WRITTEN STATEMENT OF

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HEARING ON

INTERNAL REVENUE SERVICE FY 2018 BUDGET REQUEST

BEFORE THE

SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL GOVERNMENT

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

JULY 26, 2017

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Chairman Capito, Ranking Member Coons, and distinguished Members of this Subcommittee:

Thank you for inviting me to submit this statement regarding the proposed budget of the Internal Revenue Service for Fiscal Year (FY) 2018.[1]

The collection of revenue for the U.S. government is a critical job, and the IRS has been forced to do it with substantially reduced resources in recent years. From FY 2010 through FY 2017, we estimate the IRS's budget has been reduced by nearly 20 percent on an inflation-adjusted basis.

The combination of reduced resources and more work has eroded the IRS's ability to serve taxpayers and promote voluntary compliance. The additional $290 million in funding that Congress provided in FY 2016 and FY 2017 has been very helpful, and because of it, the IRS has done a much better job of answering taxpayer telephone calls than it did in FY 2015. But taxpayer service is still not what it should be.

Partly because of resource constraints and partly because the IRS, like all large organizations, engages in long-term planning, the agency has developed a "Future State" plan that envisions how it will operate in five years and beyond. While I have previously expressed and continue to harbor concerns about aspects of the plan, I commend the agency for the time and effort it has put into this planning, and I encourage a continuing dialogue about refining the plan so that it reflects the needs and preferences of U.S. taxpayers.

To improve taxpayer service, I recommend the IRS take the following steps:

1. Continue to expand its digital service offerings but simultaneously ensure that in-person and telephone services remain available for tens of millions of taxpayers who require or prefer to interact with the IRS in those ways.

2. Improve its telephone technology.

3. Answer a broader range of tax-law questions during the filing season – and throughout the year.

4. Improve the level of service on its "Installment Agreement/Balance Due" telephone line.

[1] The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we are providing courtesy copies of this statement to both the IRS and the Treasury Department.

5. Establish a telephone line to answer questions about the eligibility and computational rules for the earned income tax credit (EITC).

6. Serve taxpayers without appointments at its Taxpayer Assistance Centers (TACs).

7. Expand outreach and education, particularly to small businesses, to improve tax compliance.

8. Assign at least one Appeals Officer and one Settlement Officer to every state.

9. Mail monthly bills to taxpayers who owe money, as private sector businesses routinely do.

10. Assign a single employee to work complex identity theft cases and correspondence examinations where a taxpayer calls the IRS or submits documentation.

11. Reduce the false positive rates produced by its identity theft and anti-fraud filters.

In the following pages, I will provide additional information regarding these recommendations. I believe the rationale for each one is strong and that most can be implemented immediately. In a few cases, however, it may be appropriate for the IRS to conduct a research study or pilot, in collaboration with the National Taxpayer Advocate, before moving to full implementation.

In addition, I recommend that the Subcommittee continue to provide minimum funding levels in the Financial Services and General Government bill for the Tax Counseling for the Elderly (TCE) program, the Low Income Taxpayer Clinic (LITC) program, the Community Volunteer Income Tax Assistance (VITA) program, and the Taxpayer Advocate Service (TAS). In the case of the TCE, LITC, and Community VITA programs, a minimum funding level helps ensure that low income and elderly taxpayers receive the service and support they need when filing their tax returns and working with the IRS to resolve disputes. In the case of TAS, a minimum funding level helps ensure that TAS can fulfill its statutory mission as a "safety net" for taxpayers who are experiencing a "significant hardship"[2] and helps protect TAS's independence in advocating for taxpayers both individually and systemically.[3]

[2] *See* Internal Revenue Code (IRC) § 7811(a)(2) (defining the term "significant hardship").

[3] *See* IRC § 7803(c)(2)(A) (functions of TAS) and § 7803(c)(4) (independence of TAS).

I. The IRS Should Continue to Expand Its Digital Service Offerings But Simultaneously Ensure That In-Person and Telephone Services Remain Available for Taxpayers Who Require or Prefer to Interact with the IRS in Those Ways.

