

**National Taxpayer Advocate's
2007 Objectives Report to Congress**



June 30, 2006

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**NATIONAL TAXPAYER ADVOCATE JUNE 2007 OBJECTIVES REPORT VOLUME II: THE
ROLE OF THE IRS IN THE REFUND ANTICIPATION LOAN INDUSTRY**

INTRODUCTION

The Internal Revenue Code requires the National Taxpayer Advocate to submit two annual reports to the House Committee on Ways and Means and the Senate Committee on Finance.¹ The National Taxpayer Advocate is required to submit these reports directly to the Committees without any prior review or comment from the Commissioner of Internal Revenue, the Secretary of the Treasury, the IRS Oversight Board, any other officer or employee of the Department of Treasury or the Office of Management and Budget. The first report, due by June 30 of each year, must identify the objectives of the Office of the Taxpayer Advocate for the fiscal year beginning in that calendar year.

An Integrated Approach to Tax Compliance

This year, and in Fiscal Year 2007, the Internal Revenue Service is under significant pressure to “close the tax gap” while maintaining and improving taxpayer service. In order to address the tax gap, the IRS is expanding its traditional examination and collection activities, and launching its Private Debt Collection initiative. The IRS is also undertaking several internal initiatives to identify methods of reducing the tax gap, and has asked IRS employees and external stakeholders to submit suggestions on that topic. At the same time, the IRS, its Oversight Board, and the National Taxpayer Advocate are developing Phase 2 of the Taxpayer Assistance Blueprint, an ongoing plan mandated by Congress for identifying both taxpayer service needs and the best means available (and affordable) to the IRS for meeting those needs.

These initiatives are critical to the IRS’s fulfilling its mission to U.S. taxpayers.² I commend the IRS for adopting a more strategic approach to the tax gap and taxpayer service. I am concerned, however, that the IRS is approaching its taxpayer service and enforcement initiatives on almost entirely separate tracks. That is, in the IRS today, enforcement employees work on enforcement initiatives, and taxpayer service employees work on taxpayer service initiatives, and never the twain shall meet. This “pipeline” approach is evidenced most clearly by the fact that the Taxpayer Assistance Blueprint (the TAB) focuses entirely on the taxpayer service needs of individuals who earn wages and investment income, despite the fact that the largest segment of the tax gap is attributable to self-employed taxpayers.

¹ IRC § 7803(c)(2)(B).

² The IRS Mission: Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

The goal of a fair and just tax system must be that it does everything it can to promote voluntary compliance. This is so, because *voluntary* compliance – as opposed to *enforced* compliance – creates taxpayers who are willing to work with the tax system rather than taxpayers who hide from the tax system. Moreover, in the long run, *voluntary* compliance is the most cost-effective way to achieve lasting compliance.

Both IRS enforcement and service personnel must listen with a keen ear to what the taxpayer is saying to see if there is an opportunity to educate the taxpayer about how to avoid repeating the problem, even as we rectify the current one. If we approach taxpayers as if they are guilty, if we assume that the only explanation for their behavior is intentional noncompliance, if we look at a collection case or an examination not as an interaction between a taxpayer and his government but instead as just another case that needs to be closed within a set cycle time – well, we will most assuredly get the behavior from the taxpayer that we expected to see. The reality is that neither is it good for the government and its citizens to be in conflict with each other more than necessary nor do we have the resources to collect our taxes primarily through enforcement actions. That is why achieving a high rate of voluntary compliance is not merely desirable but essential.

The failure to take a more holistic and integrated approach toward closing the tax gap is evidenced by the IRS's continuing failure to promote and properly administer the Offer in Compromise program. By definition, only noncompliant taxpayers submit offers, since these taxpayers are asking to pay less than the amount the IRS has determined to be due. In the short run, it may appear expensive to process and review an Offer in Compromise, and it may appear that the government is writing off revenue, which some argue may impact other taxpayers' compliance.

On the other hand, over the long run, the taxpayer who submitted the offer may pay more tax dollars into the system as a result of his promise – required with every accepted offer – to be fully compliant for the five succeeding years, or else face the reinstatement of the tax debt. Five years is a long enough period to enable this taxpayer to learn a new norm of behavior – namely, compliance. And when you compare the 16 cents on the dollar that IRS receives from offers to the virtually no cents it collects after year 3 of the 10-year collection period, many compliant taxpayers might feel that the IRS, by not promoting an efficient and cost effective offer program, is missing a valuable opportunity.

There is, of course, some really innovative work going on in the IRS. The Earned Income Tax Credit (EITC) program continues to integrate research into both its examination and taxpayer outreach initiatives. For example, we are beginning to learn the results of the EITC Program Office's three-year "proof of concept" studies on the impact of certification and pre-certification on specific populations. The Taxpayer Advocate Service, on its own or in partnership with the IRS, is

conducting several research studies, including the taxpayer service needs of EITC claimants and the impact of representation on examination outcomes. With this body of knowledge, the IRS can better refine its examination procedures as well as conduct more effective education and outreach to current and potential EITC claimants.

The Criminal Investigation Questionable Refund Program (QRP) is another success story, albeit still a work-in-progress. The QRP was the subject of a review by this office in the 2005 National Taxpayer Advocate's Annual Report to Congress, which found significant problems in the program that resulted in serious harm to taxpayers and taxpayer rights.³ Immediately after publication of the Report, the IRS formed a high-level executive steering committee with representatives from all impacted divisions (including TAS). This team continues to meet weekly to review all aspects of this important program, and to ensure that the program promptly and accurately identifies questionable refunds, provides taxpayers with timely notice and adequate opportunity to present exculpatory evidence, and provides taxpayers with a means to challenge the IRS's position. I am pleased to report that each of the Report's recommendations has been or is being addressed. While much work remains, I commend the IRS, and CI personnel in particular, for their attentiveness to taxpayer needs.

The Year Ahead For the Office of the Taxpayer Advocate

During Fiscal Year 2007, the Office of the Taxpayer Advocate will undertake a "housecleaning" of issues that we have discussed and on which we have engaged with the IRS in prior years but that continue to linger on, unresolved. More often than not, this lack of resolution is attributable to a lack of resources or competing demands. Regardless of the reasons, there is some point at which issues simply need to be resolved.

Levies on Social Security benefits under the Federal Payment Levy Program (FPLP) are among these unresolved problems. Specifically, the IRS does not currently screen for low income taxpayers before issuing FPLP levies on Social Security benefits. Social Security recipients are, by definition, elderly or disabled, or survivors of workers. An effective screen would protect from levy those beneficiaries who are relying on Social Security for their basic living expenses. The harm caused by a lack of an effective screen is evidenced by the fact that TAS FPLP cases involving levies on Social Security benefits have increased by 165 percent over the same period last year, and that the relief rate in these cases is significantly higher than the average relief rate in all TAS cases. For FY 2007,

³ See National Taxpayer Advocate 2005 Annual Report to Congress, *Most Serious Problem: Criminal investigation Refund Freezes*, 25.

TAS will work with the IRS to develop an effective FPLP screen or exemption amount to protect vulnerable taxpayers from levy.

The Offer in Compromise program is a perennial issue in our reports. We continue to advocate for the fundamental importance of this program to a fair and effective tax system. My office will monitor the implementation of the new TIPRA down payment rules,⁴ and I will propose revision of these rules in my next Annual Report to Congress. We are also urging the IRS to issue public guidance on Effective Tax Administration offers that is already being utilized internally and that was drafted in cooperation with my office. I am concerned that the offer program, if not vigorously supported and promoted over the next year, will fall by the wayside, available only to the very few who can afford zealous representation. My office will work to reverse that trajectory, since I believe the virtual demise of the offer program would harm all taxpayers.

It is likely that Fiscal Year 2007 will see the IRS begin using Private Collection Agencies (PCAs) to collect federal tax debts. I have opposed this program from the outset, on the grounds that it compromises taxpayer privacy and taxpayer rights, undermines the integrity and independence of the tax system, and costs more than hiring additional IRS collection employees. Despite our best efforts to protect taxpayers during the development of this initiative, I have no doubt that problems will arise. Thus, in FY 2007, TAS will monitor this initiative closely – with respect to both specific cases and systemic issues – and will immediately share any observations and problems with the IRS and Congress. We will also track the amount of “rework” this initiative creates for the IRS and taxpayers, to help facilitate comprehensive and accurate return-on-investment calculations.

My office continues to work with the IRS on its Taxpayer Assistance Blueprint (TAB). Toward that end, I have met with officials from Canada, the United Kingdom, and Ireland to explore their approaches to taxpayer service. As discussed later in this report, TAS is undertaking several research studies that we believe will provide valuable information to the IRS. This research should help the IRS craft an approach to taxpayer service that meets taxpayers’ individual needs and helps taxpayers move to new modes of taxpayer service delivery if the type of service they currently need is not available or is too expensive to deliver. The TAB has great potential to make IRS taxpayer service the model for all tax systems.

We remain concerned, however, about the Service’s continued bias away from human interaction and toward self-service, both in the taxpayer service and enforcement environments. While self-service and communication through correspondence may make sense and be adequate for many taxpayers, many other taxpayers will not be able to comply unless they receive individualized assistance from a knowledgeable IRS employee either in person or by telephone.

⁴ Tax Increase Prevention and Reconciliation Act of 2005, Pub. L. No. 109-222, § 509, 120 Stat. 345 (2006).

From the standpoint of resources, the IRS's emphasis on lower cost modes like the Internet is understandable. But, if the IRS curtails service delivery through higher cost channels, we may be impacting these taxpayers' ability to comply (unless they can get adequate services somewhere, whether paid or free). Some taxpayers will be able to obtain alternative assistance for some types of problems, but many will not.

Should we care about these taxpayers? Does the IRS have a greater obligation to taxpayers who are dependent on us for service? If so, then we are effectively giving these taxpayers a larger vote in making our resource allocation decisions. This is a critical policy decision that the IRS must make. We have suggested the following as possible criteria for identifying taxpayers who are more dependent on the IRS:

- The Compliance Perspective: Will the taxpayer be unable to comply if he or she doesn't receive a particular service?
- The Burden Perspective: Even where the taxpayer can comply, will the burden of complying be excessive?

TAS will work with the IRS in attempting to answer these questions.

Each year, the National Taxpayer Advocate identifies specific areas of emphasis that she will focus on in the next fiscal year. In addition to the issues highlighted in the next section, we are publishing a study of Refund Anticipation Loans (RALs) in a second volume of this report. In the course of consulting with the IRS on the IRS's congressionally mandated study of the impact of the Debt Indicator on RALs,⁵ TAS identified several areas of concern and developed recommendations beyond the scope of the IRS's study. For that reason, and because I believe the IRS is not adequately addressing the role it plays in facilitating RALs, I am submitting TAS's own report to Congress for review. The report demonstrates that the IRS can do more to speed up and develop alternative methods for the delivery of refunds to taxpayers, while more effectively overseeing the banks and preparers who offer these loans. The Office of the Taxpayer Advocate will continue to advocate for adoption of the report's recommendations during FY 2007.

The balance of this report describes the Taxpayer Advocate Service's activities for the current and next fiscal years, both with respect to its case work and systemic advocacy. On the case advocacy side, TAS is struggling to maintain the high quality service it provides taxpayers who are eligible for its assistance, even while its caseload is quickly expanding and becoming more complex and its case staffing is decreasing. With respect to systemic advocacy, even as we participate more frequently with IRS on joint task forces and teams, we also find

⁵ H.R. Conf. Rep. No. 109-307 (Nov 18, 2005).

the IRS making more decisions on the basis of resources or administrative convenience instead of sound research and long-term planning. This reaction is understandable in a tight budget environment. In many instances, however, taking the time to get the “right” answers saves resources in the long run, both by improving voluntary compliance and reducing expensive rework.

