MSP #14

The IRS is Striving to Meet Taxpayers' Increasing Demand for Online Services, Yet More Needs to be Done

Most Serious Problem

RESPONSIBLE OFFICIAL

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DEFINITION OF PROBLEM

Taxpayers increasingly use online services to perform a variety of tasks in their daily lives, including financial transactions. Surveys show that the average U.S. taxpayer spends approximately 15.5 hours per week using the Internet.[1] In addition, approximately 30 percent of U.S. taxpayers use mobile Internet services for advanced activities, including mobile banking, at least monthly.[2]

The IRS is striving to meet this growing demand by creating more online products. The Office of Online Services (OLS) is responsible for developing technology for taxpayers, practitioners, and IRS employees across a variety of channels, including the traditional web, mobile technology, and social media. We commend the IRS for establishing this office, which has a clear mission with a research-based strategy to meet taxpayer demand in incremental steps.[3] The organization has had success with the development and enhancement of several taxpayer assistance applications, including IRS.gov, various calculator tools, and other popular applications such as "Where's My Refund."[4]

We applaud the IRS, specifically the Office of Online Services, for the development of popular self-assistance tools as well as a research-based strategy to meet the needs of taxpayers and tax administration. However, we believe the IRS still has a long way to go to provide taxpayers with the types of services they demand and are accustomed to receiving from other sources. For example, the IRS would benefit from an online account access program that would initially allow taxpayers to view the status of their accounts and eventually enable them to interact directly with the IRS. While such projects involve upfront development and implementation costs, the IRS would realize savings in the short term from decreased call volume and in the long term from improved tax compliance and a reduction in costly enforcement contacts for basic issues.

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[1] Forrester Research, The Taxpayer Advocate Service: Omnibus Analysis, From North American Technographics Omnibus Mail Survey, Q2 2011, Slide 23 (Dec. 22, 2011). The study defined U.S. taxpayers as U.S. consumers aged 18 years or older.

[2] Id., Slide 36 (Dec. 22, 2011). In a more specific survey question, approximately 12 percent of U.S. taxpayers responded that they check financial accounts on their primary cell phone or handheld wireless device at least monthly. Forrester Research, The Taxpayer Advocate Service: Omnibus Analysis, From North American Technographics Omnibus Mail Survey, Q2 2011, Slide 38 (Dec. 22, 2011).

[3] IRS Office of Online Services, IRS Online Strategy 7 (Sept. 2012).

[4] A complete list of tools for individual taxpayers can be found at http://www.irs.gov/uac/Tools?portlet=105 (last visited Nov. 8, 2012).

ANALYSIS OF PROBLEM

Background

The Office of Online Services treats each current or potential service as a business. In consultation with the appropriate IRS function(s), OLS identifies the taxpayer demand, segments the audience, assesses the impact of the service on existing IRS processes, develops the design, priority, and a roadmap, creates a launch pad and marketing plan, and measures results.[5] OLS has a five-year strategy to enable taxpayers to get everything they need online. Specifically, the strategy aims to allow taxpayers to do the following, launched in incremental steps over the next five years:

- Correspond with the IRS digitally, such as through secure messaging and live chat;

- Easily search for actionable information on basic tax questions through IRS.gov;

- Access all online services through mobile technology;

- Make all payments online;

- Access account-related information, such as viewing transcripts and tracking amended return status, through online self-service tools;

- Manage all tax forms electronically; and

- Leverage third-party tools.

OLS initially focused on IRS.gov and mobile technologies, and improving the content and search capabilities of the website. The office sets priorities for new online self-help services based on taxpayer needs balanced with IRS business needs, the complexity of transactions, time-to-market, and cost of the project. Recently developed and revised applications include eTranscripts;[6] Where's My Refund, Filing Season 2012;[7] VITA Site Locator;[8] First-

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[5] IRS Online Services, Governance Kickoff 3 (Nov. 29, 2011).

[6] Application enables individuals to order an account or return transcript online. The application's effectiveness and efficiency is limited by the fact that the transcript currently cannot be emailed to the taxpayer and instead must be mailed to the address on record for the taxpayer. See http://www.irs.gov/Individuals/Order-a-Transcript (last visited Dec. 21, 2012).

