

National Taxpayer Advocate
Public Forum on Taxpayer and Stakeholder Needs and Preferences
Internal Revenue Service

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Statement
of
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Chair and Vice Chair of
the Internal Revenue Service Advisory Council

Jennifer MacMillan and Timothy McCormally serve, respectively, as chair and vice-chair of the Internal Revenue Service Advisory Council, or IRSAC, and are pleased to participate in today's Taxpayer Advocate Public Forum on "what taxpayers want and need from the IRS to comply with the tax laws" and, more specifically, the taxpayer and stakeholder needs and preferences that the IRS should consider as it develops and refines a plan to define the IRS's "Future State" initiative.

Because IRSAC has been invited to present its views outside of our annual report submitted to the Commissioner of Internal Revenue, we believe it fitting to provide some background on IRSAC, its charter, membership, and decision-making model. Because IRSAC's historical role has been to advise the Commissioner, this statement reflects our individual views.

Background

Chartered to provide an organized public forum for discussion of tax administration issues between IRS officials and representatives of the public, IRSAC currently has 18 members who were appointed to convey the public's perception of professional standards and best practices for tax professionals and IRS activities, offer constructive observations regarding current or proposed IRS policies, programs, and procedures, and suggest improvements to IRS operations.

The successor to an advisory committee first established in 1953, IRSAC includes members from all facets of the tax professional community (drawn from firms of all sizes and types), small and large businesses. Our members come from diverse backgrounds and have substantial experience; our membership includes accountants, lawyers, appraisers, enrolled agents, and academics. Many provide tax advice to clients, others manage their large employer's tax affairs, and many are active in the volunteer income tax community.

In addition to coming from different-sized organizations, industries, and geographic regions of the United States, members work in occupations that interact with the IRS and the tax community in a variety of ways. Each member has a unique perspective on tax administration, but we all share a commitment to providing consequential input and objective, balanced feedback to the Commissioner and the IRS with the goal of improving tax administration and the quality of service provided to taxpayers, both directly and indirectly, by the IRS.

IRSAC members generally serve for three-year terms, and members are currently assigned to one of three subgroups — the Small Business/Self-Employed and Wage and Investment Subgroup, the Large Business and International Subgroup, and the Office of Professional Responsibility Subgroup. IRSAC, both as a whole and through its subgroups, works with the IRS Operating Divisions and personnel from across the IRS to identify and discuss issues of concern and to develop recommendations to improve federal tax administration. More specifically, our charter states that IRSAC “researches, analyzes, considers, recommends, and advises IRS on issues that include customer service, compliance, taxpayer segment-specific issues, and factors regarding noncompliance.” IRSAC’s recommendations are compiled in an annual report, which is submitted to the Commissioner at a public meeting in November and subsequently posted on the [IRS’s website](#).

IRSAC operates on a consensus basis, with its report (including the subgroups’ recommendations) being reviewed and approved by the entire group. New members were appointed in January, and our subgroups are currently in the process of refining the issues we will address during 2016. Although this statement has been reviewed by all IRSAC members, it does not represent an official statement of IRSAC.

Comments

We begin by reiterating the principal general recommendation contained in IRSAC’s 2015 report — namely, the need for the IRS to have sufficient funding to operate efficiently and effectively, to provide timely and useful guidance and assistance to taxpayers, and to enforce current law, so that the integrity of, and respect for, our voluntary tax system is maintained.

1. *The Role of the IRS Budget in Shaping the Future State.* The Taxpayer Advocate has articulated the compelling need for the Internal Revenue Service to be adequately funded by, among other things, documenting the detrimental effects of inadequate funding on taxpayer service, as well as its enforcement efforts, in recent years. As the chair and vice chair of IRSAC, we commend the Taxpayer Advocate for shining a bright light on the short- and long-term consequences of inadequate funding, and we attribute Congress’s decision to increase the IRS’s Fiscal Year 2016 budget in part to her efforts, as well as those of Commissioner Koskinen and others.

It would be a mistake in our view, however, to consider enactment of the first budget increase in six years as signaling the end of the IRS’s budget woes. Even with the FY 2016 increases, the IRS workforce will drop by between 2,000 and 3,000 this year, and hence be at 17,000 full-time-equivalents *below* the FY 2010 level. In short, the changes necessitated by the long-term constriction of the IRS’s budget have forced the IRS to curtail worthwhile programs. Moreover, they have significantly impaired the IRS’s ability to recruit, train, and retain experienced employees, threatening a serious void in both skilled leadership and experienced line employees. The IRS has acknowledged that its Future State efforts have been informed by, among other things, the current funding environment.

