	5.34 (0.08)	5.45 (0.15)
Attitudes	6.15 (0.06)	6.21 (0.06)	6.18 (0.12)
Motivation	6.20 (0.07)a	6.53 (0.07)b	6.32 (0.13)ab
Justice			
Procedural	6.21 (0.07)a	5.84 (0.07)b	6.07 (0.13)ab
Informational	6.44 (0.07)a	6.23 (0.07)b	6.30 (0.13)ab
Interpersonal	6.62 (0.07)a	6.19 (0.07)b	6.25 (0.13)b
Distributive	6.42 (0.07)a	5.91 (0.07)b	6.24 (0.13)ab
Social norms	5.27 (0.06)	5.36 (0.06)	5.25 (0.11)
Coercive power	6.37 (0.06)a	6.09 (0.06)b	5.93 (0.11)b
Legitimate power	6.38 (0.05)	6.50 (0.05)	6.42 (0.10)
Trust	5.27 (0.06)a	5.50 (0.06)b	5.56 (0.11)b
Emotions			
Fear	3.96 (0.06)a	3.57 (0.06)b	3.49 (0.12)b
Anger	4.72 (0.08)a	3.98 (0.08)b	3.59 (0.14)b
Caution	5.54 (0.08)a	5.27 (0.08)b	5.18 (0.15)b
Threat	3.15 (0.07)a	2.65 (0.07)b	2.55 (0.12)b
Protection	6.23 (0.07)a	5.99 (0.07)b	5.61 (0.13)c
Enforced compliance	4.95 (0.07)a	4.94 (0.07)a	4.59 (0.13)b
Voluntary compliance	7.71 (0.05)	7.84 (0.05)	7.69 (0.09)
Thought about cheating	2.04 (0.05)a	2.01 (0.05)a	1.74 (0.10)b

Note: covariates age=56.31 and gender=1.39 (1=male, 2=female). a, b, c indicate differences between means at the 5% level.

12 See Maxwell, Delaney, and Kelley (2017) for an introduction to this methodology.

The results indicate that self-employed taxpayers are more likely to consider cheating, are more likely to view taxpaying as a coercive process, and perceive higher audit probabilities and fines for noncompliance than wage earners. Audited self-employed taxpayers perceive an especially high risk of audit. Consequently, audited Schedule C filers exhibit lower trust in the IRS and are relatively more likely to agree strongly with the statement: “Paying taxes feels like something is taken away from me rather than a contribution to society.”

Interestingly, audited self-employed taxpayers perceive higher degrees of procedural justice, information justice, interpersonal justice, and distributive justice than the unaudited control group. This indicates that those who recently experienced IRS audit procedures view them as more transparent, respectful, and appropriate in their outcomes than those who have not. A deeper investigation of these differences in justice perceptions is undertaken below, where we break down the results by audit type and examination outcome

The survey responses reveal that experiencing an audit induces strong negative emotions. Audited taxpayers report higher levels of fear, anger, threat, and caution when thinking about the IRS. Moreover, audited taxpayers also feel less protected by the IRS. We do not observe differences in self-reported tax knowledge, attitudes towards paying taxes, and social norms between different taxpayer types.

Attitudes of Audited Schedule C Filers by Audit Type and Outcome

We first investigate whether audited taxpayers are aware that they were audited. Figure 5.6 shows that only 61.3 percent of audited self-employed taxpayers indicate they have been audited. However, we observe substantial differences between audit types. Audit awareness is particularly low in case of correspondence audits, where only 38.8 percent indicate they had been audited. For field audits, more than two-thirds (67.0 percent) recall the audit, while the rate of recall is highest for the office audit group (73.7 percent). Audit awareness is generally higher in the case of positive tax adjustments than when the examination results in either no adjustment or a tax refund. Surprisingly, only 55.3 percent of audited taxpayers who received a refund as a result of the examination recall the audit.

**FIGURE 5.6, Awareness of Audit by Audit Type and Outcome
(N = 1,363 Schedule C Taxpayers)**

Audit Type		Audit Outcome							
		Positive Adjustment		No Adjustment		Refund		Total	
		Audit Awareness							
		Yes	No	Yes	No	Yes	No	Yes	No
Field	n	150	52	128	54	46	24	324	130
	%	74.3	25.7	70.3	29.7	65.7	34.3	67.0	33.0
Office	n	135	65	132	36	67	18	334	119
	%	67.2	32.8	78.6	21.4	78.8	21.2	73.7	26.3
Correspondence	n	99	102	49	104	29	73	177	289
	%	49.3	50.7	32.0	68.0	28.4	71.6	38.8	61.2
Total	N	384	219	309	194	142	115	835	528
	%	63.7	36.3	61.4	38.6	55.3	44.7	61.3	38.7

To assess how different types of audits and examination outcomes shape the attitudes of self-employed taxpayers, we perform a multivariate analysis of covariance (MANCOVA) using audit type (field audit, office audit, correspondence audit) and audit outcome (positive adjustment, no adjustment, refund) as explanatory variables and the survey responses (as presented in Figure 5.4) as the dependent variables. After controlling for gender and age, we find significant effects of audit type ($F(42, 5225) = 3.61, p < .001, \eta^2 = .056$), audit outcome, ($F(42, 5225) = 6.28; p < .001, \eta^2 = .094$), the interaction between audit type and outcome ($F(84, 5112) = 1.29; p < .05, \eta^2 = .021$), gender ($F(21, 1275) = 3.86; p < .001, \eta^2 = .060$), and age ($F(21, 1275) = 4.65; p < .001, \eta^2 = .071$). Figure 5.7 shows the adjusted means and standard errors by the interaction of audit type and outcome ('+' = tax increase, '0' = no change, '-' = refund); Table 7 shows means and standard errors separately for audit type and audit outcome. Again, the survey scales are constructed based on the rankings from relevant underlying survey items (which range from one to nine).

FIGURE 5.7, Estimated Means and (Standard Errors) of Survey Scales by Nine Groups of Audited Schedule C Taxpayers¹³

Survey Scale	Field Audit			Office Audit			Correspondence Audit		
	+	0	-	+	0	-	+	0	-
N	190	174	67	194	162	83	193	146	97
Audit probability	4.39 (0.14)	4.10 (0.15)	4.29 (0.24)	4.88 (0.14)	4.14 (0.16)	4.01 (0.22)	4.55 (0.14)	4.33 (0.16)	3.93 (0.20)
Fines	6.40 (0.15)	6.50 (0.16)	6.56 (0.26)	6.49 (0.15)	6.89 (0.17)	6.48 (0.23)	6.56 (0.15)	6.67 (0.18)	6.42 (0.22)
Tax Knowledge	4.71 (0.20)	4.82 (0.21)	4.60 (0.34)	5.43 (0.20)	5.38 (0.22)	5.38 (0.31)	5.68 (0.20)	5.55 (0.23)	4.78 (0.29)
Attitudes	5.92 (0.17)	5.96 (0.18)	5.90 (0.28)	6.06 (0.17)	6.42 (0.18)	6.40 (0.25)	6.03 (0.17)	6.58 (0.19)	6.30 (0.24)
Motivation	5.96 (0.19)	6.15 (0.20)	6.05 (0.32)	6.11 (0.19)	6.35 (0.20)	6.52 (0.28)	6.40 (0.19)	6.13 (0.21)	6.43 (0.27)
Justice									
Procedural justice	5.88 (0.19)	6.81 (0.19)	6.68 (0.31)	5.93 (0.18)	6.66 (0.20)	6.99 (0.28)	5.61 (0.19)	6.05 (0.21)	5.85 (0.26)
Informational justice	6.35 (0.18)	6.71 (0.19)	7.08 (0.31)	6.34 (0.18)	6.96 (0.20)	7.08 (0.28)	5.94 (0.18)	6.14 (0.21)	5.85 (0.26)
Interpersonal justice	6.54 (0.18)	7.07 (0.19)	7.28 (0.30)	6.66 (0.18)	7.11 (0.19)	7.35 (0.27)	5.95 (0.18)	6.34 (0.20)	5.76 (0.25)
Distributive justice	5.77 (0.18)	7.77 (0.19)	6.97 (0.30)	5.42 (0.18)	7.63 (0.19)	7.51 (0.27)	5.13 (0.18)	6.53 (0.20)	6.17 (0.25)
Social norms	5.27 (0.16)	5.42 (0.17)	5.20 (0.27)	5.04 (0.16)	5.38 (0.17)	5.11 (0.24)	5.44 (0.16)	5.25 (0.18)	5.16 (0.23)
Coercive power	6.47 (0.16)	6.18 (0.17)	6.93 (0.26)	6.47 (0.16)	6.19 (0.17)	6.36 (0.24)	6.40 (0.16)	6.32 (0.18)	6.10 (0.22)
Legitimate power	6.09 (0.15)	6.38 (0.15)	6.29 (0.24)	6.33 (0.14)	6.62 (0.16)	6.54 (0.22)	6.22 (0.15)	6.50 (0.17)	6.28 (0.20)
Trust	5.01 (0.16)	5.28 (0.17)	5.12 (0.27)	5.06 (0.16)	5.56 (0.17)	5.53 (0.24)	5.11 (0.16)	5.46 (0.18)	5.51 (0.24)
Emotions									
Fear	3.76 (0.17)	3.84 (0.18)	4.02 (0.29)	4.41 (0.17)	3.98 (0.19)	3.84 (0.26)	4.02 (0.17)	3.58 (0.20)	4.01 (0.24)
Anger	4.70 (0.20)	4.61 (0.21)	4.93 (0.34)	5.27 (0.20)	4.32 (0.22)	4.74 (0.30)	5.10 (0.20)	4.14 (0.23)	4.32 (0.28)
Caution	5.26 (0.20)	5.23 (0.21)	5.73 (0.34)	5.64 (0.20)	5.45 (0.22)	5.78 (0.31)	5.90 (0.20)	5.30 (0.23)	5.83 (0.29)
Threat	3.06 (0.19)	3.03 (0.20)	3.32 (0.32)	3.64 (0.19)	3.07 (0.20)	2.88 (0.28)	3.46 (0.19)	2.61 (0.21)	2.97 (0.26)
Protection	3.51 (0.18)	3.67 (0.19)	3.75 (0.30)	4.40 (0.18)	3.68 (0.19)	3.80 (0.27)	0.06 (0.18)	4.11 (0.20)	4.15 (0.25)
Enforced compliance	4.74 (0.18)	4.93 (0.19)	4.56 (0.31)	4.90 (0.18)	4.56 (0.20)	5.00 (0.28)	5.54 (0.18)	4.72 (0.21)	5.07 (0.26)
Voluntary compliance	7.54 (0.13)	7.79 (0.13)	7.85 (0.21)	7.70 (0.12)	7.80 (0.14)	7.79 (0.19)	7.85 (0.13)	7.63 (0.14)	7.59 (0.18)
Thought about cheating	2.11 (0.14)	1.93 (0.14)	2.21 (0.23)	2.16 (0.14)	1.95 (0.15)	2.31 (0.21)	2.01 (0.14)	2.01 (0.16)	1.90 (0.19)

Note: Symbols +, 0, - indicate audits with positive adjustment, no adjustment, and refund. Covariates age=57,41, gender=1.38 (1=male, 2=female).

13 Taxpayers rated these issues on a 9 Point Likert scale where one equals 'do not agree at all' and nine equals 'agree completely'.

FIGURE 5.8, Estimated Means and (Standard Errors) of Survey Scales by Audit Type and Outcome¹⁴

Survey Scale	Audit Type			Audit Outcome		
	Fa	Oa	Ca	+	0	-
N	431	439	436	577	482	247
Audit probability	4.26 (0.11)	4.34 (0.10)	4.27 (0.10)	4.61a (0.08)	4.19b (0.09)	4.08b (0.13)
Fines	6.49 (0.12)	6.62 (0.11)	6.55 (0.11)	6.48 (0.09)	6.69 (0.10)	6.49 (0.14)
Tax Knowledge	4.71a (0.15)	5.40b (0.14)	5.33b (0.14)	5.27 (0.12)	5.25 (0.13)	4.92 (0.18)
Attitudes	5.93a (0.12)	6.29b (0.12)	6.30b (0.12)	6.00 (0.10)	6.32 (0.11)	6.20 (0.15)
Motivation	6.05 (0.14)	6.32 (0.13)	6.32 (0.13)	6.16 (0.11)	6.21 (0.12)	6.33 (0.17)
Justice						
Procedural justice	6.46a (0.14)	6.53a (0.13)	5.84b (0.13)	5.81a (0.11)	6.51b (0.12)	6.51b (0.16)
Informational justice	6.72a (0.14)	6.79a (0.13)	5.98b (0.13)	6.21a (0.11)	6.60b (0.12)	6.67b (0.16)
Interpersonal justice	6.96a (0.13)	7.04a (0.13)	6.12b (0.12)	6.39a (0.10)	6.84b (0.11)	6.80b (0.16)
Distributive justice	6.84a (0.13)	6.85a (0.13)	5.94b (0.12)	5.44a (0.10)	7.31b (0.11)	6.89c (0.16)
Social norms	5.30 (0.12)	5.18 (0.11)	5.28 (0.11)	5.25 (0.09)	5.35 (0.11)	5.15 (0.14)
Coercive power	6.53 (0.12)	6.34 (0.11)	6.28 (0.11)	6.45 (0.09)	6.23 (0.10)	6.46 (0.14)
Legitimate power	6.25 (0.11)	6.50 (0.10)	6.33 (0.10)	6.21 (0.08)	6.50 (0.09)	6.37 (0.13)
Trust	5.14 (0.12)	5.39 (0.11)	5.36 (0.11)	5.06a (0.09)	5.44b (0.10)	5.39b (0.14)
Emotions						
Fear	3.87 (0.13)	4.08 (0.12)	3.87 (0.12)	4.64 (0.10)	3.80 (0.11)	3.96 (0.15)
Anger	4.75 (0.15)	4.78 (0.14)	5.52 (0.14)	5.02a (0.12)	4.36b (0.13)	4.66ab (0.18)
Caution	5.41 (0.15)	5.62 (0.14)	5.68 (0.14)	5.60ab (0.12)	5.33a (0.13)	5.80b (0.18)
Threat	3.14 (0.14)	3.19 (0.13)	3.01 (0.13)	3.39a (0.11)	2.90b (0.12)	3.05ab (0.17)
Protection	3.64a (0.13)	3.64a (0.13)	4.11b (0.12)	3.67 (0.10)	3.82 (0.11)	3.90 (0.16)
Enforced compliance	4.74 (0.14)	4.82 (0.13)	5.11 (0.13)	5.06a (0.11)	4.73b (0.12)	4.87ab (0.16)
Voluntary compliance	7.73 (0.09)	7.76 (0.09)	7.69 (0.09)	7.70 (0.07)	7.74 (0.08)	7.74 (0.11)
Thought about cheating	2.08 (0.10)	2.14 (0.10)	1.97 (0.10)	2.09 (0.08)	1.96 (0.09)	2.14 (0.12)

Note: Symbols FA indicate field audit, OA indicates office audit and CA indicates correspondence audit; +, 0, - indicate audits with positive adjustment, no adjustment, and refund. Covariates age=57.41, gender=1.38 (1=male, 2=female). a, b, c indicate differences at the 5% level.

14 Taxpayers rated these issues on a 9 Point Likert scale where one equals 'do not agree at all' and nine equals 'agree completely'.

Our results reveal a more nuanced relationship among audit type, audit outcome, and taxpayer attitudes. With regard to audit type, we find that self-employed taxpayers who experienced a field audit report less tax knowledge than taxpayers who underwent an office or correspondence audit. Similarly, this group exhibits more negative attitudes toward paying taxes. On the other hand, we find that taxpayers who experienced a correspondence audit report relatively low perceived levels of procedural, informational, interpersonal, and distributive justice. This group feels more protected by the IRS. These survey scales — tax knowledge, attitudes toward paying taxes, justice, and protection — account for the main areas where taxpayer opinions differ in accordance with audit type. No statistically significant differences were found with respect to the other survey scales.

With regard to audit outcomes among self-employed taxpayers, we find that those receiving a positive tax adjustment tend to report higher levels of audit risk. Further, this group perceives lower levels of procedural, informational, interpersonal, and distributive justice than the other groups. Surprisingly, taxpayers who experienced no adjustment to their taxes report higher levels of distributive justice (appropriateness of the audit outcome) than taxpayers who received a tax refund. Taxpayers who received a positive tax adjustment report relatively low levels of trust in the IRS. Moreover, these taxpayers report relatively high levels of anger, perceived threat, and enforced compliance. We do not observe significant differences in any other survey scale.

As in the previous analysis, age had a greater impact on attitudes and perceptions than gender. This is in line with a recent meta-analysis of socio-demographic characteristics and tax compliance (Hofmann *et al.*, 2017) which found that compliance increases with age and is slightly higher among women.

Attitudes of ID Theft Victims

When the IRS becomes aware of a taxpayer who has experienced tax-related ID theft or has identified a potentially fraudulent refund claim, it suspends the refund and initiates an investigation. Surprisingly, only 35 percent of wage earners who have experienced tax-related ID theft or an investigation relating to a potentially fraudulent refund claim seem able to recall this experience (Figure 5.9). With regard to attitudes, we observe few differences between those who do and do not recollect the experience. More specifically, taxpayers who do recall an ID theft investigation indicate more positive attitudes towards paying taxes; however, they are relatively more likely to perceive that willingness to comply is low among other taxpayers. To gain a better understanding of how experiencing ID theft and a subsequent IRS investigation influence taxpayer attitudes, further analysis is needed to understand the reasons underlying the poor recollection of events among many respondents. Perhaps memories have faded or have been clouded by prior ID theft experiences in other settings (*e.g.*, credit card fraud). Alternatively, perhaps taxpayers only vaguely understood the reasons underlying the investigation. Further insights might be gained through a future analysis of how the duration of the investigation process, the extent to which refunds were delayed, and the outcome of the process impact one's recollection of events as well as taxpayer attitudes.

FIGURE 5.9, Means (and Standard Deviations) of Survey Scales for ID Theft Victims

Survey Scales	Awareness of ID Theft				t-statistic	p-value
	Yes n = 125		No n = 232			
Audit probability	3.92	(1.87)	4.23	(1.96)	1.49	.069
Fines	6.26	(2.40)	6.68	(2.32)	1.61	.054
Tax knowledge	6.06	(2.76)	5.76	(2.80)	-0.97	.166
Attitudes	6.68	(2.17)	6.25	(2.32)	-1.72	.043
Motivation	6.61	(2.38)	6.31	(2.76)	-1.06	.145
Justice	6.56	(2.17)	6.33	(2.20)	-0.96	.170
Procedural	6.70	(2.54)	6.41	(2.31)	-1.11	.134
Informational	6.28	(2.71)	6.34	(2.55)	0.21	.416
Interpersonal	6.69	(2.54)	6.39	(2.56)	-1.08	.146
Distributive	6.59	(2.58)	6.19	(2.47)	-1.47	.071
Social norms	5.13	(2.33)	5.65	(2.25)	2.08	.019
Coercive power	6.30	(1.74)	6.47	(1.75)	0.86	.195
Legitimate power	6.65	(1.76)	6.64	(2.10)	-0.05	.479
Emotions						
Trust	5.83	(1.89)	5.69	(2.12)	-0.61	.273
Fear	3.50	(2.08)	3.31	(2.26)	-0.77	.220
Anger	4.39	(2.57)	3.73	(2.68)	-2.25	.012
Caution	5.28	(3.97)	5.02	(3.08)	-0.78	.218
Threat	2.78	(2.43)	2.51	(2.27)	-1.05	.147
Protection	5.55	(2.64)	5.20	(2.73)	1.18	.119
Enforced compliance	5.39	(2.53)	5.32	(2.80)	-0.21	.419
Voluntary compliance	8.01	(1.44)	7.56	(1.90)	-2.29	.011
Thought about cheating	1.76	(1.55)	1.69	(1.65)	-0.42	.339

Survey Results Within the Slippery Slope Framework

This section explores the relationship between the survey scales. According to the Slippery Slope Framework, trust and power induce either voluntary or enforced compliance. The perceived probability of audits and the severity of fines are expected to relate to coercive power. On the other hand, tax knowledge, positive attitudes towards taxes, justice perceptions, and social norms should be correlated with trust. While coercive power likely elicits feelings of fear, anger, caution, and threat, high levels of trust should correspond with feeling protected. The framework assumes that power and trust promote compliance; however, the underlying motives differ. Taxpayers might comply either because they fear punishment (enforced compliance) or because they perceive compliance as the right thing to do (voluntary compliance). Taxpayers who perceive coercive power and possess little trust may consider cheating but resist if they feel that the risks outweigh the potential tax savings. Conversely, taxpayers who perceive legitimate power and high trust cooperate voluntarily and are less inclined to think about cheating.

To explore the attitudes of taxpayers who have interacted with the IRS, we investigate survey responses of audited Schedule C filers. As this sample involves taxpayers who have had fairly recent interactions with the IRS, we assess direct experiences rather than assumptions. Figure 5.10 depicts correlations between survey scales for audited self-employed taxpayers.

FIGURE 5.10, Correlations Between Determinants of Compliance Considered in the Slippery Slope Framework and Emotions (N = 1,363 Audited Schedule C Taxpayers)¹⁵

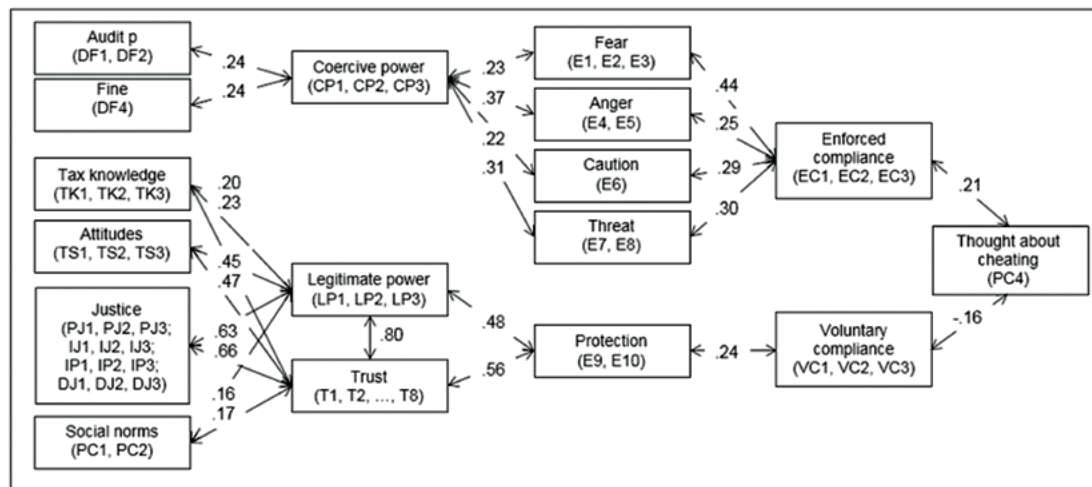
Correlations	Ap	F	K	A	M	J	PJ	IJ	IP	DJ	SN	CP	LP	T	Ef	Ea	Ec	Et	Ep	EC	VC	C
Audit probability (Ap; DF1-2)	1.00																					
Fines (F; DF4)	.20	1.00																				
Tax knowledge (K; TK1-3)	-.03	-.04	1.00																			
Attitudes (A; TS1-3)	-.12	-.06	.22	1.00																		
Motivation (M; M)	-.10	-.11	.14	.44	1.00																	
Justice (J)	-.13	-.11	.14	.33	.27	1.00																
Procedural (PJ; PJ1-3)	-.17	-.11	.19	.34	.27	.90	1.00															
Informational (IJ; IJ1-3)	-.09	-.08	.17	.30	.22	.91	.78	1.00														
Interpersonal (IP; IP1-3)	-.09	-.09	.15	.27	.24	.92	.77	.86	1.00													
Distributive (DJ; DJ1-3)	-.10	-.10	.13	.26	.23	.82	.66	.60	.66	1.00												
Social norms (SN; PC1-2)	.09	.05	.09	.02	.15	.07	.06	.05	.08	.06	1.00											
Coercive power (CP; CP2-3)	.24	.24	-.11	-.19	-.23	-.25	-.25	-.20	-.21	-.20	.06	1.00										
Legitimate power (LP; LP1-3)	-.13	-.07	.20	.44	.39	.63	.62	.58	.59	.46	.16	-.21	1.00									
Trust (T; T1-8)	-.19	-.17	.23	.47	.48	.66	.64	.59	.63	.51	.17	-.40	.80	1.00								
Fear (Ef; E1-3)	.22	.21	-.20	-.16	-.24	-.22	-.22	-.20	-.20	-.17	-.04	.23	-.20	-.30	1.00							
Anger (Ea; E4-5)	.22	.18	-.21	-.37	-.41	-.44	-.45	-.38	-.40	-.34	-.08	.37	-.51	-.60	.56	1.00						
Caution (Ec; E6)	.14	.18	-.12	-.11	-.19	-.17	-.15	-.15	-.16	-.13	-.06	.22	-.55	-.24	.50	.46	1.00					
Threat (Et; E7-8)	.25	.19	-.19	-.33	-.35	-.42	-.43	-.34	-.37	-.33	-.06	.31	-.46	-.55	.54	.65	.38	1.00				
Protection (Ep; E9-10)	-.07	-.04	.15	.31	.32	.39	.39	.35	.36	.28	.15	-.24	.48	.56	-.14	-.33	-.11	-.30	1.00			
Enforced compliance (EC; EC1-3)	.22	.20	-.11	-.13	-.26	-.03	-.04	-.01	-.03	-.04	-.00	.22	-.03	.15	.44	.25	-.29	.30	-.03	1.00		
Voluntary compliance (VC; VC1-3)	-.04	-.05	.07	.37	.50	.14	.15	.13	.13	.11	.18	-.11	.32	.32	-.14	-.25	-.07	-.25	.24	-.21	1.00	
Thought about cheating (C; PC4)	.03	.00	.01	-.02	-.08	.00	-.01	-.03	.00	.03	-.13	.07	-.06	-.04	.10	.11	.10	.05	-.04	.07	-.16	1.00

¹⁵ The copy of the survey document in the Appendix A details which survey questions relate to the various determinants of compliance.

The correlations indicate that perceptions of audit risk and of the severity of fines are positively correlated with coercive power and negatively correlated with legitimate power and trust. Coercive power is positively related to feelings of fear, anger, caution, and threat and negatively related to feelings of protection. Negative emotions, in turn, are positively related to enforced compliance, which covaries with thoughts about cheating. Coercive power is negatively related to perceptions of legitimate power and trust, while legitimate power and trust are highly correlated. Recently audited Schedule C filers who indicate high levels of tax knowledge, positive attitudes towards paying taxes, and high levels of justice in IRS' procedures tend to perceive the power of the IRS as legitimate and the IRS as trustworthy. Such taxpayers project a greater sense of being protected and lower levels of fear, anger, caution, and threat. Consequently, they report higher levels of voluntary compliance and are less inclined to consider cheating. We visualize the relationship between these variables in Figure 5.11.

FIGURE 5.11, Correlations Between Determinants of Compliance for 1,363 Audited Schedule C Taxpayers (Based on the Slippery Slope Framework)¹⁶

The copy of the survey document in Appendix A details which survey questions relate to the various determinants of compliance



¹⁶ The copy of the survey document in the Appendix A details which survey questions relate to the various determinants of compliance

SUMMARY AND DIRECTIONS FOR FUTURE RESEARCH (SECTION 6)

In this report, we present the preliminary findings from an analysis of survey responses on attitudes held by different types of taxpayers. At this early stage, we have focused on descriptive results from the survey. Future work will analyze these data in greater detail. One striking finding is that many (nearly 39 percent) audited self-employed taxpayers do not seem to recall their audit experience. This lack of recollection is especially prevalent among those who have experienced a correspondence audit, which suggests that many taxpayers do not view this form of examination as an audit. In the case of field and office examinations, the majority of respondents do remember being audited, suggesting that these audit types might have a greater impact on taxpayer attitudes and behavior. Surprisingly, only 55.3 percent of self-employed taxpayers who received a tax refund following the examination recall having been audited. This is even more surprising as only 20 percent of these taxpayers received a correspondence audit.

When comparing different types of taxpayers, we find that self-employed taxpayers are more likely to report that they have considered cheating on their taxes. This is in line with the literature on the link between opportunity to cheat and noncompliant behaviors. Moreover, we find that self-employed taxpayers perceive a greater risk of audit and higher fines for noncompliance than wage earners. Consequently, they are more likely to view paying taxes as a coercive process. When comparing audited and non-audited Schedule C filers, we find that audited taxpayers perceive a higher risk of being audited and thus higher levels of coercive power. This finding supports a deterrent effect of audits (Alm, Jackson & McKee, 2009). Surprisingly, audited self-employed taxpayers report higher perceived levels of procedural justice, information justice, interpersonal justice, and distributive justice than their unaudited counterparts. This indicates that those who have direct experience with an IRS audit process are more likely to perceive IRS procedures as transparent, respectful, and appropriate in their outcomes than those who have not. However, this result might be driven by the relatively large share of taxpayers who received either no adjustment or a tax refund as a result of the examination. Under our sampling design, only 44.2 percent of audited taxpayers in our sample received a positive adjustment on an audit.

Indeed, when exploring how attitudes differ in accordance with audit types and outcomes, we find the lowest levels of perceived justice among taxpayers who have received a positive tax adjustment as a result of the examination. Similarly, these taxpayers report the lowest levels of trust in the IRS, the highest levels of enforced compliance, and the highest perceived audit risk. They further indicate higher levels of anger and perceived threat when thinking about the IRS. Interestingly, we observe the strongest contrast between different audit outcomes for distributive justice, where taxpayers who have experienced no tax change following an examination score higher than taxpayers who have experienced either a positive tax adjustment or a tax refund. Likewise, we observe higher levels of positive emotions within the no-change group. This suggests that receiving a tax refund does not necessarily induce positive opinions about the IRS. Further analyses on the dynamics between audit outcomes, perceptions of the IRS, and subsequent reporting behavior might contribute to the understanding of differential responses to audits found in prior research (Beer *et al.*, 2015).

Survey responses of taxpayers who experienced an IRS investigation involving a potentially fraudulent refund claim by someone improperly using their identification reveal that only about one-third of ID theft victims recall the incident. To gain a better understanding of how an ID theft experience (or suspected ID theft or illegitimate refund) and the subsequent IRS investigative procedures impact taxpayer attitudes, more research is needed to understand why so many apparent victims seem unable to recall their experience. Further research is also warranted on how the duration and effectiveness of IRS ID theft investigations affects taxpayer attitudes and behaviors.

The current results suggest that audits influence attitudes towards paying taxes. An important question is whether these changes in attitudes are associated with actual changes in compliance behavior. In future research, we plan to investigate this issue by linking survey responses to tax returns spanning a number of years. Statistical techniques will be employed to control for differences between audited and unaudited taxpayers and to account for different audit types and examination outcomes. This work will build on our prior TAS study (Beer *et al.*, 2015) on audit impacts by accounting not only for tax return characteristics, but also for taxpayer attitudes.

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APPENDIX A: SURVEY INSTRUMENT

Programming Notes:

All names on the sample list qualify for the survey in one of three groups. Group is indicated in sample and used for skipping throughout:

- Wage Earners (WE)
- ID Theft (ID)
- Audit Experience (AE)

All questions below have two numbers in two columns. For programming, use the numbers in the left column.

[1] Introduction [ALL RESPONDENTS]

INTRO1:

Hello, may I speak with [INSERT NAME FROM LIST]?

NOTE: YOU MUST SPEAK WITH THE RESPONDENT LISTED ONLY

NOTE: IF CORRECT RESPONDENT IS NOT AVAILABLE - SCHEDULE CALLBACK

INTRO2:

Hello.

My name is [...]. I am from the [name of company]. We are conducting a survey on how people perceive the tax system and the Internal Revenue Service (IRS). You have been randomly selected from qualified individuals to take part in this survey. This survey might take up to 20 minutes and is part of a research project, conducted by the Taxpayer Advocate Service, which aims to improve the understanding of taxpayer attitudes, perceptions, and behaviors.

The questions are about your views and experiences when dealing with taxes and the IRS, rather than about your specific, personal data. All of your answers are completely anonymous; they will be compiled and added to other responses. We will summarize the findings and share the results with Congress.

Thank you for agreeing to take part in this survey!

Unless otherwise noted, please indicate your responses on a scale from 1 to 9. I will define the low and high points of the scale for each group of questions.