[7] Where's My Refund was enhanced for Filing Season 2012. In general, the application enables taxpayer to check the status of a refund. See http://www.irs.gov/Refunds/Where's-My-Refund-It's-Quick,-Easy,-and-Secure (last visited Dec. 21, 2012).

[8] The VITA Site Locator provides taxpayers with the location of a Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) site within the stated parameters provided by the taxpayer. The tool provides address, phone number, languages spoken, hours, and appointment requirements. See http://irs.treasury.gov/freetaxprep/ (last visited Dec. 21, 2012).

Time Homebuyer Credit Account Look-up;[9] Mobile m.irs.gov;[10] and IRS2Go Revision 2.[11] Other projects in various stages of development include:[12]

1. Improved video content on IRS.gov;[13]

2. "Where's My Amended Return;"[14]

3. "What's My Name;"[15]

4. File and Pay Forms 941/944;[16]

5. Pay by ACH Debit or Debit Card;[17]

6. Offer in Compromise (OIC) Pre-Qualifier;[18] and

7. Communication and Document Exchange.[19]

Finally, while we commend the IRS for moving in the right direction by broadening its online service offerings, the National Taxpayer Advocate continues to believe that there are certain categories of service that are better handled face-to-face. First, certain taxpayers are not comfortable using online services and the IRS should meet their needs, especially the elderly and low income taxpayers. Second, taxpayers have indicated a preference for face-to-face or telephone service delivery for tasks that require judgment or interactive communications, such as responding to notices.[20]

The IRS is Moving Toward the Vision of Electronic Service Delivery Set Forth in the Taxpayer Assistance Blueprint.

In response to a congressional mandate in 2005, the IRS delivered to Congress in 2007 the Taxpayer Assistance Blueprint (TAB) Phase 2 report, a five-year strategic plan for improving taxpayer services. The Taxpayer Assistance Blueprint team conducted extensive research

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9   The First-Time Homebuyer Credit Account Look-up application allows taxpayers to see the total credit received, the balance, amount repaid to date, and the annual installment repayment amount. See http://www.irs.gov/Individuals/First-Time-Homebuyer-Credit-Account-Look-up (last visited Nov. 8, 2012).

10   Mobile m.irs.gov enables taxpayers to use any mobile browser to access IRS.gov. IRS Online Services, Governance Kickoff 6 (Nov. 29, 2011).

11   IRS2Go Revision 2 includes updates to the smartphone application that allows taxpayers to check refund status, order transcripts and get video updates. See IRS, *New IRS2Go Offers Three More Features, available at* http://www.irs.gov/uac/New-IRS2Go-Offers-Three-More-Features (last visited Nov. 8, 2012).

12   IRS Online Services, Governance Kickoff (Nov. 29, 2011); IRS, Office of Online Services, IRS Online Strategy (Sept. 2012).

13   This enhancement of IRS.gov will enable taxpayers to access video on IRS.gov search results and will develop additional video content on IRS.gov to support high-traffic informational queries. IRS Online Services, Governance Kickoff 6 (Nov. 29, 2011).

14   This application will enable a taxpayer to check the status of an amended return filing. *Id*.

15   The application would allow an individual or business taxpayer to check their official name on record. *Id*.

16   This application would allow business taxpayers to file Forms 941 and 944 on IRS.gov and pay in one step. *Id*. at 6 (Nov. 29, 2011).

17   This application would allow taxpayers to easily make a payment on the IRS website using ACH Debit or debit cards. *Id*.

18   This is a basic interactive calculator to assist taxpayers in determining eligibility for an Offer in Compromise prior to calling a customer service representative. *Id*. While the National Taxpayer Advocate is generally supportive of this application, the devil is in the details. The success of this application depends on the IRS programming appropriate questions into the program, so that low income and middle income taxpayers, and small business taxpayers, are not discouraged from submitting an offer because the application projecting payment amounts that would be much lower if the taxpayer spoke to an IRS assistor.

19   This application would enable taxpayers and the IRS to interact electronically by communicating as well as sending and receiving documents. *Id*.