While IRS welcomes the positive comments of numerous lawmakers about the need for high-quality taxpayer service (which have been cited by the Taxpayer Advocate), we hope that the rhetorical support voiced for taxpayer service will be matched by future budgetary support. To be sure, accountability and appropriate oversight are essential to the efficient operation of the IRS, and complex challenges cannot be overcome simply by throwing money at them. Without adequate (*i.e.*, increased) funding, however — to hire and train staff, to improve and develop digital tools, and to develop a balanced mix of face-to-face, voice-to-voice, and digital-to-digital solutions — the IRS will be unable to fulfill its traditional mission, much less administer new programs, such as the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA), as required by law.

2. *Overview of the Future State Initiative ... and the Need for a New Vocabulary.* Because of our historical involvement with myriad IRS initiatives, we do not generally subscribe to the view that the Future State initiative represents a “secret plan” that — once unveiled — cannot and will not be modified. Rather, we view the Future State plan not as secret but an unfinished work-in-progress, and in its efforts to date, we do not see willful disregard of taxpayer needs and preferences by the agency. Regrettably, we do believe the IRS’s nomenclature — its resort to “consultant speak” (“ConOps” and “Future State” being just two examples) — may have contributed to the perception that something untoward, worthy of Tom Clancy, Philip K. Dick, or George Orwell, is afoot. Based on our experiences, not only in respect of the current initiative but previous ones (including the reorganization that occurred in connection with the IRS Restructuring and Reform Act of 1998), we believe the explanation is more benign: Many aspects of the IRS’s Future State planning remain in an evolving, developmental stage.

As summarized by the Chief Counsel (and reproduced in the Taxpayer Advocate’s 2015 Annual Report), the seven themes of the IRS’s Future State initiative are, as follows:

- Facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support.
- Understand non-compliant taxpayer behavior and develop approaches to deter and change it.
- Leverage and collaborate with external stakeholders.
- Cultivate a well-equipped, diverse, skilled, and flexible workforce.
- Select highest value work using data analytics and robust feedback loops.
- Drive more agility, efficiency, and effectiveness in IRS operations.
- Strengthen cyber defense and prevent identity theft and refund fraud.

None of these themes is new or surprising, and they are all laudable. Tax practitioners have long played an indispensable role in promoting voluntary compliance, and the IRS has developed and deployed numerous digital services and tools for many years. Accordingly, while ongoing budget constraints and the efforts of the Taxpayer Advocate, congressional committees, and various stakeholder groups have added urgency and focus to the IRS’s efforts, IRSAC views most of the components of the Future State initiative as a continuation — and rationalization — of the agency’s ongoing efforts.

For example, IRSAC’s LB&I Subgroup has worked with the Large Business & International Division for several years to refine its risk assessment efforts and to develop strategies for effectively migrating from “enterprise-wide” to more “issue-based” examinations. (Other stakeholders —

including the American Institute of Certified Public Accountants, American Bar Association Tax Section, and Tax Executives Institute — have also collaborated with LB&I in these efforts.) Similarly, in recent years IRSAC’s SBSE/W&I Subgroup has engaged with numerous personnel at the IRS on topics such as the agency’s ID theft prevention and authentication efforts, improving customer satisfaction with the Automated Underreporter program, the Fresh Start Initiative, and development of smartphone apps and other digital tools. And, given the role of tax practitioners and other professionals in assisting taxpayers in meeting their tax obligations, IRSAC’s OPR Subgroup has stressed the need for their effective oversight.

3. *The Need for Greater Transparency and Engagement.* Regardless of the words used to describe the Future State initiative, we fully agree with the Taxpayer Advocate that more engagement with taxpayers and stakeholders about the IRS’s plans would be beneficial. Outreach to taxpayers and stakeholders clearly characterized the Internal Revenue Service’s major reorganization following the enactment of the IRS Restructuring and Reform Act of 1998. At that time, the IRS held briefings, created task forces (whose membership included both IRS employees and representatives of affected stakeholders), held hearings, sponsored town-hall meetings, and otherwise involved taxpayers and the tax community in its plans. The goal of all the outreach efforts was — and, with respect to the Future State initiative, should be — not merely to *share* the IRS’s decisions, but to *inform* them.