[2] Attitudes (A) [ALL RESPONDENTS]

*I am now going to ask you a few questions on taxation and the government.
To what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all to (9) I agree completely? How about...*

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
1	TS1	Taxes help to ensure that the government operates smoothly.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	TS2	Taxes fund important federal government benefits and services.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	TS3	Taxes fund important state government benefits and services.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	GE1	The federal government spends tax dollars wisely.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5	GE2	The state government spends tax dollars wisely.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6	GE3	The federal government is involved in areas best left to the private sector.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7	GE4	The state government is involved in areas best left to the private sector.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*I would now like to ask you a few questions on your personal values.
To what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all to (9) I agree completely?*

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
8	PA1	Every person is responsible for his or her own success.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9	PA2	The government is responsible to support the poor.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10	NI1	Being a member of the American community is important to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11	NI2	Being a member of my local community is important to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12	RA1	Religion is important for society.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13	RA2	Traditional values are important to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[3] Tax knowledge (TK) [ASK EVERYONE Q14]

14	Who usually prepares your tax returns?	<input type="radio"/> You yourself (1) (continue to Q15)	<input type="radio"/> Professional tax preparer (2) (skip to Q18)	<input type="radio"/> Someone else (3) (skip to Q18)
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[PROGRAMMING INSTRUCTION: If the answer is " 2 Professional tax preparer", or "3 Someone else", please skip to Q18 (TK4).]

[SELF PREPARED [ONLY ASK Q15-Q17 IF Q14=1]]

When you think about filing your last tax return, to what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all to (9) I agree completely?

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
15	TK1	I had a good understanding of what was expected from me when I filed my tax return.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
16	TK2	I felt competent when doing my taxes.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
17	TK3	I was confident that the deductions and credits I claimed were correct.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[IF Q14=1, SKIP to Q21]

[SOMEONE ELSE PREPARED [ONLY ASK IF Q14=2 or 3]]

Suppose you had to prepare your next tax return yourself. To what extent do you agree or disagree with the following questions on a scale from (1) I do not agree at all to (9) I agree completely?

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
18	TK4	If you were to prepare your federal tax return, do you think you would have a good understanding of what would be expected from you?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19	TK5	Do you think you would feel competent preparing your own taxes?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20	TK6	Do you think that you would know which deductions and credits you are entitled to?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[4] Audit experience (AE) and ID theft (ID) [ONLY ASK IF SAMPLE SAYS AUDIT (AE) or ID THEFT (ID); ELSE (WE) SKIP TO Q21W]]

[EVERYONE EXCEPT WAGE EARNERS]

I would now like to ask you a few questions on how you perceive the IRS and what kind of experiences you have had with the IRS.

21	AE1	In the past six years, have you had any contact with the IRS?		<input type="radio"/> Yes	<input type="radio"/> No (skip to Q24)	<input type="radio"/> Not sure (skip to Q24)
22	AE2	[ONLY ASK IF Q21=YES] What was the reason for the contact? [READ RESPONSES]		<input type="radio"/> Audit	<input type="radio"/> Other (please specify) [DO NOT READ: If more than one reason including audit, select "Audit" not "Other" — (skip to Q24)]	
23	AE3	[ONLY ASK IF Q22=Audit] What was the result of the audit? [READ RESPONSES]	DNR- Did not have an audit	<input type="radio"/> owe more tax	<input type="radio"/> no change in tax	<input type="radio"/> owed less tax
24	ID1	In the past three years, has someone else unlawfully used your ID to claim a tax refund, or has the IRS contacted you to validate your legitimate refund claim?		<input type="radio"/> Yes	<input type="radio"/> No	<input type="radio"/> Not sure

[SKIP TO Q25A IF (SAMPLE=AUDIT) AND (Q21=YES) AND (Q22=Audit) AND (Q23 NOT EQUAL to "Did not have audit")]

[SKIP TO Q25AF IF (SAMPLE=AUDIT) AND ((Q21=No or Not Sure) OR (Q22=Other) OR (Q23=Did not have an audit))]

[SKIP TO Q25I IF (SAMPLE= ID THEFT) AND (Q24=Yes)]

[SKIP TO Q25IF IF (SAMPLE=ID THEFT) AND (Q24=No or Not Sure)]

[WAGE EARNERS [ONLY ASK IF SAMPLE=WAGE EARNERS; ELSE SKIP ACCORDING TO INSTRUCTION ABOVE]

READ: I would now like to ask you a few questions on how you perceive the IRS and what kind of experiences you have had with the IRS

21W	AE1	In the past six years, have you had any contact with the IRS?		<input type="radio"/> Yes	<input type="radio"/> No (skip to Q24)	<input type="radio"/> Not sure (skip to Q24)
22W	AE2	What was the reason for the contact?		<input type="radio"/> Audit	<input type="radio"/> Other (please specify) [DO NOT READ: If more than one reason including audit, select "Audit" not "Other" — (skip to Q24)]	
23W	AE3	What was the result of the audit?	DNR- Did not have an audit	<input type="radio"/> owe more tax	<input type="radio"/> no change in tax	<input type="radio"/> owed less tax
24W	ID1	In the past three years, has someone else unlawfully used your ID to claim a tax refund, or has the IRS contacted you to validate your legitimate refund claim?		<input type="radio"/> Yes	<input type="radio"/> No	<input type="radio"/> Not sure

[SKIP TO Q25A IF (SAMPLE=WAGE) AND (Q21W=Yes) AND (Q22W=Audit) AND (Q23W NOT EQUAL to "Did not have audit")]

[SKIP TO Q25AF IF (SAMPLE=WAGE) AND ((Q21W=No or Not Sure) AND (Q24W=No or Not Sure) OR (Q23W=Did not have an audit))]

[SKIP TO Q25I IF (SAMPLE= WAGE) AND (Q24W=Yes)]

[SKIP TO Q25AF IF (SAMPLE=WAGE) AND (Q24W=No or Not Sure)]

[5] Justice perceptions (JP): Procedural justice (PJ), Informational justice (IJ), Interpersonal justice (IP), Distributive justice (DJ)]

[AUDIT]

[PROGRAMMING: Ask the following questions Q25A – Q36A (PJ1 through DJ3) only IF (SAMPLE=AUDIT) AND (Q22=Audit) OR IF (SAMPLE=WAGE) AND (Q22=Audit)]

*READ: When you think about your most recent tax audit.
To what extent do you agree or disagree with the following statements on a scale from
(1) I do not agree at all to (9) I agree completely.*

I do not agree at all (1) – I agree completely (9)

			1	2	3	4	5	6	7	8	9
25A	PJ1	The IRS procedures for handling my audit were free of bias.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
26A	PJ2	The IRS provided accurate information.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27A	PJ3	The way my audit was conducted upheld ethical and moral standards.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28A	IJ1	The IRS employees explained their procedures thoroughly.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
29A	IJ2	The IRS made it clear what was expected of me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30A	IJ3	The IRS employees were candid in their communications with me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31A	IP1	I was treated respectfully throughout the process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32A	IP2	I was given the opportunity to express my side.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33A	IP3	The IRS employees showed a genuine interest in trying to be fair.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34A	DJ1	The audit outcome was appropriate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35A	DJ2	The audit outcome reflected my previous tax behavior.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36A	DJ3	The audit outcome was justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[AUDIT GROUP WHO DID NOT REMEMBER BEING AUDITED]

[PROGRAMMING: Ask the following questions Q25AF – Q36AF (PJ1 through DJ3) only IF (SAMPLE=AUDIT) AND ((Q21=No or Not Sure) OR (Q22=Other)) OR IF(SAMPLE=WAGE) AND (Q21=No or Not Sure) AND (Q24= No or Not Sure)]

READ: Suppose you were audited by the IRS.

Regardless of the end result of the audit, to what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all (9) I agree completely

I do not agree at all (1) – I agree completely (9)

I think....			1	2	3	4	5	6	7	8	9
25AF	PJ1	The IRS procedures for handling my audit would be free of bias.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
26AF	PJ2	The IRS would provide accurate information.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27AF	PJ3	The way my audit would be conducted would uphold ethical and moral standards	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28AF	IJ1	The IRS employees would explain their procedures thoroughly.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
29AF	IJ2	The IRS would make it clear what was expected of me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30AF	IJ3	The IRS employees would be candid in their communications with me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31AF	IP1	I would be treated respectfully throughout the process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32AF	IP2	I would be given the opportunity to express my side.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33AF	IP3	The IRS employees would show a genuine interest in trying to be fair.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34AF	DJ1	The audit outcome would be appropriate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35AF	DJ2	The audit outcome would reflect my previous tax behavior.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36AF	DJ3	The audit outcome would be justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[IDENTITY THEFT]

[PROGRAMMING: Ask the following questions Q25I – Q36I (PJ1 through DJ3) only IF (SAMPLE= ID THEFT) AND (Q24=Yes) OR IF (SAMPLE= WAGE) AND (Q22=Other) AND (Q24=Yes)]

READ: When you think about your identity theft matter, to what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all to (9) I agree completely.

I do not agree at all (1) – I agree completely (9)

			1	2	3	4	5	6	7	8	9
25I	PJ1	The IRS procedures for handling my identity theft matter were free of bias.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
26I	PJ2	The IRS provided accurate information related to my identity theft matter.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27I	PJ3	The way my identity theft matter was conducted upheld ethical and moral standards.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28I	IJ1	The IRS employees thoroughly explained their procedures for dealing with my identity theft matter.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
29I	IJ2	The IRS made it clear what was expected of me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30I	IJ3	The IRS employees were candid in their communications with me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31I	IP1	I was treated respectfully throughout the process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32I	IP2	I was given the opportunity to express my side.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33I	IP3	The IRS employees showed a genuine interest in trying to be fair.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34I	DJ1	My identity theft matter outcome was appropriate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35I	DJ2	My identity theft matter outcome reflected my previous behavior.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36I	DJ3	My identity theft matter outcome was justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[IDENTITY THEFT GROUP WHO DID NOT REMEMBER HAVING IDENTITY STOLEN]

[PROGRAMMING: Ask the following questions Q25IF – Q36IF (PJ1 through DJ3) only IF (SAMPLE=ID THEFT) AND (Q24=No or Not Sure)]

READ: Suppose the IRS would not give you the money it owes you because someone else unlawfully used your ID to claim a tax refund.

To what extent do you agree or disagree with the following questions on a scale from (1) I do not agree at all (9) I agree completely? I think...

I do not agree at all (1) – I agree completely (9)

			1	2	3	4	5	6	7	8	9
25IF	PJ1	The IRS procedures for handling my identity theft matter would be free of bias.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
26IF	PJ2	The IRS would provide accurate information.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
27IF	PJ3	The way my identity theft matter would be conducted would uphold ethical and moral standards.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
28IF	IJ1	The IRS employees would explain their procedures thoroughly.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
29IF	IJ2	The IRS would make it clear what was expected of me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30IF	IJ3	The IRS employees would be candid in their communications with me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31IF	IP1	I would be treated with respect throughout the process.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32IF	IP2	I would be given the opportunity to express my side.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33IF	IP3	The IRS employees would show a genuine interest in trying to be fair.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34IF	DJ1	The outcome of my identity theft matter would be appropriate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35IF	DJ2	The outcome of this matter would reflect my previous behavior.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36IF	DJ3	The outcome of my identity theft matter would be justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[6] Deterrence factors (DF) [ASK EVERYONE]

READ: Please tell me your thoughts about statements concerning Federal Income Tax audits on a scale of 1 to 9 with 1 being extremely unlikely and 9 being extremely likely. When you think about tax audits...

Extremely unlikely (1) – Extremely likely (9)

			1	2	3	4	5	6	7	8	9
37	DF1	... how likely is it that an average self-employed taxpayer is audited in 2017?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
38	DF2	...how likely is it that you are going to be audited in 2017?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
39	DF3	...how likely is it that the IRS actually detects cheating in an audit?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

READ: Now, please use a scale of 1 to 9 with 1 being not severe at all and 9 being very severe.

Not severe at all (1) – Very severe (9)

			1	2	3	4	5	6	7	8	9
40	DF4	When you think about tax audits, how severe are the penalties for underreporting?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[7] Perceived compliance (PC) [ASK EVERYONE]

READ: Please think about the attitude of other taxpayers towards paying taxes.

To what extent do you agree or disagree with the following statements about other taxpayers on a scale from (1) I do not agree at all to (9) I agree completely?

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
41	PC1	Most taxpayers pay all of the taxes that they are supposed to pay.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
42	PC2	Most taxpayers think that they should honestly declare cash earnings on their tax return.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
43	PC3	Most taxpayers think that it is ok to overstate tax deductions on their tax return.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

READ: Now please use a scale from (1) I have never thought about cheating to (9) I always think about cheating...

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
44	PC4	How often have you yourself thought about cheating on your tax returns?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[8] Coercive power (CP) [ASK EVERYONE]

READ: Please tell me now to what extent do you agree or disagree with the following statements, which concern the IRS in general.

Again, the scale ranges from (1) I do not agree at all to (9) I agree completely. In my opinion...

I do not agree at all (1) - I agree completely (9)

			1	2	3	4	5	6	7	8	9
45	CP1	... the IRS enforces compliance with the tax laws	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
46	CP2	... the IRS has no sympathy for taxpayers.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
47	CP3	... the IRS pursues taxpayers.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[9] Legitimate power (LP) [ASK EVERYONE—CONTINUE FROM PREVIOUS GRID]

			1	2	3	4	5	6	7	8	9
48	LP1	... the IRS operates professionally.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
49	LP2	... IRS employees are experts in their job.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
50	LP3	... the IRS has the right to collect taxes.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[10] Trust (T) [ASK EVERYONE—CONTINUE FROM PREVIOUS GRID]

			1	2	3	4	5	6	7	8	9
51	T1	... the IRS is trustworthy.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
52	T2	... the IRS is cooperative.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
53	T3	... the IRS has good intentions.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
54	T4	... IRS employees act in my best interest.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
55	T5	... the IRS does not try to fool taxpayers.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
56	T6	... the IRS acts on behalf of the American citizens.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
57	T7	... the IRS will work with you if you have difficulty paying your taxes.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
58	T8	... the IRS is more concerned with collecting as much as it can, than with collecting the correct amount of tax.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[11] Enforced compliance (EC) and voluntary compliance (VC) [ASK EVERYONE]

*READ: I would now like to ask you to what extent do you agree or disagree with the following statements on a scale from (1) I do not agree at all to (9) I agree completely.
When you pay your taxes, you do so...*

I do not agree at all (1) – I agree completely (9)

			1	2	3	4	5	6	7	8	9
59	EC1	... because you are afraid of punishment.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
60	VC1	... to support your country and your fellow citizens.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
61	EC2	... because of the risk of being audited.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
62	VC2	... because for you it is the right thing to do.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
63	EC3	... because the IRS would detect any misreporting.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
64	VC3	... because you regard it as your civic duty.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[12] Motivations to comply (M) [ASK EVERYONE]

READ: When you pay your taxes, do you ...

Completely forced to do so (1) – Completely voluntary (9)

			1	2	3	4	5	6	7	8	9
65	M1	...feel that something is taken away from you or that you contribute to society? Please use a scale from (1) definitely taken away from me to (9) definitely contributing to society.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

We are almost done with the survey.

[13] Emotions [ASK EVERYONE]

*READ: The following statements address your feelings towards the IRS.
The answering scale ranges from (1) not at all to (9) very strongly.
When you think about the IRS, to what extent do you feel...*

Not at all (1) – Very strongly (9)

			1	2	3	4	5	6	7	8	9
66	E1	... anxious. [Repeat scale]	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
67	E2	... desperate.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
68	E3	... nervous.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
69	E4	... frustrated.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
70	E5	... angry.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
71	E6	... cautious.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
72	E7	... hunted.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
73	E8	... threatened.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
74	E9	... protected.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
75	E10	... secure.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

[14] Demographics

Finally, I have a few questions about you.

76	D1	For classification purposes only, are you male or female?	<input type="radio"/> Male	<input type="radio"/> Female	<input type="radio"/> [DNR] Other	<input type="radio"/> Not sure/refused
----	----	---	----------------------------	------------------------------	-----------------------------------	--

77	D2	How old are you?	Years [Enter number or RF for Refused]
----	----	------------------	--

[ONLY ASK Q78 If unwilling to indicate age in Q77, use the question reading the age ranges below:]

78. D2a: Which of the following categories includes your age?

Are you ...

- | | | | |
|---|----------------|----|------------------------------|
| 1 | Under 18 | 7 | 60 to 64 years |
| 2 | 18 to 24 years | 8 | 65 to 74 years |
| 3 | 25 to 34 years | 9 | 75 to 84 years |
| 4 | 35 to 44 years | 10 | 85 years and over |
| 5 | 45 to 54 years | 11 | DO NOT READ Not sure/Refused |
| 6 | 55 to 59 years | | |

79. D3: What is the highest level of education you have completed?

(DO NOT READ LIST - SELECT ONE ANSWER.)

- | | | | |
|---|----------------------|---|------------------------------|
| 1 | Elementary school | 5 | College graduate |
| 2 | Some high school | 6 | Post-Graduate work |
| 3 | High school graduate | 7 | Vocational school |
| 4 | Some college | 8 | DO NOT READ Not sure/Refused |

80. D4: Please indicate your employment status – select all that apply

(if not working, go to Q81b)

- 1 Working part-time
- 2 Working full-time
- 3 Not working (*skip to Q81b*)

81a. D4a: You indicated you are currently working, are you

- 1 ... employed by someone else
- 2 ... self-employed
- 3 ... both

81b. D4b: You indicated you are not currently working, are you

- 1 ... on temporary layoff from a job
- 2 ... looking for work
- 3 ... retired
- 4 ... disabled
- 5 ... other

One last item, since this research is performed for a government agency we are required to obtain approval to gather information from you. The Office of Management and Budget approved this research effort. If you would like, I can read the requirement and approval number to you.

Note: If they want the information read to them read the box below.

The Paperwork Reduction Act requires that the IRS display an OMB Control Number on all public information requests. The OMB Number for this study is 1545-1432. Also, if you have any comments regarding the time estimates associated with this study or suggestions on making this process simpler, please write to the, Internal Revenue Service, Special Services Section, SE:W:CAR:MP:T:M:SP, 1111 Constitution Ave. NW, Washington, DC 20224.

APPENDIX B: SURVEY ITEMS, FACTOR ANALYSES AND CRONBACH ALPHA'S OF SCALES

Audit Probability (Ap)

Items DF1, DF2

Item	Factor loadings
... how likely is it that an average self-employed taxpayer is audited in 2017?	0.83
... how likely is it that you are going to be audited in 2017?	0.83
Eigenvalue	1.36
% of variance	68.10
Cronbach's alpha	0.53

Note: 9-point scale ranging from 1 (extremely unlikely) to 9 (extremely likely).

Fines

F (DF4)

Item	Factor loadings
When you think about tax audits, how severe are the penalties for underreporting?	

Note: 9-point scale ranging from 1 (extremely unlikely) to 9 (extremely likely).

Tax Knowledge (K)

Items TK1, TK2, TK3

Item	Factor loadings
I had a good understanding of what was expected from me when I filed my tax return.	0.91
I felt competent when doing my taxes.	0.94
I was confident that the deductions and credits I claimed were correct.	0.91
Eigenvalue	2.54
% of variance	84.54
Cronbach's alpha	0.91

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Attitudes (A)

Items TS1, TS2, TS3

Item	Factor loadings
Taxes help to ensure that the government operates smoothly.	0.67
Taxes fund important federal government benefits and services.	0.84
Taxes fund important state government benefits and services.	0.81
Eigenvalue	2.32
% of variance	77.26
Cronbach's alpha	0.85

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Motivation (M)

Item M1

When you pay your taxes, do youfeel that something is taken away from you or that you contribute to society?	
---	--

Note: 9-point scale ranging from 1 (definitely taken away from me) to 9 (definitely contributing to society).

Justice

Items PJ1, PJ2, PJ3, IJ1, IJ2, IJ3, IP1, IP2, IP3, DJ1, DJ2, DJ3

Item	Factor loadings
The IRS procedures for handling my audit were free of bias.	0.73
The IRS provided accurate information.	0.80
The way my audit was conducted upheld ethical and moral standards.	0.85
The IRS employees explained their procedures thoroughly.	0.85
The IRS made it clear what was expected of me.	0.81
The IRS employees were candid in their communications with me.	0.85
I was treated respectfully throughout the process.	0.85
I was given the opportunity to express my side.	0.81
The IRS employees showed a genuine interest in trying to be fair.	0.88
The audit outcome was appropriate.	0.82
The audit outcome reflected my previous tax behavior.	0.66
The audit outcome was justified.	0.79
Eigenvalue	7.89
% of variance	65.71
Cronbach's alpha	0.95

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Procedural Justice (PJ)

Items PJ1, PJ2, PJ3

Item	Factor loadings
The IRS procedures for handling my audit were free of bias.	0.88
The IRS provided accurate information.	0.89
The way my audit was conducted upheld ethical and moral standards.	0.91
Eigenvalue	2.38
% of variance	79.20
Cronbach's alpha	0.87

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Informational Justice (IJ)

Items IJ1, IJ2, IJ3

Item	Factor loadings
The IRS employees explained their procedures thoroughly.	0.92
The IRS made it clear what was expected of me.	0.92
The IRS employees were candid in their communications with me.	0.91
Eigenvalue	2.52
% of variance	84.15
Cronbach's alpha	0.91

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Interpersonal Justice (IP)

IP1, IP2, IP3

Item	Factor loadings
I was treated respectfully throughout the process.	0.92
I was given the opportunity to express my side.	0.90
The IRS employees showed a genuine interest in trying to be fair.	0.92
Eigenvalue	2.51
% of variance	83.63
Cronbach's alpha	0.90

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Distributive Justice (DJ)

Items DJ1, DJ2, DJ3

Item	Factor loadings
The audit outcome was appropriate.	0.91
The audit outcome reflected my previous tax behavior.	0.86
The audit outcome was justified.	0.92
Eigenvalue	2.41
% of variance	80.35
Cronbach's alpha	0.88

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Social Norms (PC)

Items PC1, PC2, PC3_rec

Item	Factor loadings
Most taxpayers pay all of the taxes that they are supposed to pay.	0.80
Most taxpayers think that they should honestly declare cash earnings on their tax return.	0.81
Most taxpayers think that it is ok to overstate tax deductions on their tax return.	0.47
Eigenvalue	1.51
% of variance	50.29
Cronbach's alpha	0.49

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Coercive Power (CP)

Items CP2, CP3

Item	Factor loadings
In my opinion the IRS has no sympathy for taxpayers.	0.85
In my opinion the IRS pursues taxpayers.	0.85
Eigenvalue	1.45
% of variance	72.63
Cronbach's alpha	0.62

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Legitimate Power (LP)

Items LP1, LP2, LP3

Item	Factor loadings
In my opinion...	
... the IRS operates professionally.	0.87
... IRS employees are experts in their job.	0.86
... the IRS has the right to collect taxes.	0.65
Eigenvalue	1.92
% of variance	63.99
Cronbach's alpha	0.71

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Trust (T)

Items T1, T2, T3, T4, T5, T6, T7, T8_rec

Item	Factor loadings
In my opinion...	
... the IRS is trustworthy.	0.88
... the IRS is cooperative.	0.88
... the IRS has good intentions.	0.90
... IRS employees act in my best interest.	0.83
... the IRS does not try to fool taxpayers.	0.78
... the IRS acts on behalf of the American citizens.	0.84
... the IRS will work with you if you have difficulty paying your taxes.	0.73
... the IRS is more concerned with collecting as much as it can, than with collecting the correct amount of tax.	0.43
Eigenvalue	5.08
% of variance	63.49
Cronbach's alpha	0.91

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Fear (Ef)

Items E1, E2, E3

Item	Factor loadings
When you think about the IRS. To what extent do you feel...	
... anxious?	0.85
... desperate?	0.85
... nervous?	0.98
Eigenvalue	2.24
% of variance	74.61
Cronbach's alpha	0.83

Note: 9-point scale ranges from 1 (not at all) to 9 (very strongly).

Anger (Ea)

Items E4, E5

Item	Factor loadings
When you think about the IRS. To what extent do you feel... ... frustrated?.	0.92
... angry?	0.92
Eigenvalue	1.71
% of variance	85.45
Cronbach's alpha	0.83

Note: 9-point scale ranges from 1 (not at all) to 9 (very strongly).

Caution (Ec)

(Item E6)

When you think about the IRS. To what extent do you feel cautious?

Note: 9-point scale ranges from 1 (not at all) to 9 (very strongly).

Threat (Et)

Items E7, E8

Item	Factor loadings
When you think about the IRS. To what extent do you feel... ... hunted?	0.94
... threatened?	0.94
Eigenvalue	1.77
% of variance	88.55
Cronbach's alpha	0.87

Note: 9-point scale ranges from 1 (not at all) to 9 (very strongly).

Protection (Ep)

Items E9_rec, E10_rec

Item	Factor loadings
When you think about the IRS. To what extent do you feel... ... protected?	0.93
... secure?	0.93
Eigenvalue	1.7
% of variance	87.10
Cronbach's alpha	0.85

Note: 9-point scale ranges from 1 (not at all) to 9 (very strongly).

Enforced compliance (EC)

Items EC1, EC2, EC3

Item	Factor loadings
When you pay your taxes, you do so...	
... because you are afraid of punishment.	0.82
... because of the risk of being audited.	0.88
... because the IRS would detect any misreporting.	0.79
Eigenvalue	2.08
% of variance	69.20
Cronbach's alpha	0.78

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Voluntary compliance (VC)

Items VC1, VC2, VC3

Item	Factor loadings
When you pay your taxes, you do so...	
... to support your country and your fellow citizens.	0.82
... because for you it is the right thing to do.	0.85
... because you regard it as your civic duty.	0.88
Eigenvalue	2.17
% of variance	72.24
Cronbach's alpha	0.80

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

Thought about cheating (C)

Item PC4

How often have you yourself thought about cheating on your tax returns?

Note: 9-point scale ranging from 1 (do not agree at all) to 9 (agree completely).

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Volume 2

TAS RESEARCH AND RELATED STUDIES

**Do Taxpayers Respond to the Substantial Understatement Penalty Threshold?
A Research Prospectus for an Analysis of Bunching Below the Penalty Threshold**

Do Taxpayers Respond to the Substantial Understatement Penalty Threshold? A Research Prospectus for an Analysis of Bunching Below the Penalty Threshold¹

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¹ The principal authors of this discussion are Eric LoPresti, Senior Attorney Advisor, Jeff Wilson, Senior Research Advisor, Kim Bloomquist, Operation Research Analyst, and Michael Nestor, Operation Research Analyst, of the Office of the Taxpayer Advocate.

EXECUTIVE SUMMARY

The “economic deterrence” model of tax compliance suggests that higher penalties should produce more compliance.² However, there is relatively little real-world evidence that marginal changes to tax penalty rates affect compliance.³ TAS plans to fill this gap by studying the extent to which taxpayers respond to the economic incentive provided by the substantial understatement penalty.

The substantial understatement penalty generally may apply to understatements on a return that exceed a threshold. For individuals, the threshold is the greater of \$5,000 or 10 percent of the tax required to be shown on the return.⁴ If the penalty affects compliance behavior, some taxpayers whose understatements would otherwise be just over the threshold should adjust their reporting so that their understatements are just below it. If they do, we should see relatively more understatements concentrated or “bunching” just below it, and fewer (*i.e.*, a crater) just above the threshold. TAS plans to analyze bunching to determine if taxpayers are responsive to the substantial understatement penalty threshold, and to identify the taxpayer segments that are most and least responsive.⁵

DISCUSSION

Under the “economic deterrence” model of tax compliance, people pay taxes to avoid penalties.⁶ Tax compliance depends on the likelihood of getting caught and penalized and the size of the penalty. This model is overly simplified.⁷

Insights from behavioral science (*e.g.*, psychology and behavioral economics) suggest that other factors affect tax compliance. For example, people do what is easy, do what they think others are doing (*i.e.*, follow social norms), and cheat only to the extent they can maintain a positive self-image (*i.e.*, tax

² See, *e.g.*, Maurice Allingham & Agnar Sandmo, *Income Tax Evasion: A Theoretical Analysis*, 1 J. PUB. ECON. 323-38 (1972).

³ See, *e.g.*, Ann D. Witte & Diane F. Woodbury, *The Effect of Tax Laws and Tax Administration on Tax Compliance: The Case of the U.S. Individual Income Tax*, 38 NAT'L TAX J. 1, 7-9 (1985) (analyzing IRS data from the Taxpayer Compliance Measurement Program (TCMP)); Joel Slemrod *et al.*, *Cheating Ourselves: The Economics of Tax Evasion*, 21 J. ECON. PERSP. 25, 38 (2007) (reviewing studies); James Andreoni, *et al.*, *Tax Compliance*, 36 J. ECON. LIT. 818, 842 (1998) (same).

⁴ IRC § 6662(d).

⁵ By contrast, an analysis of bunching could not be used to analyze negligence because the penalty for negligence is not triggered by a threshold.

⁶ See Maurice Allingham & Agnar Sandmo, *Income Tax Evasion: A Theoretical Analysis*, 1 J. PUB. ECON. 323-38 (1972).

⁷ Some have tried to tweak the model to solve the “compliance puzzle” of why, if deterrence is so important, we observe relatively high levels of compliance in the U.S. even though we have relatively few examinations and moderate penalty rates. See, *e.g.*, Mark Phillips, *Reconsidering the Deterrence Paradigm of Tax Compliance*, IRS Research Conference (2011); Jack Manhire, *Toward A Perspective-Dependent Theory of Audit Probability for Tax Compliance*, 33 VA. TAX REV. 629 (2014). However, other factors appear to affect compliance. See, *e.g.*, Nadja Dwenger *et al.*, *Extrinsic and Intrinsic Motivations for Tax Compliance: Evidence from a Field Experiment in Germany*, 8 AM. ECON. J. 203, 204-05 (2016) (finding that about 20 percent fully paid a church tax, even though they knew the tax was not enforced). Similarly, the incidence of crime cannot be explained by the severity of the sanction. See, *e.g.*, Anthony Doob & Cheryl Webster, *Sentence Severity and Crime: Accepting the Null Hypothesis*, 30 CRIME & JUST. 143 (2003).

morale).⁸ These findings are consistent with other lines of research, which suggest that trust for the IRS, norms, fairness, reciprocity, tax morale, complexity, and similar factors drive compliance.⁹

Indeed, when asked to identify the reasons for changes proposed on returns audited in connection with the National Research Program (NRP), IRS auditors listed 67 percent as inadvertent mistakes, 27 percent as computational errors or errors that flowed automatically, and only 3 percent of the errors as intentional.¹⁰ Although the IRS does not regard this data as reliable, it is consistent with the findings of other studies (discussed above).¹¹ Even under the best of circumstances, it is difficult for auditors to determine a taxpayer's intent.¹² Nonetheless, this data does not support the notion that most noncompliance is intentional or that taxpayers will increase their reporting compliance to any significant extent in response to an increase in penalty rates.