20   IRS Publication 4579, 2007 Taxpayer Assistance Blueprint Phase 2, 44 (Apr. 2007), *available at* http://www.irs.gov/pub/irs-pdf/p4579.pdf (last visited Aug. 6, 2012).

on the needs, preferences, and behaviors of individual taxpayers. The data indicated that individual taxpayers generally prefer self-assisted services, such as those found on the IRS website, for transactional tasks. However, the data also showed that taxpayers preferred assisted services, such as those available on the telephone or in-person at Taxpayer Assistance Centers (TACs), for more complex interactive tasks like responding to a notice. Telephone and Internet service channels accounted for more than 85 percent of all taxpayer contacts with the IRS, especially with respect to tax refund account inquiries and responses to notices. Thus, the TAB envisioned an IRS that is an "interactive and fully integrated, online tax administration agency" with the capability "for any exchange or transaction that currently occurs face-to-face, over the phone, or in writing to be completed electronically."[21]

In a 2011 follow-up survey (the TAB Conjoint Update), participants clearly preferred to use the website, either browsing or using an interactive tool, for each of the following needs:

1. Getting a form or publication;

2. Getting information about a notice they received;

3. Getting assistance determining tax credits and deductions;

4. Getting prior-year return information;

5. Making a payment or setting up a payment plan;

6. Checking the status of a transaction; and

7. Getting help making tax-related calculations.[22]

It is clear that the IRS is working toward the goal of providing more self-assist tools for taxpayers. However, the IRS and OLS have a long way to go to achieve the vision in the TAB Phase 2 Report as well as meeting all the taxpayer preferences in the 2012 TAB Conjoint Update. What is noticeably absent is the ability of taxpayers to manage their tax accounts online: to see the status of their accounts and resolve appropriate compliance issues electronically.

The IRS Can Learn from the Electronic Service Delivery Experiences of Other International Revenue Bodies.

A 2009 survey conducted by the Centre for Tax Policy and Administration of the Organization for Economic Co-Operation and Development (OECD) provided insights on overall trends, progress, and likely directions of revenue bodies around the world with respect to electronic services for taxpayers. Most of the surveyed revenue bodies gave primary emphasis in their plans to reducing taxpayer compliance burden, with improved

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[21] IRS Publication 4579, 2007 Taxpayer Assistance Blueprint Phase 2, Executive Summary 2-4, 35 (Apr. 2007), *available at* http://www.irs.gov/pub/irs-pdf/p4579.pdf (last visited Aug. 6, 2012). The TAB also acknowledged that some taxpayers will continue to require in-person or telephone assistance. *Id*. at 5 ("Low income, LEP, and elderly taxpayers tend to report a somewhat higher preference for the TAC channel and a lower preference for the electronic channel than the majority of taxpayers as a whole.").

[22] Wage and Investment Research & Analysis, TAB Conjoint Update: Final Report for Wage and Investment Research and Analysis Director, Project No. 2-10-09-S-058, 8 (Feb. 2012).

operational efficiency as a clear secondary goal. In addition, a majority of those countries surveyed stated that their number one priority is increasing the range, quality, and take-up of their Internet-based services.[23] As compared to the last survey in 2004, the report found considerable progress in the provision of basic electronic tax transaction capabilities and access to personal taxpayer information.[24]

Further, a 2012 OECD report provided the following recommendations on structuring smarter tax administrations:[25]

> Revenue bodies should continue to explore opportunities for working smarter by: 1) More rigorously applying modern compliance risk management principles and strategies; 2) Shifting compliance activities upstream and addressing compliance risks earlier in the sequence of events potentially leading to compliance failures; and 3) Facilitating compliance through electronic services with continuous improvement of these services, and by increasing their take-up.

> The area with most hope invested in technologies is the provision of electronic services to facilitate compliance and reduce costs and burdens. The potential is by no means exhausted.

Accordingly, the development of online services to meet the preferences of taxpayers is given high priority by revenue bodies around the world. The IRS is working toward the same goal as many other countries and could learn from their experiences in developing online products.

Online Account Access and Management Would Reduce Taxpayer Burden.