Taxpayers deserve no less from their tax administrators.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Nina E. Olson", with a horizontal line extending to the right.

Nina E. Olson
National Taxpayer Advocate
30 June 2006

AREAS OF EMPHASIS

Section 7216 Regulations Governing the Use or Disclosure of Tax Return Information by Return Preparers

Each year, a significant majority of America's taxpayers pay preparers to prepare their income tax returns for them. These taxpayers should feel confident that the personal information they provide to preparers about their incomes, expenses, family relationships, and the like will be kept in strict confidence. In fact, section 7216 of the Internal Revenue Code generally prohibits return preparers from using tax return information for any purpose other than preparing a return, and from disclosing tax return information to third parties. However, the existing regulations interpreting this statute were written in 1974 – long before anyone contemplated electronic tax return preparation and filing, or the widespread use of offshore persons to assist in preparing U.S. tax returns. These regulations do not provide adequate privacy protection in today's world. Last year, revised regulations under IRC § 7216 were issued in proposed form, and we will continue to encourage the IRS and the Treasury Department to finalize them quickly, with some modifications.

Neither section 7216 nor the existing regulations define the central terms “use” and “disclose.” As a result, the field is wide open for return preparers to decide for themselves what constitutes a use or a disclosure.

Under the existing regulations, a tax return preparer, with taxpayer consent, may *use* tax return information to promote nontax products and services currently offered by the preparer or a member of the preparer's affiliated group. Moreover, with taxpayer consent, a preparer may *disclose* (and even sell) tax return information to anyone. The regulations impose no limitations on this disclosure. And once tax return information is *disclosed* to a third party, the tax code does not limit that party's ability to *re-disclose* the information. The taxpayer may never know how, when, or to whom his personal and confidential information is re-disclosed.

The distinction between “use” and “disclosure” is significant. In the “use” environment, the tax return preparer himself is holding onto information he already has and is using it to evaluate the appropriateness of a product or service for the taxpayer's situation. The taxpayer has agreed to the preparer's use – but not disclosure – of the data, and if the preparer uses the data in a manner that the taxpayer has not agreed to, the preparer may be subject to civil and criminal sanctions. In the “disclosure” environment, on the other hand, the tax return preparer can send tax return information out to any third person on the open market, where the information can be used in any manner whatsoever, without limitation. There is no way that the taxpayer can know in advance how and by whom his tax return information will be used once it is disclosed.

The regulations provide that a taxpayer may waive the privacy protections of IRC § 7216 by granting “consent” to the preparer to use or disclose his personal tax

information. In drafting the proposed regulations and a related draft revenue procedure, the IRS, Treasury, and I wrestled with many competing concerns and points of view, both within and outside the IRS. Ultimately, we agreed to focus on provisions designed to ensure that taxpayers gave *informed* consent – that is, they are clearly informed about what they are being asked to agree to, including the scope, term, and limitations of that agreement. These provisions are very specific, as I described in my testimony before the Senate Finance Committee on April 4, 2006.

Some consumer groups have criticized the proposed regulations for failing to provide strong enough taxpayer protections. In some respects, these groups have a valid point. When the existing regulations were written in 1974, taxpayers primarily paid tax preparers to prepare their tax returns. Today, however, more and more tax preparation businesses view tax preparation merely as a hook to get customers in the door so they can sell them other, more lucrative products. Once tax preparation businesses have a taxpayer's financial information and sit down to discuss taxes with the taxpayer, the businesses often try to persuade the taxpayer to take out a refund anticipation loan (RAL), establish an individual retirement account (IRA) with an affiliate or business partner, refinance a home mortgage with an affiliate or business partner, or purchase some other product. As a result, taxpayers with limited financial sophistication often end up paying high fees for products that are not suitable for them.

When taxpayers are exploited in this manner, public confidence in the integrity of the tax system suffers. That result is bad for the affected taxpayers, of course, and it may also have a negative effect on voluntary compliance. To better protect taxpayers, I believe that taxpayer consent to the use or disclosure of their tax return information should be limited to only those instances where it is necessary for tax-related purposes. The regulations should define what purposes are "tax-related." I do not believe that releasing tax return information for purposes of obtaining a RAL is "tax-related." I do not believe that releasing tax return information to a bank – whether affiliated or unaffiliated with the preparer – to obtain an IRA or mortgage refinancing is "tax-related." In the first instance, the government should provide a method for taxpayers, including the unbanked, to receive the refund of their hard-earned dollars quickly and without charge. In the second instance, the taxpayer should provide his or her own tax information to the financial institution. Any resulting inconvenience would be minor compared to the risk to the tax system of widespread use and disclosure of confidential tax return information.⁶

⁶ The National Taxpayer Advocate supports an exception in the existing regulations that allows return preparers engaged in the practice of law or accounting to use the tax return information of the taxpayer, or disclose the information to other persons in the same firm, to render other legal or accounting services to or for the benefit of the taxpayer. For example, an attorney who prepares a tax return may use the information or share it with another attorney in the firm for the purpose of preparing estate planning documents for the taxpayer. See Treas. Reg. § 301.7216-2(e).

Over the coming year, I will work with the IRS and the Treasury to try to incorporate this and other improvements in the proposed regulations. But I want to emphasize that by virtually any standard, the proposed regulations provide far more protection than the existing regulations. It would be extremely unfortunate if concerns that the proposed regulations don't go far enough end up sinking them, because that outcome would leave the existing regulations intact and the existing regulations are clearly inadequate.

Tax Increase Prevention & Reconciliation Act Of 2005 - Partial Payments With Submissions Of Offers In Compromise⁷

The recent enactment of Section 509 of P.L. 109-223, the Tax Increase Prevention & Reconciliation Act of 2005, has the potential to eliminate offers in compromise as a viable collection alternative for many taxpayers. Enacted on May 17, this provision requires taxpayers who submit "lump-sum" offers to make a down payment of 20 percent of the amount of the offer with any offer submission. By definition, any taxpayer who submits a viable offer based on doubt as to collectibility does not have liquid assets sufficient to fund the offer. For such offers to be accepted by the IRS, a taxpayer must offer the net equity in their assets plus their future income for several years.⁸ Because taxpayers do not have immediate access to future income, they must fund their offers with loans, gifts or assets that the IRS would not otherwise be able reach, and which may be costly to access. Thus, we expect that requiring taxpayers to make such nonrefundable payments will reduce the number of viable offers the IRS receives, increase the number of accounts not resolved, and reduce the amount of revenue collected.

In addition, the legislation will encourage taxpayers to submit low-ball offers, which would require a lower down payment. The IRS might well respond by rejecting the offers or not processing them, so that no significant dialog takes place.⁹ The Joint Committee on Taxation estimated that the OIC legislation would raise \$715,000,000 through 2010 and \$1,955,000,000, almost two billion, through 2015.¹⁰ The National Taxpayer Advocate is concerned that the legislation will have a dramatically different outcome. We believe that the IRS's existing processes, which do not result in many accepted offers, are leaving dollars on the table, and are concerned that the legislation, which erects another

⁷ H.R. 4297, Tax Increase Prevention and Reconciliation Act of 2005 (Enrolled as Agreed to or Passed by Both House and Senate), Sec. 509.

⁸ The number of years varies based on the payment term: four for cash offers, five years for short term deferred payment offers, or the period remaining before expiration of the statute of limitations period for collection for deferred payment offers. See Form 656, *Offer In Compromise*, 6 (Rev. 7-2004).

⁹ However, IRC § 7122(c)(3)(A) provides that an offer cannot be rejected solely on the basis of the amount offered.

¹⁰ See Joint Committee on Taxation, *Estimated Revenue Effects of The Conference Agreement for The "Tax Increase Prevention and Reconciliation Act of 2005,"* JCX-18-06 (May 9, 2006), available at <http://finance.senate.gov/sitepages/leg/leg050906rev.pdf>.

barrier to the submission and rapid acceptance of reasonable offers, is likely to reduce collections as it further reduces the number of reasonable offers submitted and accepted. The National Taxpayer Advocate is also concerned that the legislation will be difficult if not impossible for the IRS to implement effectively within 60 days of enactment, as is required by law. We expect to work with the IRS to implement the legislation and to analyze its effects on OICs in FY 2007.¹¹

Non-Hardship Effective Tax Administration Offer Guidance

Another OIC challenge for the IRS will be its final adoption and implementation of guidance used to evaluate offers based on so-called “non-hardship” effective tax administration (ETA). In 1998, Congress authorized the IRS to compromise tax debts based upon factors such as equity, public policy, and hardship in cases where doing so would promote the effective administration of the tax laws.¹² The IRS had so much difficulty determining when, if ever, to use this authority that it accepted only a single non-hardship ETA offer in FY 2004.¹³

During 2004, TAS worked with SB/SE and Appeals to develop guidance regarding when the IRS should accept non-hardship ETA offers.¹⁴ As a result of those meetings, SB/SE drafted unsigned and unpublished internal guidance.¹⁵ The small group of SBSE employees in Austin, Texas, which is supposed to evaluate every non-hardship ETA offer for Collection, has been using the unpublished guidance since November 2004.¹⁶ As a result, the group accepted 30 non-hardship ETA offers in FY 2005.¹⁷

The National Taxpayer Advocate is concerned that if this guidance is not made public, eligible taxpayers and their representatives will be unable to avail themselves of nonhardship ETA relief, moreover, if the guidance is not distributed widely and accompanied by training, IRS employees who screen

¹¹ For additional discussion of the IRS offer in compromise program, see IRS Collection: Early Intervention and Utilization of Collection Payment Alternatives *infra*.

¹² H.R. Conf. Rep. No. 599, 105th Cong., 2nd Sess., 289 (1998).

¹³ See Government Accountability Office, GAO-06-525, *IRS OFFERS IN COMPROMISE: Performance Has Been Mixed; Better Management Information and Simplification Could Improve the Program* 34 (Apr. 2006).

¹⁴ The National Taxpayer Advocate also proposed legislation in her 2004 Annual Report to Congress, which would have provided more detailed guidance regarding when the IRS should accept non-hardship ETA offers. National Taxpayer Advocate 2004 Annual Report to Congress 433 (Key Legislative Recommendation: Effective Tax Administration).

¹⁵ Memorandum from Cheryl Sherwood, Director, Collection Policy to Directors, Collection Area Operations, Director, Compliance Services Campus Operations, Subject: Non-Hardship ETA (Nov. 2004).

¹⁶ The guidance was revised in 2005. SB/SE, Offers In Compromise, Additional Guidance Regarding the Use of “Non-Hardship” Effective Tax Administration OICs (Sept. 2005).

¹⁷ Government Accountability Office, GAO-06-525, *IRS OFFERS IN COMPROMISE: Performance Has Been Mixed; Better Management Information and Simplification Could Improve the Program* 34 (Apr. 2006).

offers may not be able to identify those potentially acceptable offers that need to be referred to the ETA group. TAS will work with the IRS to try to ensure that the guidance is published and training is delivered to all appropriate employees so that they can identify potentially acceptable non-hardship ETA offers and refer them to the group in Austin for consideration.