However, the deterrence model might suggest that a costless way for the government to increase tax compliance (and government revenue) is to increase the penalties for noncompliance.¹³ Indeed, some

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- 8 See generally National Taxpayer Advocate 2016 Annual Report to Congress 50-63 (Most Serious Problem: *Voluntary Tax Compliance*); National Taxpayer Advocate 2016 Annual Report to Congress vol. 3 (Literature Review: *Behavioral Science Lessons for Taxpayer Compliance*); Richard Thaler, *Misbehaving: The Making of Behavioral Economics* (2015).
- 9 See, e.g., National Taxpayer Advocate 2007 Annual Report to Congress, vol. 2, 138-150 (Marjorie E. Kornhauser, *Normative and Cognitive Aspects of Tax Compliance*); National Taxpayer Advocate 2012 Annual Report to Congress vol. 2 1-28; Organization for Economic Co-operation and Development (OECD), Forum on Tax Administration, Small/Medium Enterprise (SME) Compliance Subgroup, *Understanding and Influencing Taxpayers' Compliance Behavior* (Nov. 2010); OECD, Forum on Tax Administration Subgroup, *Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises* (Jan. 2012); Tom Tyler, *Why People Obey the Law* (2006); Tom Tyler, *Legitimacy and Criminal Justice: The Benefits of Self-Regulation*, 7 OHIO ST. J. CRIM. L. 307-359 (2009); Erich Kirchler, *The Economic Psychology of Tax Behavior* (2007).
- 10 *A Closer Look at the Size and Sources of the Tax Gap: Hearing Before the S. Subcomm. on Taxation and IRS Oversight, S. Finance Comm.*, 109th Cong. 5 (July 26, 2006) (statement of Nina E. Olson, National Taxpayer Advocate). Moreover, some "intentional" errors result from the taxpayer's inability to pay. See, e.g., Christina M. Ritsema et al., *Economic and Behavioral Determinants of Tax Compliance: Evidence from the 1997 Arkansas Tax Penalty Amnesty Program*, IRS Research Conference (2003), <https://www.irs.gov/pub/irs-soi/ritsema.pdf> (surveying people who applied to an amnesty).
- 11 Government Accountability Office (GAO), GAO-06-208T, *Multiple Strategies, Better Compliance Data, and Long-Term Goals Are Needed to Improve Taxpayer Compliance* 12-13 (Oct. 26, 2005).
- 12 IRS, *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance* 6 (Aug. 2, 2007) (stating "the IRS does not have sufficient data to distinguish clearly the amount of noncompliance that arises from willful, as opposed to unintentional, mistakes. Moreover, the line between intentional and unintentional mistakes is often a grey one").
- 13 Under an extension of the deterrence model, some have suggested that tax agencies can maintain compliance when they reduce audit rates without increasing penalties by trusting taxpayers — rewarding compliant taxpayers with fewer audits. See Juan P. Mendoza & Jacco L. Wielhouwer, *Only the Carrot, Not the Stick: Incorporating Trust into the Enforcement of Regulation*, 10 PLOS ONE 1, 4 (2015), <https://www.ncbi.nlm.nih.gov/pubmed/25705898>. However, an increase in penalty rates makes the use of trust less feasible. *Id.* at 15.

lab experiments suggest that maybe you can.¹⁴ However, there is relatively little evidence that marginal changes to penalty rates have a positive effect on tax compliance in the real world.¹⁵

TAS will try to fill this gap by examining the extent to which the substantial understatement penalty affects tax reporting behavior by individuals. The substantial understatement penalty generally applies to understatements that exceed a specific threshold (*i.e.*, the greater of \$5,000 or 10 percent of the tax required to be shown on an individual's return).¹⁶ If the substantial understatement penalty affects compliance behavior, some taxpayers whose understatements would otherwise be just over the threshold should adjust their reporting so that their understatements are just below it.¹⁷ If they do, we should see relatively more understatements bunching just below it, and fewer (*i.e.*, a crater) just above the threshold. We have the opportunity to use this type of analysis with the substantial understatement penalty only because it is triggered at a specific observable threshold.

Limitations

We can only observe understatements on returns that have been audited. Some returns are selected for audit at random as part of the NRP.¹⁸ Others are selected because the IRS believes they contain significant understatements or because it wants to maintain a particular level of audit coverage for a given taxpayer segment.¹⁹ To avoid the bias that might result from analyzing a nonrandom sample,

14 See, e.g., Calvin Blackwell, *A Meta-analysis of Incentive Effects in Tax Compliance Experiments*, in *Developing Alternative Frameworks for Explaining Tax Compliance* 97, 109 (James Alm et al. eds., 2010); James Alm et al., *Estimating The Determinants Of Taxpayer Compliance With Experimental Data*, 45(1) NAT'L TAX J. 107, 110 (1992) (finding experiments generally show that the "response to an increase in the penalty rate is positive but small and not highly significant.").

15 See, e.g., Ann D. Witte & Diane F. Woodbury, *The Effect of Tax Laws and Tax Administration on Tax Compliance: The Case of the U.S. Individual Income Tax*, 38 NAT'L TAX J. 1, 7-9 (1985) (analyzing IRS data from the TCMP and finding the probability of civil and criminal fraud penalties had no significant effect or a negative effect; and the severity of criminal sanctions had no significant effect, except for a small positive effect on high-income self-employed individuals); Joel Slemrod et al., *Cheating Ourselves: The Economics of Tax Evasion*, 21 J. ECON. PERSP. 25, 38 (2007) ("there has been no compelling empirical evidence addressing how noncompliance is affected by the penalty for detected evasion, as distinct from the probability that a given act of noncompliance will be subject to punishment."); James Andreoni, et al., *Tax Compliance*, 36 J. ECON. LIT. 818, 842 (1998) (finding only one real-world study (by Pommerehne and Frey) that suggested penalties may have a positive effect on compliance, but the effect was not statistically significant). See also Kimberly Varma & Anthony Doob, *Deterring Economic Crimes: The Case of Tax Evasion*, 40 CANADIAN J. CRIMINOLOGY 165, 175-76 (1998) (surveying Canadians and finding that "25.9% of those who thought that jail would be imposed for evasion... had evaded tax. In contrast, only 15.3% of those who thought nothing would happen had evaded tax."). Even if raising penalties could increase compliance, there may be a point beyond which penalty increases decrease compliance, potentially due to a reduction in the perceived legitimacy of the penalties or in the agency's enforcement of them. See generally Tom Tyler, *Why People Obey The Law* (2006) (discussing legitimacy).

16 IRC § 6662(d).

17 This threshold is analogous to a kink point or notch in the tax rate schedule. The point at which the marginal tax rate increases is called a kink point, whereas large jumps or stepped increases are generally called notches. For example, an income tax is notched if it requires a person to pay a higher average rate on all of his income when he reaches the next highest bracket, as is the case in Pakistan. See Henrik Kleven & Mazhar Waseem, *Using Notches to Uncover Optimization Frictions and Structural Elasticities: Theory and Evidence from Pakistan*, 128 QTRLY J. ECON. 669, 670 (2013). Penalty thresholds are generally more similar to notches than to kink points. Notches may trigger a larger behavioral response than kink points, in part, because they are more salient. See James Sallee & Joel Slemrod, *Car Notches: Strategic Automaker Responses to Fuel Economy Policy* 3 (Nat'l Bureau Econ. Res. (NBER) Working Paper No. 16604, 2010), <http://www.nber.org/papers/w16604>.

18 IRM 4.10.2.7.1 (Feb. 11, 2016).

19 For a general discussion of audit selection methods, see IRM 4.1.3.1 (Aug. 10, 2012); GAO, GAO-16-103, *Certain Internal Controls for Audits in the Small Business and Self-Employed Division Should Be Strengthened* (2015), <http://www.gao.gov/assets/680/674807.pdf>. The extent to which the IRS can audit various types of taxpayers and issues may also depend on the staffing, training, and skill level of its workforce.

this study will probably focus on individual assessments resulting from NRP examinations of tax years 2010–2012, the latest years for which all of the relevant data is available.²⁰

However, even an understatement identified and assessed by the IRS after an NRP examination could be different than the actual understatement. The IRS may assert understatements that are higher than the actual understatement due to an auditor’s misunderstanding of the facts or the rules. On the other hand, examiners may not detect all of the understatements on a return, for example, because they are focused on a single issue.²¹ This problem is less of a concern with NRP exams, which are supposed to identify the true tax liability, than with other types of audits, which are not.²² However, even NRP exams do not identify all underreporting.²³

When an understatement is otherwise close to the threshold, it is also possible that some auditors might try to avoid proposing assessments that would trigger the substantial understatement penalty, perhaps to avoid controversy and extra paperwork.²⁴ Others might try to find understatements large enough to trigger the penalty, especially if the taxpayer seems negligent or uncooperative.²⁵ In other words, if understatements are bunching at a particular range, the bunching could reflect a behavioral response to the substantial understatement penalty threshold by IRS employees, rather than by taxpayers.

Finally, we could observe understatements bunching in specific ranges due to the issue(s) being examined. For example, we might expect the disallowance of a first-time homebuyer tax credit of up to \$6,500 to generate a disproportionate number of \$6,500 understatements for tax year 2010, especially if an auditor is faced with a binary choice to either allow or disallow the credit.²⁶ By contrast, omitted income or overstated deductions can result in understatements of any amount, depending on the facts and circumstances. Thus, the structure of the tax code could produce bunching, even if the taxpayers in question are oblivious to the penalty or penalty threshold.

20 As of this writing, tax years (TYs) 2010-2012 were the latest year for which the NRP weights were available.

21 Dispute resolution procedures may help to ensure that proposed assessments are accurate. However, the IRS may agree settle for amounts that are less than the true tax liability based on the hazards of litigation, and taxpayers may agree to excessively high settlements to avoid the cost and risks of litigation.

22 Compare IRM 4.10.2.7.1.1 (Feb. 11, 2016) (“The goal of an examination is to determine the ‘substantially correct’ tax liability”) and IRM 4.10.2.3.1 (Feb. 11, 2016) (noting that Office and Field “Examiners are expected to examine all large, unusual and questionable items (LUQ). However, it is not intended that examiners should consider every possible issue”) with IRM 4.22.1.3(4) (Sept. 6, 2017) (NRP “examiners will verify information on the sampled returns and capture all adjustments, no matter how small or whether the adjustments favor the IRS or the taxpayers.”).

23 See, e.g., Mark J. Mazur & Alan H. Plumley, *Understanding the Tax Gap*, 60 NAT’L TAX J. 569, 573 (2007) (noting that because NRP audits do not detect all underreporting, the IRS applies a multiplier to the underreporting to estimate the total amount that should have been reported). Of course, IRS auditors may also fail to detect overreporting.

24 See IRM 20.1.5.1.4 (Dec. 13, 2016) (requiring exam employees to obtain managerial approval to either assert or not assert the substantial understatement penalty where there is a substantial understatement of tax).

25 See IRM 20.1.5.1.1 (Dec. 13, 2016) (“An adjustment warranting a penalty may meet the threshold of a substantial understatement and also be attributable to the taxpayer’s clearly negligent actions. The substantial understatement penalty under IRC § 6662(b)(2) should be developed as the primary position and the negligence penalty under IRC § 6662(b)(1) should be developed as the alternative position.”).

26 The first-time homebuyer credit is a tax credit for the purchase of a new home after April 8, 2008, and before May 1, 2010, with certain exceptions. See IRC § 36; IRS, *First-Time Homebuyer Credit Questions and Answers: Basic Information*, <https://www.irs.gov/newsroom/first-time-homebuyer-credit-questions-and-answers-basic-information> (revised Jan. 27, 2010). The maximum credit was generally \$7,500 or \$8,000, but beginning November 7, 2009, a credit of up to \$6,500 was available to a new category of homebuyers. *Id.*

The Substantial Understatement Penalty Rules

If a tax return is wrong and the taxpayer was negligent or disregarded a rule or regulation, the IRS may apply a 20-percent accuracy-related penalty to the underpayment.²⁷ Even if the IRS cannot show that the taxpayer was negligent or disregarded a rule or regulation, it may apply a 20-percent accuracy-related penalty to any underpayment that is due to a “substantial understatement,”²⁸ unless certain exceptions apply.²⁹

The penalty does not apply if the taxpayer shows there is “substantial authority” for the tax treatment of the item.³⁰ There is substantial authority for the tax treatment of an item only if the weight of the authorities supporting the treatment is substantial in relation to the weight of authorities supporting contrary treatment.³¹ Another way to avoid the penalty is to adequately disclose the position, typically on Form 8275, *Disclosure Statement*, Form 8275-R, *Regulation Disclosure Statement*, or on the return.³² The adequate disclosure exception only applies if the taxpayer has a “reasonable basis” for the position

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- 27 IRC § 6662(a). An “underpayment” is $W - (X + Y - Z)$, where W = the amount of income tax imposed; X = the amount shown as the tax by the taxpayer on his return; Y = amounts not shown, but previously assessed (e.g., jeopardy assessments before filing) or collected without assessment (e.g., withholding tax, estimated payments or other cash payments received but not shown on the return); and Z = the amount of rebates made on the grounds that the tax imposed was less than the sum of X (tax shown), Y (prior withholding, payments, or assessments), and prior rebates. Treas. Reg. § 1.6664-2. For this purpose, X (the amount shown) is reduced by credits claimed for tax withheld under IRC §§ 31 and 33, estimated payments or other cash payments in excess of those actually made and for refundable credit claims (e.g., the earned income tax credit (EITC)). See Treas. Reg. §§ 1.6664-2(c), (g)(Example 3). During TY 2010-12, the IRS may have believed a refundable credit claim could trigger an underpayment, even if it was frozen and not paid. See, e.g., Program Manager Technical Advice (PMTA) 2010-01 (Nov. 20, 2009) and PMTA 2011-03 (Aug. 27, 2010). While it later revised this conclusion, taxpayers could not be sure if the IRS would freeze their claims or issue refunds. See PMTA 2012-16 (May 30, 2012). Moreover, frozen credit claims are treated as understatements for purposes of determining if the taxpayer has an understatement. While there were subsequent developments in this area, they should not be relevant to the years under study. See, e.g., *Rand v. Comm’r*, 141 T.C. 376 (2013) (holding that refundable credit claims reduce X , but **not below zero**); Protecting Americans from Tax Hikes Act of 2015 (PATH Act), Pub. L. No. 114-113, Div. Q, § 209(d)(1), 129 Stat. 3040, 3084-85 (2015) (providing that effective for all returns filed after December 18, 2015, and all returns filed on or before December 18, 2015, for which the period of limitations specified in section 6501 had not expired as of that date, refundable credit claims reduce X (amount shown) and **can reduce it below zero**).
- 28 An understatement is defined as $X - (Y - Z)$, where X = the amount of the tax required to be shown on the return, Y = the amount of the tax imposed which is shown on the return, and Z = any rebate made on the grounds that the tax imposed was less than the sum of Y (tax shown), prior withholding, payments, or assessments, and prior rebates. Treas. Reg. § 1.6662-4(a)(2)(ii). These terms have the same meanings as their analogues in the definition of an underpayment (described above, using slightly different variables), except that (1) Y (amount shown) is **not reduced** by excess claims for credits for withholding tax or other cash payments in an amount greater than actually made (but **is reduced** by refundable credit claims whether or not they are frozen); (2) items subject to an exception (i.e., substantial authority or adequate disclosure exceptions) are treated as having been reported properly (both on the return and for purposes of computing rebates); and (3) the rebate computation is slightly different. Treas. Reg. §§ 1.6662-4(b)(4), -4(b)(5). An understatement is “substantial” if it exceeds the greater of: (A) ten percent of the tax required to be shown on the return for the tax year, or (B) \$5,000. For corporations (other than an S-corporation or personal holding company), an understatement is “substantial” if it exceeds the lesser of: (A) ten percent of the tax required to be shown on the return for the tax year (or if greater, \$10,000), or (B) \$10,000,000. See IRC § 6662(d)(1).
- 29 If the IRS establishes that a taxpayer was both negligent and substantially understated the tax, the maximum accuracy-related penalty is capped at 20 percent of the understated tax. IRC § 6662(a).
- 30 IRC § 6662(d)(2)(B)(i) (reduction for substantial authority).
- 31 Treas. Reg. § 1.6662-4(d)(3)(i); Treas. Reg. § 1.6662-4(d)(2) (describing the standard as “less stringent than the more likely than not standard ... but more stringent than the reasonable basis standard”).
- 32 IRC § 6662(d)(2); Treas. Reg. § 1.6662-3(b)(3) (defining reasonable basis); Treas. Reg. § 1.6662-3(c) and -4(f) (discussing the disclosure exception); Rev. Proc. 2016-13, 2016-4 I.R.B. 290 (discussing alternative disclosure procedures for certain items).

and keeps adequate records.³³ However, the substantial authority and adequate disclosure exceptions do not apply to understatements resulting from a “tax shelter.”³⁴ Tax shelters are broadly defined to include any partnership, entity, investment plan, or arrangement having “a significant purpose” of tax avoidance (*i.e.*, potentially any type of tax planning), diluting the benefit of disclosure.³⁵

Finally, a taxpayer may avoid an accuracy-related penalty (including the substantial understatement penalty), if he or she can show the error was made in good faith and due to “reasonable cause.”³⁶ However, this is a relatively narrow exception that is based on the facts and circumstances.³⁷

If any of these exceptions apply to an item (*i.e.*, there is substantial authority, adequate disclosure, or reasonable cause for the taxpayer’s treatment of an item), then it is treated as if it were properly shown on the return for purposes of computing the penalty.³⁸ Because of the relative ease with which the IRS can establish that a taxpayer made a substantial understatement (as compared to establishing negligence or disregard of a rule or regulation) and the significant uncertainty about whether a taxpayer will be able to show that an exception applies, taxpayers have an economic incentive to ensure that any understatement of tax does not exceed the substantial understatement threshold, even if there is some possibility that an exception might apply.

For individuals, an understatement is substantial if it exceeds the greater of \$5,000 or 10 percent of the tax required to be shown on the return.³⁹ For example, if the correct amount of tax is \$10,000 and an individual taxpayer reported \$6,000, the penalty would not apply. Although the \$4,000 understatement is more than ten percent of the correct tax, it is less than the fixed \$5,000 threshold. Conversely, if the same individual reported a tax of \$4,000, the substantial understatement penalty would apply. The \$6,000 understatement is more than \$5,000, which is the greater of the two thresholds.

For relatively high income taxpayers who owe more than \$50,000 in tax, the operative threshold is 10 percent because 10 percent is more than \$5,000 (10% x \$50,000 = \$5,000). For the same reason, \$5,000 is the operative threshold for those who owe less than \$50,000 in tax (*e.g.*, those with lower incomes or who are entitled to relatively large deductions or credits). Thus, because a taxpayer could

33 Treas. Reg. § 1.6662-4(e)(2)(i) and (iii). The “reasonable basis” standard is “a relatively high standard of tax reporting, that is, significantly higher than not frivolous or not patently improper.” Treas. Reg. § 1.6662-3(b)(3) (explaining the reasonable basis “standard is not satisfied by a return position that is merely arguable or that is merely a colorable claim. If a return position is reasonably based on one or more of the authorities set forth in § 1.6662-4(d)(3)(iii) (taking into account the relevance and persuasiveness of the authorities, and subsequent developments), the return position will generally satisfy the reasonable basis standard even though it may not satisfy the substantial authority standard...”).

34 IRC § 6662(d)(2)(C) (reduction for substantial authority or adequate disclosure inapplicable to tax shelter items).

35 *Id.* For a discussion of the problems with leaving “a significant purpose” undefined, see National Taxpayer Advocate 2008 Annual Report to Congress vol. 2, § 1 (*A Framework for Reforming the Penalty Regime*).

36 IRC § 6664(c) (reasonable cause exception).

37 Treas. Reg. § 1.6664-4(b)(1) (further explaining “[c]ircumstances that may indicate reasonable cause and good faith include an honest misunderstanding of fact or law that is reasonable in light of all of the facts and circumstances, including the experience, knowledge, and education of the taxpayer. An isolated computational or transcriptional error generally is not inconsistent with reasonable cause and good faith. Reliance on an information return or on the advice of a professional tax advisor or an appraiser does not necessarily demonstrate reasonable cause and good faith. Similarly, reasonable cause and good faith is not necessarily indicated by reliance on facts that, unknown to the taxpayer, are incorrect. Reliance on an information return, professional advice, or other facts, however, constitutes reasonable cause and good faith if, under all the circumstances, such reliance was reasonable and the taxpayer acted in good faith.”).

38 IRC § 6662(d)(2)(B) (understatement “reduced” by that “portion” for which there is substantial authority or adequate disclosure); IRC § 6664(c)(1) (reasonable cause exception for applicable “portion” of the understatement).

39 IRC § 6662(d)(1).

calculate whether the understatement penalty might apply, the penalty lends itself to bunching analysis, as opposed to the more subjective penalty for negligence.

Precedent for an Analysis of Bunching

Because the substantial understatement penalty does not apply unless a person's understatement exceeds a threshold, the distribution of understatements around the threshold can reveal whether the penalty affects reporting behavior. Other studies have suggested that if we see a disproportionate number of taxpayers reporting income near a threshold, such as a notch or kink point in the tax rate schedule (called bunching), we can conclude that they are responding to the economic incentive created by the marginal rate.⁴⁰

To detect this type of bunching, researchers first divide the population into buckets or bins that represent fixed income ranges (*e.g.*, 0-\$500, \$500-\$1,000 etc.) and then create a histogram showing how many taxpayers fall into each bin. If there are a disproportionate number of taxpayers in the bins near the threshold, we may conclude that taxpayers are adjusting their behavior (*e.g.*, earnings or reporting compliance) in response to it. Statistical tests can also confirm that the bin sizes are appropriate and that the bunching is unlikely to have occurred by chance.⁴¹

A number of studies have used bunching to analyze the behavioral response to the Earned Income Tax Credit (EITC) schedule. The EITC is a means-tested anti-poverty program that provides assistance to the working poor.⁴² It boosts the economic incentive to earn income from work within certain ranges. One study found a disproportionate number of self-employed taxpayers' income bunching near the first kink point in the EITC schedule.⁴³ Although the self-employed are generally able to adjust their earnings in response to incentives more easily than wage earners, the study concluded that tax evasion

40 See, *e.g.*, Emmanuel Saez, *Do Taxpayers Bunch at Kink Points?*, 2 AM. ECON. J. ECON. POL. 180, 182 n4. (2010) (finding evidence of bunching around the first marginal U.S. tax rate threshold); Raj Chetty *et al.*, *Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records* (NBER Working Paper No. 15617, 2009), <http://www.nber.org/papers/w15617> (reviewing tax data from Denmark to find evidence of bunching at the top marginal rate thresholds); Henrik Kleven & Mazhar Waseem, *Using Notches to Uncover Optimization Frictions and Structural Elasticities: Theory and Evidence from Pakistan*, 128 QTRLY J. ECON. 669, 672 (2013) (finding "bunching below every notch [in Pakistan's income tax brackets] combined with missing mass (holes) above every notch... [and that these effects are] larger for self-employed individuals than for wage earners..."); Spencer Bastani & Håkan Selin, *Bunching and Non-Bunching at Kink Points of the Swedish Tax Schedule* (CESifo Working Paper No. 3865, 2012), <https://ssrn.com/abstract=2101038> (estimating the taxable income elasticity at a kink point in the Swedish tax schedule using the bunching method). For a technical discussion of a similar methodology called "regression discontinuity," see, *e.g.*, David S. Lee & Thomas Lemieux, *Regression Discontinuity Designs in Economics*, 48 J. ECON. LIT. 281-355 (2010) (describing methods for analyzing of the effects of treatments based on the insight that those immediately above and below a threshold that triggers a treatment can be compared as if they were selected at random if there is no reason to expect they are significantly different in other important respects); Justin McCrary, *Manipulation of the Running Variable in the Regression Discontinuity Design: A Density Test*, 142 J. ECONOMETRICS 698-714 (2008) (developing a statistical test to gauge whether the distribution of people above and below a threshold is random or subject to manipulation).

41 See *Id.*

42 To claim the Earned Income Tax Credit (EITC) for 2012, a person's income could be no more than \$50,270 if married with three eligible children. The EITC amount varies depending on the number of children and whether the taxpayer was married. See *Id.* For a discussion of refundable credits, including the EITC, and related compliance challenges, see, *e.g.*, *Improper Payments in the Administration of Refundable Tax Credits: Hearing Before the H. Subcomm. on Oversight of the Comm. on Ways and Means*, 112th Cong. (May 25, 2011) (statement of Nina E. Olson, National Taxpayer Advocate).

43 See Emmanuel Saez, *Do Taxpayers Bunch at Kink Points?*, 2 AM. ECON. J. ECON. POL. 180-212 (2010).

could best explain the results.⁴⁴ Although EITC claimants are more likely to get tax preparation assistance from unregulated, unaffiliated preparers — the types of preparers who are most likely to make mistakes — these studies suggested that someone (perhaps a preparer) was responsive to the kinks in the rate schedule.⁴⁵ A follow-up study suggested that low income taxpayer's incomes bunch around thresholds that maximize all of the refundable credits, rather than just the EITC.⁴⁶

Another study found income bunching near a notch applicable to the saver's credit.⁴⁷ It concluded that some taxpayers who were claiming the saver's credit manipulated their incomes to qualify.⁴⁸ Another found that automakers responded to gas guzzler taxes by producing a disproportionate number of cars with fuel economy just above the notches in the tax rate schedule that would minimize the tax.⁴⁹ A study out of the U.K. found bunching by small businesses with turnover just below the threshold at which they would be required to register for the value added tax (VAT).⁵⁰

Another study found a small amount of income bunching near the threshold in the tax rate schedule that subjects Social Security benefits to tax, but only by self-employed individuals.⁵¹ It concluded that the rules are so complex that most people (other than the self-employed) do not recognize this threshold. Although the Alternative Minimum Tax (AMT) is complicated, another study found bunching near

44 See Emmanuel Saez, *Do Taxpayers Bunch at Kink Points?*, 2 AM. ECON. J. ECON. POL. 180–212 (2010). See also, Elira Kuka, *EITC and the Self-Employed: Real or Reporting Effects?* 42 PUB. FIN. REV. 691–719 (2013). Subsequent research used an analysis of bunching to conclude that the EITC has a significant impact on reported earnings in areas of the country where knowledge about the EITC schedule is more widespread and preparers are readily available. Compare Raj Chetty and Emmanuel Saez, *Teaching the Tax Code: Earnings Responses to an Experiment with EITC Recipients* (NBER Working Paper No. 14836, 2009), <http://www.nber.org/papers/w14836.pdf> (finding that having preparers educate taxpayers about EITC incentives did not increase bunching around the EITC kink points), with Raj Chetty, John N. Friedman, and Emmanuel Saez, *Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings*, 103 AM. ECON. REV. 2683–2721 (2013), <http://dx.doi.org/10.1257/aer.103.7.2683> (finding geographic and social proximity to peers (and preparers) with knowledge of the EITC kink points affected bunching around EITC kink points).

45 See Kara Leibel, IRS, Pub. 5161, *Taxpayer Compliance and Sources of Error for the Earned Income Tax Credit Claimed on 2006–2008 Returns* 41 (Aug. 2014) (finding that most EITC claimants use a preparer, that unenrolled return preparers are the most common type of preparer chosen by EITC claimants, and that unenrolled preparers are also the most error prone). See also National Taxpayer Advocate 2002 Annual Report to Congress 216–230 (finding higher rates of error among unenrolled preparers). In some cases, preparer fraud is an issue. See, e.g., National Taxpayer Advocate 2012 Annual Report to Congress 68–94. For further discussion of the effect of preparers on compliance, see, e.g., National Taxpayer Advocate 2007 Annual Report to Congress vol. 2., 2–74 (Leslie Book, *Study of the Role of Preparers in Relation to Taxpayer Compliance with Internal Revenue Laws*).

46 Jacob Mortenson & Andrew Whitten, *How Sensitive Are Taxpayers to Marginal Tax Rates? Evidence from Income Bunching in the United States* 3 (Jan. 2016), <https://www.aeaweb.org/conference/2016/retrieve.php?pdfid=1486>. This study did not analyze the effect of preparers.

47 Shanthi Ramnath, *Taxpayers' Responses to Tax-based Incentives for Retirement Savings: Evidence from the Saver's Credit Notch*, 101 J. PUB. ECON. 77–93 (2013). The saver's credit is a tax credit for using certain retirement savings vehicles. IRC § 25B. It provides larger credits to those with smaller adjusted gross incomes. *Id.*

48 This study suggested that taxpayers with paid preparers were more likely to claim the credit, but did not otherwise analyze the effects of preparers. Shanthi Ramnath, *Taxpayers' Responses to Tax-based Incentives for Retirement Savings: Evidence from the Saver's Credit Notch*, 101 J. PUB. ECON. 77, 82 (2013).

49 James Sallee & Joel Slemrod, *Car Notches: Strategic Automaker Responses to Fuel Economy Policy* (NBER Working Paper No. 16604, 2010), <http://www.nber.org/papers/w16604>.

50 Li Liu & Ben Lockwood, *VAT Notches* (Nat'l Tax Assoc. 108th Annual Conf. Proc., Apr. 23, 2015), <https://www.ntanet.org/wp-content/uploads/proceedings/2015/023-lockwood-vat-notches.pdf>.

51 Leonard Burman et al., *Older Taxpayers' Response to Taxation of Social Security Benefits*, IRS-Tax Policy Center Research Conference (June 20, 2013), <https://www.irs.gov/pub/irs-soi/14rptaxationofsocialsecuritybenefits.pdf>. Social Security benefits are only partially subject to tax. Over certain income ranges, taxpayers must include in their taxable income \$.50–\$.85 of their social security benefits for every additional dollar of other taxable income. IRC § 86. These rules create kink points in the marginal rate schedule.

the threshold at which people are subject to the AMT.⁵² It observed that the behavioral response was largest for the self-employed.⁵³ It attributed the bunching to changes in both real economic activity and misreporting.⁵⁴

METHODOLOGY

Gap Analysis

TAS plans to analyze the distribution of assessments for TYs 2010-2012 that resulted from examinations of returns selected at random as part of the NRP.⁵⁵ We may compute the gap between the assessed understatement and the substantial understatement penalty threshold using a methodology similar to the one employed by the authors of the AMT study (discussed above).⁵⁶ The AMT threshold is different for each person depending on what items are on the return, making it difficult to select an income threshold to study. The AMT study addressed this problem by analyzing the gap between each individual's AMT and regular tax to determine how close each person was to the threshold.⁵⁷ Because the substantial understatement threshold depends on how much tax is required to be shown on a person's return (*i.e.*, an amount that varies from person to person, just like the AMT), TAS's study may use a similar gap analysis to determine how close taxpayers are to the substantial understatement threshold that would apply to their returns.

To apply a gap analysis, TAS would first compute the substantial understatement threshold applicable to each return (*i.e.*, the greater of \$5,000 and 10 percent of the tax required to be shown). Next, we would subtract the applicable substantial understatement threshold from the understatement to compute the gap between the understatement and the threshold for each return. Positive gaps would represent understatements above the threshold, and negative gaps represent understatements below the threshold.

Next, we would sort the understatement gaps into bins (*e.g.*, \$0-\$99, \$100-\$199, \$200-\$299, etc.) and plot the bins on histograms to detect any visual evidence of bunching.⁵⁸ We would consider adjusting the bin size based on the amount of variation in the data, using larger sizes for groups with more

52 See Donald Bruce & Xiaowen Liu, *Tax Evasion and Self-Employment in the US: A Look at the Alternative Minimum Tax*, IRS Research Conference 165-179 (2015), <https://www.irs.gov/pub/irs-soi/14rescontaxevasion.pdf>. The Alternative Minimum Tax (AMT) requires taxpayers to compute their taxes twice – once under the regular tax rules and again under the AMT rules. If the “tentative minimum tax” liability exceeds the regular tax liability, the taxpayer pays the difference as AMT. See IRC § 55.

53 *Id.*

54 *Id.*

55 These were the latest tax years for which the NRP weights were available. Because TAS plans to analyze assessments, we will probably not analyze cases closed without a change or that have not yet resulted in an assessment because of a pending appeal.

56 See Donald Bruce and Xiaowen Liu, *Tax Evasion and Self-Employment in the US: A Look at the Alternative Minimum Tax*, IRS Research Conference 165-179 (2015), <https://www.irs.gov/pub/irs-soi/14rescontaxevasion.pdf>.

57 *Id.*

58 See Justin McCrary, *Manipulation of the Running Variable in the Regression Discontinuity Design: A Density Test*, 142 J. ECONOMETRICS 698–714 (2008). We could use the R software, executing package “rdd,” as documented by Drew Dimmery, *Regression Discontinuity Estimation* (Mar. 14, 2016), <https://cran.r-project.org/web/packages/rdd/rdd.pdf>.

variation.⁵⁹ Finally, we would apply a test to determine if any apparent bunching immediately below the threshold is statistically significant or due to random variations.⁶⁰

As an example, if the amount of tax required to be shown is \$60,000 and the amount actually shown is \$52,000, the understatement is \$8,000 (\$60,000–\$52,000) and the threshold is \$6,000 (the greater of \$5,000 and 10% \times \$60,000). The gap between the understatement and the threshold is \$2,000 (\$8,000–\$6,000). This return would be displayed on the histogram in the bin containing understatement gaps of \$2000. If, instead, the amount shown were \$56,000, then the understatement would be \$4,000 (\$60,000–\$56,000), the threshold would be \$6,000 (the greater of \$5,000 and 10% \times \$60,000), and the gap would be -\$2,000 (\$4,000–\$6,000). This return would be in the bin containing understatement gaps of -\$2000.

Separate Analysis of Various Taxpayer Segments

TAS plans to analyze various taxpayer segments to determine if some are more responsive to the penalty threshold than others. Specifically, we plan to analyze segments claiming the EITC, sole proprietors, those who used a preparer, and those with high levels of income for the following reasons:

- Studies (discussed above) suggest that self-employed taxpayers have a greater propensity than other taxpayers to adjust their tax reporting behavior in response to economic incentives such as thresholds applicable to marginal tax rates, the EITC, the taxation of Social Security benefits, and for triggering the AMT.⁶¹ For this reason, they could also be more responsive to the economic incentives provided by the substantial understatement penalty threshold than other taxpayers.
- Studies suggest that some taxpayers adjust their behavior to claim the maximum EITC.⁶² If EITC claimants change their behavior in response to the economic incentive provided by the EITC thresholds, they could be similarly responsive to the substantial understatement penalty

59 See Justin McCrary, *Manipulation of the Running Variable in the Regression Discontinuity Design: A Density Test*, 142 J. ECONOMETRICS 698–714 (2008).