In her 2009 Annual Report to Congress, the National Taxpayer Advocate urged the IRS to provide taxpayers with electronic access to their accounts, as recommended by the 2006 TAB Phase 2 Report.[26] Such access would allow taxpayers to monitor their accounts and potentially take the initiative to correct any perceived problems without the need for prompting by the IRS. In the past, the IRS attempted to develop an online customer account program called Internet Customer Account Services (ICAS), also known as My IRS Account Application (MIRSA). However, the IRS put the project on hold in 2009 for

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23 Centre for Tax Policy and Administration of the Organisation for Economic Co-Operation and Development (OECD): Forum on Tax Administration: Taxpayer Services Sub-Group, Survey Report: Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery 77 (Mar. 2010), *available at* http://www.oecd.org/ctp/taxadm/45035933.pdf (last visited Aug. 6, 2012).

24 *Id*.

25 OECD, Forum on Tax Administration, *Information Note: Working Smarter in Structuring the Administration, in Compliance, and Through Legislation* 27, 51 (Jan. 2012) (emphasis added).

26 IRS Publication 4579, 2007 Taxpayer Assistance Blueprint Phase 2, Executive Summary 2-4 (Apr. 2007), *available at* http://www.irs.gov/pub/irs-pdf/p4579.pdf (last visited Aug. 6, 2012).

several reasons, including the need to first focus on portal and e-authentication strategies and the IRS's perception of low take-up rates for a similar program in Canada.[27]

Despite the IRS's reasons for discontinuing MIRSA, the National Taxpayer Advocate recommended that the IRS continue to develop an online account program. If even a small percentage of taxpayers could detect and address account problems early in the process, they and the IRS would avoid more costly consequences. With a user-friendly interface, account access would also "demystify" the tax system for some taxpayers, leading more of them to take more ownership in the system when they see firsthand the results of their interactions with the agency. In addition, a taxpayer who receives a notice from the IRS could potentially fix the problem without hiring a paid practitioner.

The IRS response to the 2009 recommendation stated: "We believe that an online account capability may ultimately be part of a suite of services provided to taxpayers." However, the IRS then raised low take-up rates in similar applications developed by other countries and stated that e-authentication remained a barrier to development.[28]

The National Taxpayer Advocate understands that the design and implementation of an online account access and management system is a complex undertaking. However, several countries have successfully developed different variations of these applications, which the IRS should further evaluate, then build on their lessons learned.[29] In addition, the TAB Conjoint Update clearly shows that taxpayers prefer to interact with the IRS online to check the status of transactions and find out more about IRS letters and notices.[30] Further, based on the plans provided by the Office of Online Services, the IRS is working toward a goal of electronic interaction with taxpayers, by developing a way for the parties to communicate and exchange documents electronically.[31] We believe such a capability will reduce taxpayer burden and can serve as the first step toward online account management.

CONCLUSION

Both the IRS and taxpayers will benefit from the expansion of online self-service. Studies have shown that taxpayers are demanding online service channels at an increasing rate, while the OECD and its member countries have realized the benefits of prioritizing online service delivery. The IRS is moving forward with a strategy to improve IRS.gov as well

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[27] TIGTA, Ref. No. 2009-20-102, *Changing Strategies Led to the Termination of the My IRS Account Project* (Aug. 12, 2009); IRS, *IMRS Q&A View* (Intranet site on file with the IRS).

[28] National Taxpayer Advocate 2009 Annual Report to Congress 104-105.

[29] For detailed descriptions of the online account applications offered by various OECD countries, see Centre for Tax Policy and Administration of the OECD: Forum on Tax Administration: Taxpayer Services Sub-Group, Survey Report: Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery 40, 109-110 (Mar. 2010), *available at* http://www.oecd.org/ctp/taxadministration/45035933.pdf (last visited Aug. 6, 2012).

[30] Wage and Investment Research & Analysis, TAB Conjoint Update: Final Report for Wage and Investment Research and Analysis Director, Project No. 2-10-09-S-058, 8 (Feb. 2012). Specifically, 38 percent preferred to get information about a notice received through an interactive website and 41 percent preferred such a tool to check the status of a transaction.

[31] IRS Online Services, Governance Kickoff 3 (Nov. 29, 2011).

as provide more self-assist applications. We applaud the IRS's progress but realize that it has a long way to go to reach the state envisioned by the TAB Phase 2: an "interactive and fully integrated, online tax administration agency" with the capability "for any exchange or transaction that currently occurs face-to-face, over the phone, or in writing to be completed electronically."[32]

IRS COMMENTS

The IRS appreciates the report's recognition of our progress in the area of online services. We have made a number of significant improvements in this area and are working to make additional enhancements for the future.