Private Debt Collection

We continue to engage the IRS as it moves forward with the implementation of its Private Debt Collection (PDC) initiative. Private collectors will soon begin to work on IRS accounts after delays attributable to procurement protests lodged against the IRS by potential contractors.¹⁸ Despite the fact that private collectors would have begun work in January of 2006 were it not for these challenges to the procurement process, we are still engaged in discussions with the IRS on the fundamental aspects of the design of the initiative.

Suitability of Certain Cases for Private Collection Work

The IRS has acknowledged that certain types of cases are not suitable for work by private collectors. Thus, cases that must be resolved through the exercise of governmental discretion, such as offers in compromise, are not eligible for assignment to private collectors.¹⁹ Similarly, cases in which the IRS is already using its levy powers against taxpayers' income such as continuous levies on Social Security income, under the Federal Payment Levy Program, are excluded from assignment to private collectors.²⁰ To have private collectors contacting taxpayers whose income is already being levied by the IRS would be inconsistent with the purposes underpinning the private debt collection initiative.²¹ Indeed, the Commissioner of Internal Revenue testified before Congress that:

¹⁸ See Statement of Internal Revenue Service Commissioner, Mark W. Everson, Before the Subcommittee on Oversight of the House Committee on Ways and Means, FY 2007 Budget Request (April 6, 2006), referring to two procurement challenges and addressing the progress of the initiative. The first procurement challenge resulted in a withdrawal of the initial Request for Quotations and the issuance of a second Request for Quotations in October of 2005. See Request for Quotations, TIRNO-05-Q-00187 (2005).

¹⁹ IRC § 7122 allows taxpayers to settle their tax liabilities for less than the amount is owed under certain circumstances. See Request for Quotations, ¶ J.4.4.7 (2005), requiring private collectors to return cases to the IRS when a taxpayer submits an offer in compromise.

²⁰ For a discussion of additional issues pertaining to the Federal Payment Levy Program and levies on Social Security benefits, see Integrating Advocacy: Federal Payment Levy Program, Trends in TAS Case Closures, and Systemic Burden Receipts: Compliance Issues, *infra*.

²¹ See Testimony of Internal Revenue Service Commissioner Mark W. Everson, before the Subcommittee on Oversight of the House Committee on Ways and Means, Private Debt Collection (May 13, 2003), where the Commissioner indicated that *the purpose of the initiative was to allow private collectors to reach accounts that the IRS could not*, noting:

PCAs would allow the IRS to address efficiently a significant portion of *currently inactive* inventory. The cases the IRS would refer to PCAs are those where the taxpayer would likely pay the outstanding tax liability if contacted by telephone.
[italics added.]

The IRS would not refer to [Private Collection Agencies] PCA cases for which there is any indication that enforcement action would be required to collect the tax liabilities. The IRS also would not refer any case that likely would require IRS expertise or the exercise of discretion.²²

The IRS now anticipates that in certain instances private collectors will work cases on which the IRS has existing levies under the Federal Payment Levy Program (FPLP) (which includes levies on Social Security) and other automated levy programs.²³ The IRS maintains that while its data systems can exclude accounts with *existing* levies from private debt collection inventory, it cannot easily exclude or *automatically recall* cases where a levy is imposed after the accounts have been assigned to private collectors. Consequently, we asked the IRS to manually recall cases from private collectors whenever the affected taxpayer makes it known (either to the IRS or to the private collector) that there is already a levy on his or her income. To date, the IRS has declined to establish such a policy. Instead, the IRS argues that taxpayers will actually benefit from involvement of private collectors because it is hoped that the contact will result in a release of the levy and an installment agreement with the taxpayer.²⁴

We will continue to engage the IRS on this issue. We understand that there may be systems challenges, but we continue to believe that the best practice is to exclude at the outset either any case that *may* be subject to FPLP from the PCA initiative, or any PCA case from the FPLP initiative. Absent this up-front screening, a recall policy for such cases would be consistent with the IRS's policy of excluding cases with active levies from private collection inventory and would

²² Testimony of Internal Revenue Service Commissioner, Mark W. Everson, Before the Subcommittee on Oversight of the House Committee on Ways and Means, Private Debt Collection (May 13, 2003).

²³ IRC § 6331(h)(2)(A) authorizes the IRS to issue continuous levies on federal disbursements, including certain components of Social Security income such as payments under Old Age, Survivors and Disability Insurance (OASDI) of the Social Security Act (42 U.S.C.A. 1302 *et seq.*). The IRS's other automated levy programs include the State Income Tax Levy Program and the Alaska Permanent Dividend Fund Levy Program.

²⁴ In February of 2006, the National Taxpayer Advocate issued a Proposed Taxpayer Advocate Directive (Proposed Taxpayer Advocate Directive 2006-1-P) seeking to alter certain aspects of the PDC initiative's design. The National Taxpayer Advocate issues a Taxpayer Advocate Directive to mandate administrative or procedural changes to improve the operation of a functional process or to grant relief to groups of taxpayers (or all taxpayers) when implementation will protect the rights of taxpayers, prevent undue burden, ensure equitable treatment, or provide an essential service to taxpayers. IRM 1.2.2.11.3. The IRS responded to the Proposed Taxpayer Advocate Directive, and addressed the Taxpayer Advocate Service's position with respect to FPLP levies, as follows:

Allowing PCAs to work with taxpayers with FPLP [Federal Payment Levy Program], SITLP [State Income Tax Levy Program], and Alaska Fund levies will be beneficial to taxpayers. In these cases, PCAs will assist taxpayers in resolving the situation, which will result in a levy release if an installment agreement is obtained. Memorandum from the Commissioner of the Small Business Self-Employed Division to the National Taxpayer Advocate Regarding Proposed Taxpayer Advocate Directive 2006-1 (March 28, 2006).

be consistent with the initiative's goal of assigning to private collectors those cases in which the IRS has not been able to achieve payment.²⁵ Moreover, by allowing private collectors to pursue installment agreements on accounts in which the IRS is already obtaining payment through the levy process, the IRS is paying commissions to private collectors for work that IRS employees have already performed.

Most important, we do not believe it is appropriate for private collectors to pursue taxpayers who are already under existing FPLP levies, some of whom will be elderly taxpayers receiving Social Security payments.²⁶ Under the current FPLP program, levies are indiscriminate in as much as the IRS does not employ any type of screen to assess the appropriateness of levies on this vulnerable segment of the population.²⁷ Many of these taxpayers are able to find their way to the Taxpayer Advocate Service (TAS), which has experienced a recent increase of 165 percent in FPLP cases involving levies on Social Security benefits.²⁸ When TAS intervenes on behalf of taxpayers whose Social Security benefits are being levied, the IRS often reverses its decision about the appropriateness of the levy, granting taxpayers full relief.²⁹ Thus, FPLP levies often cause taxpayers hardship and IRS re-work. Private collectors should not be needlessly introduced into what is already a troubled initiative. Relief for these taxpayers usually requires the exercise of governmental discretion (which private collectors are not permitted to exercise) and years of training (which private collectors will not receive). The IRS should reverse its decision to allow private collectors to attempt collection from taxpayers already subject to FPLP levies.

RESEARCH INITIATIVES

The National Taxpayer Advocate has been a strong advocate for the role of theoretical, cognitive, and applied research in effective tax administration. Accordingly, the Office of the Taxpayer Advocate is sponsoring or participating in several research initiatives. Taken as a whole, these initiatives demonstrate how

²⁵ The IRS acknowledges that cases with existing continuous levies should not be worked by private collectors. Yet, in cases where the levy is made after the assignment to the private collector, the IRS believes taxpayers will be benefited by contact with private collectors. We cannot reconcile these inconsistent positions.

²⁶ Over the last four years, 84 percent of FPLP levies have been against Social Security benefits. IRS, Wage and Investment Division Information Request, September 28, 2005.

²⁷ We addressed the need for appropriate screens in the FPLP in the 2005 Annual Report to Congress. National Taxpayer Advocate 2005 Annual Report to Congress 123.

²⁸ When comparing the first 7 months of FY 2006 with the same period in FY 2005, FPLP cases involving levies on Social Security benefits increased 165 percent in TAS. From October 2004 through April 2005, TAS received 711 cases with FPLP levies on Social Security benefits as compared to 1,886 cases over the same period in FY 2006. Taxpayer Advocate Information Management System, comparing FY 2005 (Oct. through April) with FY 2006 (Oct. through April).

²⁹ During the period of October through April in FY 2006, TAS received 1,886 FPLP cases involving levies on Social Security benefits. In over 63 percent of those cases, taxpayers received full relief from the FPLP levy with another 7 percent receiving partial relief. Taxpayer Advocate Information Management System, FY 2006 Data (Oct. through April).

research can increase the effectiveness of both taxpayer service and enforcement initiatives and aid the IRS in increasing *voluntary* compliance.

Taxpayer Assistance Blueprint

Acknowledging the impact of taxpayer service on compliance, Congress directed the IRS, the IRS Oversight Board, and TAS to develop a five-year plan for taxpayer service including strategic and quantitative long-term goals that balance enforcement and service. Representatives from TAS research are working with the Taxpayer Assistance Blueprint (TAB) team to review existing research and to develop and implement a research plan. Our goal is to ensure that IRS customer service plans are based on a thorough understanding of the needs and preferences of our diverse taxpayer population.

The TAB team recently completed Phase I, during which we gathered both primary and secondary data about taxpayer needs and preferences.³⁰ We also collected some information about our current level of service offered to taxpayers. From this and other information, we developed five themes that we believe will improve service to taxpayers. In Phase II we will validate those themes by collecting more primary source data and by analyzing how well our current level and type of service actually serve different taxpayer segments. Examples of Phase II projects include:

- **Benchmark Survey of Taxpayers** – The IRS will survey 40,000 taxpayers to develop their stated needs, expectations, and preferences for receiving tax-related information and service. This survey will assist in developing a baseline against which to measure future needs and

³⁰ Examples of research performed or referenced during Phase I analysis included: Internal Revenue Service, *IRS Oversight Board, 2005 Taxpayer Attitude Survey*, 2005; Internal Revenue Service, JOC, Enterprise Telephone Database (ETD), *Snapshot Report - Product Line Detail* (Enterprise Performance), Week Ending: September 30, 2005; Internal Revenue Service, Joint Operations Center (JOC), *Internet Refund Fact of Filing (IRFOF) FY 2003-FY 2005*; Internal Revenue Service, Multilingual Initiative, *2005 Limited English Proficient Needs Assessment*, December 8, 2004-April 30, 2005; Internal Revenue Service, Multilingual Initiative, *Hispanic Language/Ethnic Islands Data and their Implication on Tax Administration*, Hispanic Language/Ethnic Islands Profile, Project 2-04-16-2-043E, Final Report, Wage and Investment Research Group 2; Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Employee Focus Groups*, November-December 2005; Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Partner Stakeholder Surveys*, November-December 2005; Internal Revenue Service, Taxpayer Assistance Blueprint Interview with Bob Weinberger, H&R Block, January 13, 2006; Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005; Internal Revenue Service, Wage and Investment, *Strategic Forecasting and Analysis, Cohort Marketing May Assist W&I in Understanding and Catering to Taxpayers in the Future*, May 2002; Internal Revenue Service, WebTrends Reporting System, FY 2003-2005; Kaye, H. Stephen, "Computer and Internet Use Among People with Disabilities," *Disability Statistics Report 13, United States Department of Education, National Institute on Disability and Rehabilitation Research*, March 2000; MITRE Corporation, *Citizens' Service-Level Expectations Final Report Version 1.1*, November 8, 2005.

preferences. The large sample will allow for the development of a baseline of taxpayers who have contacted the IRS and those who have not. This will provide the IRS with information on the needs and preferences of current and potential taxpayer services users.