60 *Id.* McCrary describes a test to detect manipulation of a “running variable” in a “regression discontinuity” design. In this case, the understatement gap is the running variable. The McCrary test first creates a histogram where no one bin contains points both to the left and to the right of the threshold or break point. Then it uses local linear regression — trend lines on each side of the threshold — to provide an estimate of the density and slope of the understatement gap on each side. It also computes the bandwidth to use for these regressions (*i.e.*, how long should regression lines be) using the method described by Guido and Kalyanaraman. See Imbens, Guido and Karthik Kalyanaraman, *Optimal Bandwidth Choice for the Regression Discontinuity Estimator* (NBER Working Paper No. 14726, 2009). Finally, the test measures whether the differences in the density of the substantial understatements gaps on the left and right-hand sides of the threshold are statistically significant.

61 See Emmanuel Saez, *Do Taxpayers Bunch at Kink Points?*, 2 AM. ECON. J. ECON. POL. 180 (2010) (“We find clear evidence of bunching around the first kink point of the Earned Income Tax Credit but concentrated solely among the self-employed.”); Elira Kuka, *EITC and the Self-Employed: Real or Reporting Effects?*, 42 PUB. FIN. REV. 691–719 (2013) (concluding that real labor supply responses of the self-employed are similar to those of salaried workers, but that they exhibit greater bunching due to misreporting); Leonard Burman *et al.*, *Older Taxpayers’ Response to Taxation of Social Security Benefits*, IRS-Tax Policy Center Research Conference 3 (June 20, 2013), <https://www.irs.gov/pub/irs-soi/14rptaxationofsocialsecuritybenefits.pdf> (“We find no evidence of bunching at or around the thresholds [at which Social Security benefits become taxable] for the population as a whole, and only a very small response for single self-employed taxpayers who have previously been found to be more sensitive to changes in tax rates...”); Donald Bruce & Xiaowen Liu, *Tax Evasion and Self-Employment in the US: A Look at the Alternative Minimum Tax*, IRS Research Conference 165 (2015), <https://www.irs.gov/pub/irs-soi/14rescontaxevasion.pdf> (“We find the bunching created by self-employed individuals locates further away from the AMT threshold than the bunching created by wage earners, which suggests that the self-employed act more aggressively to avoid the AMT.”); Henrik Kleven & Mazhar Waseem, *Using Notches to Uncover Optimization Frictions and Structural Elasticities: Theory and Evidence from Pakistan*, 128 QTRLY J. ECON. 669, 672 (2013), http://eml.berkeley.edu/~saez/course/kleven-waseem_qje2013.pdf (finding “bunching below every notch [in Pakistan’s income tax brackets] combined with missing mass (holes) above every notch...[and that these effects are] larger for self-employed individuals than for wage earners...”).

62 See, e.g., Raj Chetty, John N. Friedman, & Emmanuel Saez, *Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings*, 103 AM. ECON. REV. 2683–2721 (2013), <http://dx.doi.org/10.1257/aer.103.7.2683>.

threshold.

- Preparers can have a wide range of effects on compliance depending on the circumstances.⁶³ Preparers might educate taxpayers about the substantial understatement penalty threshold. Some taxpayers may use a preparer to avoid making an understatement. Others may use a preparer to minimize their taxes and to ensure that any understatement is not so severe as to trigger a penalty.⁶⁴
- High income taxpayers might be more likely (than lower income taxpayers) to be engaged in economic activities that allow for a wider range of reasonable reporting positions.⁶⁵ Some of these taxpayers might try to ensure that debatable positions would not push them over the substantial understatement threshold.

CONCLUSION

Although it may be convenient to assume that people are motivated primarily by money, there is relatively little real-world evidence that marginal changes to accuracy-related penalty rates affect tax reporting compliance. If taxpayers know about the substantial understatement penalty and try to avoid it, then some who might otherwise have an understatement just above the threshold should reduce their underreporting so that they are just below the threshold. TAS will try to determine whether they do, and if so, which taxpayer segments are most responsive.

63 For a general discussion of the influence of preparers on sole proprietors and EITC claimants, see, e.g., National Taxpayer Advocate 2007 Annual Report to Congress vol 2., 2-74 (Leslie Book, *Study of the Role of Preparers in Relation to Taxpayer Compliance with Internal Revenue Laws*). Some research suggests preparers enhance compliance with unambiguous rules, but reduce it with respect to ambiguous ones. See Steven Klepper, Mark Mazur, and Daniel Nagin, *Expert Intermediaries and Legal Compliance: The Case of Tax Preparers*, 34 J. L. AND ECON. 205 (1991). See also Kim M. Bloomquist, Michael F. Albert, and Ronald L. Edgerton, *Evaluating Preparation Accuracy of Tax Practitioners: A Bootstrap Approach*, *Proceedings of the 2007 IRS Research Conference* 77 (2007) (finding preparers reduce math errors, but increase the incidence of potential misreporting). Other research suggests preparers make frequent errors in a wide variety of areas. See, e.g., GAO, GAO-02-509, *Tax Deductions: Further Estimates of Taxpayers Who May Have Overpaid Federal Taxes by Not Itemizing* (2002) (finding in 1998 about one million taxpayers overpaid by failing to itemize even though about half used a preparer); Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2003-40-046, *Analysis of Statistical Information for Returns with Potentially Unclaimed Additional Child Tax Credit* (Jan. 31, 2003) (finding about 230,000 returns filed by paid preparers in 2002 where taxpayers appeared eligible for Additional Child Tax Credits they did not claim); Janet Holtzblatt and Janet McCubbin, *Issues Affecting Low-Income Filers*, in *The Crisis in Tax Administration* 148, 159 (Henry J. Aaron and Joel Slemrod eds., 2004) (observing that about two-thirds of EITC returns, which have high levels of noncompliance, were prepared by paid preparers); GAO, GAO-06-563T, *Paid Tax Return Preparers: In a Limited Study, Chain Prepares Made Serious Errors* 5, 23 (Apr. 4, 2006) (finding preparers made significant mistakes on 17 of the 19 returns prepared for GAO employees posing as taxpayers, including the omission of income on ten); TIGTA, Ref. No. 2008-40-171, *Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors* 2 (Sept. 3, 2008) (finding preparers made mistakes on 17 of the 28 returns prepared for TIGTA employees posing as taxpayers, including six willful or reckless errors).

64 For further discussion of various types of influences, see, e.g., National Taxpayer Advocate 2007 Annual Report to Congress vol 2., 59-63 (Leslie Book, *Study of the Role of Preparers in Relation to Taxpayer Compliance with Internal Revenue Laws*).

65 Perhaps for this reason, high income taxpayers may even take more aggressive positions after being told they are likely to be audited. See Joel Slemrod et al., *Taxpayer Response to an Increased Probability of Audit: Evidence from a Controlled Field Experiment in Minnesota*, 79 J. PUB. ECON. 455, 455 (2000) (finding that the reported tax liability of the high income taxpayers fell sharply relative to the control group, after being informed the returns they were about to file would be “closely examined”).

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Volume 2

TAS RESEARCH AND RELATED STUDIES

An Analysis of Tax Settlement Programs as Amnesties

An Analysis of Tax Settlement Programs as Amnesties¹

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¹ The principal author of this discussion is Eric LoPresti, Senior Attorney-Advisor to the National Taxpayer Advocate.

EXECUTIVE SUMMARY

Research generally suggests that broad and frequent one-size-fits-all amnesties can reduce government revenues in the long run. They can reduce future compliance by eroding perceptions of fairness, revealing noncompliance norms, or diluting economic deterrence.² However, the IRS and tax agencies around the world routinely adopt amnesties, such as programs to address mass-marketed tax schemes or undisclosed and untaxed funds held in other countries (*i.e.*, offshore voluntary disclosure programs or OVDPs). This discussion reviews amnesty research to identify when and how tax administrators can use settlement programs to minimize unnecessary burdens and disputes, and improve future compliance.

Narrowly-tailored settlement programs aimed at specific objectives are less likely to threaten future compliance than broad amnesties aimed at accelerating short-term revenues. More importantly, settlement programs should be coupled with other compliance-enhancing measures. For example, they may help smooth the transition from widespread noncompliance to compliance norms, provided the agency can credibly commit to maintain the new norms (*e.g.*, by increased service, monitoring, or enforcement). Increases in penalties and new automated information exchanges (including third-party reporting) provide opportunities for tax agencies to make credible commitments to improve compliance norms, provided the agencies can also assure taxpayers that penalties will be applied fairly and their private financial information will not be used inappropriately.³

In addition, settlement programs should take into account the motivational posture of the taxpayer (*i.e.*, were they trying to comply or game the system?). When those who made honest mistakes have a reasonable and easy way to correct them without facing unexpectedly harsh consequences designed for bad actors, the program may promote compliance by improving trust for the agency. An analysis of the IRS's OVDPs suggests there are risks to a one size-fits-all approach.

INTRODUCTION

Research suggests that broad and frequent tax amnesty programs generally do not generate revenue that exceeds their true long-term costs.⁴ Their costs may include (1) the cost of foregone revenue (*i.e.*, the waiver of penalties, interest, and taxes) that might otherwise have been collected, (2) the costs of administering the amnesty, and (3) the potential for a reduction in future compliance.⁵

Despite the potential costs of amnesties, tax settlement programs, including OVDPs, generally provide some level of amnesty. The Organization for Economic Cooperation and Development (OECD) recommends that tax agencies consider voluntary disclosure programs as they receive more information about citizens' and residents' assets in other countries, and at least 47 countries have adopted OVDPs,

2 Economic deterrence is when a person complies because he or she expects that the economic cost of noncompliance (including penalties and interest) will exceed the expected economic gains. For the foundations of this theory, see, *e.g.*, Gary S. Becker, *Crime and Punishment: An Economic Approach*, 76 J. POL. ECON. 169 (1968); Richard A. Posner, *An Economic Theory of the Criminal Law*, 85 COLUM. L. REV. 1 193 (1985); A. Mitchell Polinsky & Steven Shavell, *The Economic Theory of Public Enforcement of Law*, 38 J. ECON. LIT. 45 (2000). For a tax-specific application, see, *e.g.*, Maurice Allingham & Agnar Sandmo, *Income Tax Evasion: A Theoretical Analysis*, 1 J. PUB. ECON. 323-38 (1972).

3 This paper does not explore the legitimate concerns raised about the protection, use, and misuse of tax-related information.

4 See KATHERINE BAER & ERIC LE BORGNE, *TAX AMNESTY: THEORY, TRENDS, AND SOME ALTERNATIVES* 55-59 (International Monetary Fund, 2008).

5 *Id.*

including the U.S.⁶ Research on amnesties can inform the structure and design of a settlement program such as an OVDP.

Tax agencies may offer amnesty to:⁷

- (1) Collect back taxes that would not otherwise be identified or collected;⁸
- (2) Avoid the administrative costs of enforcement and appeals;⁹
- (3) Improve future compliance by reducing the cost of rejoining the tax system, and increasing the likelihood that future noncompliance will be detected and punished;¹⁰
- (4) Obtain information about who is noncompliant and why;¹¹
- (5) Induce the repatriation of capital;¹² and
- (6) Be fair to noncompliant taxpayers by giving them a chance to comply before enforcing previously unenforced rules or implementing stiffer penalties, information reporting, or enforcement initiatives.¹³

6 Organization for Economic Cooperation and Development (OECD), *Update on Voluntary Disclosure Programs: A Pathway to Tax Compliance 6-7* (2015), <http://www.oecd.org/ctp/exchange-of-tax-information/Voluntary-Disclosure-Programmes-2015.pdf>. See also OECD, *Improving Access to Bank Information for Tax Purposes, The 2007 Progress Report 26-34* (2007), <https://www.oecd.org/ctp/exchange-of-tax-information/39327984.pdf>. OECD's decision tree for designing voluntary disclosure programs requires decisions about (1) reasons for the amnesty, (2) scope, (3) terms, (4) reporting requirements, (5) intelligence gathering opportunities, and (6) communications strategy. See OECD, *Starting A Voluntary Disclosure Initiative or Program – Decision Tree*, <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/vdp-decision-tree.pdf> (last visited Nov. 29, 2017).

7 For a general discussion of amnesties and the reasons for them, see, e.g., Bessie Ross, *Federal Tax Amnesty: Reflecting on the States' Experiences*, 40 *Tax Law.* 145, 156-57 (1986); Arun Malik & Robert Schwab, *The Economics of Tax Amnesties*, 46 *J. Public Econ.* 29-49 (1991); Herman Leonard & Richard Zeckhauser, *Amnesty Enforcement and Tax Policy*, in *Tax Policy and the Economy*, Vol. 1, 55-85 (Lawrence Summers, ed., 1987), <http://www.nber.org/chapters/c10929.pdf>.

8 See, e.g., John Hasseldine, *Tax Amnesties: An International Review*, 52 *Bulletin for International Fiscal Doc.* 303, 307 (1998) (finding that revenues from the 43 state tax amnesties offered between 1982 and 1998 ranged from 0.008% to over 2% of state tax revenues); Ralph Bayer et al., *Amnesty Information from US States Between 1981 and 2011*, 125 *J. Pub. Econ.* 70, 79-81 (2015) (finding that amnesties brought in between 0.001% and 1.5% of a state's revenue and that the likelihood of a U.S. state offering an amnesty appeared to be driven mainly by its fiscal requirements). For some of the same reasons, the IRS may accept an offer in compromise to settle tax liabilities that the taxpayer cannot pay. See Internal Revenue Code (IRC) § 7122.

9 Dominika Langenmayr, *Voluntary Disclosure of Evaded Taxes — Increasing Revenue, or Increasing Incentives to Evade?*, 151 *J. Pub. Econ.* 110–125 (2017) (finding that Offshore Voluntary Disclosure Programs (OVDP)s can save significant administrative resources). Under some state voluntary compliance initiatives, taxpayers who wanted appeal rights had to give up some of the benefits of the amnesty. LeAnn Luna, et al., *State Tax Amnesties: Forgiveness Is Divine – And Possibly Profitable*, 41 *State Tax Notes* 497, 507 (Aug. 21, 2006). Perhaps for the same reason, taxpayers who fail to pay the tax they reported on a timely-filed return can receive a reduced failure-to-pay penalty rate for any month during which they have an installment agreement in effect. IRC § 6651(h). Similarly, a statutory period of limitations is a form of amnesty for old violations, which could be justified, in part, on the basis that it would take more resources to pursue them. See IRC § 6501.

10 See, e.g., Bessie Ross, *Federal Tax Amnesty: Reflecting on the States' Experiences*, 40 *Tax Law.* 145, 156-57 (1986). Offers in compromise may also further this objective, as they include a requirement to file and pay for the following five-year period. IRS Form 656, *Offer in Compromise* (Mar. 2017).

11 See, e.g., Herman Leonard & Richard Zeckhauser, *Amnesty Enforcement and Tax Policy*, in *Tax Policy and the Economy*, Vol. 1, 55, 61 (Lawrence Summers, ed., 1987), <http://www.nber.org/chapters/c10929.pdf> (“Parking ticket amnesties result in a current address list useful in future collection efforts, thus making future compliance more likely. An amnesty for toxic waste dumps might permit society to find out where they are before poisons filter into groundwater. And a tax amnesty makes future adherence to the tax code more likely by removing the need to conceal past sins.”).

12 See, e.g., KATHERINE BAER & ERIC LE BORGNE, *Tax Amnesty: Theory, Trends, and Some Alternatives 6* (International Monetary Fund, 2008).

13 See, e.g., Herman Leonard & Richard Zeckhauser, *Amnesty Enforcement and Tax Policy*, in *Tax Policy and the Economy*, Vol. 1, 55, 62 (Lawrence Summers, ed., 1987); Craig M. Boise, *Breaking Open Offshore Piggybanks: Deferral and the Utility of Amnesty*, 14 *Geo. Mason L. Rev.* 667, 709 (2007).

The broadest form of tax amnesty forgives tax, interest, and penalties, even for noncompliance that has already been detected. Broad amnesties provide a strong financial incentive to participate. Tax agencies may use them to promote future compliance when taxpayers have acted reasonably or the government contributed to the noncompliance. For example, the U.S. Supreme Court has called into question the legality of the requirement for out-of-state sellers to collect certain state sales and use taxes.¹⁴ Some states have responded by offering sellers broad amnesty if they agree to collect these taxes in the future.¹⁵ Broad amnesty may also be offered for other reasons on a case-by-case basis, for example, as part of an offer in compromise (OIC) or settlement agreement.¹⁶ By contrast, the narrow amnesties may forgive only criminal penalties.¹⁷

DISCUSSION

Broad Amnesties Can Erode Voluntary Compliance, Particularly If Repeated

The government's short-term goal of using an amnesty to raise short-term revenue can sometimes conflict with its long-term goal of improving voluntary compliance.¹⁸ An amnesty could potentially reduce voluntary compliance if it:

- (1) Is viewed as unfair because it allows noncompliant taxpayers to pay less than compliant ones (after inflation), potentially eroding tax morale;¹⁹
- (2) Reveals that a large percentage of the population evades taxes or otherwise reduces the stigma of noncompliance, potentially eroding social norms (*i.e.*, reducing the motivation to comply based on whether people think others do);²⁰ or

14 See, e.g., *National Bellas Hess, Inc. v. Dept. of Revenue*, 386 U.S. 753 (1967); *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992).

15 See LeAnn Luna, et al., *State Tax Amnesties: Forgiveness Is Divine – And Possibly Profitable*, 41 STATE TAX NOTES 497, 504-05 (2006).

16 See, e.g., IRC §§ 7121 and 7122.

17 Another type of amnesty is for a tax agency to agree not to audit taxpayers who amend their returns to report and pay more than a specified amount. See, e.g., KATHERINE BAER & ERIC LE BORGNE, TAX AMNESTY: THEORY, TRENDS, AND SOME ALTERNATIVES 9-10 (International Monetary Fund, 2008). Amnesties may also be categorized as covering returns, investigations, or prosecutions. See Luigi Alberto Franzoni, *Punishment and Grace: On the Economics of Permanent Amnesties* 3 (Univ. of Bologna Dep't of Econ., Working Paper No. 252, 1996), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.199.7787&rep=rep1&type=pdf>.

18 For example, governments can potentially increase amnesty revenues by allowing those who have already been detected to participate and by providing amnesty for both penalties and interest. See James Alm & William Beck, *Wiping the Slate Clean: Individual Response to State Tax Amnesties*, 57 SOUTHERN ECON. J. 1043-53 (1991); John Mikesell & Justin Ross, *Fast Money? Contribution of State Tax Amnesties to Public Revenue Systems* 65 NAT'L TAX J. 529-62 (2012).

19 See, e.g., Treasury Department Report to the President, *Tax Reform for Fairness, Simplicity, and Economic Growth*, vol. 1, 91 (1984), <https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Tax-Reform-v1-1984.pdf> (opposing amnesties because they send the message: "Don't bother to pay now. We may forget you owe anything. Even if you have to pay tax, we won't charge interest"); Leo Martinez, *Federal Tax Amnesty: Crime and Punishment Revisited*, 10 VA. TAX. REV. 535-85 (1990).

20 See, e.g., John Hasseldine, *Tax Amnesties: An International Review*, 52 BULLETIN FOR INT'L FISCAL DOC. 303, 304 (1998); Lars Feld and Bruno Frey, *Tax Evasion, Tax Amnesties and the Psychological Tax Contract* 21 (Ga. State Univ., Int'l Studies Prog., Working Paper 07-29, 2007).

- (3) Reveals a tax agency's inability to detect noncompliance, lack of resources for enforcement, or increases the expectation that a broad amnesty will be offered in the future, potentially diluting economic deterrence.²¹

These problems are exacerbated if the government offers broad amnesties to everyone on a regular basis.²² Governments can potentially offset these negative effects by coupling an amnesty with a credible commitment that it will change noncompliance norms, for example, by making compliance easier or through stepped-up monitoring (*e.g.*, information reporting or exchanges), enforcement, services, or increased penalties.²³ Moreover, if the agency has the ability to improve compliance norms, amnesties can accelerate those improvements.²⁴

Limited Amnesties or Amnesty Alternatives Do Not Raise the Same Concerns

Amnesties that simply allow people to pay their back taxes with interest before their noncompliance is detected should have little effect on economic deterrence (*i.e.*, the expected economic costs (and benefits) of noncompliance).²⁵ Because such narrow amnesties do not change the economic incentive to any significant extent, they are most likely to attract taxpayers whose noncompliance was inadvertent or

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- 21 James Alm & William Beck, *Tax Amnesties and Tax Revenues*, PUBLIC FINANCE QTRLY 433 (Oct. 1990) (finding that compliance decreased after a broad amnesty); Arun Malik & Robert Schwab, *The Economics of Tax Amnesties*, 46 J. PUB. ECON. 29-49 (1991) (suggesting that taxpayers should report less income as the probability of an amnesty rises). For the same reasons, the Joint Committee on Taxation (JCT) scored a broad amnesty as a revenue loser. See JCT, JCS-2-98, *Tax Amnesty* (1998). However, an earlier review of international amnesties concluded that “a well-designed tax amnesty program, accompanied by structural and tax reforms, has the potential to lead to beneficial results in both developed and developing countries.” Eliot Uchitelle, *The Effectiveness of Tax Amnesty Programs in Selected Countries*, FED. RES. BANK N.Y. QTRLY REV. 48, 53 (Autumn 1989), https://www.newyorkfed.org/medialibrary/media/research/quarterly_review/1989v14/v14n3article5.pdf.
- 22 See, *e.g.*, Hari Luitel & Russell Sobel, *The Revenue Impact of Repeated Tax Amnesties*, 27 PUB. BUDGETING & FIN. 19-38 (2007) (finding that states that offer repeated tax amnesties generate less revenue from them than the initial amnesties, and that compliance declines afterward); Tonia Padiaditaki, *Tax Amnesties and Tax Compliance: The Case of Greece* (International Conference on Taxpayer Rights Washington, D.C., Nov. 18-19, 2015), <http://slideplayer.com/slide/9361648/> (discussing problems with Greece's repeated amnesties).
- 23 See, *e.g.*, James Alm & William Beck, *Tax Amnesties and Compliance in the Long Run: A Time Series Analysis*, 46 NAT'L TAX J. 53-60 (Mar., 1993) (finding an amnesty in Colorado that applied to civil and criminal penalties and excluded those who had been detected had no significant effect on voluntary compliance when coupled with stepped-up enforcement and increased penalties); James Alm, Jorge Martinez-Vazquez, & Sally Wallace, *Do Tax Amnesties Work? The Impacts of Tax Amnesties During the Transition in the Russian Federation*, 39 ECON. ANALYSIS POL. 235, 248 (2009) (finding the amnesties offered during the transition in the Russian Federation had no impact on the level or the trend of tax collections, even though they were expected to be repeated and not necessarily combined with increased enforcement or tax reform); Julio Lopez-Laborda & Fernando Rodrigo, *Tax Amnesties and Income Tax Compliance: The Case of Spain*, 24 FISC. STUDIES 73-96 (2003) (finding a 1991 amnesty in Spain had no effect on tax collection); Lars Feld & Bruno Frey, *Tax Evasion, Tax Amnesties and the Psychological Tax Contract*, 21 (Ga. State Univ., Int'l Studies Prog., Working Paper 07-29, 2007) (arguing that if amnesties are implemented “very infrequently, *e.g.*, only every two generations, the negative side effects on honest taxpayers could be kept moderate.”); KATHERINE BAER AND ERIC LE BORGNE, TAX AMNESTY: THEORY, TRENDS, AND SOME ALTERNATIVES 57 (International Monetary Fund 2008) (concluding “if combined with a credible closing of the sources of noncompliance... and a fundamental change in the way tax administration operates, [an amnesty program] may be appropriate ...”).
- 24 See Inés Macho-Stadler, Pau Olivella, & David Pérez-Castrillo, *Tax Amnesties in a Dynamic Model of Tax Evasion*, J. PUB. ECON. THEORY, 439, 440 (1999) (“if the government does not proclaim an amnesty in the presence of such improvements [in enforcement], the economy will only converge slowly to the new steady state [of increased compliance], whereas the simultaneous proclamation of an amnesty accelerates the process (or even makes it instantaneous).”).
- 25 See, *e.g.*, Arun Malik & Robert Schwab, *The Economics of Tax Amnesties*, 46 J. PUB. ECON. 29, 30-31 (1991) (observing that under the standard model of tax evasion even if an amnesty “led the taxpayer to believe that amnesties might be offered in the future, his future behavior would not change (as long as he believed that interest on unpaid taxes would never be forgiven ... [it] would predict that no one would ever take advantage of an amnesty and the possibility of future amnesties would never affect people's future decisions.”).

whose views have changed,²⁶ rather than those committed to tax evasion.²⁷ Moreover, those who are not committed to future compliance are less likely to participate if they feel their participation may subject them to greater scrutiny in the future.²⁸

Indeed, a review of state tax amnesties suggests that they generally attract people who owe relatively small amounts, rather than those with large chronic delinquencies.²⁹ Even among those whose original noncompliance was intentional, one survey of state amnesty participants found that it was due, in large part, to their inability to pay.³⁰ Some have suggested that amnesties can be a helpful way to identify those who want to comply.³¹ An analysis of OVDP participation around the world suggests that one major category of holdouts includes those who remain “unwilling to pay the tax due.”³²

By contrast, those who want to pay but cannot are better candidates for individualized amnesties, such as the IRS’s OIC program, which requires future compliance.³³ Because the IRS is probably not going to collect from these taxpayers in any event, the offer program probably does more to generate economic growth and future tax revenue than to increase the incentive for evasion.³⁴

Providing penalty relief to those with small delinquencies whose misreporting was inadvertent and who correct it before being contacted by the tax agency, and who are most likely committed to future compliance, does not raise the same concerns about fairness, tax morale, or norms as a broader amnesty. Participants are following the norm of paying taxes with interest, albeit late. They may not even be

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- 26 See, e.g., Arun Malik and Robert Schwab, *The Economics of Tax Amnesties*, 46 J. PUB. ECON. 29, 31 (1991) (arguing that a person may participate in an amnesty simply because he discovers that “the cost of lying awake at night worrying that his hidden income will be discovered is larger than the benefit of lower taxes.”).
- 27 One study found that extrinsic factors (e.g., economic considerations) account for about two-thirds of the overall decision to make a tax amnesty disclosure and intrinsic factors (e.g., a feeling of responsibility to pay taxes) accounted for about one-third. Jonathan Farrar & Cass Hausserman, *An Exploratory Investigation of Extrinsic and Intrinsic Motivations in Tax Amnesty Decision-Making*, 2 J. TAX ADMIN. 47 (Portland State U., 2016).
- 28 OECD, *Update on Voluntary Disclosure Programs: A Pathway to Tax Compliance* 23-24 (Aug. 2015) (“Other concerns expressed related to...the risk that a disclosure would influence future risk assessments and trigger wider or future audit activity.”). One scholar also points out that if an amnesty reduces black market activity, it could reduce future enforcement revenue. See Arindam Das-Gupta and Dilip Mookherjee, *Tax Amnesties as Asset-Laundering Devices*, 12 J. L. ECON. & ORG. 408, 410 (1996).
- 29 See, e.g., Ronald Fisher, John Goddeeris & James Young, *Participation in Tax Amnesties: The Individual Income Tax*, 42 NAT’L TAX J. 15, 18 (1989) (finding most amnesty participants had relatively small delinquencies); David Joulfaian, *Participation in Tax Amnesties: Evidence from a State*, in PROCEEDINGS OF THE EIGHTY-FIRST ANNUAL CONFERENCE ON TAXATION, 128, 32 (National Tax Assoc., 1988) (finding amnesties “were most successful in attracting those with known liabilities and non-filers. However, they failed to attract those with long history of noncompliance. They also failed to attract individuals who file but under-report income.”); Charles Christian et al., *Evidence on Subsequent Filing from the State of Michigan’s Income Tax Amnesty*, 55(4) NAT’L TAX J. 703–21 (2002) (finding that about two-thirds of new filers and nine-tenths of previous filers who filed amended returns under Michigan’s amnesty, subsequently filed income tax returns, but that the additional revenue raised from these taxpayers was relatively small.).
- 30 Christina M. Ritsema et al., *Economic and Behavioral Determinants of Tax Compliance: Evidence from the 1997 Arkansas Tax Penalty Amnesty Program*, IRS Research Conference (2003), <https://www.irs.gov/pub/irs-soi/ritsema.pdf>.
- 31 See Luigi Alberto Franzoni, *Punishment and Grace: On the Economics of Permanent Amnesties* 3 (U. of Bologna Dep’t of Econ., Working Paper No. 252, 1996), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.199.7787&rep=rep1&type=pdf>. (“Amnesties induce taxpayers with the highest willingness to pay to self-select themselves and to elude the standard enforcement/prosecution procedure (which is costly to the administration)”).
- 32 OECD, *Update on Voluntary Disclosure Programs: A Pathway to Tax Compliance* 23-24 (Aug. 2015).
- 33 See, e.g., IRS Form 656, *Offer in Compromise* (2017) (items j and k).
- 34 While the possibility of compromising a tax liability may reduce the financial risk of noncompliance to some extent, the offer program does not reduce those risks very much. Those who cannot pay may avoid severe economic hardship either by accessing the social safety net or by entering the underground economy. However, the offer program allows the IRS to administer the terms under which a safety net will be offered and provides it with an opportunity to capture the goodwill that it produces.

viewed as getting special treatment because all taxpayers can avoid accuracy-related penalties, even after detection, if they can establish the misreporting was due to reasonable cause.³⁵ Indeed, such an amnesty could be viewed as fairer than applying penalties to every violation, potentially increasing trust for the agency along with voluntary compliance.³⁶

Perhaps for this reason, the IRS has a longstanding amnesty program that allows taxpayers who have underreported their income to avoid the accuracy-related penalty (but not the failure to pay penalty) by filing “qualified amended returns” (QARs) any time before being contacted by the IRS.³⁷ If they come forward before being detected, they can also generally avoid being recommended for criminal prosecution under the IRS’s longstanding voluntary disclosure practice (VDP), as long as they follow through by cooperating and paying the liability.³⁸ Similarly, a survey of VDPs around the world by the OECD found that close to half of the countries (19 out of 47) that responded waived all monetary penalties for taxpayers who make voluntary disclosures.³⁹ Because amnesties that merely reduce or eliminate penalties are significantly different from broader amnesties — presenting smaller risks to voluntary compliance — we refer to them as amnesty alternatives.

Offering Amnesty Alternatives Before Enforcement Is Consistent With the Responsive Regulation Model, Which Promotes Voluntary Compliance

The Responsive Regulation Model Requires Agencies to Respond Reasonably and Proportionally

Adopting tax administration strategies that are responsive to the taxpayer’s motivational posture — applying education, amnesty, or amnesty alternatives to those who made honest mistakes, and reserving enforcement-oriented treatments for those committed to noncompliance — is consistent with the so-called “responsive regulation” tax compliance model. This model, which has been endorsed by the OECD Forum on Tax Administration Compliance Sub-group, and a number of tax agencies throughout the world, is shown in Figure 1.⁴⁰

35 See IRC § 6664(c).

36 One simulation found that when an amnesty is regarded as fair it increases tax compliance. See Silvia Rechberger et al., *Tax Amnesties, Justice Perceptions, and Filing Behavior: A Simulation Study*, 32 L. & POLICY 214-25 (Apr. 2010). Another found that amnesties had significantly greater positive effects on voluntary compliance when citizens were engaged in discussion about them and then voted on them before they were implemented. See Benno Torgler, Christoph Schaltegger, & Markus Schaffner, *Is Forgiveness Divine? A Cross-Culture Comparison of Tax Amnesties*, 139 SWISS J. OF ECON. & STAT. 375-96 (2003), <http://www.sjes.ch/papers/2003-III-7.pdf>. See also, Bruno S. Frey & Lars P. Feld, *Deterrence and Morale in Taxation: An Empirical Analysis* 23 (CESIFO Working Paper No. 760, 2002) (concluding that a “respectful” relationship of the tax authorities to the taxpayers crowds in tax morale while an “authoritarian” relationship using instruments of deterrence has two countervailing effects: on the one hand the change in relative prices (the higher probability of being punished) reduces the incentives to evade taxes but on the other hand tax morale is undermined or crowded out.”).