In August 2012, the IRS took an important foundational step toward its future vision of improving web-based taxpayer service through the re-launch of IRS.gov with improved functionality. We migrated existing content and applications on the site to a more current operating platform that includes a content management system and portal display products. These critical tools give the IRS increased flexibility and control in the continuous updating of the site as well as the look and feel.

IRS.gov was redesigned so that navigation is mapped according to frequently used taxpayer activities (*i.e.,* filing returns, paying taxes, checking refund status). These changes have made taxpayer experience more efficient and more meaningful. The IRS continuously monitors new data analysis and reporting tools to identify areas for modification and improvement. In a similar way, the home page and banner were updated to promote organizational goals such as improving e-Filing and PTIN application renewal. We are proud to report that IRS.gov received over 372 million visits, resulting in over 1.7 billion page views, in fiscal year 2012.

Also in 2012, the IRS developed and implemented a number of meaningful enhancements and applications which improved taxpayer service on IRS.gov, including the following:

1. Our "VITA Site Locator" to help eligible taxpayers to locate free tax preparation help. It was launched in the Amazon Cloud in close collaboration with the Department of Treasury;

2. An app that allows taxpayers to conduct an immediate search for currently valid tax-exempt organizations;

3. An app that allows taxpayers to get account information on the First-Time Homebuyer Credit;

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[32] IRS Publication 4579, 2007 Taxpayer Assistance Blueprint Phase 2, Executive Summary 23-4, 40 (Apr. 2007), *available at* http://www.irs.gov/pub/irs-pdf/p4579.pdf (last visited Aug. 6, 2012); Conjoint Update: *Final Report for Wage and Investment Research and Analysis Director*, Project No. 2-10-09-S-058, 5 (Feb. 2012). However, the National Taxpayer Advocate continues to believe that certain taxpayers will require face-to-face or telephone services and the IRS should not abandon these service delivery channels to meet their needs. Rather, certain categories of transactions may be better served through multiple service channels.

4. The launch of IRS2Go v2. In addition to its original features, which allow taxpayers to check refund status, follow IRS on Twitter, get contact information, and subscribe to filing season updates, the new version includes enhanced applications, such as:

   a. "Watch Us" to allow taxpayers to view IRS YouTube videos;

   b. "Get the Latest News" to allow IRS to push press releases as they go live on IRS.gov; and

   c. "Get My Tax Record" to allow users to order their tax account or tax return transcript using a mobile device.

5. Additional enhancements and tools were added to support taxpayers in the following areas:

   - The Query Tool for Forms and Publications (to improve retrieval);

   - An online calculator for the Sales Tax Deduction;

   - An AMT Assistant;

   - An EITC Assistant;

   - Link and Learn (to improve Spanish content);

   - Understanding Taxes; and

   - A Withholding Calculator.

Striving to meet taxpayers' increasing demand for online services is of vital importance for the IRS and fundamental to providing taxpayers with top quality service. For this reason, the IRS continues to look for new ways and enhanced applications to support this important endeavor. The IRS's Office of Online Services (OLS) is leading the way for the IRS's transition to the future digital government. OLS is working to ascertain what taxpayers need to effectively and simply meet their tax responsibilities whenever and wherever needed. OLS aims to deliver new high-impact functionality to improve taxpayer experience across various channels and to deliver robust cross-channel analytics to attain continuous improvement.

The IRS continually stays aware of online service offerings of foreign and state administrations to identify those that might translate well and quickly to the IRS environment. We have reviewed the online service offerings of several foreign and state tax administrations. It is important to mention that the U.S. taxpayers are afforded important protections which may not exist in other areas. As a result, the best practices of other taxing entities may not always fit the needs of IRS's customers. We do consider these sources to be informative and will consider aspects of these services along with other IRS priorities in future online strategies. The IRS, along with its business and technology partners, will continue to research, develop, and implement new self-service transactional web applications to meet the continuously evolving needs of taxpayers.