A central component of the IRS's "Future State" plan is to migrate taxpayers away from interacting with the agency by phone or in person and toward interacting with the agency through online accounts. I believe online accounts are a beneficial addition to the IRS's service offerings; in fact, I have advocated in the past that the IRS develop online accounts.[4] However, online accounts should be viewed as a supplement to, not a replacement for, telephone and in-person assistance, as it is clear that many taxpayers either cannot utilize online accounts or do not feel comfortable using them for complex transactions.

During 2016, TAS undertook a series of steps to learn more about taxpayer needs and preferences. I myself traveled the country and held 12 Public Forums on Taxpayer Needs and Preferences.[5] Together with Members of Congress, I heard directly from taxpayers and their representatives about the challenges they face in complying with the tax laws and dealing with the IRS.[6] TAS also held focus groups consisting of tax return preparers and practitioners at the IRS Tax Forums.[7] Additionally, TAS conducted a nationwide survey of U.S. taxpayers to hear directly what they need in the way of taxpayer service.[8] Finally, my immediate staff identified significant research on topics that have relevance for tax administration, including approaches to voluntary

[4] *See, e.g.,* National Taxpayer Advocate 2013 Annual Report to Congress, vol. 2, at 67-96 (Research Study: *Fundamental Changes to Return Filing and Processing Will Assist Taxpayers in Return Preparation and Decrease Improper Payments*).

[5] *See* National Taxpayer Advocate 2015 Annual Report to Congress xv. National Taxpayer Advocate Public Forums were held in the following locations: Washington, DC (Feb. 23, 2016); Glen Ellyn, IL (Mar. 9, 2016 with Congressman Roskam); Bronx, NY (Mar. 18, 2016 with Congressman Serrano); Hendersonville, NC (Apr. 4, 2016 with Congressman Meadows); Harrisburg, PA (Apr. 8, 2016); Red Oak, IA (May 5, 2016 with Senator Grassley); Baltimore, MD (May 13, 2016 with Senator Cardin); Washington, DC (May 17, 2016); Parma, OH (Aug. 16, 2016 with Congressman Renacci); Portland, OR (Aug. 18, 2016); Los Angeles, CA (Aug. 22, 2016 with Congressman Becerra); and San Antonio, TX (Aug. 30, 2016 with Congressman Doggett).

[6] For information about, and full transcripts from, the National Taxpayer Advocate Public Forums, see https://taxpayeradvocate.irs.gov/public-forums (last visited Apr. 25, 2017).

[7] TAS Communications and Liaison, *2016 IRS Nationwide Tax Forums TAS Focus Group Report: Preparers' Thoughts About IRS's Proposed Future State* (Oct. 2016), https://taxpayeradvocate.irs.gov/Media/Default/Documents/ResearchStudies/2016_TaxForum_FutureState_FocusGroup_Report.pdf.

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

compliance, worldwide taxpayer service, alternative dispute resolution, taxpayer rights, fraud detection, online accounts, and the impact of geographic presence and focus.[9]

Based on what we learned about taxpayer needs and preferences and in light of the IRS's data security protections, we believe taxpayer demand for telephone service and in-person service is not likely to diminish in the near future. First, many taxpayers have technology limitations. Approximately 33 million U.S. taxpayers have no broadband access,[10] and taxpayers with Internet service connections slower than broadband will likely experience delays when attempting to access large files or complex web pages. Further, we estimate 14 million U.S. taxpayers have no Internet access at all.[11]

Second, many taxpayers – even millennials with strong computer skills and access – do not feel comfortable using online accounts to handle complex matters. While these taxpayers readily use the Internet to download tax forms or seek out instructions, many report that they want to speak with an employee when dealing with account-specific matters, such as an audit or an identity-theft problem.