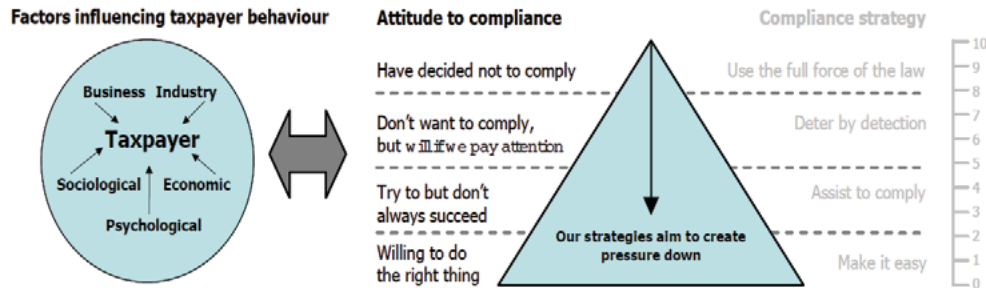
37 See Treas. Reg. § 1.6664-2(c).

38 Internal Revenue Manual (IRM) 9.5.11.9 (Dec. 2, 2009) (requiring that (a) “A taxpayer shows a willingness to cooperate (and does in fact cooperate) with the IRS in determining his/her correct tax liability.” and (b) “The taxpayer makes good faith arrangements with the IRS to pay in full, the tax, interest, and any penalties determined by the IRS to be applicable.”).

39 OECD, *Update on Voluntary Disclosure Programs: A Pathway to Tax Compliance* 31 (Aug. 2015), <http://www.oecd.org/ctp/exchange-of-tax-information/Voluntary-Disclosure-Programmes-2015.pdf>.

40 See OECD, Forum on Tax Administration Compliance Sub-group, *Managing and Improving Tax Compliance*, 47, 70 (Oct. 2004), <http://www.oecd.org/dataoecd/44/19/33818656.pdf>. See also Valerie Braithwaite and Jenny Job, *The Theoretical Base for the ATO Compliance Model*, Centre for Tax System Integrity — Research Note 5 (2003), <https://digitalcollections.anu.edu.au/bitstream/1885/42101/2/researchnote5.pdf>; Swedish Tax Agency, *Right from the Start, Research and Strategies* 8, 110-16 (Aug. 2005). The OECD subsequently endorsed the “Co-operative Compliance” framework, pursuant to which the tax agency works collaboratively with large corporations that are willing to be transparent, establish tax compliance systems, and work with the agency to get early resolution of tax uncertainty. See, e.g., OECD, *Co-operative Compliance: A Framework* (2013). This new framework seems consistent with the responsive regulation model.

FIGURE 1, Responsive Regulation Compliance Model



The OECD explains responsive regulation as follows:

Taxpayers are more likely to increase voluntary compliance when they believe that the revenue authority acts in a way that is fair and reasonable. Regulatory response that is consistent with a framework such as the compliance pyramid reinforces this belief because taxpayers tend to regard tough enforcement action as more procedurally fair when persuasion has been tried first. Further, while taxpayers' value being trusted themselves, they want to know that the authority carries a big stick to deal with others who cannot be trusted. In this way, responsive regulation builds community confidence and belief in the legitimacy of the tax system.⁴¹

In other words, the use of an enforcement approach that assumes all violations are intentional (*e.g.*, by always asserting penalties) is inconsistent with responsive regulation and can reduce the perceived legitimacy of the agency and the tax system. Therefore, in certain situations an appropriately-structured amnesty or amnesty alternative can be consistent with the responsive regulation model, potentially even increasing public confidence in the tax agency.

Sudden Enforcement of Previously-Ignored Laws May Not Be Viewed As Reasonable and Proportionate Without an Amnesty or Amnesty Alternative

A tax agency's silence in the face of widespread noncompliance norms may be viewed as acquiescence. When the government does not enforce a law, it encourages otherwise-honorable people to mirror the government's priorities and view compliance as unimportant. Sudden and severe sanctions against these otherwise-honorable people may be seen as unfair, undermining the agency's legitimacy.⁴² As one commentator has explained:

Both privately and publicly, we generally avoid the apparent unfairness that comes from changing our implicit contracts about enforcement. As our children grow older and more responsible, we do not enforce rules retroactively even if they were aware of them. We declare that prior violations are exempt (amnestied), but that in the future punishment will be consistent and more severe. The principle of not subjecting people to punishment more

41 OECD, Forum on Tax Administration Compliance Sub-group, *Managing and Improving Tax Compliance* 70 (Oct. 2004).

42 Accord Frank McKenna, *The Perceived Legitimacy of Intervention: A Key Feature for Road Safety* 9 (AAA Foundation for Traffic Safety, 2007) ("By warning drivers of the presence of enforcement, the aim is to provide the driver with every opportunity to change behavior. If the enforcement is transparent and warnings have been presented, then it is hard for the offending driver to claim that the procedure is unfair.").

severe than what they can reasonably be said to have risked when they committed the offense is embodied in our norms for parental behavior, our common law, and our constitutional prohibition against *ex post facto* laws.⁴³

For this reason, increasing enforcement or increasing the penalties for previously unenforced or lightly-penalized conduct is likely to seem fairer if preceded by an amnesty or amnesty alternative.⁴⁴ Once an agency has allowed noncompliance norms to develop, it should consider an amnesty alternative. Doing so may support voluntary compliance and the failure to offer one may pose risks to future compliance, as otherwise-honest taxpayers may perceive the agency is treating them unfairly — upending the norms it allowed to develop without giving them an opportunity for self-correction. In any event, it may be impractical to change community norms by imposing penalties against the small minority of people that the agency has the resources to audit. Moreover, if as a practical matter only a small proportion of the violators are subject to a penalty, those who are penalized are more likely to feel unfairly singled out.

As an example, the Australian Taxation Office (ATO) reportedly damaged its reputation when addressing a mass-marketed tax scheme. Rather than proactively responding to questions about whether these schemes were legitimate, it was silent while tax professionals advised taxpayers that they were.⁴⁵ It waited until they invested, then adjusted their accounts and suggested they were tax cheats.⁴⁶ The ATO subsequently adopted a settlement program that waived interest and penalties, but the damage had already been done. Years later most participants still thought the settlement was unfair, held more negative views toward the agency, and reported about the same level of efforts to minimize taxes as before the ATO adjusted their accounts.⁴⁷

Moreover, experiments suggest that people reciprocate by punishing unfair behavior even if it is not in their economic self-interest to do so.⁴⁸ Similarly, trust for the agency and the government is correlated with voluntary tax compliance.⁴⁹ Thus, when a tax agency's actions seem unfair, they can erode voluntary compliance. Conversely, an amnesty alternative could improve voluntary compliance if it seems fair, puts people on notice that noncompliance will be punished in the future, and fosters trust that the tax agency will address noncompliance in a reasonable and proportional manner that takes the taxpayer's facts and circumstances into account (*e.g.*, the taxpayer's motivational posture). At the margin, there is no reason to think that these factors are less important than economic deterrence.

43 Herman Leonard & Richard Zeckhauser, *Amnesty Enforcement and Tax Policy*, in *Tax Policy and the Economy*, Vol. 1 55, 62 n.7 (Lawrence Summers, ed., 1987), <http://www.nber.org/chapters/c10929.pdf>.

44 Similarly, the IRS sometimes delays the implementation of penalties for failure to comply with new requirements so that people have time to comply with them. See, *e.g.*, Notice 2013-56, 2013-39 I.R.B. 262 (delaying the implementation of penalties for failure to comply with new information reporting requirements).

45 See, *e.g.*, Kristina Murphy, *Procedural Justice and the Australian Tax Office: A Study of Scheme Investors* (Ctr. for Tax Sys. Integrity, Working Paper No. 35, 2002).

46 *Id.*

47 See Bevan Murphy, Kristina Murphy & Malcolm Mearns, *The Australian Tax System Survey of Tax Scheme Investors': Methodology and Preliminary Findings for the Third Follow-Up Survey 24-26* (Alfred Deakin Res. Inst., Working Paper No. 13, 2010).

48 See, *e.g.*, Matthew Rabin, *Incorporating Fairness into Game Theory and Economics*, 85 *AM. ECON. REV.* 1281-1302 (Dec. 1993), <https://people.hss.caltech.edu/~camerer/NYU/07-Rabin.pdf>; Colin Camerer and Richard H. Thaler, *Ultimatums, Dictators and Manners*, 9 *J. Econ. Persp.*, 209-19 (1995), <http://authors.library.caltech.edu/22127/1/2138174%5B1%5D.pdf>; Christine Jolls *et al.*, *A Behavioral Approach to Law and Economics*, 50 *STAN. L. REV.* 1471 (1998), http://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=2797&context=fss_papers&sei-redir=1.

49 See, *e.g.*, National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*) (finding that trust for the government and the IRS are correlated with estimated reporting compliance by small businesses).

A Case Study: The IRS's Offshore Voluntary Disclosure Settlement Programs

An analysis of the IRS's OVDPs reinforces the findings discussed above. As the IRS was ramping up enforcement of the international information reporting requirements and Congress was increasing applicable penalties, the IRS offered a series of OVDPs. Possibly in an attempt to avoid diluting economic deterrence or discouraging compliant taxpayers, however, the IRS initially offered a very narrow one-size-fits-all amnesty alternative that required participants — typically those least committed to noncompliance — to pay hefty penalties. The IRS's one-size-fits all approach, which lumped people who made honest mistakes in with tax evaders — contrary to the responsive regulation model — likely damaged the perceived legitimacy of the IRS and its OVD programs.⁵⁰ The government's relatively sudden shift — from virtually no enforcement before 2004 to disproportionate penalties⁵¹ — did nothing to promote the view that it was reasonable or trustworthy. Indeed, one study suggested that its 2009 OVDP increased tax evasion.⁵²

Noncompliance Was the Norm

U.S. persons have long been required to report foreign accounts on a Report of Foreign Bank and Financial Accounts (FBAR).⁵³ Before 2004, however, the FBAR filing requirements were not well known, noncompliance was the norm, the requirements were rarely enforced, and violations were lightly punished.⁵⁴ In 2002, the IRS reported the FBAR compliance rate was less than 20 percent.⁵⁵ The government imposed civil FBAR penalties in only two cases between 1993 and 2002.⁵⁶

Beginning in 2000, as part of its Offshore Credit Card Project (OCCP), the government used John Doe summonses to try to obtain the identities of U.S. taxpayers who held credit or debit cards issued by

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- 50 See, e.g., National Taxpayer Advocate 2017 Objectives Report to Congress 164-76; National Taxpayer Advocate 2014 Annual Report to Congress 79-93; National Taxpayer Advocate 2013 Annual Report to Congress 228-37; National Taxpayer Advocate 2012 Annual Report to Congress 134-53; National Taxpayer Advocate 2011 Annual Report to Congress 191-205 and 206-72; National Taxpayer Advocate 2018 Objectives Report to Congress; National Taxpayer Advocate 2017 Objectives Report to Congress 164-76; National Taxpayer Advocate 2014 Objectives Report to Congress 36-39; National Taxpayer Advocate 2013 Objectives Report to Congress 9 and 21-29.
- 51 For a discussion of the lack of prior enforcement, see U.S. Department of the Treasury, *A Report to Congress in Accordance with § 361(B) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* 8-10 (Apr. 26, 2002). Some tax attorneys observed that many of their clients had never heard of the requirements before the government started cracking down on them. See, e.g., David D. Stewart, *IRS Voluntary Disclosure Program Gets High Marks from Practitioners, So Far*, 2009 TNT 169-3 (Sept. 3, 2009).
- 52 See Dominika Langenmayr, *Voluntary Disclosure of Evaded Taxes — Increasing Revenue, or Increasing Incentives to Evade?*, 151 J. PUB. ECON. 110, 119 (2017) (speculating that the projected increase in noncompliance was due to the expectation of a future amnesty).
- 53 See, e.g., 31 U.S.C. § 5314; 31 C.F.R. § 1010.350(a); 31 C.F.R. § 1010.306(c). Before March 1, 2011, the FBAR rules were at 31 C.F.R. part 103. See *Transfer and Reorganization of Bank Secrecy Act Regulations*, 75 Fed. Reg. 65,806 (Oct. 26, 2010).
- 54 U.S. Department of the Treasury, *A Report to Congress in Accordance with § 361(B) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* 6 (Apr. 26, 2002). Prior to October 22, 2004, there was no penalty for a non-willful failure to file and the maximum civil penalty for willful violations was capped at \$100,000. The American Jobs Creation Act of 2004, Pub. L. No. 108-357, Title VIII, § 821(a), 118 Stat. 1586 (Oct. 22, 2004) (amending 31 U.S.C. § 5321(a)(5)) established a penalty for non-willful violations, subject to a reasonable cause exception, and increased the penalty for willful violations. Now, the maximum civil penalty is \$10,000 for each non-willful failure; and if the government establishes the failure was willful, the maximum penalty is the greater of \$100,000 or 50 percent of the balance of the undisclosed account each year. 31 U.S.C. § 5321(a)(5). The penalties cited in this footnote are indexed for inflation. See 31 C.F.R. 1010.821(b).
- 55 U.S. Department of the Treasury, *A Report to Congress in Accordance with § 361(B) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* 6 (Apr. 26, 2002); IRS Sets New Audit Priorities, FS-2002-12 (Sept. 2002).
- 56 U.S. Department of the Treasury, *A Report to Congress in Accordance with § 361(B) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* 8-10 (Apr. 26, 2002).

offshore banks on the suspicion that they were engaged in tax evasion.⁵⁷ It also took steps to improve its exchange of information with other countries.⁵⁸ Thus, the IRS was increasingly able to identify people with unreported offshore accounts. When it examined the returns of those identified through the OCCP, however, it generally did not assess any additional tax.⁵⁹ Beginning in 2003, the government offered a series of settlement programs.⁶⁰

The IRS Offered a Limited Amnesty Alternative –The Offshore Voluntary Compliance Initiative

Between January 14, 2003, and April 15, 2003, the IRS offered the Offshore Voluntary Compliance Initiative (OVCI) to persons using offshore payment cards or similar arrangements to improperly avoid paying taxes, provided it had not yet identified them.⁶¹ Participants would have to pay six years of back taxes, interest, and certain accuracy and delinquency penalties, but would not face any civil fraud or information return penalties (including FBAR).⁶²

The program: (1) encouraged voluntary compliance by those the IRS had not yet identified, (2) gave people a chance to settle before the IRS resorted to enforcement, (3) tried to preserve economic deterrence and perceptions of fairness by still imposing penalties, and (4) reduced the costs of addressing noncompliance by participants. However, the OVCI's limits on who could participate, as well as its one-size-fits-all terms and the availability of better alternatives for many taxpayers — the qualified amended return (QAR) process and IRS's longstanding criminal VDP — probably hurt its popularity. Moreover, it was not coupled with a visible increase in the risk of detection, except for John Doe summonses. In addition, it was difficult for the IRS to use John Doe summonses to take timely enforcement action.⁶³ Nor did the government simplify the reporting requirements or make extraordinary efforts to educate the public about them.⁶⁴ Thus, there was little reason for taxpayers to think that the government could change compliance norms.

The IRS received about 1,326 OVCI applications and reportedly collected about \$225 million, mostly from relatively compliant taxpayers.⁶⁵ More than half of the OVCI applicants had reported their

57 Tax Analysts, *IRS Issues Chronology on Credit Card Tax-Avoidance Schemes, John Doe Summonses*, 2003 TNT 10-12 (Jan. 15, 2003); *Hearing Before the U.S. Senate Committee on Finance on the Tax Gap and Tax Shelters* (July 21, 2004) (testimony of Pamela J. Gardiner, Acting Inspector General, TIGTA), https://www.treasury.gov/tigta/congress/congress_07212004.htm.

58 See generally Cynthia Blum, *Sharing Bank Deposit Information with Other Countries: Should Tax Compliance or Privacy Claims Prevail?*, 6 FLA. TAX REV. 579 (2004).

59 *Hearing Before the U.S. Senate Committee on Finance on the Tax Gap and Tax Shelters* (July 21, 2004) (testimony of Pamela J. Gardiner, Acting Inspector General, TIGTA) (noting “the vast majority of the more than 3,000 completed [OCCP] cases have been closed without an assessment of any additional taxes”).

60 For further discussion of the OVDP and the context in which it arose, see Leandra Lederman, *The Use of Voluntary Disclosure Initiatives in the Battle Against Offshore Tax Evasion*, 57 VILL. L. REV. 499 (2012).

61 2003 IR-2003-5 (Jan. 14, 2003); Rev. Proc. 2003-11, 2003-1 C.B. 311.

62 See, e.g., Rev. Proc. 2003-11, §§ 2.01 and 2.02, 2003-1 C.B. 311 (waiving the FBAR penalties, the civil fraud penalty under IRC § 6663, the fraudulent failure to file penalty under IRC § 6651(f), the civil penalties for failure to comply with the information return requirements of IRC §§ 6035, 6038, 6038A, 6038B, 6038C, 6039F, 6046, 6046A, and 6048). A 2003 OVCI submission would also be treated as an application for the IRS's longstanding voluntary compliance practice, minimizing the risk of criminal prosecution. *Id.* at 2.03.

63 See, e.g., Keith Fogg, *Go West: How the IRS Should Foster Innovation in Its Agents*, 57 VIL. L. REV. 441, 463 (2012).

64 Responsibility for FBAR enforcement and education was transferred from FinCen to the IRS and it made some efforts at education. See U.S. Department of the Treasury, *A Report to Congress in Accordance With § 361(B) of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 8-9* (2005), <https://www.hsdl.org/?view&did=5097>.

65 IRS, Response to TAS information request (Sept. 14, 2011).

offshore income and paid taxes, but were merely rectifying the failure to file an FBAR.⁶⁶ Only 16 percent had used a promoter.⁶⁷ Moreover, even among those who owed tax, they owed a median of only \$5,400, suggesting that an audit strategy might also fail to uncover significant tax noncompliance unless it focused on those who did not participate.⁶⁸

The IRS Offered an Amnesty Alternative to Settle Existing Disputes — The Last Chance Compliance Initiative

Between 2003 and 2009, the IRS tried to settle cases by issuing letters to taxpayers who had been identified as holding an offshore payment card (or similar arrangement) to access an undisclosed account, offering them the so-called Last Chance Compliance Initiative (LCCI). This filled a gap left by the OVCI, which did not apply to those who had been identified. Under LCCI, the IRS would waive certain penalties for failure to file information returns and would only impose the civil fraud and FBAR penalties for a single year, even if they could be applied to multiple years.⁶⁹ Notably, it did not supplant the longstanding QAR or voluntary disclosure practice or eliminate the option to settle on more favorable terms when warranted.⁷⁰ Because the LCCI applied to those who had been identified, its primary purpose seems to have been to reduce the costs of the enforcement process.⁷¹ It was particularly important to have a way of reducing enforcement costs, as the OVCI data suggested that audits might not always be worthwhile.

The IRS Offered Another Limited Amnesty Alternative — The Offshore Voluntary Disclosure Programs (OVDPs) — and Reduced Access to Longstanding Alternatives

In 2004, Congress imposed a new penalty for non-willful failures to file an FBAR and drastically increased the penalty for willful violations.⁷² This increase provided a unique opportunity for the IRS to promote compliance using a settlement program. In 2009, the IRS “strongly encouraged” anyone who had failed to file FBARs and similar returns reporting income from foreign accounts to participate in an offshore voluntary disclosure program (OVDP).⁷³ It discouraged them from quietly filing amended returns and paying any taxes due, as permitted under the longstanding QAR program. It warned that taxpayers making such “quiet” disclosures could be “criminally prosecuted,” while OVDP participants

66 General Accounting Office, *Taxpayer Information: Data Sharing and Analysis May Enhance Tax Compliance and Improve Immigration Eligibility Decisions*, GAO-04-972T (July 21, 2004), <https://www.gao.gov/assets/120/111191.html> (Testimony of Michael Brostek before the U.S. Senate Committee on Finance).

67 *Id.*

68 *Id.*

69 See Notice 1341 (2007); Letter 3649 (2007); IRM 4.26.16.4.6.4(4) (July 1, 2008).

70 See, e.g., CCA 2006-03026 (Sept. 1, 2005) (noting that “instructions to agents contained in the Guidelines for Mitigation of the FBAR Civil Penalty for Last Chance Compliance Initiative (LCCI) Cases provide: ‘The examiner may determine that the facts and circumstances of a particular case may warrant that a penalty under these guidelines is not appropriate or that a lesser amount than the guidelines would otherwise provide is appropriate.’ If agents follow these guidelines we need not be imposing the FBAR penalty arbitrarily in cases in which it clearly does not apply.”).

71 According to the IRS, “the results of the LCCI were not tracked.” IRS response to TAS information request (Sept. 20, 2011). The IRS later provided limited information that it said “may not be representative of the program as a whole.” IRS response to TAS information request (Nov. 14, 2017).

72 The American Jobs Creation Act of 2004, Pub. L. No. 108-357, Title VIII, § 821(a), 118 Stat. 1586 (Oct. 22, 2004) (amending 31 U.S.C. § 5321(a)(5)).

73 See IRS, *Voluntary Disclosure: Questions and Answers* (first posted May 6, 2009), <https://www.irs.gov/newsroom/voluntary-disclosure-questions-and-answers> (hereinafter “2009 OVDP FAQ”).

would generally be subject to a fairly-severe “offshore” penalty in lieu of various other penalties, including FBAR.⁷⁴ Under the 2009 OVDP, taxpayers were required to pay:

- All unpaid taxes;
- A 20 percent accuracy-related penalty; and
- An “offshore penalty” of 20 percent of their highest offshore account balance (plus foreign assets) during a six-year period (2003-2008).⁷⁵

The penalty rate would recover the present value of the unpaid tax on the accounts for the last 23 years, assuming the taxpayer earned 5 percent in interest that went unreported each year.⁷⁶ Thus, the IRS was careful to preserve economic deterrence, but in doing so, circumvented the QAR process as well as the long-standing amnesty granted by Congress when it established a statute of limitations.⁷⁷ Moreover, the IRS seemed to assume that its earlier programs had changed norms to such an extent that only intentional tax cheats were not complying with the rules, notwithstanding the fact that OVCI applicants included many with inadvertent or minor violations.⁷⁸

The OVDP Was Not Reasonable or Proportionate for Those With Inadvertent or Minor Violations, Leaving Some Feeling Coerced

The IRS expected those taxpayers who thought the offshore penalty was too severe to apply to the OVDP and then opt out. However, it warned that “all relevant years and issues will be subject to a *complete examination ... [and] all applicable penalties (including information return and FBAR penalties) will be imposed*” [emphasis added] against those who opt out.⁷⁹ This suggested that the IRS might seek the maximum penalties against people who were trying to comply or whose violations were not willful, and that they should expect a costly and burdensome examination. OVCI data suggested that the IRS was bluffing because it would not have been a wise use of resources to do so. However, the IRS’s message seemed to abandon the responsive regulation model, undermining the trust the model is designed to promote.

74 2009 OVDP FAQ #10.

75 2009 OVDP FAQs #'s 12, 13, 20, 32, and 33.

76 See Government Accountability Office (GAO), GAO-13-318, *IRS Has Collected Billions of Dollars, but May Be Missing Continued Evasion* 50-51 (Mar. 2013).

77 See IRC § 6501(a) (providing a general three-year limitations period); IRC § 6501(e)(1) (six-year limitations period for 25 percent omission of gross income or omissions attributable to assets not reported on certain information returns); IRC § 6501(c) (providing exceptions, such as for those filing a fraudulent return or no return, or who do not disclose certain foreign transfers).

78 See GAO, *Taxpayer Information: Data Sharing and Analysis May Enhance Tax Compliance and Improve Immigration Eligibility Decisions*, GAO-04-972T (July 21, 2004), <https://www.gao.gov/assets/120/111191.html> (Testimony of Michael Brostek before the U.S. Senate Committee on Finance).

79 2009 OVDP FAQ #34.

After the National Taxpayer Advocate and external stakeholders raised concerns about the 2009 OVDI,⁸⁰ the IRS established the 2011 Offshore Voluntary Disclosure Initiative (OVDI) (also referred to as an OVDP).⁸¹ After the 2011 program closed on September 9, 2011, it was succeeded by the 2012 OVDP, which was open ended, and the so-called 2014 OVDP which is a continuation of the 2012 program under slightly modified terms.⁸² The offshore penalty rose to 25 percent of the highest account balance during an eight-year period under the 2011 OVDP, to 27.5 percent under the 2012 OVDP, and up to 50 percent (still over an eight-year period) under the 2014 program.⁸³ With few exceptions, the 2011 OVDP applied the same offshore penalty to benign and bad actors. The exceptions included:

- A 5 percent penalty for those holding inactive offshore accounts funded with previously-taxed proceeds and for certain foreign residents;⁸⁴ and
- A 12.5 percent penalty for those with accounts never exceeding \$75,000.⁸⁵

The IRS also established so-called “streamlined programs” that allowed certain “low risk” foreign residents with a *de minimis* amount of unreported income (e.g., owing less than \$1,500 in tax) to bypass the OVD program by filing returns without triggering penalties (*i.e.*, an amnesty that was more responsive to specific segment’s situation). However, they could still be deemed “high risk” by the IRS and audited.⁸⁶

The 2011 OVDP still seemed unfair to benign actors because the IRS narrowly construed the exceptions under which taxpayers could receive lower 5 or 12.5 percent offshore penalty rates. Fewer than two percent of the offshore penalties were assessed at these lower rates.⁸⁷

However, the streamlined program provided an appropriate alternative for those who were eligible — nearly all of whom had made relatively small and probably unintentional errors. Between September 1, 2012, and April 24, 2014, the streamlined program attracted 8,851 taxpayers, and only eight percent

80 See, e.g., National Taxpayer Advocate 2014 Annual Report to Congress 79-93; National Taxpayer Advocate 2013 Annual Report to Congress 228-237; National Taxpayer Advocate 2012 Annual Report to Congress 134-53; National Taxpayer Advocate 2011 Annual Report to Congress 191-205 and 206-72; National Taxpayer Advocate 2013 Objectives Report to Congress 9 and 21-29; National Taxpayer Advocate 2014 Objectives Report to Congress 36-39; Taxpayer Advocate Directive 2011-1 (Aug. 16, 2011) (collectively, the “OVD Reports”); New York State Bar Association Tax Section (NYSBA), *NYSBA Tax Section Comments on FAQ for 2011 Offshore Voluntary Disclosure Initiative*, 2011 TNT 153-13 (Aug. 9, 2011); American Citizens Abroad, *Letter to IRS Commissioner* (Nov. 1, 2011); Marie Saphire, *Frustration Grows for Canadians in OVDI*, 2012 TNT 169-1 (Aug. 29, 2012); Baker & McKenzie, *Experiences With The ‘New’ Voluntary Disclosure Program — Some Good, Some Bad*, 113 J. TAX’N 46 (2010); Marie Saphire, *More Written Guidance Needed As OVDI Deadline Nears*, 2011 TNT 168-1 (Aug. 29, 2011). See also Barrie McKenna, *Ottawa Seeks Leniency for Canadians in U.S. Tax Hunt*, *The Globe and Mail* (Oct. 18, 2011). For more recent comments, see, e.g., American Bar Association (ABA) Section of Taxation, *Comments on 2014 Offshore Voluntary Disclosure Program and the Streamlined Programs* (Oct.14, 2015); AICPA, *Comments on the 2014 Offshore Voluntary Disclosure Program and the Streamlined Programs* (Mar. 9, 2016).

81 IRS, *2011 Offshore Voluntary Disclosure Initiative*, <https://www.irs.gov/newsroom/2011-offshore-voluntary-disclosure-initiative> (last updated, Aug. 12, 2017). The 2011 OVDI FAQs are no longer posted to the IRS website.

82 2012 OVDP FAQ #3 (posted June, 26, 2009) (no longer posted in the same form); IRS, *Offshore Voluntary Disclosure Program Frequently Asked Questions and Answers 2014*, FAQ #1, <https://www.irs.gov/individuals/international-taxpayers/offshore-voluntary-disclosure-program-frequently-asked-questions-and-answers-2012-revised> (last updated Nov. 8, 2017) (effective for OVDP submissions on or after July 1, 2014).

83 2014 OVDP FAQ #9; 2012 OVDP FAQ #8; 2011 OVDI FAQ #8.

84 2011 OVDI FAQ #52; 2012 OVDP FAQ #52 (eliminated under the 2014 program).

85 2011 OVDI FAQ #53; 2012 OVDP FAQ #53 (eliminated under the 2014 program).

86 See Form 14438, *Streamlined Filing Compliance Procedures for Non-Resident, Non-Filer* (Aug. 2013); IRS, *Streamlined Filing Compliance Procedures* (Oct. 9, 2014), <http://www.irs.gov/Individuals/International-Taxpayers/Streamlined-Filing-Compliance-Procedures> (describing changes to the streamlined program first announced in 2012).

87 See National Taxpayer Advocate 2014 Annual Report to Congress 79, 84-85.

(or 697 taxpayers) were classified as high risk and examined.⁸⁸ Even among the “high risk” group, most returns (51 percent) were not changed by the IRS.⁸⁹ Even among those whose returns were adjusted, the average adjustment was only \$810 per return.⁹⁰

The only other option for benign actors was to opt out of the OVD programs and be examined. However, because those opting out faced prolonged uncertainty, the expense and stress of an examination, potential appeals, and the risk of even more severe penalties, some agreed to pay the (offshore) penalty designed for bad actors, as described in prior reports.⁹¹ Inside the 2009 OVD, the median offshore penalty paid by those with the smallest accounts was nearly six times the median unreported tax, and unrepresented taxpayers generally paid even more — significantly more than represented taxpayers with the largest accounts, as shown in Figure 2.⁹²

FIGURE 2, Comparison of Median Offshore Penalties to Unpaid Tax by Median Account Size and Representation for the 2009 OVD Program

	Bottom 10%	Middle 80%	Top 10%
Offshore account(s) balance	\$44,855	\$607,875	\$7,259,580
2009 OVD penalty	\$8,540	\$117,803	\$1,410,517
Additional tax, tax years 2002-2011	\$1,472	\$30,894	\$452,966
Offshore penalty as a percent of tax assessed	580%	381%	311%
Unrepresented percent	31%	11%	4%
Offshore penalty as a percent of tax assessed (unrepresented taxpayers only)	772%	474%	398%

88 See National Taxpayer Advocate 2014 Annual Report to Congress 79, 84.

89 *Id.*

90 *Id.*

91 See, e.g., OVD Reports; National Taxpayer Advocate 2017 Objectives Report to Congress 164-76.

92 See National Taxpayer Advocate 2014 Annual Report to Congress 79, 86. All figures are medians rather than averages because the data contains extreme outliers. The unreported tax includes all tax assessed over a ten-year period, even if the assessment was unrelated to the OVD program. For the purposes of this analysis, we consider unrepresented taxpayers to be those without a Transaction Code 960 present on the Compliance Data Warehouse (CDW) Individual Master File Transaction History table as of October 3, 2013. If the IRS Master File database indicated that a taxpayer had a representative on any tax module for any of tax years 2003-2012, then the taxpayer was considered represented, even though he or she may have been unrepresented in connection with the OVD program. *Id.* at 86 n.39. The IRS has asked TAS not to disclose updated information concerning its OVDPs.

As of October 2016, 55,800 participants had paid more than \$9.9 billion in connection with these programs, dwarfing the 2003 OVCI.⁹³ But, for many taxpayers there was no evidence that penalties were warranted and the costs and long-term consequences are still unknown.⁹⁴

Perhaps because most of the taxpayers with significant offshore assets who wanted to participate had already done so and because the penalty rate increased under the 2011 OVDI, the disproportionality of the offshore penalty increased under the 2011 OVDI, as taxpayers with the smallest accounts paid over eight times the median unreported tax, as shown in Figure 3.⁹⁵

FIGURE 3, Comparison of median offshore penalties to unpaid tax by median account size and representation for the 2011 OVD program

	Bottom 10%	Middle 80%	Top 10%
Offshore account(s) balance	\$17,368	\$183,993	\$3,833,152
2011 OVD penalty	\$2,202	\$41,238	\$888,943
Additional tax, tax years 2003-2012	\$268	\$5,845	\$190,579
Offshore penalty as a percent of tax assessed	821%	706%	466%
Unrepresented percent	53%	30%	10%
Offshore penalty as a percent of tax assessed (unrepresented taxpayers only)	788%	736%	705%

Moreover, the participant's accounts generally became smaller with each new program.⁹⁶ This makes sense because the programs were not initially designed to attract middle-class taxpayers whose violations were not willful, but they were increasingly learning about the FBAR requirements, the potential for draconian penalties, and the IRS's enforcement efforts, and were terrified. Thus, they came into the program under fear of prosecution, despite the IRS's previous lack of enforcement.

93 IRS, IR-2016-137, *Offshore Voluntary Compliance Efforts Top \$10 Billion; More Than 100,000 Taxpayers Come Back into Compliance* (Oct. 21, 2016), <https://www.irs.gov/uac/newsroom/offshore-voluntary-compliance-efforts-top-10-billion-more-than-100000-taxpayers-come-back-into-compliance>.