- **Conjoint Analysis II** – IRS will provide support and coordination for Pacific Consulting Group (PCG) to field an expanded conjoint survey that will permit respondents to record their preferences among a larger mix of services, channels and attributes. This type of survey helps IRS understand what really drives customers to choose one service over another and understand what customers really value.
- **Paid Preparer Survey** – Wage and Investment (W&I) will engage in a systematic data collection effort to define how to better meet the needs of intermediaries within the tax process. To determine how to best help intermediaries serve taxpayers, W&I will solicit strategic and tactical recommendations from organizations of paid preparers, accountants, and bookkeepers and test these findings against results from its benchmark survey.
- **Behavior Testing Lab** – This project will measure the accuracy of sample tax returns prepared by several focus groups of taxpayers with and without access to IRS taxpayer services. It will provide an estimate of the impact of service on compliance. (Update of Price Waterhouse 1989 study)
- **Oversight Board Service Channels Survey** – This random phone-administered survey of 1,000 taxpayers, sampled to reflect the diverse national population, will help IRS develop a better understanding of service needs and service channel choices by demographic factors such as income level, geographic location, and language abilities. (May 2006)
- **The Impact of TAS Programs on Compliance** – This project will identify taxpayers who used Taxpayer Advocate Services in a particular fiscal year. Using this group as a test group, we will measure subsequent filing, payment, and reporting compliance of these taxpayers. The control group will be a random sample of taxpayers who had similar issues on their returns, but did not use TAS services during the same year. The comparison of the two groups' compliance rates could show the value of services to future taxpayer compliance.
- **The Compliance Impact of Preparer, IRS and self-Prepared Returns** – This project will divide all returns processed into different groups based on who prepared the return: self-prepared, practitioner prepared, IRS prepared, software prepared, and other options. The analysis will

evaluate if the average reporting, filing and payment compliance among these groups are significantly different.

Phase II is scheduled for completion in late 2006. TAS research will define its continuing role in the TAB process at the completion of Phase II.

One deficiency in the TAB is its narrow focus on taxpayer service as a separate pipeline, instead of an *approach* integrated into all aspects of tax administration, including enforcement initiatives. Thus, while the IRS on the taxpayer service side is exploring the impact on taxpayers of reducing or expanding face-to-face, telephone, or self-assistance, it is moving forward in the collection arena with reducing the number of notices and personal contacts with the taxpayer prior to taking enforcement action. By failing to integrate taxpayer service into enforcement, the IRS will not increase voluntary compliance and will ultimately have to undertake more costly enforcement actions.

Abusive Tax Schemes: The “Tipping Point” Study

TAS is sponsoring research conducted by the Office of Program Evaluation and Risk Analysis (OPERA) to identify and potentially supplement what the IRS is doing to detect and combat emerging abusive tax schemes, such as abusive tax shelters, and the slavery reparations scheme. The research study is divided into two phases.

The objective of Phase I, which is complete, was to identify the approaches, processes, and procedures developed or implemented by the IRS that:

- Enable early identification of abusive tax avoidance schemes; and
- Enable the IRS to mitigate the impact of these schemes before they proliferate.

The end product of Phase I was a comprehensive inventory of IRS activities in these areas.³¹

Phase II builds upon the taxonomy of schemes developed in Phase I. The goal of the first effort in Phase II was to explore the feasibility of using data mining – a tool employing statistical modeling, neural networks, and other machine learning techniques – to provide insights into abusive schemes. We limited the scope of the study to home-based business and claim of right schemes.³²

³¹ *The Tax Gap and Tax Shelters: Hearing Before the Committee on Finance*, U.S. Senate, 108th Cong (Jul. 21, 2004) (Testimony of Nina E. Olson, National Taxpayer Advocate)..

³² In claim of right schemes, taxpayers typically claim that wages are not taxable and take a deduction for the full amount of their wages.

Analyses provided insights into characteristics of participants in these tax-avoidance schemes, which might be useful in constructing a filter that could be used on tax return data to identify possible scheme participants.

OPERA also engaged a contractor to create a behavioral model of participants in abusive schemes. Agent based modeling³³ was used to simulate taxpayer behavior in social networks – specifically, the model simulated the spread of information about the scheme and taxpayers' decisions to participate or not participate. A model was developed to simulate the dissemination of the home-based business scheme in two U.S. cities and a trusts scheme in a third city. Results are promising, as the model was able to accurately represent the underlying populations of the three cities and dissemination appeared to occur in a reasonable fashion (*i.e.*, in accordance with our expectations). The model also facilitated “what if” analysis. Variables can be changed, and the model can be rerun to test the impact of the changes on results. For example, the modeler may introduce an IRS intervention strategy, such as an outreach program, and then rerun the simulation to see what impact the intervention has on scheme dissemination.

We are currently exploring ways to validate model results against actual outcomes for one or more schemes. Our goal is to complete a trial validation by the end of March 2007.

Downstream Impact of Operating Division Initiatives

TAS is conducting a study to determine how operating/functional division activities generate workload for TAS. TAS is collaborating with the Wage and Investment (W&I) and Small Business/Self-Employed (SBSE) division research functions on the review of study methodology and deliverables.

The downstream-impact analysis entails breaking down the TAS case workload into components and analyzing the relationship between each component and operating/functional division workload and activities. In addition to analyzing ongoing activities, such as typical collection and examination programs, we are studying several new initiatives such as the Revenue Protection Strategy audits and the Criminal Investigation Division (CID) Fraud Detection Program refund freezes, to see if their impact changes over time as the operating divisions make adjustments to handle the new workload. TAS Research completed a profile of the TAS workload to facilitate the analysis, and subsequently developed

³³ The contractor is using a multi-agent network modeling package called Construct to simulate taxpayer behavior in social networks. To begin a simulation, Construct creates numerous “agents,” each with its own internal program logic dictating its behavior. Each agent represents an individual taxpayer or other entity, such as a promoter seminar or IRS intervention strategy. During each time interval agents interact with one another, exchanging information and making decisions (such as a decision to participate in a scheme) based on their internal decision logic and new information they acquire during the exchange.

preliminary models of the ten largest categories of TAS receipts. Collectively these categories comprise more than fifty percent of the TAS workload. We plan to aggregate the remaining categories into a small number of groups for which we will develop additional models. W&I Research and SB/SE Research will review and comment on all the models developed by TAS Research. The target completion date for the study is December 2006.

The Impact of Representation on the Outcome of EITC Audits

Although the tax year 1999 Earned Income Tax Credit compliance study indicated that a significant proportion of claimants have historically not been entitled to the EITC,³⁴ the National Taxpayer Advocate believes that the study overstated the overclaim rate because it relied exclusively on the outcome of EITC audits. TAS data suggests that audit outcomes are frequently incorrect and a significant number of entitled taxpayers are denied the credit in error.³⁵ Evidence also suggests that represented taxpayers fare considerably better than unrepresented taxpayers in the tax controversy dispute resolution process.³⁶ TAS therefore partnered with the IRS Office of Research in FY 2004 to design a study to evaluate the impact of representation on the ultimate outcome of EITC audits.

The original study plan called for tracking the results of the National Research Program (NRP) EITC audits of tax year 2001 returns. However, TAS has recently revised its plan to use historic data for tax year 2002 EITC audit outcomes instead. Tax year 2002 EITC audits are sufficiently current to reflect the significant tax law changes affecting EITC, but generally enough time has also elapsed for a final determination of the audit outcome, including the effect of administrative appeals and subsequent litigation.

The goal of the study is to determine if representation in an EITC audit increases the likelihood of a favorable outcome. Specific objectives for this study include:

³⁴ Internal Revenue Service, *Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns* (Feb. 28, 2002).

³⁵ In FY 2002, TAS closed 30,554 cases involving EITC Revenue Protection Strategy examinations, which represent eight percent of total FY 2002 EITC correspondence examination closures. In more than 50 percent of these cases, the IRS ultimately agreed to a change in the examination result. In FY 2005, TAS closed 10,705 cases involving EITC Revenue Protection Strategy examinations including audit reconsiderations. In more than 50 percent of these cases, the taxpayer received full or partial relief.

³⁶ As reported in the National Taxpayer Advocate's 2002 Annual Report to Congress, 26 percent of represented taxpayers prevailed in cases before the U.S. Tax Court, while only 15 percent of *pro se* taxpayers prevailed. National Taxpayer Advocate 2002 Annual Report to Congress 253. As reported by the National Taxpayer Advocate in her 2005 Annual Report to Congress, 29 percent of represented taxpayers prevailed in whole or in part in cases before the U.S. Tax Court, while only 14 percent of *pro se* taxpayers prevailed in whole or in part. National Taxpayer Advocate 2005 Annual Report to Congress 473.

- Determine if taxpayers with representation in EITC audits are more likely to be determined eligible for EITC (and to have a higher no-change rate) than those without representation in EITC audits.
- Determine if taxpayers with representation retain a greater proportion of the EITC originally claimed than taxpayers without representation. (Measuring the proportion retained will help guard against the bias of one group claiming more EITC than the other.)
- Determine if the tax recommended for taxpayers with representation in EITC audits is less than the tax recommended for taxpayers without. (This measure will allow for an analysis of the effect of representation on related issues, i.e., filing status, which EITC audits also examine).
- Determine the extent of the effect (measured by a regression analysis of EITC dollars reduced by audit) of representation on the outcome of EITC audits.
- Compare return and other demographic characteristics of the EITC audit population with representation to those without representation to control for possible bias.

We will use data from IRS computer systems to compare outcomes for a sample of taxpayers with representation to outcomes for a control group of taxpayers without representation. The target completion date for the audit outcome portion of the study is December 2006, but some results for cases in Appeals or litigation may not be available for reporting.

Identifying EITC Taxpayer Customer Service Needs

This research study is being conducted in collaboration with the EITC Project Office and the Wage and Investment Division Research function. The goal is to collect information from EITC taxpayers to enable the IRS to better understand their customer service needs. The proposed research entails developing and administering a survey to EITC taxpayers to identify their information needs (e.g. tax law questions, return preparation assistance.), and how effectively the Taxpayer Assistance Centers (TACs), IRS telephone assistance, the Internet, IRS publications, and other taxpayer service options are meeting these needs. The survey will also include questions on customer attitudes concerning usage of personal computers, bank accounts, and direct deposit of refunds.

This research initiative is being conducted in two phases. In the first phase, which is almost complete, we conducted focus group sessions with EITC claimants to determine and describe the most relevant EITC customer service issues. These results served as the basis for the design of an appropriate survey

instrument, which should be completed shortly. In the second phase, we will send the survey to a representative sample of all EITC claimants to obtain quantifiable results on their views of the surveyed items. TAS will use the survey results to recommend potential improvements in EITC customer service. The target date for study completion is November 2006.

Identifying EITC Correspondence Audit Barriers

This research study is being conducted in collaboration with the EITC Project Office and the Wage and Investment Division Research function. The goal of the study is to identify the most significant barriers that taxpayers encounter during the EITC correspondence audit process by seeking feedback from taxpayers who have undergone EITC correspondence audits.

In the first phase, trained IRS moderators conducted focus groups with Low Income Taxpayer Clinic (LITC) representatives who have assisted taxpayers undergoing EITC correspondence audits. These interviews were designed to obtain qualitative data concerning the significant problems taxpayers encounter during the correspondence audit process.