Third, the IRS has imposed stringent authentication requirements that taxpayers must satisfy when attempting to create online accounts. As a result, most taxpayers cannot establish an online account. As of July 22, 2017, of the nearly 2.2 million account registration attempts since the online account application launched, only about 22 percent were successful.[12] I am not suggesting that the IRS reduce its security protections. I believe protecting the security of taxpayer information is absolutely essential. However, the IRS must recognize that providing necessary security has implications for how many taxpayers will be able to access online accounts and how many will need to use other service channels, such as telephones or TACs.

For these reasons, I urge the IRS to continue to maintain high levels of service on its telephone lines and in its TACs. The IRS should not assume it can reduce these services – even over the long-term – unless and until it sees that taxpayers are willingly and comfortably migrating to online services and the demand for telephone and in-person assistance is diminishing. In my view, it is not clear this will happen. The tax law is complex, and the consequences of making a mistake on one's tax returns are considerable. Therefore, many taxpayers will continue to want to speak with an IRS employee, so they can ask follow-up questions and be certain they understand the answers.

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[9] These literature reviews are published in Volume 3 of the National Taxpayer Advocate's 2016 Annual Report to Congress.

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

[11] *Id.* TAS survey research also found that such vulnerable groups as the low income, seniors, and taxpayers with disabilities are less likely to have broadband access at home.

[12] IRS, Wage and Investment Division, Joint Operations Center (JOC), *Online Account External Launch Weekly Report* (week ending July 22, 2017).

By maintaining and strengthening the ability of taxpayers to obtain assistance by telephone and in person as well as online, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service."[13]

[13] "The Right to Quality Service" is one of the ten rights included in the Taxpayer Bill of Rights that the IRS adopted in 2014 and that Congress cross-referenced in subsequent legislation. *See* IRS, Taxpayer Bill of Rights, https://www.irs.gov/Taxpayer-Bill-of-Rights; *see also* Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, § 401 (2015) (codified at IRC § 7803(a)(3)).

II. The IRS Should Improve Its Telephone Technology.

The IRS receives more than 100 million telephone calls every year, yet its telephone technology is old and prevents it from serving taxpayers efficiently. The IRS should conduct a study of best practices and technology in private industry call centers and then develop a plan to modernize its telephone operations.

One example of a technology improvement would be the addition of customer callback technology. Many private businesses and federal agencies, including the Social Security Administration and the Department of Veterans Affairs, have deployed customer callback systems that allow callers to choose between waiting on hold and electing to receive a call back when their place in the telephone queue is reached.[14] We believe a customer callback system would substantially improve the taxpayer experience at a reasonable cost.

In the President's FY 2015 and FY 2016 budgets, the IRS proposed this initiative and estimated it would cost about $3.3 million.[15] In November 2015, Commissioner Koskinen said that although the customer callback technology itself would cost about $3.5 million, the IRS had determined its phone system would need to be upgraded at a cost of about $45 million to allow the customer callback technology to run.[16]

Even if that is accurate, we think customer callback technology would be a prudent investment. For context, the IRS's FY 2016 budget proposal requested about $186 million to increase the Level of Service (LOS) on its toll-free lines to 80 percent.[17] The significant majority of that funding would have paid for additional customer service representatives and other costs that recur annually. By contrast, the deployment of a customer callback system would essentially be a one-time cost, and it would permanently improve the IRS's LOS.

It should be emphasized that a high percentage of taxpayers who don't reach the IRS on their first attempt keep calling until they get through. The LOS during FY 2016 averaged 53 percent, and those taxpayers who managed to reach an IRS telephone assistor had to wait an average of 18 minutes on hold.[18]

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[14] *See* Government Accountability Office (GAO), GAO-17-140, *Financial Audit: IRS's Fiscal Years 2016 and 2015 Financial Statements* 116-117 (Nov. 2016).

[15] IRS, Congressional Justification for Appropriations accompanying the President's FY 2015 Budget at IRS-20 (2014); IRS, Congressional Justification for Appropriations accompanying the President's FY 2016 Budget at IRS-22 (2015).