94 See, e.g., Matthew Morris, *FATCA and the Road to Expatriation*, 149 *Tax Notes* 691 (Nov. 2, 2015) ("Even though benign actors constituted the vast majority of OVDI applicants, very few opted out because of the risk of these potentially devastating FBAR penalties"); Robert B. Stack & Doug Andre, *Expedited Opt-Out Needed for OVDI Participants Who Owe No Tax*, 134 *Tax Notes* 561 (Jan. 30, 2012) ("the OVDI is being administered in a manner that nonetheless subjects taxpayers without any tax liability to the OVDI penalty regime ... with their only hope being access to a vaguely defined 'opt out' mechanism that itself would be time-consuming, expensive for both the IRS and taxpayers, and uncertain."); Andrew Velarde, *IRS Official Defends OVDI Against Calls for Greater Flexibility*, 141 *Tax Notes* 470 (Nov. 4, 2013) ("Given the horror stories of accidentally noncompliant taxpayers facing large penalties, practitioners are losing confidence in the way the [OVDI] program is working, Matthews said."); William Sharp, *Navigating Offshore Tax Hazards: An Update*, 139 *Tax Notes* 779 (May 13, 2013) ([observing that some inadvertent violations] "automatically will be characterized as willfulness and that it will subject the taxpayer to a 27.5 percent offshore penalty under the OVDI"); Thomas Zehnle, *Rethinking the Approach to Voluntary Disclosures*, 134 *Tax Notes* 575 (Jan. 30, 2012) ("what surprised many private practitioners (and presumably the IRS) was the large number of taxpayers whose [OVDI] cases exhibited little, if any, indicia of fraud ... Innocent or negligent taxpayers were (or will be) processed and penalized the same as the intentional wrongdoer.").

95 National Taxpayer Advocate 2017 Objectives Report to Congress 164-76; National Taxpayer Advocate 2014 Annual Report to Congress 79, 87. A slightly different methodology was used to pull the 2009 OVD program data, as discussed in the 2014 report. National Taxpayer Advocate 2014 Annual Report to Congress 79, 87 n.40.

96 National Taxpayer Advocate 2017 Objectives Report to Congress 164-76.

On June 18, 2014, when the IRS established the 2014 OVDP, it created two new “streamlined” programs and eliminated the lower 5 and 12.5 percent penalty rates.⁹⁷ Taxpayers who certified their violations were not willful, reported income from the unreported account(s), and paid any resulting taxes would be subject to a reduced five percent penalty if they were U.S. residents (under the so-called Streamlined Domestic Offshore Procedures (SDOP)) or no penalty if they were non-residents (under the so-called the Streamlined Foreign Offshore Procedures (SFOP)).⁹⁸ In addition, on May 13, 2015, the IRS instructed its examiners “in most cases” to limit penalties for FBAR violations to 50 percent of the highest aggregate balance of the unreported account(s) during the year(s) at issue if they are willful and \$10,000 per year if they are not.⁹⁹ This guidance reduced the risk to benign actors of opting out of the OVDP. Perhaps because this guidance and the streamlined programs have provided alternatives to the OVDP for benign actors, the disproportionality of the offshore penalty appears to have declined under the 2012 OVDP, as shown in Figure 4.¹⁰⁰

FIGURE 4, Comparison of Median Offshore Penalties to Unreported Tax by Median Account Size and Representation for the 2012 OVD Program

	Bottom 10%	Middle 80%	Top 10%
Offshore account(s) balance	\$19,480	\$287,726	\$3,354,782
2012 OVD penalty	\$2,420	\$73,004	\$914,110
Additional tax, tax years 2003-2015	\$681	\$14,009	\$220,365
Offshore penalty as a percent of tax assessed	355%	521%	415%
Unrepresented percent	26%	16%	10%
Offshore penalty as a percent of tax assessed (unrepresented taxpayers only)	454%	515%	398%

Under the SDOP (the U.S. resident initiative), the IRS was still proposing to penalize U.S. residents who came forward voluntarily and whose violations were not willful, but the five percent penalty rate was more proportionate. Moreover, the IRS stopped lumping them in with tax evaders. However, it refused to provide refunds to people who would have been eligible for streamlined treatment if they had

97 IRS, Streamlined Filing Compliance Procedures, <https://www.irs.gov/Individuals/International-Taxpayers/Streamlined-Filing-Compliance-Procedures> (last updated Sept. 11, 2017); IRS, *Transition Rules: FAQs*, <https://www.irs.gov/individuals/international-taxpayers/transition-rules-frequently-asked-questions-faqs> (last updated Aug. 3, 2017).

98 IRS, Streamlined Filing Compliance Procedures, <https://www.irs.gov/Individuals/International-Taxpayers/Streamlined-Filing-Compliance-Procedures> (last updated Sept. 11, 2017); IRS, *Transition Rules: FAQs*, <https://www.irs.gov/individuals/international-taxpayers/transition-rules-frequently-asked-questions-faqs> (last updated Aug. 3, 2017).

99 Interim Guidance Memo (IGM), SBSE-04-0515-0025, *Interim Guidance for Report of Foreign Bank and Financial Accounts (FBAR) Penalties* (May 13, 2015), [https://www.irs.gov/pub/foia/ig/spder/SBSE-04-0515-0025\[1\].pdf](https://www.irs.gov/pub/foia/ig/spder/SBSE-04-0515-0025[1].pdf); IRM 4.26.16.6.4.1 (Nov. 6, 2015); IRM 4.26.16.6.5.3 (Nov. 6, 2015). While this guidance did not directly apply to Appeals, it creates litigating hazards for the government if Appeals takes a harder line, particularly in light of pre-existing hazards already acknowledged by the government. See, e.g., Jeremiah Coder, *Taxpayers Face Hurdles and Risks When Opting out of OVDP*, 2013 TNT 12-4 (Jan. 16, 2013) (discussing the hazards).

100 AIMS Database (Mar. 7, 2016). TAS used the same methodology to pull this 2012 OVD program data as we did for the 2011 OVD program data (above). These figures do not include taxpayers who entered the 2012 OVD program before the IRS announced the 2014 streamlined program, but ultimately transitioned into the streamlined program.

already agreed to a higher offshore penalty pursuant to a signed closing agreement.¹⁰¹ Like the ATO's attempts to deal with mass marketed tax schemes, the negative perceptions that the IRS's OVDPs created could persist for many years.

CONCLUSION

Settlement programs that provide broad amnesty are generally not a reliable way to raise revenue in the long run. If properly designed, however, settlement programs can demonstrate that the tax agency is trustworthy, accelerate compliance gains, collect information about the reasons for noncompliance, and avoid controversy and enforcement costs.

Settlement programs should take compliance norms into account. For example, if compliance is the norm and taxpayers have been put on notice about what is expected and given an opportunity for self-correction, then any program should be aimed primarily at settling cases that the government might not otherwise identify or pursue due to a lack of resources, or at resolving a liability that the taxpayer might not otherwise be able to pay. In such cases, it may also be appropriate to attach conditions to improve compliance, like the requirement to timely file and pay taxes for five years after receiving an OIC.¹⁰²

Tax agencies may also use settlement programs when taxpayers have acted reasonably or the government contributed to the noncompliance, even if only by failing to enforce the rules for an extended period. Any program should be tailored to account for the taxpayer's motivational posture. It should recognize that participants are not committed to noncompliance and are complying voluntarily. Accordingly, lesser penalties should be applied to participants than would be applied outside the program, especially when violations were minor, unintentional, or corrected before being detected.

Settlement programs may be particularly effective if the agency can credibly commit to improve compliance norms, whether by enhancing its ability to detect discrepancies or other means. In such cases, a program could raise revenue and accelerate compliance gains without creating the perception that the agency is unfairly surprising otherwise honest people with its compliance initiative. This approach is consistent with the responsive regulation model, as well as the taxpayer *rights to be informed, quality service, privacy, and to a fair and just tax system*.¹⁰³

Under normal circumstances it may be difficult for tax agencies to credibly commit to change compliance norms. However, the IRS is beginning to receive information as a result of the Foreign

101 IRS, Streamlined Filing Compliance Procedures, <https://www.irs.gov/Individuals/International-Taxpayers/Streamlined-Filing-Compliance-Procedures> (last updated Sept. 11, 2017) (Coordination between streamlined procedures and OVDP). By contrast, when the IRS established the lower penalty rates for the 2011 OVDP, it allowed eligible taxpayers who signed agreements under the 2009 OVDP to amend them to take advantage of the lower rates. See 2011 OVDP FAQ #52 ("Taxpayers who participated in the 2009 OVDP whose cases have been resolved and closed with a Form 906 closing agreement who believe the facts of their case qualify them for the 5% reduced penalty criteria of the 2011 OVDI, but paid a higher penalty amount under the 2009 OVDP should provide a statement to this effect ... Upon receipt of this information, the case will be assigned to an examiner to review and make a determination."); 2011 OVDP FAQ #53 (same). Deviating from this prior practice likely increased the sense that the IRS was arbitrarily singling out some groups for unfair treatment. The National Taxpayer Advocate proposed legislation to reverse this result. See National Taxpayer Advocate 2014 Annual Report to Congress 331, 341-42.

102 IRS Form 656, *Offer in Compromise* (2017) (items j and k). Similarly, the Mexican VDP required participants to repatriate their offshore funds and keep them in the country for two years. See William Hoke, *Government Announces Amnesty, Asset Expensing for Smaller Firms*, 85 TAX NOTES INT'L 338 (Jan. 23, 2017).

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

Account Tax Compliance Act (FATCA), which provides an incentive for foreign financial institutions to report information on their U.S. clients to the IRS and for foreign governments to sign bilateral automatic information exchange agreements.¹⁰⁴ Many countries have also agreed to the automatic exchange of information under the Common Reporting Standard (CRS),¹⁰⁵ and the OECD has recommended that member countries consider OVDPs before these exchanges begin.¹⁰⁶ Those that have done so often attribute the success of their OVDPs to these automatic exchange agreements.¹⁰⁷

When the agency offers a settlement program in conjunction with a credible commitment to address noncompliance in the future, previously-compliant taxpayers may be annoyed, but should not feel silly for complying given the increased likelihood that any underreporting will be detected. Participants save the government money that it would otherwise have to spend on enforcement; and subsequent noncompliance by participants is more likely to be detected and punished, freeing up resources for the agency to go after more recalcitrant offenders who do not participate. For everyone else, the program shows that the agency can be trusted to pursue only reasonable and proportionate penalties against those who have been put on notice, removing at least one excuse for future noncompliance (*i.e.*, the agency's lack of fairness and proportionality). Therefore, as new automated information exchanges and other types of third party information reporting become available, tax agencies have a rare opportunity to use settlement programs as a lower-cost way to improve compliance norms while respecting taxpayer rights, provided they can address legitimate concerns about the misuse of confidential tax information.

104 Foreign Account Tax Compliance Act (FATCA) was passed as part of the Hiring Incentives to Restore Employment Act, Pub. L. No. 111-147, 124 Stat. 71, 97-117 (2010).

105 See, e.g., OECD, *Automatic Exchange Portal*, <http://www.oecd.org/tax/automatic-exchange/about-automatic-exchange/> (last visited Nov. 29, 2017).

106 OECD, *Update on Voluntary Disclosure Programs: A Pathway to Tax Compliance* (Aug. 2015) ("This is therefore a crucial moment for countries to consider launching, enhancing or drawing public attention to their respective voluntary disclosure programs. In doing so, countries can explicitly provide their taxpayer with an opportunity to regularize past non-compliance prior to the entry into force of the automatic exchange of information.").

107 See, e.g., William Hoke, *\$90 Billion of Assets Reported under Amnesty Program*, 85 TAX NOTES INT'L 153 (Jan. 9, 2017) (citing a December 23, 2016 agreement for automatic exchanges with U.S., as one reason for the Argentinian VDP's success); William Hoke, *Government Announces Amnesty, Asset Expensing for Smaller Firms*, 85 TAX NOTES INT'L 338 (Jan. 23, 2017) (citing the OECD automatic exchange program (called CRS) as contributing to the Mexican VDP's success, though it was held back by a requirement to repatriate funds for two years, political instability, and the potential for a Mexican currency devaluation); Teri Sprackland, *Panama Papers Helped Norway's Amnesty Program*, 85 TAX NOTES INT'L 715 (Feb. 20, 2017) (indicating that the Panama papers, Bahamas Leaks, and the CRS generated interest in Norway's permanent VDP, though taxpayers already identified by the tax agency were not eligible).

Volume 2

LITERATURE REVIEWS

Improving Telephone Service Through Better Quality Measures

INTRODUCTION

The National Taxpayer Advocate has repeatedly expressed concern over the IRS's increasing reliance on online channels to communicate with taxpayers while failing to adequately upgrade its telephone service.¹ The IRS has steadily decreased access to face-to-face assistance available in Taxpayer Assistance Centers (TACs),² leaving taxpayers who are unable or unwilling to access online self-service solutions with two options to obtain service from the IRS: write a letter or make a phone call.³ On average, the IRS receives more than 100 million telephone calls each year on its toll-free lines.⁴ Currently, the IRS evaluates its telephone performance using the Customer Service Representative Level of Service (LOS), which is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines in reaching an assistor.⁵ In the 2018 Objectives Report to Congress, the National Taxpayer Advocate acknowledged significant improvement in the IRS's LOS for the filing season 2017, but found the IRS's reported LOS data inaccurately describe the IRS's ability to properly assist taxpayers over the telephone.⁶ The National Taxpayer Advocate is also concerned that the metric currently used by the IRS to measure LOS fails to adequately evaluate taxpayers' actual experiences on telephone calls with the IRS.

In order to provide telephone service that meets the needs of taxpayers in the twenty-first century, the IRS should follow the approach taken by other organizations in private industry and government that treats telephone service as an essential part of an omnichannel service environment.⁷ An omnichannel service environment allows taxpayers to contact the IRS through the channel of their choice and receive a consistently high quality of service. TAS's research shows that quality metrics, designed to assess taxpayer satisfaction, should drive the way the IRS evaluates its telephone service and educates its telephone assistors.

This literature review analyzes measures and practices most commonly used in the private sector and other government agencies to evaluate and improve call center performance. The following discussion explains how quality metrics and employee engagement should be used to optimize taxpayer experience over the phone.

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- 1 See, e.g., National Taxpayer Advocate 2015 Annual Report to Congress 3-13 (Most Serious Problem: *Taxpayer Service: The IRS Has Developed a Comprehensive "Future State" Plan That Aims to Transform the Way It Interacts With Taxpayers, But Its Plan May Leave Critical Taxpayer Needs and Preferences Unmet*).
 - 2 National Taxpayer Advocate 2017 Annual Report to Congress (Most Serious Problem: *Cuts to IRS Walk-in Sites Have Left the IRS With a Substantially Reduced Community Presence and Have Impaired the Ability of Taxpayers to Receive In-Person Assistance*, vol. 1, *supra*).
 - 3 National Taxpayer Advocate 2015 Annual Report to Congress 3-13 (Most Serious Problem: *Taxpayer Service: The IRS Has Developed a Comprehensive "Future State" Plan That Aims to Transform the Way It Interacts With Taxpayers, But Its Plan May Leave Critical Taxpayer Needs and Preferences Unmet*).
 - 4 IRS, Joint Operations Center (JOC), *Snapshot Reports: Enterprise Snapshot, IRS Enterprise Total* (final week of each fiscal year (FY) for FY 2008 through FY 2016) (showing telephone call volumes exceeding 100 million in every year).
 - 5 Here is the Customer Service Representative (CSR) Level of Service (LOS) formula: (Assistor Calls Answered + Automated Calls Answered (Info Messages)) divided by (Assistor Calls Answered + Automated Calls Answered (Info Messages) + Emergency Closed + Secondary Abandons + (Add either Calculated Busy Signal OR Network Incompletes) + (Add either Calculated Network Disconnects OR Total Disconnects)). See IRS, JOC, *Snapshot Reports: Product Line Detail Snapshot* (week ending Sept. 30, 2017). Note that CSR LOS is not a measurement of the total number of callers to the toll-free lines who speak with a customer service representative.
 - 6 See National Taxpayer Advocate 2018 Objectives Report to Congress (*Review of the 2017 Filing Season*) (discussing how the IRS data is misleading because fewer calls were routed to Accounts Management (AM) assistors, and other lines outside of the AM umbrella saw a decreased LOS).
 - 7 For a discussion of the limitations of IRS telephone service, see National Taxpayer Advocate 2017 Annual Report to Congress vol. 1 (Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*), vol. 1, *supra*.

DISCUSSION

Telephone Metrics Should Focus on Evaluating Call Quality and Caller Satisfaction

While the IRS has traditionally used efficiency measures like average speed of answer, such measures can yield “hollow results” if the quality of a call is below the caller’s expectations.⁸ When pressured to reach targets for number of calls answered, telephone assistors are more likely to handle calls inappropriately by missing key information given by the caller or failing to effectively complete post-call work.⁹ Such results can create problems and rework in the future, and ultimately drive the caller to other, but less preferred, communication channels.

Although efficiency metrics should not be completely disregarded, the IRS should follow the approach of many private sector companies and give more weight to measures gauging the customer’s overall experience on a call.¹⁰ Using qualitative metrics can help a call center ensure that taxpayers’ questions, not just calls, are being answered. Customer satisfaction is greatly improved when phone assistors make proper and accurate determinations and communicate them to the caller properly.¹¹ The “single biggest driver of customer satisfaction” is the First Call Resolution (FCR).¹² FCR “measures the percentage of all calls that are resolved on the first attempt, without the agent needing to refer the customer to a colleague, their manager, or calling the customer back.”¹³ This percentage is most frequently determined by providing callers the opportunity to submit feedback subsequent to the initial contact.¹⁴ The IRS should solicit feedback, including comments and complaints, through multiple channels, such as over the phone or online.¹⁵ The global average for FCR is between 70–75 percent.¹⁶ “Achieving 80% or higher FCR rating typically results in an average of 1.2 calls needed to resolve customer’s inquiry or problem.”¹⁷

Call centers should solicit feedback, including comments and complaints, through a variety of channels.¹⁸ The most common ways of measuring FCR include:

- **Telephone Survey:** “customer is surveyed within 1-3 days of the call and asked if their inquiry or problem was resolved;”

8 George Robinson & Clive Morley, *Call Centre Management: Responsibilities and Performance*, 17 INT’L J. OF SERVICE INDUS. MGMT. 284, 296 (Dec. 8, 2009).

9 *Id.*

10 Bank Administration Institute, *Evolution of Contact Centers in Banking: Engaging and Empowering Agents in an Omnichannel Operating Environment*, 10 (2015), <https://www.avanade.com/~media/asset/brochure/contact-centers-in-banking-report.pdf>.

11 Terrel Bird, *Measuring the Success of a Call Center: Easier than You Think*, INTERNATIONAL CUSTOMER MANAGEMENT INSTITUTE (Jul. 13, 2016), <http://www.icmi.com/Resources/Metrics/2016/07/Measuring-the-Success-of-a-Call-Center-Easier-than-You-Think> (last visited Dec. 5, 2017).

12 Jeff Rumburg & Eric Zbikowski, MetricNet, *The Five Most Important KPI’s for the Call Center*, 5 (Feb. 20, 2013), https://ccng.com/uploads/five_most_important_kpis_for_the_call_center_metricnet.pdf.

13 International Finance Corp., *Measuring Call Center Performance: Global Best Practices*, 7 (June 2010).

14 Government Accountability Office (GAO), GAO-06-270, *Federal Contact Centers: Mechanism for Sharing Metrics and Oversight Practices along with Improved Data Needed* (Feb. 2006), <http://www.gao.gov/assets/250/249031.pdf>.

15 GAO, GAO-15-84, *Managing For Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service* (Oct. 2014), <http://www.gao.gov/assets/670/666652.pdf>.

16 International Finance Corp., *Measuring Call Center Performance: Global Best Practices*, 7 (June 2010).

17 Mike Desmarais, Service Quality Measurement Group, *First Call Resolution: The Call Center Measure that Matters Most* (Dec. 2005), http://grandsorganismes.gouv.qc.ca/fileadmin/Fichiers/Veilles%20strat%C3%A9giques/Gestion%20des%20CRC/2005-first_call_resolution.pdf.

18 GAO, GAO-15-84, *Managing For Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service* (Oct. 2014), <http://www.gao.gov/assets/670/666652.pdf>.

- **Script:** “[customer service representative] CSR asks the customer at the end of the call if their inquiry or problem was resolved;
- **[Interactive Voice Response] IVR Surveys:** customer completes an IVR survey at the end of the call and is asked if their call was resolved;”
- **Call Backs:** “FCR is determined based on whether the customer called back within 3-5 business days;” and
- **Case Management Software:** “CSR uses their desktop software application to capture whether the customer’s inquiry or problem was resolved.”¹⁹

Using FCR data would help the IRS to identify how to reduce the amount of calls it receives and also provide better service to taxpayers on the calls it does receive.

Engaged and Empowered Employees Are Essential to Improving Call Quality

Along with evaluating the experience from the caller’s perspective, the IRS should also implement practices for accuracy-related oversight and incorporate metrics to evaluate its telephone assistants’ rates of satisfaction.²⁰ Keeping telephone assistants engaged in the work they perform is necessary to achieve a high quality of service.²¹ In providing guidance to telephone assistants, the IRS should identify specific actions a telephone assistant can take to improve his or her performance.²² More than just correcting mistakes, supervisors should help telephone assistants understand how their role fits in the larger mission of the call center by explaining the impact a telephone assistant’s performance had on the taxpayer’s experience.²³ To further improve satisfaction and engagement, telephone assistants should be empowered to take affirmative steps to address a caller’s problem themselves.²⁴ Employees need to be given a sense of agency over their work, and allowed to think creatively and reach innovative solutions.

LITERATURE REVIEW

1. **Accenture**, *Transforming Customer Services to Support High Performance in New York City Government*, 5, 6 (2013).

“Through [business intelligence] BI reports and dashboards, the city tracks integrated information from millions of customers, allowing city staff to analyze call patterns and plan for or respond proactively to issues.”

“Customer satisfaction with NYC 311 now surpasses even the highest-performing private-sector call centers, according to a survey conducted last year by CFI Group, Inc., an industry leader in gauging customer satisfaction as measured by the patented American Customer Satisfaction Index.”

19 Mike Desmarais, Service Quality Measurement Group, *First Call Resolution: The Call Center Measure that Matters Most* (Dec. 2005), http://grandsorganismes.gouv.qc.ca/fileadmin/Fichiers/Veilles%20strat%C3%A9giques/Gestion%20des%20CRC/2005-first_call_resolution.pdf.

20 Ian Jacobs et al., Forrester Research, *How to Measure and Improve the Contract Center Agent Experience*, (Apr. 16, 2015) (“Unhappy contact center agents equal unhappy customers.”).

21 Bernard Marr & Andy Neely, *Managing and Measuring for Value: The Case of Call Centre Performance*, CRANFIELD UNIVERSITY STAFF PUBLICATIONS (2004).

22 Ian Jacobs et al., Forrester Research, *How to Measure and Improve the Contract Center Agent Experience* (Apr. 16, 2015).

23 Rachel Miller, Impact Learning Systems, *No Time to Coach*, (September 2011).

24 Ian Jacobs et al., Forrester Research, *How to Measure and Improve the Contract Center Agent Experience* (Apr. 16, 2015).

2. **Annette Reichold, Lutz Kolbe, & Walter Brenner**, *Performance Measurement of CRM in Financial Services*, 4th International Conference on Performance Measurement and Management, Edinburgh, 5, 6 (July 28-30, 2004), <http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=4F1B718C414FB700AC626129550D0EE6?doi=10.1.1.133.196&rep=rep1&type=pdf>.

“With the *service management* process, Service Level Agreements (SLA) are used, especially at call centers, to measure and manage performance. Examples of such measures are, e.g., ‘the proportion of calls accepted within defined timeframes’ or ‘the proportion of requests answered within the first contact’.”

“All the banks studied measure customer satisfaction. The *Swiss Regional Bank* improved its customer satisfaction through [Customer Relationship Management] CRM as well as the willingness of the customers to recommend the bank. Investment Bank specifically evaluates customers’ satisfaction after having call center contact in order to measure the overall quality and effect of employee training and the new services offered. The bank benchmarks its results against similar companies in order to compare its performance achievements.”

3. **Bank Administration Institute**, *Evolution of Contact Centers in Banking: Engaging and Empowering Agents in an Omnichannel Operating Environment*, 10 (2015), <https://www.avanade.com/-/media/asset/brochure/contact-centers-in-banking-report.pdf>.

“When polled if existing metrics still apply, roundtable participants generally agreed that while average handle time may not go away, it could be de-emphasized in measuring performance. Many of the participating roundtable organizations have started using new customer satisfaction scores, and while they believe other metrics may be changing, customer experience is still weighted the most, generally 40 percent across all scoring.”

“[I]n today’s omnichannel banking environment where the typical customer-agent interaction has moved from transaction to relationship oriented. These types of calls naturally affect average handle time and first call resolution, and these metrics may no longer be effective gauges of performance. By recognizing these factors, contact center leadership can converse with agents to see what’s working and what is not.”

4. **Bernard Marr & Andy Neely**, *Managing and Measuring for Value: The Case of Call Centre Performance*, CRANFIELD UNIVERSITY STAFF PUBLICATIONS, 9 (2004).

“The literature provides clear evidence that the current focus on efficiency measures in call centres can in fact be counterproductive to achieving customer satisfaction. Many call centres seem to have fallen into the trap of believing that operational measures such as call duration or average time to answer are indicators of customer satisfaction. The fact is that they are not; they are only measures of efficiency, which in turn is often seen as a determinant of financial performance. Most call centres seem to miss the important link between employee satisfaction, service quality, customer satisfaction, and profitability.”

5. **Centers for Medicare and Medicaid Services**, *Medicare Administrative Contractor (MAC) Beneficiary and Provider Communications Manual* (Oct. 22, 2017).

“The quality of CSR responses to provider telephone calls shall be monitored throughout the contract year for each [Medicare Administrative Contractor] MAC jurisdiction using Quality

Assurance Monitoring (QAM) (Telephone). The goal of QAM (Telephone) is to ensure the CSRs provide accurate and complete information, in a courteous and professional manner, while ensuring that information is released to those authorized to receive it.”

6. **Darren Baguley**, *Contact Centre Benchmarking*, AUSTRALIAN INSTITUTE OF MGMT. (June 1, 2008), <http://blog.aim.com.au/contact-centre-benchmarking/> (last visited Dec. 5, 2017).

“As contact centres begin to generate more revenue than they cost to run, managers are focusing on qualitative metrics aimed at improving customer service.”

“Metrics such as average time in queue are still important, but they’re taking a back seat to Key Performance Indicators (KPIs) that are designed to measure the customer’s interaction: first-call resolution, conversion ratios and customer satisfaction.”

7. **Dep’t of Labor**, *Unemployment Insurance (UI) Call Center Study Final Report*, 33–34, Coffey Consulting (Jan. 27, 2017), https://ows.doleta.gov/unemploy/docs/CoffeyConsulting_UI_Call_Center_Study_Final_Report_January272017acc.pdf.

“When establishing [Key Performance Indicators] KPIs, management should concentrate on four key areas to maximize customer satisfaction and maintain a high performing call center [citation omitted]:

1. Telephone benchmarks (*e.g.*, average speed of answer)
2. Efficiency benchmarks (*e.g.*, adherence to schedule)
3. Human resource benchmarks (*e.g.*, absenteeism)
4. Service benchmarks (*e.g.*, first call resolution rate).”

“Private call centers focus on **first call resolution** (*i.e.*, the degree to which calls are resolved in the first attempt, without the agent needing to refer the customer to a colleague or a manager, or call the customer back). Recent research suggests that no single KPI has a bigger impact on customer satisfaction than does first-call resolution (FCR) [citation omitted].

In private industry call centers, **customer satisfaction** is a critical benchmark. A three-pronged approach to measuring customer satisfaction is recommended that combines quarterly customer surveys conducted by team leaders with independent third party analysis, and quality assurance measurements. The global metric for customer satisfaction is 90 percent [citation omitted].”

8. **Donna Fluss**, *THE REAL-TIME CONTACT CENTER: STRATEGIES, TACTICS, AND TECHNOLOGIES FOR BUILDING A PROFITABLE SERVICE AND SALES OPERATION* 134-35 (2005).

“The ratios of managers to supervisors and supervisors to agents also vary widely from site to site and depend on the contact center’s purpose. In shops that handle high-value or technically sophisticated products, the ratio of supervisors to agents may be as low as 1 to 5. By contrast, in a high-volume financial services call center where the typical call is ‘What is my balance?’ the supervisor-to-agent ratio may vary from 1 to 10 to as high as 1 to 20. A ratio of 1 to 10 is optimal, as this will allow supervisors the time to get to know their staff and offer proper coaching and motivation.”

9. **Emmy Favilla**, *10 Strategies for Customer Service Success*, CUSTOMER RELATIONSHIP MGMT. MAG. (June 2004), <http://www.destinationcrm.com/Articles/Editorial/Magazine-Features/10-Strategies-for-Customer-Service-Success-43824.aspx> (last visited Dec. 5, 2017).

“Using eQuality Balance to record customer interactions, and eQuality Evaluation to measure associate performance online, Starwood could calibrate performance scoring among agents, evaluate customer service skills, and maintain important facets of customer connection--from problem-solving to politeness.”

10. **Genesys**, *Customer Service Strategies for the Retail Banking Industry*, 15 (2008), <http://www.genesys.com/resources/brochures/customer-service-strategies-for-the-retail-banking-industry-strategy-guide-emea.pdf>.

“**Customer-Centric Routing** puts an end to customer frustration by ensuring each interaction is routed to the ideal resource with the right information — no matter where that resource is located in your organisation. This helps you increase first-call resolution rates, meet variable call volumes with limited resources, increase cross-sell and up-sell rates and improve agent satisfaction.”

11. **George Robinson & Clive Morley**, *Call Centre Management: Responsibilities and Performance*, 17 INT’L J. OF SERVICE INDUS. MGMT. 284, 296 (Dec. 8, 2009).

“Managers need to consider metrics more appropriate to achieving their organisational goals. Senior management should be asking for more than charts, graphs and a raft of statistics. They should not allow themselves to be deluded into thinking that favourable productivity statistics translate into a positive report in terms of a call centre’s performance in delivering value to the organisation and its customers. More meaningful measures, such as first call resolution, need to be added to the managers’ KPIs. A greater effort should be made to determine what will satisfy customers in each organisational setting. Attaining a target such as ‘80 per cent of calls being answered within 30 seconds’ is a hollow result if the quality of the calls is below the customer’s expectations. Achieving such a result could mask the problem of all calls potentially being poorly handled and customers being disenfranchised and eventually defecting. The pressure to meet the target may result in calls being handled inappropriately, causing call centre agents to miss vital information or fail to complete post-call work effectively, leading to potential downstream problems in customer fulfilment or even leaving the organisation exposed in the event of subsequent legal action (for example, when insufficient information has been recorded by the call centre agent).”

12. **Government Accountability Office**, GAO-05-526, *Immigration Services: Better Contracting Practices Needed at Call Centers* 9 (June 2005), <http://www.gao.gov/assets/250/246932.pdf>.

“In order to monitor and evaluate the performance of the four contractor operated Tier 1 call centers, [U.S. Citizenship and Immigration Services] USCIS planned to use seven performance measures. These measures were to evaluate the quality of customers’ telephone interactions with [customer service representatives] CSRs; the accuracy of information provided to callers over the telephone; the accuracy of callers’ information recorded by CSRs; callers’ levels of satisfaction; how quickly CSRs handled calls (two measures); and the number of calls abandoned by customers put on hold. According to USCIS officials, USCIS established the performance measures based on a review of industry standards for both government and private-sector call center operations.”

13. **Government Accountability Office**, GAO-06-270, *Federal Contact Centers: Mechanism for Sharing Metrics and Oversight Practices along with Improved Data Needed* 4, 11-12 (Feb. 2006), <http://www.gao.gov/assets/250/249031.pdf>.

“Although federal policy for disseminating information to the public specifically emphasizes accuracy, only four of the six agencies include accuracy as a performance metric in their contracts. With respect to oversight, only two of the six agencies used all four of the accuracy-related oversight practices we identified — regular knowledge database reviews, regular contact monitoring, post contact customer satisfaction surveys, and validation of contractor reports.”