We are developing a survey based on the focus group results, which we will administer to a representative sample of taxpayers who have recently experienced EITC correspondence audits to quantify the impact these barriers have on taxpayers. TAS will use the survey results to recommend potential improvements to the EITC correspondence audit process. Study results should be available by March 2007.

DISASTER RELIEF/BUSINESS RESUMPTION PLAN

Probably the last thing a person or a business worries about during a disaster is taxes. Yet taxes – or more specifically tax return information – are exactly what many disaster victims need to know in the aftermath of a disaster. During 2005 the US experienced three major disasters: Hurricanes Katrina, Rita, and Wilma, and thousands of taxpayers were overwhelmed by significant and uncommon issues.

On a National level, the IRS and TAS immediately responded to the major disasters in 2005 by addressing several taxpayer questions and concerns including: where are my records; what records do I need; what records can I use to start loan, insurance, and other reimbursements or subsidies; how can I verify who I am; how can I reconstruct records; what filing deadlines have I missed; how can I complete complicated amended return computations to show my casualty loss; what do I do if I am in the middle of an IRS audit or enforced collection action; what do I do if I need money from my automatic installment agreement to pay for basic living expenses; where is my refund; and will my government help by enacting special laws?

At the State level, many Local Taxpayer Advocates are members of the IRS Stakeholder Relationship Management Council (SRMC). The SRMC serves as a local focal point to assemble personnel needed to staff FEMA sites, assist with Taxpayer Assistance Center walk-in requests, and work hardship cases.

In response to the turmoil caused by natural disasters in 2005, TAS implemented the following initiatives and processes:

- Electronic Newsletters - TAS provided disaster updates, information, and questions and answers for inclusion in TAS communication vehicles such as Special Editions, Wednesday Weekly, and Managers Forum.
- Low Income Taxpayer Clinic/American Bar Association Partnership. TAS entered into a partnership with the American Bar Association (ABA) and embarked on a strategy to ensure adequate representation in tax matters for disaster victims:
 - Established an ABA toll-free number for disaster victims to use for assistance. The ABA set up and paid for the 800 number, which automatically routed calls to the appropriate Low Income Taxpayer Clinic (LITC).
 - Developed a Disaster Training Module that was delivered via a telephone forum for volunteer ABA members and LITC participants.
 - Paired ABA volunteers with LITCs.
- Small Business Development Center Support - TAS Offices in Cincinnati, Houston, and Fresno were set up to expedite the process of obtaining tax return information that taxpayers needed to apply for a disaster loans from the Small Business Development Center.

Additionally, TAS participated in the IRS Disaster Policy Group. This group worked with the IRS operating divisions to provide immediate relief to taxpayers from payment and filing obligations; and reviewed IRS processes to mitigate taxpayer impact and ensure continued compliance with the tax laws.

While TAS successfully navigated the challenges of 2005 and will build on those successes, we will be more proactive in our disaster preparedness efforts in future years. In FY 2007, we plan to:³⁷

³⁷ In addition to direct support provided to taxpayers, TAS will undertake several internal actions to improve its ability to respond to disasters. These actions include providing more comprehensive guidance to the field on how Headquarters will assist and aid in the local disaster response; developing more comprehensive strategies around resuming TAS critical processes; strengthening the national unity of command and incident reporting process; working with the IRS

- Maintain our working partnership with the ABA to provide a rapid response in the event of a new disaster;
- Continue to provide training to our employees on disaster issues and update the training modules specifically to address each individual disaster as they occur;
- Use the Taxpayer Advocate Management Information System (TAMIS) to monitor TAS disaster-related cases;
- Advocate for the establishment of an IRS standing committee on disaster relief; and
- Utilize “lessons learned” to create practice projects, which can be rapidly placed into action in the event of a disaster.

INTEGRATING ADVOCACY

Office of Systemic Advocacy

The National Taxpayer Advocate assigned the Office of Systemic Advocacy (SA) the responsibility of identifying and resolving systemic problems within the IRS to improve tax administration and protect taxpayers’ rights. These issues affect specific segments of the taxpayer population and may pertain to businesses, individuals, or non-profit entities. SA works directly with the IRS on problems caused by administrative practices. Operational priorities in FY 2007 for SA are contained in Appendix V.

TAS directors, technical and field analysts, attorney advisors, and Local Taxpayer Advocates (LTAs) work throughout the year on advocacy issues, projects, and task forces which may ultimately be treated as Most Serious Problems in the Annual Report to Congress (ARC) if the elevated issues are not resolved timely. The newly created Director of Immediate Interventions and Director of Advocacy Projects³⁸ manage dozens of advocacy projects, as well as the numerous IRS Joint Task Forces on which SA personnel participate.³⁹ The

Mission Assurance Organization to test the effectiveness of the TAS Business Resumption Plan in concert with the other operating divisions; ensuring each TAS office has a viable Business Resumption Plan (BRP); maintaining copies of all local BRPs at Headquarters; and systematically capturing lessons learned.

³⁸ See Appendix III for discussion of active Joint Task Forces.

³⁹ The Office of Systemic Advocacy realigned itself in Fiscal Year 2005 under two directors, the Director of Immediate Interventions and the Director of Advocacy Projects. The staff under the Director of Immediate Interventions works those projects which require immediate changes to IRS practice or procedure to alleviate systemic harm caused to taxpayers. The staff under the Director

Director of Advocacy Projects also supports LTAs with their advocacy portfolios.⁴⁰

Advocacy Portfolios

Local Taxpayer Advocates maintain advocacy portfolios to bring the field perspective to national advocacy issues, thereby integrating case advocacy⁴¹ and systemic advocacy⁴². The LTAs use their expertise and field contacts to promote awareness and rapid correction of systemic problems in IRS offices and campuses. As portfolio advisors, they maintain a knowledge level and monitor the progress of their portfolios in coordination with the Director of Advocacy Projects and their Area Directors.

Advocacy Issues

Some of the issues warranting particular focus and emphasis in FY 2007 are:

- Private Debt Collection;
- Criminal Investigation Refund Freezes;
- Collection – Early intervention and Availability of collection payment alternatives;
- Federal Payment Levy Program;
- Injured Spouse Claims; and
- Relief from Joint and Several Liability.

Criminal Investigation Refund Freezes

In the National Taxpayer Advocate's 2005 Annual Report to Congress, we described our study of Criminal Investigation's Questionable Refund Program (QRP), which is the IRS's program to combat fraudulent refund claims.⁴³ The study was conducted as a result of the large volume of TAS cases in which the primary issue was a complaint about delayed refunds, and a dispute between TAS and Criminal Investigation (CI) as to the percentage of innocent taxpayers whose refunds are frozen.⁴⁴

of Advocacy Projects works those projects which involve systemic problems caused by IRS practice and procedure.

⁴⁰ See Appendix VI for a complete listing of these portfolio assignments.

⁴¹ Case Advocacy utilizes statutory and delegated authorities granted to the National Taxpayer Advocate to assist individual taxpayers who are experiencing or are about to experience a significant hardship. National Taxpayer Advocate Fiscal Year 2003 Objectives Report to Congress 11.

⁴² Systemic Advocacy identifies, analyzes, and prescribes treatments for the broad procedural or operational problems that negatively impact upon taxpayers. National Taxpayer Advocate Fiscal Year 2003 Objectives Report to Congress 4.

⁴³ National Taxpayer Advocate 2005 Annual Report to Congress 25-54.

⁴⁴ In FY 2005, TAS received 28,639 CI frozen refund cases, as compared to 15,118 cases in FY 2003. *Id.* at 31.

When CI makes a determination that a refund claim is fraudulent, it places the claim in a frozen status. Generally, in FY 2005 taxpayers whose claims were placed into frozen status were not informed about the IRS's decision to freeze their refunds about CI's determination that they had committed fraud, and were not given the opportunity to come forward with evidence to rebut the allegation of fraud.⁴⁵ Moreover, taxpayers who called to inquire about their delayed refunds were told to call back in 180 days.⁴⁶ We considered the lack of basic procedural protections within the QRP as even more troubling in light of the results of a statistically representative sample of TAS's frozen refund CI cases, which showed that:

- Of the decided cases in the TAS-CI sample, 66 percent of the taxpayers whose accounts were frozen were ultimately given full refund relief by CI.⁴⁷
- The median Adjusted Gross Income (AGI) of those whose refunds were frozen was \$13,330 and the median refund received was \$3,519, indicating the taxpayers were in a low economic stratum and needed their refunds.⁴⁸
- Nearly 75 percent of the taxpayers with frozen refunds claimed the Earned Income Tax Credit (EITC), and ultimately a majority of these taxpayers received the claimed EITC benefits.⁴⁹

As a result of the study, the IRS agreed to dramatically alter the QRP procedures. Taxpayers with CI-related frozen refunds will be given the following protections:

- CI will automatically notify the taxpayer when it places a refund in freeze status;
- At the point when CI has reviewed the refund claim but cannot substantiate the taxpayer's claim, CI will issue a second notice to the taxpayer requesting that the taxpayer contact CI with evidence substantiating the refund claim;
- When the IRS is not satisfied with the taxpayer's efforts to substantiate the claim or the taxpayer makes no such effort, either a notice of disallowance will be sent to the taxpayer or deficiency procedures through IRS

⁴⁵ National Taxpayer Advocate 2005 Annual Report to Congress 37.

⁴⁶ *Id.* at 36.

⁴⁷ *Id.* at 26.

⁴⁸ *Id.*

⁴⁹ National Taxpayer Advocate 2005 Annual Report to Congress, Vol. II, at 10.

Examination function will be utilized, depending on the components of the refund claim;

- Taxpayers whose refund claims are subject to a freeze generally will no longer be subjected to automatic freezes on future refund claims; and
- In no event will CI's handling of the frozen refund last longer than 70 days, such that if CI takes no action within 70 days or does not complete its intended action within 70 days, the refund will be automatically released.

During the 2006 filing season, most of these reforms were in the design phase, in large part because CI has to undertake dramatic and comprehensive changes to its business processes. While CI case receipts increased by 23 percent in TAS from FY 2005 to 2006, TAS has experienced a 39 percent increase in case resolution as outlined below:

CI Cases Cumulative through March	Receipts	Closures
FY 2005	11,999	12,604
FY 2006	14,793	17,563
% Change	23.28%	39.34%

TAS, CI, and the other operating divisions continue to work together to improve the QRP process. The National Taxpayer Advocate is a member of the QRP Executive Steering Committee, which meets weekly to oversee the improvements to the QRP. TAS understands that reform of the QRP will not take place overnight, and applauds the IRS' willingness to undertake fundamental reform and the efforts of all parties involved in improving this process.

IRS Collection: Early Intervention and Utilization of Collection Payment Alternatives

The IRS is authorized to use a variety of collection payment alternatives to address and resolve tax delinquency problems. The most common of these are installment agreements and offers in compromise. Billions of delinquent tax dollars are collected each year through these collection alternatives. Such alternatives can be employed very effectively to provide solutions that are in the best interests of the taxpayers and the government, particularly when emerging tax delinquency problems are identified and addressed in a timely manner.