The IRS recognizes the value in the delivery of account or account-like services to taxpayers and has taken some preliminary steps in that direction. Most notably, the IRS recently developed this type of account functionality in a limited way through discrete applications on the website through *Where's My Refund* and *What Was My Stimulus Payment*. Online account capability may ultimately be part of the suite of services provided to taxpayers. Nonetheless, security and resource challenges exist in full implementation of this goal. Authentication is key to any online service strategy. As the information or services provided and the transactions involved increase in terms of sensitivity, the level of certainty about the identity of the individual who has logged on to perform the tasks grows. While the IRS has simple forms of authentication for specific functions which do not contain highly sensitive data (*Where's My Refund*), our systems currently do not support more sophisticated forms of authentication that would be required to provide taxpayers with the ability to access and resolve account issues online.

While the IRS is working on developing these more challenging forms of authentication, it is important to note that we must be mindful that these types of authentication may restrict the willingness of taxpayers to use the service. For example, several other countries have found that taxpayers are much more likely to use a service if they can log on and use it immediately by providing some basic information or shared secrets. When the authentication requirements are more burdensome and cannot be completed in the same session, the uptick in taxpayer use falls dramatically. Even when taxpayers are willing to authenticate by waiting for a confirmatory code or PIN in the mail, recent experience suggests that taxpayers often allow these codes or PINs to lapse which results in additional work for the IRS and taxpayer to revalidate.

Moreover, evidence from foreign and state governments suggests that taxpayer online accounts may not enjoy the kind of usage associated with similar applications in the private sector, such as online banking. In fact, these examples, as well as the IRS's own limited experience, suggest much larger numbers of taxpayers may be served by simple, direct "utilities" that take care of specific activities taxpayers desire. An example of this might be an application that allows taxpayers to send "certified" copies of IRS transcripts to third parties (*e.g.*, to mortgage or education lenders who need recent tax data). For these reasons, we agree that more research is needed on these issues as part of our larger assessment of e-services strategy.

These complexities underscore the need for the IRS to test and evaluate taxpayer reactions and make deliberate and thoughtful technology investment decisions with our finite resources. The IRS will continue to conduct data-driven analysis and build taxpayer-focused processes to develop online approaches and strategies that will serve the overall best interests of taxpayers.

Most Serious Problem

Taxpayer Advocate Service Comments

The National Taxpayer Advocate commends the IRS for its continued commitment to meeting the increasing taxpayer demand for online services. As discussed in detail in its response, the IRS has made significant progress in the development and enhancement of many online tools and applications to provide quality taxpayer service. We are particularly impressed with the researched-based strategy of the Office of Online Services to meet taxpayers' needs across a variety of service channels.

We understand the real obstacles facing the IRS in developing an online account program. Authentication for such a comprehensive service is much more difficult than that required for existing discrete online services. We also understand the burden imposed on taxpayers as they try to navigate complex authentication processes. However, we believe the IRS should continue to develop this program once it has overcome some of the authentication challenges through improvements in technology. Taxpayers will benefit substantially from being able to electronically monitor the status of their accounts and interact with the IRS to resolve their tax issues. While the stricter authentication may be annoying to taxpayers, it can also be reassuring. Over time, taxpayers will learn that gaining access to one's account online can be much better than sitting on the phone for 15 minutes only to get transferred to the wrong person.

Authenticated access to online accounts is only one step in the road to a comprehensive online presence. Once the taxpayer gains access to the actual site, his or her experience must be worthwhile. That is, the IRS must provide meaningful and useful content. To do this, the IRS needs to develop the in-house capability to present content.

Finally, the National Taxpayer Advocate is pleased that the IRS stays informed of the online services offered by domestic and foreign jurisdictions. We understand that the IRS must comply with strict requirements, especially with respect to privacy and security, which make it difficult to model our applications after those offered by other agencies. However, IRS technology continues to advance in this area and the IRS has committed in its response to work with industry partners to research and develop new applications to meet the continually evolving needs of taxpayers. Accordingly, we believe the IRS can strive to provide top-quality online service offerings as it learns from the experiences of other jurisdictions.

Recommendations

The National Taxpayer Advocate recommends that the IRS:

1. Develop an online account program to allow taxpayers to view the status of their accounts as well as interact with the IRS by responding to notices, scanning documents, etc.

2. Review online service offerings of foreign and state tax administrations to identify those that might translate well and quickly to the IRS environment.

Most Serious Problem