“Three of the agencies we reviewed conduct customer satisfaction surveys subsequent to the initial contact from an individual. [General Services Administration] GSA, [TriCare Management Activity] TMA, and [U.S. Postal Service] USPS conduct customer satisfaction surveys, which ask, to limited degrees, questions that address the accuracy of information provided. While providing some level of insight regarding accuracy, customer surveys may not always provide a valid basis for oversight of the accuracy of information, since they usually ask the individual’s opinion on the service provided. If the survey is conducted too closely to the time of the inquiry, the individual may not have had time to act upon the information to know whether it is accurate or not. [Center for Disease Control] CDC plans to implement three types of postcontact customer satisfaction surveys through a third-party contractor beginning in June 2006.”

14. **Government Accountability Office**, GAO-15-84, *Managing for Results: Selected Agencies Need to Take Additional Efforts to Improve Customer Service* 28 (Oct. 2014), <http://www.gao.gov/assets/670/666652.pdf>.

“All of the agencies in our review provide customers with opportunities to submit feedback, including comments and complaints, through a variety of ways such as satisfaction surveys, comment cards submitted in person or online, e-mails, and call centers.”

15. **Help Desk Institute (HDI)**, *Service Desk Metrics – Context is Everything*, 2 <http://www.barclayrae.com/Knowledge/Service%20Desk%20Metrics%20-%20The%20basics.pdf>.

“First Contact Resolution (FCR)... The things you should consider are:

- A lack of industry consensus into exactly what constitutes a ‘first call resolution’ makes comparison of these rates problematic and probably accounts for some of the reported variation in resolution statistics.
- What do you consider to be a first contact fix? Some organisations will count a call that is transferred within the help desk as a first call fix. Some organisations include those instances where an analyst refers to another staff member, and some organisations count calls that are routed to 2nd/3rd level as ‘resolved’.
- Is the time taken to achieve this fix taken into account? — From the perspective of the customer is a long telephone call which provides successful resolution more or less convenient than being called back later?
- What level of complexity are most of the calls to the desk?
- Good Knowledge Management will play a significant role in improving this metric.”

16. **Hesham A. Baraka, Hoda A. Baraka, & Islam H. EL-Gamily**, *Assessing Call Centers' Success: A Validation of the DeLone and Mclean Model for Information System*, 14 EGYPTIAN INFORMATICS J. 99, 100-01 (July 2013).

“The Outsourcing Institute [citation omitted] indicates the growing importance of identification of qualitative metrics in measuring the performance of the outsourced call center. In [citation omitted], [North American Quitline Consortium] NAQC Issue Paper presents best practices in performance measurement and management to maximize call center Efficiency and Quality. The paper proposes identification of performance evaluation indicators instead of the classical ways based on customer surveys, customer praise, complaints, and observation of customer interactions.”

“User satisfaction is an important means of measuring customers' feedback of the call center system and should cover the entire customer experience cycle based on the services provided from the call center. Examples of services may include information retrieval, marketing, technical support, remote diagnosis, remote data entry as in medical transcriptions, mobile, etc. A critical parameter to be measured for the user satisfaction is the rate of the escalation of calls beyond the agent representative as the existing modules failed to answer the customer query.”

17. **Ian Jacobs et al.**, Forrester Research, *How to Measure and Improve the Contract Center Agent Experience* 1, 6 (Apr. 16, 2015).

“Contact center agents can have a huge impact on customer experience. Unhappy contact center agents equal unhappy customers. It's that simple. What is less straightforward is how application development and delivery (AD&D) professionals can determine how happy and engaged the agents actually feel. If they can successfully uncover what sort of experiences agents have, AD&D pros must then create technology scenarios that help improve those experiences.”

“Contact center managers often want to build dashboards of key performance indicators (KPIs), including hot metrics such as Net Promoter Score and Customer Effort scores to present to agents. But those metrics usually give agents very little hint of what specific actions to take to improve the numbers. Contact center pros should skip the Customer Effort score and show agents an aggregated view of the root-cause analysis done on their interactions rated as high effort by customers. This gives agents something they can actually bite into and can, with guidance, be turned into useful improvement plans.”

18. **International Finance Corp.**, *Measuring Call Center Performance: Global Best Practices* 2, 7 (June 2010).

“Chose metrics that reveal key insights into the customer experience, emphasizing quality and quantity equally.”

“Customer satisfaction is a critical benchmark. A three pronged approach is recommended that combines quarterly customer surveys conducted by team leaders with independent third party analysis, and quality assurance measurements. **The global metric for customer satisfaction is 90%...**

First call resolution rate measures the percentage of all calls that are resolved on the first attempt, without the agent needing to refer the customer to a colleague, their manager, or calling the customer back. This measure should improve as agents become more confident with the product and systems. **The global metric is 70-75%...**

Quality assurance measures quality of calls and is based on a set of criteria which the agent must cover during the call. Including, but not limited to:

- How the agent answers the call
- How they navigate the caller to a resolution
- How they end the call.”

19. **Jeff Rumburg**, MetricNet, *Metric of the Month: First Contact Resolution* (2011), <http://www.thinkhdi.com/-/media/HDICorp/Files/Library-Archive/Insider%20Articles/First%20Contact%20Resolution.pdf>.

“FCR is typically measured in one of two ways: (1) the service desk agent checks a box on the trouble ticket at the conclusion of the call or chat session to indicate that the call was successfully concluded on the initial contact, or (2) customers are asked in follow-up customer satisfaction surveys whether their calls were resolved and concluded on the initial contact with the service desk. The first method requires periodic audits to ensure that agents are accurately reporting FCR on the tickets they handle. This is done by reviewing a representative sample of tickets each month to determine whether the tickets designated FCR by an agent are, in fact, being resolved on the first contact with the customer. Neither method of measuring FCR is perfect, but it is one of the most important KPIs to track and trend.”

20. **Jeff Rumburg & Eric Zbikowski**, MetricNet, *The Five Most Important KPI's for the Call Center* (Feb. 20, 2013), https://ccng.com/uploads/five_most_important_kpis_for_the_call_center_metricnet.pdf.

“The two ‘foundation metrics’ that every call center should track on an ongoing basis are Cost per Call and Customer Satisfaction. The next two metrics in the top five are the ones that have the greatest influence on cost and customer satisfaction: Agent Utilization and First Contact Resolution.” (at 12-13).

“Customer satisfaction is affected by a whole range of other performance variables, including Average Speed of Answer (ASA), Call Quality, and Handle Time, to name just a few. But the single biggest driver of customer satisfaction — by far — is FCR.” (at 5).

21. **John Bruno & Kate Leggett**, Forrester Research, *Define the Right Metrics for Tracking CRM Success 2*, 11 (Sept. 20, 2017).

“**Voice of the customer (VoC) programs are now widespread.** Most execs have undertaken new strategies to improve their company’s customer experience [citation omitted]. And because companies need accurate customer insight to provide effective customer experiences, it’s no surprise that VoC programs are gaining momentum. According to a Forrester survey, 84% of surveyed companies reported that they ask customers for feedback about past experiences on a regular basis [citation omitted].”

“**Measure what is important to customers.** Too many companies spend money on the wrong things — or actively annoy customers — because they never bother to ask what would help their customers. Consider using customer surveys or adding more-detailed customer preference options to let customers specify what they like and don’t like, how they want you to contact them, and

what is important to them. Start with one-on-one phone surveys or focus groups to home in on key issues and then automate for broader input and validation...

Use metrics to guide employees. Clear metrics help employees know what ‘success’ looks like. A telecommunications firm uses five key metrics for service reps: 1) number of repeat calls; 2) number of topics discussed per contact; 3) hold time; 4) call time; and 5) customer satisfaction. A customer management technology platform supports the reps, putting them in a position to answer customer inquiries and respond to customer requests. Clear measures let them know how well they are performing.”

22. **John Horrigan**, Pew Research Center, *How Americans Get in Touch With Government* (May 24, 2004), <http://www.pewinternet.org/2004/05/24/how-americans-get-in-touch-with-government/> (last visited Dec. 5, 2017).

“The limits of e-gov have to do with people’s technological assets, preferences, and the wide range of problems people bring to government. Not everyone has Internet access — about one third of American adults do not — which means that phone calls, in-person visits, or letter-writing are the available options to contact government for a large share of the population. Many people simply do not choose to use the Web or email to get in touch with government. In fact, those who contact government, including Internet users, are most likely to say they prefer to use the telephone to do so.”

‘In sum, e-gov is a helpful tool among several options for reaching out to government, but it is by no means the ‘killer app’ among them. People’s problem-solving capacities matter to successful outcomes with government, not a specific technology. As policymakers expand the offerings of e-government, they would be wise also to maintain and upgrade the other channels that citizens use to contact government, with a focus on how these traditional channels may complement e-gov applications.’

23. **Kate Leggett**, Forrester Research, *Trends 2016: The Future of Customer Service* (Jan. 5, 2016).

“Companies must make it easy for customers to get service over the touchpoint and channel of their choice at any point in their journey.” (at 3).

“In 2016, organizations ... will learn to better route a customer to an agent who can most effectively answer a question based on skills and behavior data. They will better understand customer call patterns and preempt future calls.” (at 7).

“In 2016, organizations will begin to equip agents with simpler, more modern, automated, task-based user interfaces to increase their productivity. These improvements will allow agents to focus on solving the customer’s issues and delivering differentiated service instead of struggling with their tool set. Organizations will also empower agents to use their knowledge and experience to make better decisions for customers by beginning a shift from efficiency success metrics to ones that highlight customer satisfaction and customer lifetime value.” (at 9).

24. **Mike Desmarais**, Service Quality Measurement Group, *First Call Resolution: The Call Center Measure that Matters Most* (Dec. 2005), http://grandsorganismes.gouv.qc.ca/fileadmin/Fichiers/Veilles%20strat%C3%A9giques/Gestion%20des%20CRC/2005-first_call_resolution.pdf.

“Based on [Service Quality Measurement Group’s] SQM’s 2005 benchmarking study of over 250 leading North American call centers on 150 traditional operational measures, 55 customer satisfaction measures and 50 employees satisfaction measures, we have concluded that FCR — is the measure that matters most for operating an effective and efficient call center.”

“Put simply — just because a call is handled quickly does not mean that it is handled efficiently, especially if that customer has to call back in because the information was incomplete.”

“Achieving 80% or higher FCR rating typically results in an average of 1.2 calls needed to resolve customer’s inquiry or problem.”

25. **Monica Anderson**, Pew Research Center, *Digital Divide Persists Even as Lower-Income Americans Make Gains in Tech Adoption* (Mar. 22, 2017), <http://www.pewresearch.org/fact-tank/2017/03/22/digital-divide-persists-even-as-lower-income-americans-make-gains-in-tech-adoption/> (last visited Dec. 5, 2017).

“Nearly 30 years after the debut of the World Wide Web, internet use, broadband adoption and smartphone ownership have grown rapidly for all Americans — including those who are less well off financially. But even as many aspects of the digital divide have narrowed over time, the digital lives of lower- and higher-income Americans remain markedly different.

Roughly three-in-ten adults with household incomes below \$30,000 a year don’t own a smartphone. Nearly half don’t have home broadband services or a traditional computer. And a majority of lower-income Americans are not tablet owners. By comparison, many of these devices are nearly ubiquitous among adults from households earning \$100,000 or more a year.”

26. **North American Quitline Consortium**, *Call Center Metrics: Best Practices in Performance Measurement and Management to Maximize Quitline Efficiency and Quality* (2010).

“The service provider should develop clear standards for the call-handling process and train staff to meet them. Call-handling process data should be regularly reviewed at all levels of the organization to ensure that call center agents are meeting the standards. The service provider should adopt an evaluation strategy, such as customer surveys, to obtain qualitative information on the intake process from the perspective of callers.” (at 14).

“There are many different ways to listen and get customer feedback. The three primary ways are:

- Customer surveys
- Customer praise and complaints
- Observation of customer interactions.” (at 6).

“Regular employee-satisfaction surveys can provide valuable insight into the current perceptions of the staff. Surveying should be a routine process that allows and encourages each employee to assess immediate supervisors, the management team, work environment, training, job resources, career opportunities, and so on. If there is dissatisfaction with some recent change or process, it is

important to find that out as quickly as possible since such dissatisfaction may affect how the agent performs on the phone.” (at 7).

FIGURE 1 (at 19)

Performance Category	Performance Measures for Frontline Staff	Quantitative Measure	Qualitative Measure
Service	Schedule adherence	X	
	First-call resolution rate	X	X
Quality	Transfer rate	X	X
	Telephone etiquette		X
	Competency/knowledge		X
	Error/rework rate	X	X
	Process adherence		X
	Schedule adherence	X	
Efficiency	Availability	X	
	Average Handle Time	X	
	After-Call Work time	X	
	On-hold time	X	
	Conversion rate	X	X

27. **The Northridge Group**, *State of Customer Experience 2017*, 2, 14 (2017).

“Just as customers are becoming more digitally savvy, so too must the companies that serve them. Our data shows that customers want to be met on their channel of choice and have little tolerance for multiple contacts, long hold times, slow responses and ineffective issue resolution. While digital self-service channels allow customers to be more self sufficient, consumers still want direct, personal assistance for more urgent matters.”

“Interactive Voice Response (IVR) systems can procure identifying information from callers which allows agents to pull up a customer profile. Websites and mobile apps can track historical information to allow users to see details about their account. By equipping agents with as much information as possible, they’ll have a more complete understanding of previous interactions and potential issues, in addition to providing a faster, more accurate solution.”

28. **Oracle**, *Eight Steps to Great Customer Experience for Government Agencies*, 6-7 (March 2012).

“Extended subject matter knowledge. Agency employees need to be able to access the same knowledge that an agency makes available to its customers via online self-service. This ensures that customers get consistent, accurate, and up-to-date answers regardless of how they contact the agency. Employees can also be provided with additional knowledge that may not be appropriate for online posting but is essential for serving customers effectively.”

“Interaction context. Frontline employees can also better serve customers if they’re provided with knowledge about the context of customer interactions. This is achieved when employees can view any recent previous interactions with the customer. Thus, for example, if a customer has

already spoken to other agency employees about the issue at hand, the employee can take that into account—and avoid asking the same questions. This shortens calls and saves customers the frustration of having to go over the same information again and again.”

29. **Peggy Carlaw**, *Call Center Best Practices*, CUSTOMERTHINK (May 11, 2012), http://customerthink.com/call_center_best_practices/ (last visited Dec. 5, 2017).

“There are other reasons why giving feedback is so important. It shows your staff that you’re on top of things, that you’re keeping yourself informed, and that you’re dedicated to a course of continual improvement. Call center employees who receive ongoing feedback are more engaged in their job, and more engaged employees create more satisfied customers. What’s more, this call center best practice shows your staff that you care about them, about their performance, about the customer, about service levels, and about running a world-class call center.”

“The goal of your call center is to help your organization meet its business goals. Metrics measure how well you’ve done that. Look at metrics related to quality (call quality, data-entry quality, fix quality, customer satisfaction and loyalty, etc.) as well as metrics related to quantity (average speed of answer, number of escalations or transfers, the time it takes to resolve the customer’s issue, etc.). The goal is to create the highest customer loyalty at the lowest cost.”

30. **Rachel Miller**, Impact Learning Systems, *No Time to Coach*, 2 (September 2011).

“[C]orrecting is a very important part of coaching. It is not easy to tell someone that they did something wrong, but avoiding such issues will affect team productivity and morale. Use the following acronym as an easy reminder for effective correcting.

B = Behavior. Clearly point out the incorrect behavior.

E = Effect. Explain the effect of the incorrect behavior had on the customer, call, etc.

E = Expectation. Clearly state what you expect employee to do differently next time.

S = Secure Commitment. Secure commitment from the employee to try what you’ve asked.”

31. **Richard A. Feinberg et al.**, *Operational Determinants of Caller Satisfaction in the Call Center*, 11 INT’L J. OF SERVICE INDUSTRY MGM’T. 131, 140 (2000).

“No amount of measuring speed of answer, abandonment rates, etc. can take the place of knowing, tracking, and strategically considering how satisfied the callers were with their experience and outcome in the call center experience. This study shows that resolving the problem and answering the question the first time the customer calls and making certain that the customer gets through the first time are the two essential elements of the call center operation.”

32. **Scott Keeter et al.**, Pew Research Center, *From the Telephone to the Web: The Challenge of Mode of Interview Effects in Public Opinion Polls*, 2 (May 13, 2015).

“Using its nationally representative American Trends Panel, Pew Research Center conducted a large-scale experiment that tested the effects of the mode of survey interview — in this case, a telephone survey with an interviewer vs. a self-administered survey on the Web — on results from

a set of 60 questions like those commonly asked by the center's research programs. This report describes the effort to catalog and evaluate mode effects in public opinion surveys.”

33. **Terrel Bird**, *Measuring the Success of a Call Center: Easier than You Think*, INT'L CUSTOMER MGM'T. INST. (Jul. 13, 2016), <http://www.icmi.com/Resources/Metrics/2016/07/Measuring-the-Success-of-a-Call-Center-Easier-than-You-Think> (last visited Dec. 5, 2017).

“Some of the most common and insightful call center metrics that help us to measure overall performance include average call duration, call quality, customer satisfaction score, escalation rate, first call resolution, resolution time and speech analytics.”²⁵

“Resolution Time measures the amount of time it takes for an agent to successfully resolve a customer issue. Typically measured in hours and/or days, resolution time is frequently tied to customer satisfaction because a low resolution time shows that agents are making proper solutions and communicating them to customers properly.”

25 Escalation rate “measures the frequency that an agent has to send customer calls to higher-ranking agents for resolution.” Terrel Bird, *Measuring the Success of a Call Center: Easier than You Think*, INT'L CUSTOMER MGM'T INST. (Jul. 13, 2016), <http://www.icmi.com/Resources/Metrics/2016/07/Measuring-the-Success-of-a-Call-Center-Easier-than-You-Think> (last visited Dec. 5, 2017).

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Volume 2

LITERATURE REVIEWS

Fostering Taxpayer Engagement Through Geographic Presence

INTRODUCTION

The National Taxpayer Advocate has raised concerns about the lack of geographic presence in both service and enforcement functions of the IRS. In particular, the National Taxpayer Advocate is concerned that:

- A lack of geographic presence can have a negative effect on taxpayer morale, which in turn may decrease voluntary compliance and increase taxpayer burden;
- The absence of a geographic footprint deprives the IRS and taxpayers of local knowledge which may result in missed opportunities to meet taxpayers' unique needs, and to identify and address noncompliance specific to a geographic region; and
- The IRS is slow to find innovative ways to maintain and create local presence in communities.¹

In 2012 and 2013, TAS developed and administered a survey to a national sample of sole proprietors to determine the factors that influence compliance behavior in this population. TAS also identified geographic communities where a disproportionate number of taxpayers were deemed to be either high or low compliant taxpayers. The studies found that respondents from low-compliance communities were suspicious of the tax system and its fairness. Those in the low-compliance group were clustered in geographic communities while those in the high-compliance group were more dispersed. The low-compliance group also reported more participation in local institutions. The research identified a link between the salient relationships, *i.e.*, one's membership in a group, and one's own attitudes and behaviors towards tax and compliance. Local norms were the most influential factors of tax compliance. The research suggests the IRS should retain a local presence and conduct targeted outreach and education events, particularly in low-compliance communities.²

Pursuant to the above-mentioned TAS research, geographic presence is particularly important in outreach activities. IRS employees need to be on the ground and in the community to understand local issues, local concerns, and local norms. With this local knowledge, the IRS will be in a position to present information in a way that the community can access and understand. In addition, the IRS will be able to provide information on issues relevant to the local taxpayer population rather than provide a general information that is too vague for the taxpayers to apply to their own lives.³

DISCUSSION

A primary way to build taxpayer trust and confidence, provide taxpayer specific service, and to promote understanding of the tax system is to be a part of the community and to display a desire to work with and educate local taxpayers. The Department of Justice has acknowledged the importance of geographic presence in its community oriented policing services. According to the Office of Community Policing Services (COPS), "Community policing begins with a commitment to building trust and mutual respect between police and communities. It is critical to public safety, ensuring that all stakeholders work

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- 1 National Taxpayer Advocate 2016 Annual Report to Congress 86-87 (Most Serious Problem: *Geographic Focus: The IRS Lacks an Adequate Local Presence in Communities, Thereby Limiting Its Ability to Meet the Needs of Specific Taxpayer Populations and Improve Voluntary Compliance*).
 - 2 See National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 33-56 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*); National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).
 - 3 David Ingram, *The Advantages of Geographical Organizational Structure*, CHRON, <http://smallbusiness.chron.com/advantages-geographical-organizational-structure-717.html> (last visited Oct. 11, 2017); Jan Levy, *Community Engagement Is Not About Being Nice; It's Fourth Pillar of CSR*, THE GUARDIAN (Sept. 8, 2014), <https://www.theguardian.com/sustainable-business/2014/sep/08/community-engagement-pillar-business-csr-sustainability>.

together to address our nation's crime challenges. When police and communities collaborate, they more effectively address underlying issues, change negative behavioral patterns, and allocate resources.⁴

Foreign tax administrations have acknowledged the importance of in-person outreach initiatives. For example, Her Majesty's Revenue and Customs (HMRC) in the United Kingdom has taken an approach to taxpayer service and enforcement that combines the expertise of centralization with the ability to reach taxpayers on a local level. For those taxpayers who are comfortable seeking guidance by phone, the HMRC phone advisors are able to bring HMRC experts together in a single call to resolve multiple issues, without transferring customers around different parts of HMRC to different advisors who each deal with a separate issue. The HMRC approach provides mobile advisors for taxpayers who need face-to-face help. The mobile advisors meet with taxpayers by appointment at a variety of venues, from government and community buildings to a taxpayer's home or business.⁵ In addition, the Canada Revenue Agency (CRA) implemented a Liaison Officer Initiative that provides in-person guidance to small businesses to identify emerging issues and provide pro-active guidance to avoid downstream audits.⁶

The Disadvantages of Digital Communication

While communicating digitally may appear to be a low-cost option in the short-term, research has shown that this format has disadvantages. For example, research has found that digital screen readers engage in a greater use of shortcuts such as browsing for keywords. They also tend to multitask more. It is no surprise the research found that these digital screen readers engage in less in-depth reading.⁷

The Importance of Two-Way Communication

While face-to-face and telephone communication is optimal, social media is another option to provide effective two-way communication. The government can distribute information and receive much-needed information from those on the ground in a timely manner. However, access problems still exist, especially in disasters when communities lose electricity.⁸

Another way to achieve in-person communication is to deploy mobile vans. This option enables the agency to reach more communities without having established offices in the communities.⁹ The

4 Community Oriented Policing Services, U.S. Dep't of Justice, *About*, <https://cops.usdoj.gov/about> (last visited Oct. 11, 2017).

5 Her Majesty's Revenue & Customs (HMRC), *HMRC Comes Out of the Office to Support Customers Who Need Extra Help* (Feb. 12, 2014), <https://www.gov.uk/government/news/hmrc-comes-out-of-the-office-to-support-customers-who-need-extra-help>.

6 Canada Revenue Agency, *Liaison Officer Initiative*, <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/compliance/liaison-officer-initiative-loi.html> (last visited Oct. 13, 2017).

7 Anne Niccoli, *Paper or Tablet? Reading Recall and Comprehension*, *EDUCAUSE REVIEW* (Sept. 28, 2015), <https://er.educause.edu/articles/2015/9/paper-or-tablet-reading-recall-and-comprehension>.

8 *Understanding the Power of Social Media as a Communication Tool in the Aftermath of Disasters*, *Hearing Before the Ad Hoc Subcomm. on Disaster Recovery and Intergovernmental Affairs, S. Comm. on Homeland Security and Governmental Affairs*, 112th Cong. (2011) (written statement of Craig Fugate, Administrator, Federal Emergency Management Agency).

9 See, e.g., Motor Vehicle Admin., Maryland Dep't of Transportation, *MVA Bus Schedule*, <http://www.mva.maryland.gov/locations/bus.htm> (last visited Oct. 12, 2017).

National Taxpayer Advocate has recommended on numerous occasions that the IRS use mobile vans to reach underserved taxpayer populations or to serve disaster areas.¹⁰

LITERATURE REVIEW

1. 26 U.S. Code § 7803(c)(2).

“(C) **Other responsibilities** The National Taxpayer Advocate shall —
 (i) monitor the coverage and geographic allocation of local offices of taxpayer advocates;...

(D) **Personnel actions**

(i) **In general** The National Taxpayer Advocate shall have the responsibility and authority to —
 (I) appoint local taxpayer advocates and make available at least 1 such advocate for each State;...”

2. **3rdView Consulting**, *Understanding and Improving Customer Focus: How Customer Focus Can Help Sustain and Grow Your Organisation, Module 1: Introduction to Customer Focus* 1, 3 (Dec. 2013), http://communitydoor.org.au/sites/default/files/Topic_1_-_Introduction_to_Customer_Focus.pdf.

“What is customer focus?”

Customer focus is an approach to achieving organisational success by aligning systems, processes and activities around a common purpose — the customer. Organisations can choose to focus on a range of things — manufacturing efficiency, internal processes, new product development. These things are important, however only *customer focus* ensures that the organisation is delivering to the changing needs of those people that will keep them in business.

Customer focus is different to *customer service*. *Customer service* relates to the interactions between frontline personnel and customers. *Customer focus* relates to the alignment of the organisation’s vision, strategy, people, processes and systems, to deliver on identified customer needs. While customer service is the role of a team or department, customer focus involves everyone in the organisation.”

3. **Allen N. Berger & Robert DeYoung**, *The Effects of Geographic Expansion on Bank Efficiency*, 19 J. FIN. SERVICES RES. 163, 169 (Apr. 2001).

“However, we argue that physical distance matters, will continue to matter in the near future, and that technological advances can only partially mitigate the effects, both unfavorable and favorable, of distance on bank efficiency. For example, making relationship loans to borrowers that do not qualify for credit scoring because of relatively weak financial statements and collateral

¹⁰ See National Taxpayer Advocate 2014 Annual Report to Congress 31-45. See also National Taxpayer Advocate 2010 Annual Report to Congress 267-77. In this Most Serious Problem, the IRS reported it had tested a mobile van program in 2008, 2009, and 2010 despite previously responding to research requests that it did not have mobile vans. Additionally, the IRS never shared the parameters of this program with the National Taxpayer Advocate so TAS was unable to evaluate the efficacy of the program design. See also National Taxpayer Advocate 2008 Annual Report to Congress 95-113. In this Most Serious Problem, the IRS did not respond at all to the National Taxpayer Advocate’s recommendation that the IRS begin a mobile van program.

of questionable value requires local knowledge that is difficult to quantify and transmit to a distant headquarters. This local knowledge includes not only financial information about the firm, but information about the firm's managers, its local economic environment, and its relationships with customers, suppliers, and local competitors. Because much of this information is difficult to quantify and transmit, so that verifying whether local loan performance problems are due to adverse local conditions, poor performance of the borrowers, or lax effort/incompetence of local loan officers becomes more difficult as distance increases. In addition, geographic expansion brings potential diversification benefits that increase with physical distance, as shown above. These benefits may accrue to banks that provide loans, deposits, or other financial products and services on a multiregional, national, or international basis. It is unlikely that advances in information, communications, and financial technologies will smooth out differences in regional economic conditions and fully mitigate these potential efficiency gains from geographic expansion.”

4. **Anja Krabye**, 3rdView Consulting, *From Customer-phobic to Customer-focused*, <http://3rdview.com.au/customer-focus/from-customer-phobic-to-customer-focused/> (June 13, 2016).

“There are different levels of benefit that can be derived from customer interactions. Learning customer needs and pain-points helps identify opportunities for a business to deliver value. Turning an idea into a product or service without further customer engagement limits the value that can actually be delivered and hence the benefit the company can receive.

Leaders will often say ‘We’ve heard what the customer needs, so now we can just deliver’. This puts customer phobic people back into their comfort zone and aligns with a ‘business-as-usual’ project management process. Engaging customers throughout prototyping and co-designing with them not only refines the outcome, but also builds customer buy-in and ownership [of] the products and services being designed to serve their needs. If customer phobias block the ongoing engagement with customers, your business misses these benefits.”

5. **Anne Niccoli**, *Paper or Tablet? Reading Recall and Comprehension*, *EDUCAUSE REVIEW* (Sept. 28, 2015), <https://er.educause.edu/articles/2015/9/paper-or-tablet-reading-recall-and-comprehension>.

“Researchers have noticed changes in reading behavior as readers adopt new habits while interfacing with digital devices [citation omitted]. For example, findings by Ziming Liu claimed that digital screen readers engaged in greater use of shortcuts such as browsing for keywords and selectivity [citation omitted]. Moreover, they were more likely to read a document only once and expend less time with in-depth reading. Such habits raise concern about the implications for academic learning.”

“David Daniel and William Woody urge caution in rushing to e-textbooks and call for further investigation [citation omitted]. Their study compared college student performance between electronic and paper textbooks. While the results suggested that student scores were similar between the formats, they noted that reading time was significantly higher in the electronic version. In addition, students revealed significantly higher multitasking behaviors with electronic devices in home conditions. These findings uphold recent results involving multitasking habits while using e-textbooks in Baron’s survey [citation omitted]. Likewise, L. D. Rosen *et al.* found that during a 15-minute study period, students switched tasks, on average, three times while using

electronic devices [citation omitted]. Taken together, these studies point to adaptive habits and cognitive shortcuts while using technology even though learning is the primary objective.”

“Survey results from the Joan Ganz Cooney Center suggest that parents who read to their three- to six-year-olds with tablets recalled significantly fewer details compared to the same story read using print [citation omitted].”

“Uncertainties remain about the influence of digital reading for in-depth reading comprehension for adults and raise more unanswered questions about the developmental implications for children [citation omitted]. The effects of reading from digital devices on children’s cognitive developmental skills and literacy abilities are just beginning to emerge. Questions linger regarding the consequences of nonlinear reading on brain processing, especially adaptive shortcuts due to scrolling, scanning, and hyperlinks [citation omitted]. ‘There is physicality in reading,’ explained developmental psychologist and cognitive scientist Maryanne Wolf of Tufts University, ‘maybe even more than we want to think about as we lurch into digital reading — as we move forward perhaps with too little reflection. I would like to preserve the absolute best of older forms, but know when to use the new [citation omitted].’”

6. **Anne Tolley & Peter Dunne**, *New Tax Education Online Resource for Schools*, BEEHIVE.GOV.T.NZ (July 4, 2011), <https://www.beehive.govt.nz/release/new-tax-education-online-resource-schools>.

“[New Zealand] Education Minister Anne Tolley and Revenue Minister Peter Dunne have today launched a new tax education online curriculum tool for school students.

The Citizenship and Tax Education tool is designed for Year 7-10 social studies classes.

‘This will be a welcome addition to the resources currently available to schools,’ says Mrs. Tolley.

‘It’s a useful and practical programme and it’s aligned to the new curriculum, so students and teachers will benefit.’

Mr. Dunne says the resource essentially starts discussions around citizens paying tax, why we do it and why there is an obligation to do so.

‘Very positive feedback from trials shows that when young people used the tool they demonstrated a real understanding and appreciation of why we pay tax to have a fair, whole and functioning society.’

The programme was developed by Inland Revenue with advice from the Ministries of Education and Youth Development, and includes animations, quizzes, and games.

The resource can be downloaded at www.taxcitizenship.tki.org.nz.”

7. **Canada Revenue Agency**, *Liaison Officer Initiative* (Dec. 23, 2016), <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/compliance/liaison-officer-initiative-loi.html> (last visited Oct. 13, 2017).

“Helping you get small business taxes right from the start

The Canada Revenue Agency (CRA) is working hard to improve its services so you can more easily meet your tax obligations, plus save time and money. The **Liaison Officer Initiative (LOI)** provides in-person guidance, support, and information that will help you understand and navigate

the tax system. Early support and certainty make it easier for you to meet your tax obligations. The CRA benefits too: by identifying emerging issues and answering questions for a business in the early stages of development, the CRA can help prevent more serious problems that would cost more to resolve later.

Audits are still one of the tools the CRA uses to make sure taxpayers comply. But with the LOI the CRA is shifting its compliance approach to offer proactive support before costly and time-consuming audits become necessary. LOI activities are geared toward providing timely education and building a stronger relationship between you and the CRA.

The LOI provides the following services:

1. **Small business support visits:** A liaison officer will visit you at your place of business to give you support and guidance on tax matters. One-on-one, they will respond to any tax-related questions and concerns you have, give you general information on tax obligations, and tell you about common tax errors small businesses make.
 2. **Books and records review:** When a small business is not meeting its tax obligations, it is often because of poor record-keeping. The liaison officer will offer to review your books and records and give feedback and guidance on their accuracy and completeness. Your participation in a books and records review is voluntary. By choosing to participate you allow the CRA to help address potential problems before you file your taxes.
 3. **Compliance support arrangement:** After your visit or review, the liaison officer will ask you to sign a compliance support arrangement. This step is completely voluntary. By signing, you acknowledge that you understand your tax obligations and you intend to meet those obligations. The compliance support arrangement will highlight the key responsibilities of both parties, identify tax errors that are commonly made by small businesses, and outline industry benchmarks that you can use to compare your business's performance to the sector in general.”
8. **Christopher Meyer & Andre Schwager**, *Understanding Customer Experience*, HAR. BUS. REV. (Feb. 2007), <https://hbr.org/2007/02/understanding-customer-experience>.