[16] *See* Lisa Rein, *IRS Customer Service Will Get Even Worse This Tax Filing Season, Tax Chief Warns,* Washington Post.com, Nov. 3, 2015.

[17] IRS, Congressional Justification for Appropriations accompanying the President's FY 2016 Budget at IRS-22 (2015).

[18] IRS, JOC, *Snapshot Reports: Enterprise Snapshot* – Accounts Management lines (week ending Sept. 30, 2016).

With customer callback technology, unsuccessful calls would be substantially reduced – as would hold times. Most taxpayers would only have to call the IRS once. Thus, this one-time cost would improve taxpayer service and substantially increase the LOS for years into the future.

In my view, customer callback would substantially strengthen the IRS's telephone operations, and there likely are other improvements the IRS can make. The IRS should develop a detailed plan to modernize its telephone operations.

By improving its telephone technology to better serve taxpayers, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service."

III. The IRS Should Answer a Broader Range of Tax-Law Questions During the Filing Season – and Throughout the Year.

When a government asks its citizens to pay over large portions of their income, it has a responsibility to make the process of doing so as simple and painless as possible. One way to do this is to answer questions about how to comply with the requirements of computing and paying taxes. Given the complexity of the Internal Revenue Code, U.S. taxpayers understandably have a lot of questions.

Beginning in 2014, largely citing funding limitations, the IRS sharply curtailed the scope of tax-law questions it would answer. It now answers only "basic" questions during the filing season. It does not answer tax-law questions at all after the filing season, including from the more than 15 million taxpayers who file their returns later in the year.[19] This policy applies both on the IRS's telephone lines and in its TACs.

In my view, answering tax-law questions is a fundamental responsibility of a governmental tax agency, and the IRS's unwillingness to do more constitutes a breathtaking abdication of a core responsibility of tax administration.

By helping taxpayers comply with the tax laws by answering their basic and more complex tax-law questions throughout the year, the IRS would further the provisions in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service" and "The Right to Be Informed."

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[19] During 2016, the IRS received nearly 137 million tax returns by April 22 and nearly 153 million by December 30, indicating that nearly 16 million returns were received after the filing deadline. *See* IRS Filing Season Statistics (weeks ending April 22, 2016, and Dec. 30, 2016).

IV. The IRS Should Improve the Level of Service on Its "Installment Agreement/Balance Due" Telephone Line.

Among the IRS's many telephone lines, one important one is the "Installment Agreement/Balance Due" line. During the 2017 filing season, the IRS received about 2.7 million calls on this line. For the most part, these calls come from taxpayers who are seeking to make payment arrangements – the sort of calls most private businesses would pick up in a heartbeat. Yet the IRS answered only 40 percent of these calls, and the average wait time among taxpayers who got through was a staggering 47 minutes.

The IRS's performance on this telephone line deteriorated markedly as compared with the 2016 filing season. In 2016, the IRS answered 76 percent of these calls, and the wait time was 11 minutes. Thus, the percentage of calls the IRS answered from taxpayers seeking to make payment arrangements on this line during the 2017 filing season dropped nearly in half as compared with last year, and wait times were more than four-fold.[20]

The poor service on this and certain other telephone lines is largely budget-driven. The additional funding the IRS has received over the last two years to improve telephone service has been helpful but limited, and the IRS has used that funding primarily to improve service on its core filing season telephone lines. Still, both to improve both taxpayer service and revenue collection, the IRS must do a much better job of answering telephone calls from taxpayers who owe money and are seeking information to enter into payment arrangements.

By promptly answering telephone calls from taxpayers seeking to pay their debts through installment agreements, the IRS would further the provisions in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service," "The Right to Privacy," and "The Right to a Fair and Just Tax System."

[20] IRS, JOC, *Snapshot Reports: Product Line Detail, Installment Agreement/Balance Due* (week ending April 22, 2017).

V. The IRS Should Establish a Telephone Line to Answer Questions About the Eligibility and Computational Rules for the Earned Income Tax Credit.