The National Taxpayer Advocate continues to be concerned that the IRS does not make optimum and timely use of these available collection alternatives to resolve delinquent tax accounts. Current policies and procedures employed by the IRS in collecting delinquent taxes overly restrict the availability of offers and installment agreements, even in situations where the delinquent accounts will otherwise likely be reported as "not collectible." In the 2005 Annual Report to Congress, we raised concerns that the "allowable living expense" (ALE)

standards, which the IRS uses in its financial analysis to determine if a taxpayer is eligible for these payment alternatives, are sometimes overly restrictive in ways that prevent the IRS from providing positive, results-oriented solutions for taxpayers who are trying in good faith to resolve their tax debts.

In far too many cases, if you use the ALE and the IRS's formulas to determine eligibility for various collection alternatives, you find that the taxpayer is not eligible for any realistic payment solution. As a result, the taxpayer's account remains unresolved, either in "currently not collectible" status or assigned to the collection "queue." In the meantime, it becomes even more difficult for the taxpayer to resolve the delinquency as penalties and interest continue to accrue. Often, these taxpayers must also live with the negative impact of a Federal tax lien, which in some cases, impairs their ability to repay the debt. As a result, the IRS collects very little.

Early Intervention

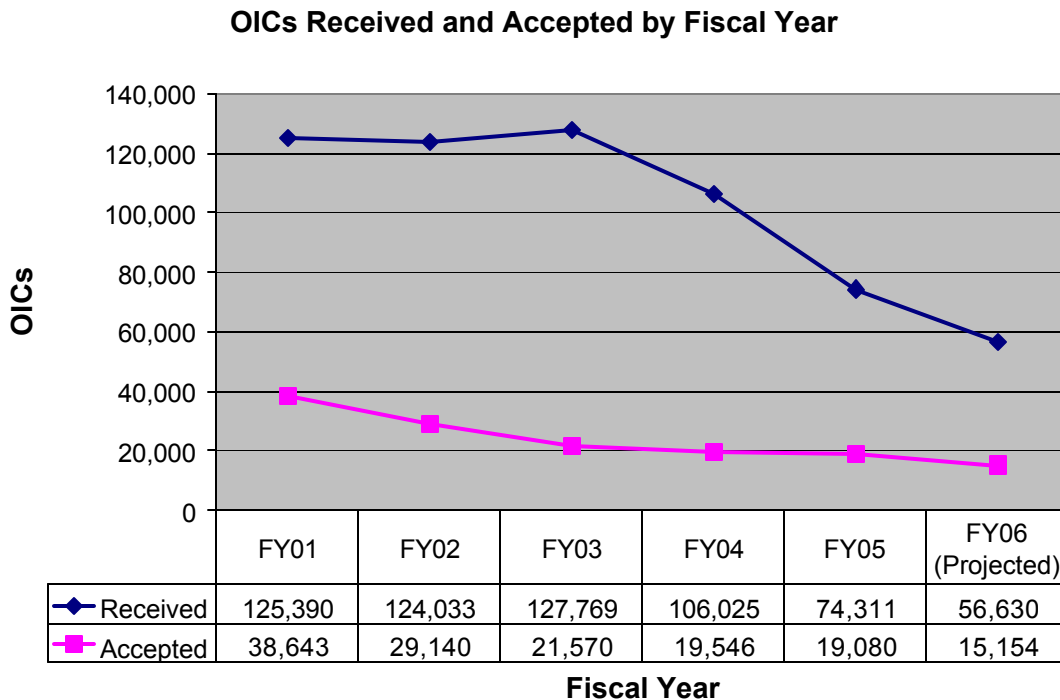
In the 2004 Annual Report to Congress, the National Taxpayer Advocate noted that the IRS collection strategy too often employs a one-size-fits-all approach that does not prioritize person-to-person contacts with taxpayers. In that report, we urged the IRS to place more priority on prompt person-to-person contact with delinquent taxpayers, and utilize collection alternatives that are designed to address the needs of these taxpayers. We are concerned that delays in the IRS's efforts to provide early, meaningful interventions contribute to long-term financial problems for these taxpayers, and ultimately result in a significant amount of lost revenue for the government. IRS data indicate that these delays play a critical role in allowing the tax debts for many of these taxpayers to grow into financial problems that are exceptionally difficult to overcome.

The IRS knows that as delinquent accounts receivable age, their potential to be collected declines. After an account has been delinquent for 24 months the IRS brings in only 13 cents on the dollar using normal collection activities (including refund offsets), and after 3 years, it collects virtually nothing.⁵⁰ The National Taxpayer Advocate continues to believe that prompt personal contact with delinquent taxpayers, particularly those who remain delinquent after the routine collection notice process, should be the top priority for the IRS collection operations. In regard to the hundreds of thousands of IRS collection cases that remain unresolved because this contact has not occurred, the IRS needs to provide flexible and realistic collection alternatives to afford these taxpayers the opportunity to promptly resolve their tax problems in a reasonable manner. We will be looking at this problem in more detail in FY 2007.

⁵⁰ See National Taxpayer Advocate 2004 Annual Report to Congress 233; IRS Automated Collection System Operating Model Team, *Collectibility Curve* (Aug. 5, 2002).

Underutilizing Offers

One symptom of the problem that the IRS is underutilizing available collection alternatives is illustrated by the decline in the number of offers in compromise (OICs) received and accepted. As of the first seven months of FY 2006, new OIC receipts have declined by 27 percent with new cases at 33,034 compared to 45,199 for the same period during 2005.⁵¹ The most recent decline in submissions continues a trend that began in FY 2003, as shown below.⁵²



The decline in offer submissions may be due to an increasing realization among the public that the IRS does not evaluate offers realistically and actually accepts very few – roughly 24 percent of the offers considered in the first seven months of FY 2006 – though the acceptance rate has increased from 20 percent during the same period in FY 2005.⁵³ Although the acceptance rate has increased,

⁵¹ SB/SE, Offer in Compromise Program, Executive Summary (FY 2006-Apr. 2006).

⁵² SB/SE, Offer in Compromise Program, Executive Summary, (FY 2004-Apr. 2006); Collection Activity Report No. 5000-108 (FY 2001-FY 2005). We projected FY 2006 OIC receipts using a straight line projection for the remainder of FY 2006 by dividing the 33,034 YTD receipts as of April, by 7/12. We used the same method to project the number of offers likely to be accepted in FY 2006 by dividing the 8,840 accepted OICs as of April, by 7/12. However, we expect the number of OIC receipts and accepted OICs for FY 2006 will be even lower given recent legislation which will require taxpayers to submit a 20 percent down payment with lump sum offers, as discussed below.

⁵³ SB/SE, Offer in Compromise Program, Executive Summary, (FY 2004-Apr. 2006); Collection Activity Report No. 5000-108 (FY 2001-FY 2005).

however, the number of offers accepted has decreased. The IRS's \$150 OIC processing fee and revised OIC Form, which makes it more clear when the IRS will not accept an offer, probably reduced the number of unreasonably low OIC submissions and submissions from ineligible taxpayers.⁵⁴ However, if you assume that the IRS only accepts realistic offers, the fact that the number of offers accepted has declined from 38,643 in FY 2001 to 19,080 in FY 2005, and are projected to decline even further to 15,154 in FY 2006, suggests that realistic offer submissions are also declining.⁵⁵

Only approximately 19,080 taxpayers had their offers accepted in FY 2005, and it appears that number will again decrease in FY 2006.⁵⁶ On the other hand, almost 800,000 taxpayer accounts, representing approximately \$15 billion in delinquent taxes, were reported as uncollectible in FY 2005.⁵⁷ Additionally, as of March 2006 over 723,000 taxpayer accounts, representing over \$24 billion in revenue, languished inactive in the collection queue.⁵⁸ The National Taxpayer Advocate finds it difficult to believe that an OIC would not be a reasonable collection alternative for many of these taxpayers. In recent years, the National Taxpayer Advocate has worked closely with the IRS in regard to various aspects of the OIC program, and has noted a number of significant improvements that have been made in the manner in which OIC cases are processed. However, we believe that the OIC continues to be a highly underutilized collection tool, and in FY 2007 we will be exploring the reasons why OICs and installment agreements are not being used more effectively to help taxpayers resolve their tax debts.

Federal Payment Levy Program

The IRS's administration of the Federal Payment Levy Program (FPLP) continues to remain a focus of the National Taxpayer Advocate, particularly when the FPLP is used to levy on Social Security benefits of taxpayers.⁵⁹ The FPLP is an automated levy program that systemically matches IRS records against those of the Financial Management Service (FMS) to locate federal payment recipients who have delinquent tax debts. The IRS is authorized to issue continuous levies for up to fifteen percent of federal payments to taxpayers with delinquent tax

⁵⁴ TIGTA has concluded that the OIC fee, imposed in November 2003, is responsible for reducing OIC submissions by 28%, but it is difficult to conclude that the continued reduction in OIC submissions in FY 2006 is due to the OIC fee. See Treasury Inspector General for Tax Administration, Ref. No. 2005-30-096, *The Implementation of the Offer in Compromise Application Fee Reduced the Volume of Offers Filed by Taxpayers at All Income Levels*, (June 2005). The Form 656, *Offer in Compromise*, was revised in July 2004 and the revision was publicized in October 2004.

⁵⁵ SB/SE, Offer in Compromise Program, Executive Summary (FY 2004-Apr. 2006).

⁵⁶ SB/SE, Offer in Compromise Program, Executive Summary (Apr. 2006).

⁵⁷ SB/SE, Collection Activity Report, Recap of Accounts Currently Not Collectible Report, NO-5000-149 (Sept. 28, 2005).

⁵⁸ SB/SE, Collection Activity Report, Taxpayer Delinquent Account Cumulative Report, NO-5000-2 (Apr. 2, 2006).

⁵⁹ IRC § 6331(h)(2).

debts.⁶⁰ As we noted in the National Taxpayer Advocate's 2005 Annual Report to Congress, over the past four years, 84 percent of all FPLP levies were issued against Social Security income.⁶¹ When considering that Social Security benefits provide a safety net and may be the sole source of income for many low income taxpayers, the IRS's lack of a screening mechanism to differentiate among taxpayers when imposing FPLP levies is a serious problem. The IRS previously employed such a filter, known as "total positive income" (TPI).⁶² In June 2005, however, the Government Accountability Office (GAO) concluded that the TPI was "an inaccurate indicator of a taxpayer's ability to pay."⁶³ Thereafter, the IRS ceased using the TPI as a means to predict hardship status and has not developed a replacement indicator.

TAS has recently agreed to participate in a joint task force with the IRS Wage & Investment Division to further explore the FPLP process as a whole and better address the need for an income filter (or similar mechanism) to minimize the potential for hardship to taxpayers. The National Taxpayer Advocate will ensure that by the beginning of FY 2007 there is a screen that will be implemented in FY 2007 before any expansion of the program against individual taxpayers on non-business sources.

Injured Spouse Claims Study

The federal government is authorized to offset the spousal joint refund against a single spouse's liabilities, including liabilities to the IRS, to other federal government agencies (including non-tax debts such as federally guaranteed student loans), state income tax debts or child support debts.⁶⁴ When a spouse's (or ex-spouse's) refund is offset against a liability for which he or she was not obligated, that spouse (or ex-spouse) can file a claim for return of some or all of the refund by filing Form 8379 (Injured Spouse Allocation) with the IRS. Taxpayers have experienced significant problems with the injured spouse claim process, including claims not being processed.⁶⁵ To determine the root of these processing problems, the Taxpayer Advocate Service and the IRS Wage and Investment Division (W&I) are studying a statistically representative sample of 600 injured spouse claims to determine what aspects of the IRS's claim

⁶⁰ *Id.*

⁶¹ National Taxpayer Advocate 2005 Annual Report to Congress 124-130

⁶² TPI was based on information taken from the taxpayer's last filed tax return and was calculated by summing the positive values from the following fields: wages; interest dividends; distributions from partnerships, small business corporations, estates or trusts; Schedule C net profits; Schedule F profits; and other income such as Schedule D profits and capital gain distributions. General Accounting Office, GAO 03-356, *Tax Administration, Federal Payment Levy Program Measures, Performance and Equity Can Be Improved* 11 (March 6, 2003).