“Although few companies have zeroed in on customer experience, many have been trying to measure customer satisfaction and have plenty of data as a result. The problem is that measuring customer satisfaction does not tell anyone how to achieve it. Customer satisfaction is essentially the culmination of a series of customer experiences or, one could say, the net result of the good ones minus the bad ones. It occurs when the gap between customers' expectations and their subsequent experiences has been closed. To understand how to achieve satisfaction, a company must deconstruct it into its component experiences. Because a great many customer experiences aren't the direct consequence of the brand's messages or the company's actual offerings, a company's reexamination of its initiatives and choices will not suffice. The customers themselves — that is, the full range and unvarnished reality of their prior experiences, and then the expectations, warm or harsh, those have conjured up — must be monitored and probed.”

9. **Community Oriented Policing Services**, U.S. Dep't of Justice, *About*, <https://cops.usdoj.gov/about> (last visited Oct. 11, 2017).

“The Office of Community Oriented Policing Services (COPS Office) is the component of the U.S. Department of Justice responsible for advancing the practice of community policing by the nation’s state, local, territorial, and tribal law enforcement agencies through information and grant resources.

Community policing begins with a commitment to building trust and mutual respect between police and communities. It is critical to public safety, ensuring that all stakeholders work together to address our nation’s crime challenges. When police and communities collaborate, they more effectively address underlying issues, change negative behavioral patterns, and allocate resources.

The COPS Office awards grants to hire community policing professionals, develop and test innovative policing strategies, and provide training and technical assistance to community members, local government leaders, and all levels of law enforcement. Since 1994, the COPS Office has invested more than \$14 billion to help advance community policing.”

10. **David Ingram**, *The Advantages of Geographical Organizational Structure*, CHRON, <http://smallbusiness.chron.com/advantages-geographical-organizational-structure-717.html> (last visited Oct. 11, 2017).

“Local Managers

The ability to hire local management offers companies the advantage of having leaders who are completely familiar with the local business environment, culture, and legal climate. Local marketing managers understand exactly what drives local purchase behavior; local accounting managers understand the tax structure and financial reporting requirements of the region; and local staffing managers understand the management practices that are most effective in the region. Decision-making effectiveness can be enhanced by relying on the knowledge and experience of local talent. Placing a mix of local and home office leaders at the helm of a geographical unit has the advantage of melding local culture with company culture, ensuring that the company is sufficiently adaptable to local conditions, while still being true to its core business methodologies.

Geographical Focus

According to Lamar.edu, customer service quality can be enhanced by implementing a geographical structure. Customers can feel more at ease when speaking with local representatives who fully understand their language and idiomatic expressions. Customer support representatives will also have greater access to representatives from other functions, as mentioned before, which can allow them to handle customer issues much more efficiently. For example, in a functional structure, a customer support representative in India might speak with a customer from England, then call an account manager in Germany to obtain the information to help the customer. In a geographical structure, the support representative in India would speak with a customer from India, then ask an account representative down the hall for the needed information. Focusing all functions on one geographical area allows each department to operate with precision: product attributes can be altered to suit local tastes; workplace policies can be altered to fit local workers; marketing can be tailored to the specific market; sales practices can stay within culturally acceptable boundaries; and pricing schemes can fit local trends.”

11. **Ferris Jabr**, *The Reading Brain in the Digital Age: The Science of Paper Versus Screens*, SCIENTIFIC AMERICAN (Apr. 11, 2013), <https://www.scientificamerican.com/article/reading-paper-screens/>.

“Even so, evidence from laboratory experiments, polls and consumer reports indicates that modern screens and e-readers fail to adequately recreate certain tactile experiences of reading on paper that many people miss and, more importantly, prevent people from navigating long texts in an intuitive and satisfying way. In turn, such navigational difficulties may subtly inhibit reading comprehension. Compared with paper, screens may also drain more of our mental resources while we are reading and make it a little harder to remember what we read when we are done.”

“In contrast, most screens, e-readers, smartphones and tablets interfere with intuitive navigation of a text and inhibit people from mapping the journey in their minds. A reader of digital text might scroll through a seamless stream of words, tap forward one page at a time or use the search function to immediately locate a particular phrase — but it is difficult to see any one passage in the context of the entire text. As an analogy, imagine if Google Maps allowed people to navigate street by individual street, as well as to teleport to any specific address, but prevented them from zooming out to see a neighborhood, state or country. Although e-readers like the Kindle and tablets like the iPad re-create pagination — sometimes complete with page numbers, headers and illustrations — the screen only displays a single virtual page: it is there and then it is gone. Instead of hiking the trail yourself, the trees, rocks and moss move past you in flashes with no trace of what came before and no way to see what lies ahead.”

12. **HMRC**, *HMRC Comes Out of the Office to Support Customers Who Need Extra Help* (Feb. 12, 2014), <https://www.gov.uk/government/news/hmrc-comes-out-of-the-office-to-support-customers-who-need-extra-help> (last visited Oct. 12, 2017).

“A new, flexible, face-to-face support service for customers who need extra help with their taxes, tax credits and child benefit entitlements will be rolled out across the UK by HMRC this spring.

Following a successful seven-month trial in the North East of England, the new service will provide expert advisers to resolve issues on the phone in depth, in one go. It will also provide mobile adviser support at a range of convenient locations for those who need a face-to-face appointment.

The phone advisers will be able to bring HM Revenue and Customs (HMRC) experts together in a single call to resolve multiple issues, without transferring customers around different parts of HMRC to different advisers who each deal with a separate issue.

For those who need a personal appointment, HMRC’s mobile advisers will meet them at a range of venues — from government and community buildings to a person’s own home or business — at a time that suits them.

Customers who need extra help on any HMRC issue — from help with a tax return, to assistance with a tax credits claim — will be identified and referred to the new service by both HMRC’s existing helpline phone advisers and by voluntary sector partners.

Following the launch of the new service in May 2014, the current Enquiry Centre network will close.”

13. **HMRC**, *Our Approach to Tax Compliance* (Sept. 2012), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/89015/tax-compliance.pdf (last visited Oct. 12, 2017).

“We aim to close the tax gap, which is the difference between the amount of tax that should in theory be collected, against what is actually collected, through a number of key compliance activities. They are:

- Identifying how to deal with customers in the most appropriate way. This ranges from educating them about their tax responsibilities to providing local help and support...”

14. **International Monetary Fund**, *Current Challenges in Revenue Mobilization: Improving Tax Compliance*, 41 (Apr. 2015).

“Managing relationships with taxpayers and other stakeholders is important for effective compliance management — with much to do in many developing countries. RAs [Revenue Agents] need strong relationships with many groups: taxpayers (and intermediaries), trade associations, and other agencies responsible for different aspects of tax compliance (such as customs, when tax and customs are separate, social contribution agencies, withholding agents, and anti-money laundering (AML) agencies). More advanced administrations have a range of channels through which tax officials communicate with the public, ranging from regular briefings with trade and other organizations to working with an official taxpayer representative or ombudsman — all of which provide channels for taxpayer grievances and allow the taxpaying community to give the RA feedback on its operations and initiatives. But — with some exceptions, such as with commercial banks acting as withholders — the stakeholder relationships of most developing country RAs are largely ad hoc. This means that opportunities for exchanging information, sharing intelligence, or carrying out joint/coordinated actions with other agencies, are not exploited effectively.”

15. **IRS**, *IRS Earned Income Tax Credit (EITC) Initiative: Report on Fiscal Year 2005 Tests*, 16-17 (Jan. 2007).

“The community test in Hartford County provided an opportunity for outreach and education that would be cost prohibitive for a nationwide test with a relatively small sample dispersed across the country. We selected Hartford County because the community was relatively compact, comprised a single media market, and had a demographic makeup similar to that of the United States as a whole. For the community test, we supported an outreach campaign in an effort to simulate what might happen if we imposed a certification test more broadly. This outreach included IRS-delivered educational materials and working with community-based organizations to educate taxpayers about the certification requirements. The outreach campaign did not include any exceptional efforts. The outreach effort was one way in which the Hartford County test differed from the nationwide test. Another difference in the tests was that third party document providers in Hartford County were much more likely to receive documentation requests from more than one taxpayer, which could potentially affect the third party’s ability and/or willingness to fulfill a taxpayer’s request. Taxpayers in the Hartford County test group also were more likely to meet other taxpayers who also were required to certify and to share information about the requirement and the program.”

16. **James Alm & Benno Torgler**, *Culture Differences and Tax Morale in the United States and in Europe*, 27 J. ECON. PSYCHOL. 224-25 (Apr. 2006).

“We first analyze a cross-section of individuals in Spain and the United States. In line with previous experimental results, our findings indicate a significantly higher tax morale in the United States than in Spain, controlling in a multivariate analysis for additional variables. We then extend our multivariate analysis to include an additional 14 European countries. Our results again indicate that individuals in the United States have the highest tax morale across all countries, followed by Austria and Switzerland. We also find a strong negative correlation between the size of shadow economy and the degree of tax morale in those countries.

In recent years much research has investigated whether values, social norms, and attitudes differ across countries and whether these differences have measurable effects on ‘real’ economic behavior. One area in which such studies are particularly relevant is tax compliance, given both the noted differences across countries in their levels of tax compliance and the marked inability of standard economic models of taxpayer compliance to explain these differences....

In the face of these difficulties, many researchers have suggested that the intrinsic motivation for individuals to pay taxes [citation omitted] — what is sometimes termed their ‘tax morale’ — differs across countries.... However, isolating the reasons for these differences in tax morale is notoriously difficult....

In a common approach, studies sometimes referred to as ‘cultural studies’ have often relied upon controlled laboratory experiments conducted in different countries because such experiments can be set up with identical experimental protocols to allow cultural effects to be isolated....”

17. **Jan Levy**, *Community Engagement Is Not About Being Nice; It’s Fourth Pillar of CSR*, THE GUARDIAN (Sept. 8, 2014), <https://www.theguardian.com/sustainable-business/2014/sep/08/community-engagement-pillar-business-csr-sustainability>.

“If it is vital that companies engage in and understand critical external (or material) issues, how best can they go about it? Carry out market research? Engage an academic? Bring in expert consultants?

Put these traditional approaches aside and consider this: community engagement is a way to understand, engage in and act upon critical workplace, marketplace and environmental issues. It is not additional; it is central. It is not about being nice; it is about addressing business objectives. And it is definitely not about ‘giving back;’ it is about companies being part of, not apart from, society.”

18. **Janet Spragens & Nancy Abramowitz**, *Low-Income Taxpayers and the Modernized IRS: A View from the Trenches*, 107 TAX NOTES 1407, 1409 (June 13, 2005).

“Moreover, many low-income taxpayers are entrepreneurs with their own small businesses — for example, as food service providers, taxi drivers, hairdressers, roofers, merchants, child care providers, or carpet installers — and, as a result, are required to file quarterly estimates of tax, pay self-employment taxes, and claim business deductions on Schedule C. Often, those self-employed low-income taxpayers have only the most rudimentary understanding about the recordkeeping necessary to meet filing requirements or about the filing requirements themselves. A growing number of low-income taxpayers are limited English proficiency (LEP) taxpayers and face major

language barriers in understanding their tax obligations and the avenues for challenging IRS disallowance of their filing positions. Many of those taxpayers seek help with their tax obligations from professional preparers, but their inability to communicate in English often leads them to seek out preparers who speak their language without checking the preparer's credentials or training in taxation. The advice they get from those preparers can range from excellent to incompetent to totally fraudulent. If the taxpayers are undocumented workers, they may be more likely to become embroiled in issues with the IRS involving erroneous Social Security numbers or identity theft.”

“Fair resolution of those cases has traditionally involved cultural, communication, language, and other barriers for the IRS that are different from those raised in cases involving other taxpayers. In resolving those issues successfully, an important part of the process has historically involved allowing the taxpayers the time and opportunity to have a face-to-face meeting with IRS employees. Taxpayers in that demographic tend not to keep good records, and the face-to-face meetings afford taxpayers an opportunity to tell their stories and for the government to assess their credibility, ask them questions, and elicit facts that the taxpayers might not otherwise know could be relevant. The opportunity for taxpayers to describe their circumstances has been very important in reaching correct resolutions, particularly when the issues have involved family status, family relationships, and living patterns (for example, the EITC, filing status, dependency exemptions, and the child credit) — issues that are often not amenable to proof by cancelled checks and other financial records. Even the communications to arrange the meetings added time, focus, and deliberation to the process for involved taxpayers, helping them to better understand what was happening.”

19. **Joana van den Brink-Quintanilha**, Forrester Research, *Managing Cross-Cultural Customer Experiences: Use the Six CX Disciplines to Navigate Cross-Cultural Differences* (Aug. 19, 2015).

“When navigating cultural differences, companies often trip up by ignoring differences and exaggerating differences. Pitfalls like uneven brand perception and industry or region-specific regulation make managing customer experience (CX) across cultural contexts tricky. This report highlights four key principles for managing cross-cultural customer experience. Finally, it offers CX pros a set of proven best practices that leading companies use to deliver experiences that are effective, easy, and emotionally engaging for a variety of cultures both within their home markets and across borders.”

20. **John B. Horrigan**, Pew Research Center, *How Americans Get in Touch with Government* (May 24, 2004).

“Success in their interactions with government is influenced by people’s education and problem-solving skills, not just their technological assets.

Internet users who contact government using any communications channel are more likely than non-users to report that they have been successful in their most recent interactions with government, by a 65% to 53% margin.

These differences, however, are not solely attributable to some inherent benefit brought about by Internet use. Rather, educational and attitudinal factors come into play in predicting success. Those with higher levels of education and those who think government can be trusted are more likely to be successful with government than those without those characteristics.” (at iv).

“Some problems lend themselves to “real time” interaction with the government. That means Government Patrons prefer using the telephone or visiting government offices as they deal with public agencies. Other problems are well suited for the Web or email.

For very complex problems or contacts that in some way involve problem-solving, the phone or in-person visits are preferred by 62% of Government Patrons. Only about one-quarter prefers the Web or email in these instances.

For general information-seeking from government, the gap is much smaller. The telephone or in-person contact is still preferred (by 51% of Government Patrons), but Web or email is preferred by 43% of Government Patrons.” (at iv).

“The Internet is the principal tool in getting certain types of government information, but not for sensitive information or some transactions.

When all respondents were asked where they would turn if they *needed information* about government, the Internet outpaced the phone as the preferred channel for non-sensitive purposes. For instance:

- 39% of all Americans said they would use the Internet to find out about government benefits and 28% said they would use the phone for that.
- To find out about programs an agency offers, 53% of all respondents said they would turn to the Net and 23% said they would use the phone.

For more sensitive queries, such as personal tax questions, people turn more often to the telephone than the Net by a 51% to 17% margin.” (at vii).

21. **Livio Di Matteo**, *Tax Hatred? No, Tax Awareness and Tax Reform*,

FRASER INSTITUTE: FRASER FORUM (Oct. 10, 2017),

<https://www.fraserinstitute.org/blogs/tax-hatred-no-tax-awareness-and-tax-reform>.

“Among the modern criteria for a good tax system are the principles of efficiency and equity. But another important principle is also awareness — that is, taxpayers should be aware of the taxes they pay and the benefits they receive from government expenditures. Being aware of taxes and communicating whether or not you feel there’s value for money should be part of our membership in a vibrant and engaged democracy.”

22. **Maria Sigala, Carole B. Burgoyne & Paul Webley**, *Tax Communication and Social Influence: Evidence from a British Sample*, 9 J. OF CMTY. & APPLIED SOC. PSYCHOL. 237, 239 (May 1999).

“When people are uncertain of what is an objectively appropriate and correct belief, perception or behaviour to have, they tend to be influenced by the norms of a salient group to which they belong and with whose members they identify.”

23. **Maximus**, *Helping Medicaid Beneficiaries Make Well-Informed Decisions About Their Health Plans*, <http://www.maximus.com/medicaid> (last visited Oct. 11, 2017).

“We understand that multi-channel access and good communication is essential when helping Medicaid consumers make health plan choices.

We make enrolling easy and convenient. Our educational materials communicate complex health information in a consumer-friendly manner. We empower consumers with communications materials to make the best health plan choices. Our enrollment programs average an 80%+ consumer choice rate — meaning that more than 80% of consumers have made a well-informed health plan decision based on our objective and responsive services. Most importantly, our professionals live and work in the communities we serve and thoroughly understand the needs of consumers.”

24. **Michael Falcon**, *5 Traits of Customer-Focused Companies*, BUSINESS 2 COMMUNITY (Jan. 4, 2015), <http://www.business2community.com/customer-experience/5-traits-customer-focused-companies-01111323>.

“Understand Creating Micro Customer Experiences is Worth the Investment

When I was invited to speak at Tangerine Bank’s executive retreat earlier this year, I introduced them to what I call micro customer experiences. How I define a micro customer experience is a small, subtle, memorable and affordable gesture that will resonate with your customers for years.

Starbucks understands micro customer experiences by writing your name on your cup. A local small business practices micro customer experiences by writing their customers hand written cards that include personalized messages.

When I introduce this concept to my clients or audience, I can always plan on someone asking, ‘How do you scale this?’

The answer to this question is quite simple: How much do you care? If you care enough you will find the resources or workflow to scale it.

I’m sure the Starbucks operations team questioned how this would scale as I guess it adds 3-5 seconds to each customer interaction. For the most part, they were able to figure it out.

A small business owner may think, ‘I can’t afford to pay someone to write hand written cards to every customer!’

You can afford to pay someone to do this! After all, don’t you spend 5-15 percent of your top-line revenue on marketing? You can allocate a percentage of your marketing spend and reinvest it into becoming memorable, which will bring you organic revenue through repeat business and referrals.

For a company to be successful in 2015, customer experience and marketing teams must work together to improve the customer experience and increase customer acquisition through organic marketing such as word of mouth.”

25. **Motor Vehicle Admin.**, Maryland Dep’t of Transportation, *MVA Bus Schedule*, <http://www.mva.maryland.gov/locations/bus.htm> (last visited Oct. 12, 2017).

“The MVA Bus visits a variety of locations and employment centers throughout the State of Maryland. For more information about specific services offered or to verify the bus schedule, please call **410-768-7000**.

Services offered on the MVA bus are:

- Obtain a renewal/duplicate/corrected Maryland Driver’s License

- Obtain a renewal/duplicate/corrected Maryland Identification Card
- Obtain a duplicate/corrected Commercial Drivers License (address/name only. No endorsements can be added)
- Obtain Certified Copy of Driving Record
- Obtain Disability Placards/Plates
- Return Tags/Apply for a Tag Refund
- Apply for a change of address card (card will be mailed)
- Renew Vehicle Registration
- Obtain Substitute Plates, Substitute Stickers, and Duplicate Registrations
- Pay Administrative Flag fees on Registrations
- Register to vote
- Register as an organ donor”

26. **National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 33-56** (*Small Business Compliance: Further Analysis of Influential Factors*), <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/downloads/Small-Business-Compliance-Further-Analysis-of-Influential-Factors.pdf>.

This analysis of survey data suggests that taxpayer service is the principal component of trust in government, which is associated with voluntary compliance, lending further support to the suggestion in the National Taxpayer Advocate 2012 Report to Congress that improvements in taxpayer service could increase voluntary compliance by small businesses. It also observed that noncompliance was geographically concentrated, whereas compliance was more dispersed.

“To recapitulate, the analysis above shows that taxpayer service and trust in government account in significant part for high or low levels of voluntary compliance. Unlike generic economic tendencies, such as risk aversion or rational maximization, taxpayer service with associated trust are socially conditioned and thus geographically identifiable. These factors travel along social networks. By mapping these networks, tax administration can focus outreach more effectively.” (at 44).

“It is important to note that while factor analysis provides statistical evidence for the existence of concepts, it does not evaluate whether these concepts influence compliance behavior. We used logistic regression for that purpose. The results of the logistic regressions show that norms and trust in government (specifically the taxpayer service and fairness components of trust in government) appear to have the most influence on taxpayer compliance behavior. The preparer and tax morale factors also appear to influence the compliance behavior of the subcategory of taxpayers who use preparers. In sum, further analysis lends support to the suggestion in the 2012 report that improvements in taxpayer service could increase voluntary compliance by small business proprietors [citation omitted].” (at 45).

27. **National Taxpayer Advocate 2014 Annual Report to Congress vol. 2, 27-42**
(Research Study: *Estimating the Impact of Audits on the Subsequent Reporting Compliance of Small Business Taxpayers: Preliminary Results*), <http://www.taxpayeradvocate.irs.gov/Media/Default/Documents/2014-Annual-Report/Volume-Two.pdf>.

This analysis suggests that IRS audits of small business taxpayers have a modest deterrent effect that diminishes in the years following the audit, disappearing altogether by year five, and that field and office audits are more effective than correspondence audits in promoting subsequent reporting compliance.

28. **National Taxpayer Advocate 2016 Annual Report to Congress 86-97**
(Most Serious Problem: *Geographic Focus: The IRS Lacks an Adequate Local Presence in Communities, Thereby Limiting Its Ability to Meet the Needs of Specific Taxpayer Populations and Improve Voluntary Compliance*).

“The National Taxpayer Advocate is concerned that [citation omitted]:

- A lack of geographic presence can have a negative effect on taxpayer morale, which in turn may decrease voluntary compliance and increase taxpayer burden;
- The absence of a geographic footprint deprives the IRS and taxpayers of local knowledge which may result in missed opportunities to meet taxpayers’ unique needs, and to identify and address noncompliance specific to a geographic region; and
- The IRS is slow to find innovative ways to maintain and create local presence in communities.” (at 87).

“One good example of community involvement is the Department of Justice (DOJ) community policing program that involves public-private partnerships between law enforcement and the communities it serves to collaboratively resolve problems and build community trust [citation omitted]. The IRS can and should be able to build partnerships with local organizations. It already has a network of Volunteer Income Tax Assistance (VITA) sites, Tax Counseling for the Elderly sites, and Low Income Taxpayer Clinic sites with relationships with local communities. The IRS could expand these partnerships to increase its grassroots outreach and education as well as its involvement in local communities.” (at 92-93).

“It is not always physically or financially feasible to permanently assign employees to the most remote parts of the United States. In these instances, the IRS can partner with private and non-profit organizations to visit these most remote regions and provide tax education and preparation to its taxpayers, many of whom are small businesses or self-employed, or are individuals who rely on tax refunds to provide for their families by claiming credits such as the Earned Income Tax Credit, Child Tax Credit, and other refundable credits [citation omitted].” (at 93).

“The National Taxpayer Advocate is pleased with the IRS’s initiative to co-locate IRS offices with Social Security Administration offices [citation omitted]. Continued expansion of this program, coupled with the creation of virtual service terminals hosted by community partners, will help the IRS reach taxpayers in remote and other underserved communities in a cost-effective manner. The National Taxpayer Advocate encourages the IRS to partner with local government organizations such as departments of motor vehicles and Native American governments to bring service to additional communities.” (at 94-95).

29. **Ranjay Gulati & James B. Oldroyd**, *The Quest for Customer Focus*, 83 HARV. BUS. REV. 92-101 (Apr. 2005).

“First, they know they can become customer focused only if they learn everything there is to learn about their customers at the most granular level, creating a comprehensive picture of each customer’s needs — past, present, and future. Second, they know that this picture is useless if employees can’t or won’t share what they learn about customers, either because it’s inconvenient or because it doesn’t serve their interests. Finally, they use this insight to guide not only their product and service decisions but their basic strategy and organizational structure as well.

Over time, these companies enable and enforce coordination between internal units at progressively more sophisticated levels, they find new ways to manage the flow of information, they develop routines for decision making that incorporate customer preferences, and, ultimately, they shift the locus of their customer-focused efforts away from a centralized hub to a more disbursed set of activities that spans the entire enterprise....

The journey begins with the creation of a centralized repository of customer information, which records each interaction a customer has with the company. Creating this repository is a two-step process. First, organizations bring together and standardize information drawn from customer touch points throughout the firm into a single pool. Second, they organize this information by customer; that is, they make the customer — rather than the account, the purchase, the product, or the location — the fundamental unit of analysis.”

30. **Roger Dooley**, *Paper Beats Digital in Many Ways, According to Neuroscience*, FORBES (Sept. 16, 2015), <https://www.forbes.com/sites/rogerdooley/2015/09/16/paper-vs-digital/#6b605bcf33c3>.

“Rather than an all-digital world, it appears that a multi-channel approach that leverages the unique benefits of paper with the convenience and accessibility of digital will perform best.”

“The most recent work supporting paper-based marketing is a study sponsored by Canada Post and performed by Canadian neuromarketing firm TrueImpact. The study compared the effects of paper marketing (direct mail pieces, in this case) with digital media (email and display ads)....

‘Direct mail requires 21% less cognitive effort to process than digital media (5.15 vs. 6.37), suggesting that it is both easier to understand and more memorable. Post-exposure memory tests validated what the cognitive load test revealed about direct mail’s memory encoding capabilities. When asked to cite the brand (company name) of an advertisement they had just seen, recall was 70% higher among participants who were exposed to a direct mail piece (75%) than a digital ad (44%).’”

“For example, a study in Norway concluded that, ‘students who read texts in print scored significantly better.’”

31. **Taxpayer Advocate Service**, *National Taxpayer Advocate Public Forums* (June 22, 2016), <https://taxpayeradvocate.irs.gov/public-forums>.

“The IRS receives more than 100 million telephone calls and 5 million visits in its walk-in sites each year from taxpayers. Over the last two years, the IRS has worked to develop a ‘Future State’ plan, which outlines the IRS’s intended activities in 5 years and beyond.

In her 2015 Annual Report to Congress, the National Taxpayer Advocate recommended the IRS solicit comments from taxpayers and tax professionals, including their thoughts on the extent to which taxpayers will continue to need telephone and in-person assistance, so the ‘Future State’ plan will better reflect taxpayers’ needs and preferences as they seek to comply with the tax code. The public forums are a part of that recommendation — a series of events around the country to seek comments and suggestions regarding what taxpayers want and need from the IRS to help them comply with their tax obligations.

During the forums, she will be joined by Members of Congress and other presenters representing the interests of different taxpayer groups — the elderly, low-income, disabled, small business owners, tax practitioners, and others.”

32. **Thomas Dohrmann & Gary Pinshaw**, McKinsey & Company, *The Road to Improved Compliance: A McKinsey Benchmarking Study of Tax Administrations – 2008–2009* (Sept. 2009).

“Another major driver of performance is a tax administration’s capabilities in taxpayer segmentation. Put simply, segmentation is the identification and classification of distinct customer groups; tax administrations can then develop customized approaches to meet the needs of each group. Taxpayer segmentation and treatment can be based on taxpayer characteristics (*e.g.*, individual vs. business), debt characteristics (*e.g.*, value or age of debt), and level of risk or complexity in collecting the debt. Best-practice segmentation in the collections function, for instance, includes an assessment of taxpayer willingness and ability to pay, as well as value at risk.” (at 9).

“Developing the segmentation portfolio of taxpayers is only one step. A tax administration must then implement differentiated operating models for each of the segments — varying, for example, the key messages, tone, and method of its communications according to the characteristics of each segment.” (at 9).

“Top performers mount integrated awareness campaigns targeted at the taxpayer segments that pose the highest risk for noncompliance.... One top performer developed an outreach program at trade schools targeted at construction workers, a high risk segment for noncompliance.” (at 18).

33. **U.N. Dep’t of Econ. & Soc. Affairs**, *United Nations E-Government Survey 2012: E-Government for the People*, U.N. Doc. ST/ESA/PAS/SER.E/150, at 84 (Feb. 2012), <https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2012-Survey/Chapter-4-Supporting-multichannel-service-delivery.pdf>.

“Ensure that all groups and individuals, particularly those disadvantaged in some way, can access combined and flexible services using multichannel delivery systems

While aiming for high efficiency and effectiveness, public officials need to keep in mind that all citizens have equal rights to access public services, that is, all citizens should be able to access services even if they do not own or have access to the newest and most innovative platforms, such as a smart phone or tablet. Disadvantaged groups are the largest and most in need users of public services but also the least likely to be able to access or afford electronic and mobile channels. Public agencies can tackle access and affordability issues in different ways. Implementing a regulatory policy that favours competition can bring the prices down so that more citizens can afford access to the Internet. Implementing social coverage policy, which can aim at providing basic telephony and internet access to the disadvantaged groups, can be another effective measure.

Kiosks and public access points are effective measures to overcome the digital divide and reach out to segments of the population that are entirely unfamiliar with Internet applications. (See Chapter 5, Section 5.1 for factors influencing e-service access and use.)”

34. **Understanding the Power of Social Media as a Tool in the Aftermath of Disasters, Hearing Before the Ad Hoc Subcomm. on Disaster Recovery and Intergovernmental Affairs, S. Comm. on Homeland Security and Governmental Affairs, 112th Cong.** (2011) (written statement of Craig Fugate, Administrator, Federal Emergency Management Agency).

“In most disasters, when you are displaced from your home, you no longer have access to your computer. You may not have WiFi access. But in many disasters, including being on the ground in Haiti where we had folks there within a day of the earthquake — I was down there a week later — the one thing that was working were mobile devices. And it is this that I think we in the Federal Government need to understand, that we are moving more and more away from a Web-based capacity to a mobile environment.” (at 4).

“[A] lot of folks are out of their homes at this point, or they may not have electricity or whatever. They may not have access to their stationary device, but their mobile device they certainly can utilize. So I am glad that FEMA is on top of that trend and is really leading the way in that trend to try to communicate in that way, two-way communication, you are hearing from people, but also you are communicating back to people what they know.” (at 7).

“Mr. Chairman, some of my peers now equate the wireless combined with social media as a revolution in emergency management as powerful as wireless was to original public safety radio systems, except now this is far more reaching in the ability to communicate with the public. And so as we see this, again, I think our role here at FEMA is to keep up with the public and not necessarily fall back into what I call innovation at the speed of government, but really look to the technology industry, and as Senator Brown said, I have had the opportunity to go to Google, I have been to Facebook, I have been to Twitter, and really looking into their insights of how we better utilize the private sector as part of the team and not try to re-create things that they do better than us, but use those tools to better communicate and listen to the public as we deal with disasters.” (at 7).

35. **Written Statement of James Hurst**, New York City Dep’t of Consumer Affairs, National Taxpayer Advocate Public Forum 3-4 (Mar. 18, 2016), https://taxpayeradvocate.irs.gov/Media/Default/Documents/PublicForums/Hurst_NYCDCA_Testimony-1.pdf.

Link to New York City Department of Consumer Affairs:
<http://www1.nyc.gov/site/dca/index.page> (last visited Nov. 20, 2017).

“The Department shares the NTA’s concerns that the IRS’ deliberations to reduce telephone and face-to-face interaction will leave low-income and middle-class taxpayers, who may not have the resources to pay for individualized attention, without the guidance or confidence to navigate the tax code. This may put further strains on localities, like New York City, to help facilitate preparer access and will undoubtedly open the door to further predatory behavior by some commercial preparers. The residents of New York City face a myriad of systemic market factors that make them prey to unscrupulous intermediaries, including a high number of immigrant and limited English proficiency filers and limited access to mainstream financial services. The Bronx is particularly vulnerable. In a study commissioned by DCA OFE and conducted by the Urban

Institute, we found that the Bronx has the highest concentration of financially insecure households in the city [citation omitted], as well as the highest concentration of unbanked and underbanked residents [citation omitted].

As Legal Ombudsman, I can speak to the importance of maintaining individualized services and can tell you, firsthand, that it makes a significant difference to the small business owners with whom I work. Many are unable to find relevant resources online and rely on person-to-person communication when seeking assistance. This personal contact fosters confidence in government administration. The daily communication I have with the Department's constituency ensures that they have a resource to help them better understand the laws and rules that govern their businesses and helps to eliminate avoidable fines and violations."

"DCA's outreach goes far beyond what we provide on our website and social media. DCA works with local elected officials to host pop-up tax preparer sites and coordinates with faith-based organizations to foster comfort and confidence among taxpayers to utilize the resources the Department makes available. As the NTA highlights, particularly in regard to EITC eligible taxpayers, the IRS already falls short of properly accommodating populations of people that fall in and out of eligibility for particular programs. It is ill advised to expect everyone to be able to self-help their way through an already difficult process."

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