The earned income tax credit (EITC) is one of the government's largest means-tested, anti-poverty programs. For tax year 2015, more than 27 million taxpayers claimed nearly $67 billion in EITC benefits.

However, the EITC is plagued by an improper payments rate of about 24 percent. While some improper payments are due to intentional overclaims, others are due to lack of knowledge about the law or how to compute the correct amount. The EITC eligibility rules are complex, and about one-third of taxpayers who claim it each year did not claim it in the prior year, which means they need to learn the eligibility rules for the first time or refresh their understanding if they qualified previously.

The IRS devotes considerable resources toward reducing EITC improper payments. For example, it audits taxpayers claiming the EITC at about twice the rate of other taxpayers, even though these taxpayers are disproportionately low income.[21] The IRS could better serve taxpayers and improve EITC compliance if it establishes a telephone line to answer EITC questions that is staffed by employees knowledgeable about EITC eligibility requirements and related rules.

By establishing a telephone line to answer questions about the EITC, the IRS would further the provisions in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service," "The Right to Be Informed," "The Right to Pay No More Than the Correct Amount of Tax," and "The Right to a Fair and Just Tax System."

[21] *See* IRS, *2016 Data Book* 23 (Table 9a).

VI. The IRS Should Serve Taxpayers Without Appointments at Its Taxpayer Assistance Centers.

The IRS operates nearly 400 Taxpayer Assistance Centers (TACs). In the past, the IRS has served more than five million taxpayers each year in the TACs, and it provided a wide range of services, such as assisting with tax return preparation and answering tax-law questions. Historically, the TACs were known as "walk-in" sites. But this year, the IRS has flipped its traditional approach toward serving taxpayers on its head, requiring that taxpayers schedule appointments in advance to receive service.[22]

The IRS says that taxpayers are visiting the TACs less frequently because when they call for appointments, telephone assistors are often able to address their questions, obviating the need to visit. To some degree, that is undoubtedly true. But many taxpayers with tax problems still want to talk with an IRS employee face-to-face. If the IRS's current trend continues, taxpayers soon may not have that opportunity. The IRS has already reduced the number of TACs from 401 to 376 since 2011.[23] In addition, 22 TACs have no staff, while 95 have only one employee,[24] and the IRS is considering closing a significant number of additional TACs through FY 2018. Because of its new "appointment only" policy, the IRS is projecting that the number of taxpayers visiting a TAC will decline from about 5.6 million in FY 2015 to 3.5 million this year.[25]

I am concerned that the IRS will cite the reduced number of taxpayers served in the TACs as "evidence" of reduced taxpayer demand and then close more TACs, when in fact a key driver of the reduced number of taxpayers seeking services are the obstacles the IRS has created to obtaining service.

This has happened before. On several occasions, the IRS has made important services less accessible to taxpayers and then cited the (predictable) decline in usage as a basis for making further reductions or eliminating the services altogether. For example, the IRS prepared nearly 500,000 tax returns for taxpayers in FY 2004.[26] Over time, it placed significant limitations on the number and type of returns employees could prepare, and it began to require advance appointments. As a result of making the service harder to obtain, the IRS prepared substantially fewer returns over time,

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[22] In response to complaints from TAS and others, the IRS has given TAC managers the discretion to make exceptions to the policy. But the general rule continues to require advance appointments.

[23] In 2011, the IRS operated 401 TACs. IRS response to TAS information request (Dec. 23, 2014). As of December 31, 2016, the IRS operated 376 TACs, a reduction of six percent. IRS response to TAS fact check (Dec. 20, 2016).

[24] IRS response to TAS fact check (Dec. 20, 2016).

[25] IRS Wage & Investment Division, *Business Performance Review* 7 (Feb. 9, 2017).

[26] *See* National Taxpayer Advocate 2014 Annual Report to Congress 3, 21 (Most Serious Problem: *Taxpayer Service: Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers*) (and GAO data cited therein).

reaching a low of about 125,000 during the 2013 filing season. The IRS then eliminated the service, citing low usage.