⁶³ General Accounting Office, GAO 03-356, *Tax Administration, Federal Payment Levy Program Measures, Performance and Equity Can Be Improved* 11 (March 6, 2003).

⁶⁴ See IRC § 6402 and Rev. Rul. 84-171, 1984-2 C.B. 310.

⁶⁵ The Taxpayer Advocate Service assisted 6,285 taxpayers in FY 2005 with their complaints about the injured spouse process. Taxpayer Advocate Management Information System FY 2005 Report on Issue Code 340 (Injured Spouse Relief).

processing system are causing lengthy delays in processing some claims. TAS and W&I have collaborated on the mechanics of the study, and it is anticipated that the results will yield recommendations on improvements to the process. The team plans to issue recommendations in FY 2007.

Campus Consistency Procedures

In the 2004 Annual Report to Congress, the National Taxpayer Advocate identified inconsistent campus procedures as one of the most serious problems encountered by taxpayers. Since the inception of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98) and the restructuring of the IRS into business units and campuses,⁶⁶ the IRS has sought to provide consistency so that a taxpayer's account in one locale is treated the same way and achieves the same result as that of a similarly situated taxpayer in a different location. The problem is that although each operating division is required to review and update procedures and issue employee alerts to guarantee consistency across the nation, in practice the campuses often develop their own local procedures. Depending on which campus the taxpayer or tax practitioner is working with, a different outcome may occur. The result, on occasion, may be contrary to law or public policy.⁶⁷

Inconsistent processes in the campuses create delays in responding to Operations Assistance Requests submitted by TAS to the operating divisions in TAS' attempts to resolve taxpayer problems and issues.⁶⁸ Additionally, inconsistency creates inefficiency not only for TAS but also for taxpayers and for practitioners who are working with a campus operation to resolve taxpayer issues. Documentation requirements vary between campuses, which results in additional communication between the campus and TAS or the taxpayer's representative. Previous examples of areas with inconsistent procedures include Stolen Identity,⁶⁹ Automated Collection System Levy Release, and Audit Reconsideration.⁷⁰ As the Service has stepped up enforcement activities, TAS has experienced a dramatic increase in receipts resulting from Levy and Audit Reconsideration activities, and correspondingly issued an increased number of OARs.⁷¹

⁶⁶ Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, Title 1, Subtitle A, §1001(a)(2) and (3), 112 Stat 685.

⁶⁷ National Taxpayer Advocate 2004 Annual Report to Congress 132-142.

⁶⁸ An Operations Assistance Request (OAR), Form 12412, is used by TAS to request assistance from an Operating Division or Function to complete an action on a TAS case. An OAR is necessary when TAS does not have the authority to take the required action(s). Internal Revenue Manual 13.1.7.7(1).

⁶⁹ Identity Theft was identified as a Most Serious Problem in 2005 by the National Taxpayer Advocate. For discussion on this issue see National Taxpayer Advocate 2005 Annual Report to Congress 180-191.

⁷⁰ National Taxpayer Advocate 2004 Annual Report to Congress 132-142.

⁷¹ Between October 1, 2003 and April 30, 2004, TAS received 4,879 levy cases and issued 2,987 OARs on those cases. Between October 1, 2004 and April 30, 2005, TAS received 6,004 levy

TAS has noted that the operating divisions require varying levels of documentation depending upon where the taxpayer is located. For instance, taxpayers who come to TAS seeking a levy release usually face economic hardship. TAS case advocates must work with taxpayers to build a case to substantiate hardship, so that the levy can be released.⁷² Depending upon where the levy release is processed, a campus may be placing additional burden on the taxpayer by requesting information not required by another campus. Time is critical for taxpayers in hardship situations, and lack of IRS consistency directly impacts taxpayers needing their funds released.

TAS developed a comprehensive grid identifying inconsistent campus processes and held initial meetings with representatives from Compliance Services from the Wage and Investment (W&I) and Small Business and Self-Employed (SB/SE) Operating Division; as well as representatives from Customer Account Services (W&I) to resolve campus processing inconsistencies. TAS identified the current top three processing issues: Levy Releases, Audit Reconsiderations, and EITC Reconsiderations. In FY 2007, TAS will work in partnership with W&I and SB/SE to resolve procedures within these campus processing functions through updates to the Internal Revenue Manual and Service Level Agreements.

Taxpayer Rights – Training in an Environment of Increased Enforcement

In 2004, the IRS announced its intention to substantially increase its enforcement efforts, including enforcement personnel. The National Taxpayer Advocate and others raised concerns that IRS training for these employees may not sufficiently emphasize protecting taxpayer rights and the role and authority of the Taxpayer Advocate Service (TAS). Based on these concerns, the National Taxpayer Advocate assigned a task force to review compliance related training for Revenue Officers, Revenue Agents, Appeals Officers, Taxpayer Resolution Representatives, and Customer Service Representatives.

During fiscal years 2005 and 2006, the team looked at Small Business/Self Employed (SB/SE) division public contact employee training courses that were newly developed or revised since January 1, 2005. The team reviews revealed that while there has been progress, additional proactive measures in protecting taxpayer rights should be emphasized.

cases and issued 3,971 OARs on those cases. Between October 1, 2005 and April 30, 2006 TAS received 9,840 levy cases and issued 7,177 OARs on those cases.

⁷² Treas. Reg. §301.6343-1(b)(4) provides that an economic hardship exists if satisfaction of the levy in whole or in part will cause an individual taxpayer to be unable to pay his or her reasonable basic living expenses. The determination as to what constitutes reasonable living expenses is a heavily fact intensive inquiry which analyzes the taxpayer's age, employment status, amount necessary for necessities, child care etc.

In FY 2007, the National Taxpayer Advocate will continue to emphasize the need for all public contact employees to receive substantive, ongoing education about safeguarding taxpayer rights and referring taxpayers to TAS when warranted. The TAS Office of Systemic Advocacy, along with Communications and Liaison, the Portfolio Advisor for Taxpayer Rights Training and others will work to:

- Develop a comprehensive education and communication strategy directed at IRS public contact employees that emphasizes protection of taxpayer rights and timely and appropriate referrals to TAS.
- Develop a separate, stand-alone training module to address the role and authority of TAS, protection of taxpayer rights, and enhancement of critical thinking skills and judgment. The IRS can insert the module into courses that will not be updated in the immediate future. This approach will ensure that employees receive the necessary taxpayer rights training, even when the operating divisions do not have the time or resources to overhaul their courses.
- Utilize all internal communication resources (website, e-learning, e-mail etc) to deliver key messages regarding taxpayer rights and the role and authority of TAS to all IRS employees no later than June 30, 2007.

Qualified Low Income Taxpayer Clinic (QLITC) – Student Attorneys

The Low Income Taxpayer Clinic (LITC) at Georgia State University provided TAS information detailing instances where IRS employees denied law students their right to represent taxpayers before the IRS as granted by a special order from the Office of Professional Responsibility.⁷³ Qualified LITC Student Attorneys have been informed by IRS employees that the Form 2848, Power of Attorney, only grants them representation equal to that of an enrolled preparer. Denial of the QLITC Student Attorneys full representative privileges impacts taxpayers right to representation and may cause hardship.

To address this issue, TAS has partnered with the Self Employed/Small Business (SB/SE) division to develop a strategic communications plan designed to educate all IRS public contact employees on the rights and privileges afforded QLITC student attorneys. This plan will use communications vehicles such as internal intranet alerts to IRS employees, Operating Division Continuing Professional

⁷³ IRM 21.3.7.7.2.3, *Student Tax and Low Income Taxpayer Clinic Participants*. Participating students may practice before the IRS within specified limits. Clinic participation is approved by the Taxpayer Advocate Service and practice is approved by Special Order Issued by the Office of Professional Responsibility. 31 CFR 10.92, The Secretary of Treasury reserves the power to issue such special orders as he or she deems proper in any cases within the purview of this part.

Education (CPE) sessions, and training headlines.⁷⁴ The anticipated release date is August 2006. In addition, the Office of Chief Counsel and Appeals worked together to rewrite existing Internal Revenue Manual provisions to clarify the rights of QLITC student attorneys.

Internal Revenue Manual

The IRS is in a continual state of administrative and procedural change. As changes are implemented, they are mainly conveyed to employees through training, memos, e-mails and the intranet. Yet, it is important to have consolidated guidelines that are easily accessible, and can provide consistency with policies and procedures throughout the IRS operating and functional divisions, including TAS. The Internal Revenue Manual (IRM) serves this function; it was designed to serve as a reference for everyday guidance for IRS employees concerning IRS policies and processes set forth by the Internal Revenue Code, the U.S. Code, tax treaties, court decisions, the U.S. Constitution, and the Internal Revenue Service Commissioner's office. The IRM also informs the public and external policymakers about how the IRS is conducting its business, thereby protecting taxpayers from arbitrary and capricious government actions. It is essential that the IRM be regularly revised to reflect changes made to IRS procedures. TAS' responsibilities in this area are twofold.

Internal Management Document – Single Point of Contact Reviews

The Commissioner of Internal Revenue must provide subordinates certain authorities to act on his behalf. This is accomplished through the issuance of Internal Management Documents (IMD). IMDs are also referred to as directives, internal directives and instructions to staff; and include the IRM, Policy Statements, Delegation Orders, and Internal Management Documents.⁷⁵ IRMs require TAS clearance when the rights or duties of taxpayers are impacted or taxpayers are affected in some way.⁷⁶ Additionally, the Tax Administration Council approved the creation of a Single Point of Contact (SPOC) in each of the Operating Divisions (OD) and TAS. The SPOC is responsible for managing customer communications (currently referred to as notices, letters, and stuffers).⁷⁷

In FY 2006, the TAS organization established a process for assigning reviews, documenting the process on the Systemic Advocacy Management System

⁷⁴ Alert C IMF/BMF S 06230, *Form 2848, Power of Attorney & Declaration of Representative, designating a third-party as their representative or power of attorney*, Alerting Collection Representatives in Automated Collection System (ACS) of the requirement to assist Power of Attorney's and their Declaration of Representatives (POA), i.e., Student who works in a Qualified Low Income Taxpayer Clinic (QLITC) or Student Tax Clinic Program (STCP) as designated by the taxpayer, (April 10, 2006).

⁷⁵ IRM §1.11.1.1, *Introduction to the IMD System*.

⁷⁶ IRM §1.11.2.9.1(2).

⁷⁷ *SPOC Contacts*, IRS Electronic Publishing website.

(SAMS) and tracking the time spent on reviews. TAS completed over 200 reviews through the second quarter of FY 2006, including more than 100 SPOC Forms/Notice reviews, and uncovered a number of taxpayer rights and burden issues. For example, to reduce taxpayer burden during the filing season, TAS engaged the IRS to make the Form 8379 (Injured Spouse Allocation) available electronically in January instead of March as originally planned. Additional TAS recommendations adopted by the IRS include information on the Taxpayer Advocate Service, corrections to citations, and grammar. In FY 2007, TAS will continue with IMD/SPOC reviews to ensure notice clarity and the protection of taxpayer rights.