To the question, “When should stakeholders be involved?” our default answer is “the earlier, the better.” To be sure, there may be legitimate issues of “sequencing” involved, and many instances in which the premature release of still fluid, “not ready for prime time” proposals could be counterproductive, bringing not light but heat to the discussion, energizing and galvanizing opposition to *possible* plans, cutting off discussion rather than facilitating it. That said, we strongly believe that greater transparency in the development of plans to reorganize Operating Divisions or create, refine, or end particular programs cannot help but be beneficial, even if a consequence of the IRS’s greater engagement is delay.

When the process is opened up, and how it is opened up, will likely not be the same for all aspects of the Future State initiative. For example, a major reorganization of the Large Business & International Division was announced last September, and the new structure “stood up” earlier this month. The changes have prompted myriad questions about existing LB&I programs — such as its well-regarded Compliance Assurance Process (CAP). We commend LB&I for its outreach to date, which has included stakeholder and other briefings about the new structure as well as numerous speeches and interviews.

Because change and uncertainty can be unsettling, however, the lack of certainty and specificity has prompted many questions and much anxiety about how the new structure will affect taxpayers, tax practitioners, and IRS employees themselves. We believe that the process could benefit from greater transparency and continuing engagement. Not only might taxpayers and other stakeholders identify issues or offer perspectives that have not yet been considered, but they may have suggestions or even solutions to seemingly vexing problems. Since tax administration unavoidably involves tradeoffs — between service and enforcement, speed versus safety (for example, between expeditiously processing refunds and ensuring against identity theft), and transparency and privacy — we believe that opening up the decision-making process will contribute to the development of a better, more balanced system. Not insignificantly, we also believe greater

outreach in respect of all aspects of the Future State initiative could lead to greater taxpayer confidence in the fairness and integrity of the tax system.

4. *The Indispensable Role of Taxpayer Representatives.* Surveys show that nearly 60 percent of taxpayers use a tax professional for their compliance needs, and one of the themes of the Future State initiative is for the IRS to leverage and collaborate with external stakeholders. As an organization whose members are tax professionals, we agree that theme should be advanced in the Future State initiative. We also believe the IRS should continue to refine its digital presence (and develop digital tools) to efficiently deliver information and assistance, just as private sector enterprises have.

More fundamentally, we regret that the term “pay to play” may improperly cause the issue to be framed as binary, as us-versus-them. Greater transparency will better inform the IRS’s plans and allay legitimate concerns about those potentially “left behind” or ill-served if face-to-face or telephone assistance programs are supplanted by “virtual” ones. (Who among us hasn’t been caught in a frustrating telephone queue, listening to endless automated options while seeking human contact from a business that created these tools “for our convenience”?)

We believe that the IRS can team effectively with tax professionals to develop digital tools and efficiently provide quality taxpayer service. We also believe that practitioners can and do play an important role in ensuring taxpayer compliance. Therefore, cutting services such as the practitioner hotline would cause outsized detriment to the tax system. Expansion of practitioner e-services to provide more tools, including automated Disclosure Authorization capabilities, serves the best interests of taxpayers and the IRS, as well as practitioners themselves. Stated simply, the more that practitioners can do without having to interact directly with IRS personnel, the more those IRS employees can devote to assisting taxpayers directly or other duties. Digital tools fully accessible to unrepresented taxpayers are critically important, as are the agency’s continuing efforts to communicate effectively with taxpayers (through myriad means) when rules and requirements change.

Finally, we agree that the need for face-to-face, voice-to-voice communications and interactions will not disappear regardless of the depth, breadth, and quality of the digital tools deployed by the IRS. The range of necessary explanations, guidance, and problem resolution on myriad issues will always require knowledgeable assistants who can advise taxpayers on the best solutions to their queries, especially in the post-filing environment.

The IRS’s reductions in direct taxpayer service in recent years, spawned by severe budget cuts, have illuminated the need for human assistance to taxpayers. Indeed, the Taxpayer Advocate’s Report powerfully documents it. Average taxpayers feel — and sometimes are — unfairly treated when they receive a communication from the IRS and cannot reach a knowledgeable, trained human who can explain the issue or assist them in the resolution of the matter. In short, the will to voluntarily comply with their tax obligations may be strained, if not compromised.

Conclusion

As the chair and vice chair of the Internal Revenue Service Advisory Council, we commend the Taxpayer Advocate for holding today’s public forum and more generally for highlighting the

challenges facing the tax system and the desirability of the IRS more fully engaging with taxpayers and other stakeholders as it develops and refines a plan to define its Future State initiative. We would be pleased to respond to any questions.