The same is true with answering tax-law questions in the TACs. The Government Accountability Office has reported the number of tax-law questions answered by the IRS during the filing season alone dropped from 795,000 in 2004 to 110,000 in 2013.[27] There is no evidence that taxpayers had fewer questions. Rather, the IRS reduced TAC staffing and reduced the scope of questions it was willing to answer, and wait times became unreasonably long. As it became harder and harder to obtain answers to tax-law questions, taxpayers became deterred from asking them. The IRS's decision to restrict employees from answering tax-law questions in 2014 was based partly on this "reduced demand."

The IRS should not take this approach to reduce TAC assistance. Taxpayers often travel long distances to get to a TAC, not knowing that advance appointments are required. Many are senior citizens. Turning these taxpayers away or requiring them to come back at a later date to receive service can cause tremendous inconvenience and frustration.

I previously recommended that the IRS <u>allow</u> taxpayers to schedule appointments, and I am glad it is doing so. I realize that at times scheduled appointments will limit the IRS's ability to assist others. But the IRS should change its policies to direct the TACs to assist walk-in taxpayers to the maximum extent possible. All TACs currently have a large sign on their front doors declaring "APPOINTMENT ONLY." This is a negative message to send to taxpayers seeking assistance to comply with their tax obligations and have traveled sometimes long distances to obtain that assistance. How much better it would be if that sign instead read, "APPOINTMENTS RECOMMENDED BUT WALK-INS WELCOME."

By assisting all taxpayers who visit Taxpayer Assistance Centers for help, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service" and "The Right to Be Informed."

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[27] GAO, GAO-14-133, *2013 Tax Filing Season*: *IRS Needs to Do More to Address the Growing Imbalance between the Demand for Services and Resources* 26 (Dec. 2013); GAO, GAO-07-27, *Tax Administration*: *Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings* 29 (Nov. 2006) (supplemented with more precise IRS data provided to TAS by the IRS Wage & Investment Division for 2004 through 2006).

VII. The IRS Should Expand Outreach and Education, Particularly to Small Businesses, to Improve Tax Compliance.

As a result of the IRS Restructuring and Reform Act of 1998,[28] the IRS created units of employees to conduct outreach and education to individual and small business taxpayers. The rationale is, in essence, that "an ounce of prevention is worth a pound of cure" – *i.e.,* educating taxpayers about tax requirements in a pre-filing environment will improve return accuracy and reduce the need for (more costly) post-filing audits and other compliance actions. Pre-filing outreach and education is particularly important for small businesses, which often need to learn and comply with complex rules that individual taxpayers do not encounter, such as rules governing eligible business expenses, equipment depreciation, and employment taxes. Yet the IRS has whittled down these outreach units to the point where they are barely functional.

The IRS dedicates only 365 employees to conduct outreach and education to the nearly 125 million Wage and Investment taxpayers (*i.e.,* taxpayers who are classified as "employees") and only 98 employees to conduct outreach and education to the roughly 62 million Small Business and Self-Employed taxpayers (*i.e.,* taxpayers who are self-employed or own small businesses). In fact, 14 states have no IRS liaisons to small business taxpayers at all.[29] By contrast, even after the workforce reductions of the last few years, the IRS has more than 8,800 revenue agents (who conduct field audit activities) and more than 3,000 revenue officers (who conduct field collection activities).[30] Having at least one employee with a post of duty in each state and responsible for the field outreach and education activities in that state would ensure such activities are geared to the economy, businesses, geography, and culture of that state.

The IRS should do more to educate taxpayers about tax requirements in a pre-filing environment both because it is the right thing to do and because it likely will reduce the need for more expensive compliance activities in a post-filing environment.

By expanding outreach and education, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Be Informed."

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[28] Pub. L. No. 105-206, 112 Stat. 685 (1998).

