

**National Taxpayer Advocate Public Hearing on Taxpayer and Stakeholder Needs and Preferences  
Internal Revenue Service, 1111 Constitution Ave., NW, Washington DC  
Feb. 23, 2016**

**Prepared remarks from the IRS Electronic Tax Administration Advisory Committee**

Thank you to National Taxpayer Advocate, Nina Olson, and her office for inviting the Electronic Tax Administration Advisory Committee, or ETAAC, to discuss the tax administration needs of taxpayer and stakeholder groups.

ETAAC's purpose is to provide Congress with strategies on how to improve tax administration through electronic means. As a member of the *Electronic* Tax Administration Advisory Committee, I will fully disclose that most of my comments are focused on a more digitally enabled IRS. We believe that is a material part of the future state of the IRS.

ETAAC has been and continues to focus on two big problems in tax administration today:

1. The erosion of the tax system's integrity from the proliferation of tax identity theft, and
2. Inadequate levels of taxpayer service at the IRS.

The IRS can make great strides toward solving these problems through innovation.

Today, tax identity thieves have ample opportunity to steal taxpayers' personal identifiable information and file a tax return for them. That's why the IRS, state tax administrators and industry have come together to work on solutions to the challenges the IRS faces in authenticating tax filers.

Solutions will follow that will ultimately bring this problem under control. These solutions will allow the IRS to verify taxpayer identities before or at the time they file their return.

But what about the inadequate levels of taxpayer service? ETAAC again would emphasize that innovation is crucial to implementing a holistic taxpayer service strategy that will solve this big problem.

Like the IRS and the Taxpayer Advocate, during the past three years ETAAC has been focused on the future state of the IRS. But what does the future state look like?

*ETAAC envisions a taxpayer experience that allows taxpayers to fully understand their tax obligations, have transparent access to their tax information and status with the IRS, and effectively and securely interact with their tax administrator in the way that they want to be served.*

Let's break down each of these four components into more bite-sized pieces to understand exactly what ETAAC has been advocating for:

- **First, a focus on the taxpayer experience.** The focus is on the taxpayer – meaning the IRS understands who you are as a taxpayer, what you need, and how you want to be served. It also means reducing burden by optimizing the taxpayer experience, whether taxpayers are calling the IRS or visiting IRS.gov.

- **Second, taxpayers should understand their tax obligations and have access to their tax information and status with the IRS.** If taxpayers have better information about what is expected of them before, during, and after filing, the entire process will be less mysterious. Taxpayers also have the right to be informed, which means they need better access to their tax account information and status with the IRS. Greater transparency of information will inspire taxpayers' confidence about the fairness of tax laws – which encourages voluntary compliance.
- **Third, allow taxpayers to effectively and securely interact with the IRS.** Long waiting times and extended answer periods should be replaced with real-time access to information and digital tools so that taxpayers can evaluate their circumstances, understand their options, and effectively interact with the IRS.
- **Lastly, the IRS needs to serve taxpayers in the way they want to be served.** Some taxpayers want to get information and complete transactions online and stay off the phone. Others want to chat or call, or visit a Taxpayer Assistance Center or VITA site. And many want their tax professional to handle it all for them. The IRS should provide all of these options to meet the variety of taxpayer preferences.

*Most of what I described does not exist today at the IRS.* For most taxpayers, interacting with the IRS is not quick, it's not easy, and it's mostly done by paper and phone. Also, most taxpayers have no idea about their tax information or their status at the IRS. Is that a big problem? Yes.

The data has something to say about what taxpayers need. According to the IRS Oversight Board's last study on taxpayer attitudes, 43% of taxpayers had to interact with the IRS outside of filing a tax return – that is, they needed taxpayer service. In today's environment, digitally enabled, real-time information and service is the standard. Consumers – and taxpayers – expect these capabilities.

By creating digital capabilities for taxpayers and tax professionals to more efficiently and effectively interact with the IRS, the IRS can solve two big problems at once:

- It can meet the growing digital service expectations of taxpayers, and
- It can free up phone lines and people for issues that require human interaction and for taxpayers who really need and prefer a person.

The current state of service and lack of digital tools at the IRS could leave us feeling pessimistic about the near-term possibility of solving the taxpayer-service issue. But I have some good news. The IRS has a long-term vision and a plan to enable digital taxpayer services. The comprehensive strategy is called the IRS Concept of Operations, or ConOps. This plan lays out an iterative approach to building electronic taxpayer service features that will create a 21<sup>st</sup>-century experience when taxpayers interact with the IRS.

ETAAC has looked closely at the ConOps strategy and its digital service components. We have endorsed implementation of the digital service components of the plan. To take it a step further, we have advocated to Congress that the IRS accelerate its digital taxpayer service plans.

However, this won't be easy. The IRS faces several obstacles to accelerating these plans that it will need to overcome.

1. **First, the IRS needs to be more deliberate in executing its digital taxpayer service plans.**

While ETAAC believes that the IRS has taken an important first step with its digital service plans, we also encourage the IRS to quickly commit to release dates. The lack of planned release dates creates a perception that the IRS may not be fully committed to digital enablement and that the plans could be more aspirational than strategic.

2. **Second, the IRS needs to be more transparent and collaborative with Congress on its digital plans.**

This is simple. Congress doesn't know the IRS' plans to solve taxpayer service issues. The IRS needs to communicate its strategies and work with Congress to make those plans a reality.

3. **Third, the IRS needs to partner with stakeholders to provide taxpayer service.**

The IRS needs to recognize that most taxpayers will go to a trusted source for tax help. That's either a tax professional or tax software. Fifty-seven percent of taxpayers use a tax professional for their tax compliance needs, and more than 90% of tax returns are filed using tax software.

Since most taxpayers use these third parties, the IRS can leverage them to help with taxpayer service. How? The IRS should provide taxpayers with easier access to their information through tax software. And the IRS should build tax professional online accounts, and allow taxpayers to authorize their tax professionals to get access to their information.

4. **Fourth, the IRS needs to embrace change by cultivating an environment of innovation.**

Change is difficult within any large organization. Embracing innovation is even harder. But innovation allows organizations to find ways to do more with limited resources, and to do it better. ETAAC believes that the IRS is headed in the right direction with its recent formation of a Digital Subcommittee, made up of IRS executive leaders. This subcommittee is focused on strategies for creating and prioritizing digital solutions. It's an important first step in cultivating an environment of innovation.

5. **Lastly, taxpayer service needs to be the priority at the IRS.**

Specifically, the mindset at the IRS needs to be "service first, compliance second." As the Taxpayer Advocate pointed out last year, the IRS budget is still predominantly funded toward compliance enforcement. The IRS needs to always remember that more than 98% of all taxes paid into the U.S. Treasury are paid voluntarily. Strategically, prioritizing service efforts for taxpayers who file and pay is much more fruitful than focusing on the noncompliant, especially in lean budget times.

With a taxpayer service-first mindset, tough priority decisions would clearly lean toward enabling better service to taxpayers. That includes funding decisions to accelerate building a secure online account for taxpayers to do business with the IRS.

In closing, the future state of the IRS enables technology as a part of a holistic taxpayer service strategy. The future state embraces digital solutions to allow the IRS to maximize its limited resources. It creates targeted capacity to serve all taxpayers the way they want to be served. And, importantly, the future state is reflected in taxpayers who understand their tax obligations, have transparency to their tax information, and can file, pay, and comply with tax laws effectively and efficiently.

If you want more details on ETAAC's electronic taxpayer service recommendations, I encourage you to read our annual report. On behalf of the entire committee, I want to thank you for inviting us to participate in this important discussion.