[29] The 14 states are Alaska, Delaware, Hawaii, Kentucky, Mississippi, Montana, North Dakota, Nebraska, New Hampshire, South Dakota, Vermont, West Virginia, Wisconsin, and Wyoming. There also is no liaison in the District of Columbia. IRS response to TAS fact check (Dec. 15, 2016); IRS Human Resources Reporting Center, *Report of Small Business/Self-Employed (SB/SE) Job Series 0526, Stakeholder Liaison Field Employees as of the week ending October 1, 2016* (Dec. 1, 2016).

[30] IRS response to TAS fact check (Dec. 16, 2016).

VIII. The IRS Should Assign At Least One Appeals Officer and One Settlement Officer to Every State.

Congress has long recognized that "all taxpayers should enjoy convenient access to Appeals, regardless of their locality."[31] As a result, Congress required the IRS, among other things, to "ensure that an appeals officer is regularly available within each State."[32] Yet today, the IRS reports that 12 states do not have either an Appeals Officer or a Settlement Officer.[33] That should change.

The IRS has suggested in the past that requiring an Appeals Officer and a Settlement Officer in each state would be costly. We do not agree. Placing at least one Appeals Officer and one Settlement Officer in each state would not require more Appeals personnel. It would simply require the IRS to relocate a small number of Appeals personnel currently posted in large IRS campuses to states with no Appeals Officers or Settlement Officers, which can be accomplished through attrition hiring.

The IRS has also suggested that virtual conferences or circuit riding is sufficient. We do not agree with those contentions, either. In many cases, it would be impossible for an Appeals Officer to judge the credibility of a witness without an in-person conference, and "circuit riding" does not happen often, requiring taxpayers to wait months, or even a year or more, to obtain a face-to-face hearing. Moreover, while virtual conferences may be suitable in many situations, having an Appeals Officer and a Settlement Officer reside in a state would ensure the particular conditions, economy, and culture of the state are understood, which can be relevant to a taxpayer's tax situation and ability to pay.

By placing an Appeals Officer in each state, the District of Columbia, and Puerto Rico, the IRS would comply with the congressional directive and further the provisions in the Taxpayer Bill of Rights that taxpayers have "The Right to Challenge the IRS's Position and Be Heard," "The Right to Appeal an IRS Decision in an Independent Forum," and "The Right to a Fair and Just Tax System."

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[31] S. Rep. No. 105-174, at 92 (1998).

[32] Internal Revenue Service Restructuring and Reform Act, Pub. L. No. 105-206, Title III, Subtitle E, § 3465(b), 112 Stat. 685, 768 (1998).

[33] An Appeals Officer conducts hearings when a taxpayer challenges an IRS audit determination. A Settlement Officer conducts collection due process (CDP) hearings. It is important that both Appeals Officers and Settlement Officers be available for face-to-face hearings and understand local economic conditions.

IX. The IRS Should Mail Monthly Bills to Taxpayers Who Owe Money, as Private Sector Businesses Routinely Do.

Most businesses, particularly large businesses, send bills at least monthly to customers who owe debts. The IRS does not. After sending taxpayers four notices, the IRS largely disappears. By statute, the IRS is required to send taxpayers an annual statement,[34] but that is often all it does unless and until it chooses to work the case or assigns it to a private collection agency, which often does not happen for several years. Moreover, when a tax debt is sent to a private collection agency, up to 50 percent of the taxes collected are diverted from the public treasury to the private collection agency and the IRS. Conversely, when the IRS receives payments in response to an IRS notice, 100 percent of the taxes remitted go to the public fisc.

As a general matter, the first few bills a creditor sends generate more revenue than later bills. But later bills still generate revenue. (If businesses didn't benefit from sending monthly bills, they would stop sending them.) For example, an individual who loses his job may experience financial hardship and fail to pay creditors for a period of time but then begin to pay off his debts when he obtains a new job. If he is receiving monthly bills from most creditors but has not heard from the IRS in nearly a year, the IRS's "invisibility" is likely to mean he will prioritize paying off others creditors who are consistently making their presence known.

Government agencies frequently speak about adopting "best practices" from the private sector. Sending monthly bills to debtors is one "best practice" the IRS should adopt now.

By mailing monthly bills to taxpayers with tax debts, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Be Informed."

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[34] *See* IRC § 7524.

X. The IRS Should Assign a Single Employee to Work Complex Identity Theft Cases and Correspondence Examinations Where a Taxpayer Calls the IRS or Submits Documentation.

When a taxpayer is audited in person, a single IRS employee typically works with the taxpayer from start to finish. If the taxpayer has questions or needs to provide follow-up information, he knows whom to call. The employee is familiar with the taxpayer's case, so the taxpayer does not need to start from scratch in every conversation. In addition, the employee is responsible for the timely and accurate resolution of the case.

When a taxpayer experiences an identity-theft problem or is subject to a correspondence audit (and about three-quarters of all individual audits were conducted via correspondence in FY 2016), the IRS generally does not assign a single employee to work the case. In many cases, the taxpayer will not need to speak with an employee. But in other cases, the taxpayer may call several times – perhaps to ask additional questions, to provide requested documentation, or to check on the status of his case.

I believe the IRS should assign a single employee to work a case when either (i) the taxpayer has an identity theft problem that involves more than one issue or more than one tax year or (ii) the taxpayer calls in response to a correspondence examination notice or submits documentation. If subsequent telephone calls are required, the taxpayer should be given the opportunity to speak directly with that employee whenever possible, and if the employee is not available, the taxpayer should be given the option of either leaving a message for the employee for a call-back or speaking with another available assistor.

Assigning cases to specific employees where a taxpayer calls or submits documentation should improve the taxpayer experience and improve case resolution.

By allowing taxpayers who have experienced identity theft or are undergoing correspondence audits to work with a single IRS employee, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to Quality Service" and "The Right to a Fair and Just Tax System."

XI. The IRS Should Reduce the False Positive Rates Produced by Its Identity Theft and Anti-Fraud Filters.

The IRS has made considerable progress in combating stolen identity refund fraud, and it deserves credit for doing so. However, the filters it uses to identify suspicious returns have high false positive rates. Notably, the filters used in the Taxpayer Protection Program, the primary set of filters for identity theft cases, had a false positive rate of 53 percent in 2016, and so far in 2017, the rate has risen to 60 percent as of July 5th. That means the majority of returns stopped by the filters have turned out to be legitimate.

High false positive rates can impose a significant burden on taxpayers whose returns are frozen. The significant majority of taxpayers receive refunds, and the average refund amount in 2016 was $2,860.[35] When the IRS stops a return due to suspicion of identity theft, it often requires the taxpayer to prove his or her identity, and that process can take several months. Thus, in addition to the time taxpayers must spend proving their identities and the frustration they experience in having to do so, they must wait extended periods of time to receive their refunds. For some taxpayers, this delay can cause a financial hardship.

In using filters to combat identity theft, the IRS must balance the twin goals of blocking as many illegitimate returns as possible and minimizing the number of legitimate returns it stops. The IRS has made major strides in blocking bad returns, but it can and should do a better job of refining its filters to stop fewer valid returns. In the National Taxpayer Advocate's 2016 Annual Report to Congress, we published a "Literature Review" of the various approaches taken to minimize false positive rates in government, the military, and business. We also made several recommendations to reduce the false positive rates produced by the IRS's filters, but the IRS has not agreed to adopt them.

I recommend the IRS undertake a study before the 2018 filing season, in conjunction with my office, to identify best practices to reduce false positive rates and describe what steps it will take toward that end. This report should be shared with this Committee.

By reducing the false positive rates in its identity theft and anti-fraud filters, the IRS would further the provision in the Taxpayer Bill of Rights that taxpayers have "The Right to a Fair and Just Tax System."

[35] *See* IRS, *2016 Filing Season Statistics* (week ending Dec. 30, 2016).