There may be times when it is critical to quickly communicate new procedures, procedures that change information already in the IRM, or the information required to support a one-time occurrence of a program or process. Issuing a memorandum containing temporary or interim procedures or guidelines satisfies this need.⁷⁸ The IMD Coordinator is responsible for monitoring the preparation and issuance on interim guidance memoranda.⁷⁹ To meet the guidelines for issuing interim procedures, in FY 2007, the TAS IMD Coordinator will:

- Confirm the need for a memorandum;
- Assign a Control Number to facilitate tracking;
- Provide guidance on offices needing to review the memorandum;
- Ensure that steps are taken to incorporate the information/guidance into the IRM within one year;
- Provide the Office of Servicewide Policy, Directives, and Electronic Research (SPDR) a courtesy copy;
- Arrange to post memos to the TAS internal and external web sites unless there are disclosure issues; and
- Assist in electronic and hard copy distribution.⁸⁰

Immediate Interventions

An Immediate Intervention is an administrative issue, identified internally or externally, which causes immediate, significant harm to multiple taxpayers and demands an urgent response. An Immediate Intervention issue cannot be resolved quickly enough through the normal corrective process. Immediate Intervention issues have clear sources; are highly visible and sensitive locally, area wide or nationally; and require that a resolution be identified within three (3) to five (5) calendar days. An Immediate Intervention project may result in a Taxpayer Advocate Directive (TAD), an IRM Procedural Update, or another

⁷⁸ IRM 1.11.2.13(2). One of the requirements for issuing interim procedures by memorandum is that the information will be either included in the IRM within one year from the date of the memorandum or made obsolete.

⁷⁹ IRM 1.11.2.13(3).

⁸⁰ IRM 1.11.2.13(4). Outline of IMD Coordinator responsibilities to monitor the preparation and issuance of interim guidance memoranda.

procedural/process change. After the immediate issue is addressed, Systemic Advocacy may create an Advocacy Project to resolve the larger, long-term systemic issues.

During the first quarter of FY 2006, as part of a restructuring, Systemic Advocacy created the Immediate Intervention group and selected a permanent Director to provide management oversight and direction. This group works all immediate intervention projects and is responsible for the Systemic Advocacy Management System (SAMS), the TAS Single Point of Contact (SPOC), and Internal Management Documents (IMD) programs.⁸¹

Systemic Advocacy received 25 immediate intervention issues during the first two quarters of FY 2006,⁸² a 213 percent increase over the same period in FY 2005.

The Office of Systemic Advocacy was recently made aware of an issue submitted by an external stakeholder that illustrates how effective the Immediate Intervention process can be. A taxpayer submitted an issue to SAMS describing her personal experience of accessing the www.irs.gov website to complete and download IRS forms using a publicly shared computer at a library. Her personal information used to complete the form remained on the computer even after she signed off and exited the web site. This issue was immediately raised to the level of an Immediate Intervention, because of the sensitive nature of this issue and the potential disclosure of taxpayer information via the external IRS website.

Systemic Advocacy, along with subject matter experts from the TAS Communication and Liaison Division, researched and tested the www.irs.gov web site to determine the software used to read and fill in data on the form was the source of the problem. Partnering with staff members from the MITS IRS.gov web site, W&I Media and Publications, and the software vendor, the Office of Systemic Advocacy successfully corrected the problem of the potential disclosure of taxpayer data on publicly accessed computers with the following recommendations and actions:

- The IRS will update the settings on fill-in forms accessible through www.irs.gov to delete data input on forms upon the end user's termination,
- The IRS will encourage the software company to set the software's factory default setting to immediately delete any information entered upon

⁸¹ The Single Point of Contact (SPOC) acts as the key focal point for communications with other operating units and divisions relating to IRS notices and the notice process. Internal Management Documents (IMD) are the official communications that designate authorities to officials and employees, e.g. Policies of the Internal Revenue Service, Delegations of Authority (commonly referred to as Delegation Orders or "Del Orders."), Information, Instructions, Guidelines and Procedures, such as, the Internal Revenue Manual.

⁸² In FY 2005, Systemic Advocacy (SA) received eight immediate intervention issues for the same time period; 19 for the entire fiscal year.

termination of the software application or exiting the website from which it is accessed, and

- The IRS will encourage the software vendor that provides these fill-in forms to individuals via the Internet to conduct outreach to its customer base.

As an Immediate Intervention, TAS quickly identified the problem and worked with the IRS toward a solution. In addition to solving the immediate problem, TAS and the IRS took steps to prevent the problem from occurring again, thus protecting taxpayer data.

Systemic Advocacy Receipts and Projects

The following chart illustrates the top issues received in Systemic Advocacy during the first six months of FY 2006.

SAMS – Top Issues, October 1, 2005 – March 31, 2006⁸³

Issue	Number of Receipts
Fringe Benefits	34
Refund Issues	32
IRS Service Issues	26
Case Processing	22
Examination Issues	18
Information Reporting	17
Original Return	15
Payments/Account Credits	15
Levy	14
Employment Tax Issues	13
Free Filing	13

The top issue submitted during the first six months of FY 2006 concerned fringe benefits, requesting amendment of Internal Revenue Code § 129 to increase the \$5,000 limit employees can currently exclude from gross income for employer-paid dependent care costs. All but one of these submissions was received in December 2005 from external sources.

The number of submissions on free filing more than tripled from the number received during the same period last year.⁸⁴ Most of these submissions were complaints about the income limits for the Free File program and the fact that taxpayers cannot electronically file returns without using vendors who usually

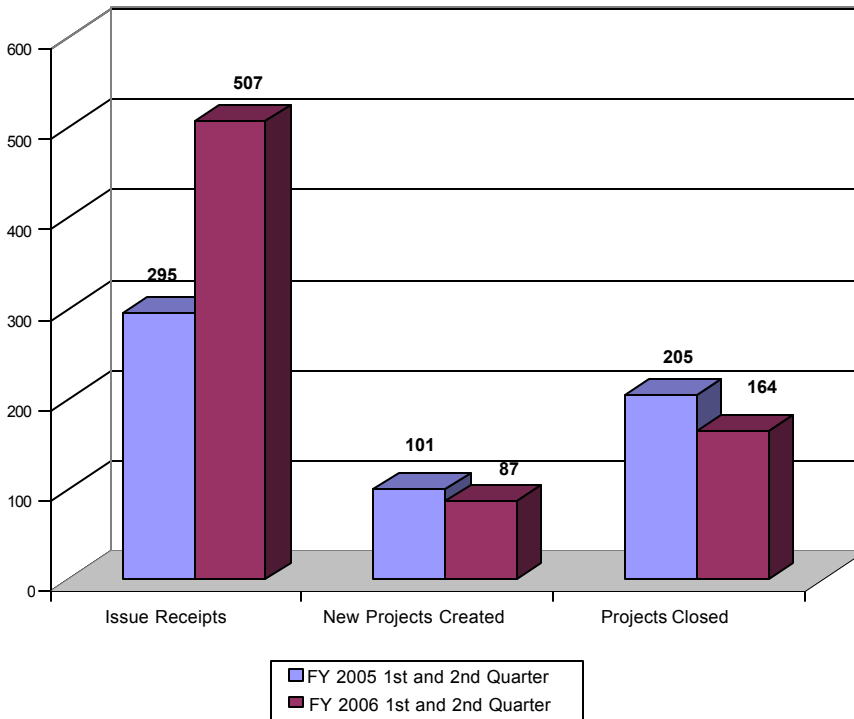
⁸³ Issues involving Case Processing, IRS Service, Examination, and Information Reporting also appeared in the top ten listing for the same period in FY 2005.

⁸⁴ For the first two quarters of FY 2005, there were 3 submissions and 13 submissions for the same period in FY 2006.

charge fees. The increased media attention to this subject during this filing season may be a contributing factor in the increased number of submissions.

The following chart compares the number of systemic issues received, projects created, and projects closed during the first and second quarters of FY 2005 and FY 2006.

SAMS Comparison Data FY 2005 and FY 2006 – Receipts/Projects/Closed



The number of systemic advocacy issue submissions received through March 2006 increased by 72 percent over the same period last year. The increase in submissions over last year may be attributed to the success of integrating advocacy by realigning systemic advocacy analysts to local TAS offices to create better outreach and interaction among case advocates and Local Taxpayer Advocates (LTA).

Projects Created

The first six months of FY 2006 saw a 14 percent decline in the number of advocacy projects created over the same period in FY 2005.⁸⁵ Consistency in evaluation and ranking issues may account for the drop. Additionally, SA has

⁸⁵ Three times more submissions were closed (68) as opposed to other issues or open projects for the same period in FY 2005 (19). Four times more submissions were closed as already resolved in FY 2006 (52) compared to FY 2005 (5).

become more adept at recognizing related issues or issues related to projects, resulting in fewer duplicate or overlapping projects.

Increased management oversight may also be a factor in the decrease. Beginning in the second quarter of FY 2006 all projects are reviewed and approved by the Directors of Immediate Interventions and Advocacy Projects.

Systemic Advocacy Management System

The Systemic Advocacy Management System (SAMS) allows IRS employees and external stakeholders to submit advocacy issues to the Office of Systemic Advocacy for review, analysis, and potential development as projects. SAMS also provides TAS with a means of creating, working, and monitoring these projects. TAS currently has two major information systems, SAMS for systemic advocacy issues, and the Taxpayer Advocate Management Information System (TAMIS) for individual case advocacy. TAS recognized that a better picture of IRS systemic issues would be achieved by linking these systems.⁸⁶

In FY 2006, TAS developed a correlation between the major issue codes of each of these systems. Issues in SAMS are assigned several "key words" for grouping of related items. Each key word correlates with a TAMIS Issue Code. For subjects that may be labeled in more than one way, this correlation affords another option to identify SAMS content that may be related to a case topic.

The "Earned Income Tax Credit", for example, may also be described as "EIC" or "EITC", and an Earned Income Tax Credit concern may address credit requirements, or an IRS process for confirming eligibility. The key word "EITC Documentation" is numerically tagged "630" establishing a link to the Issue Code for general EITC examination cases. Improved reporting capabilities are expanding TAS's ability to use such links for delivering systemic resolution information to case advocates and ensuring that common case problems - problems for taxpayers - are reviewed for opportunities to address the problems' sources.

In FY 2007 TAS will analyze the data to determine if the data can be used to better identify systemic problems imbedded within these linked key issues.

CASE ADVOCACY

Clarified TAS Case Criteria

The mission of the Taxpayer Advocate Service is to assist all taxpayers who need or request TAS assistance in resolving and preventing problems with the

⁸⁶ National Taxpayer Advocate Fiscal Year 2006 Objectives Report to Congress 17.

IRS. The TAS case acceptance criteria were clarified to ensure TAS' success in this mission, and that TAS meets its responsibility to protect taxpayer rights, prevent burden, and ensure the equitable treatment of taxpayers. TAS case acceptance criteria fall into four main categories: Economic Burden, Systemic Burden, Best Interest of the Taxpayer, and Public Policy. TAS implemented the clarified case criteria on January 8, 2006.

Economic burden cases are those involving a financial difficulty to the taxpayer. An economic burden arises when an IRS action or inaction has caused or will cause negative financial consequences or have a long-term adverse impact on the taxpayer.

Economic Burden	
Criteria 1	The taxpayer is experiencing harm or is about to suffer economic harm.
Criteria 2	The taxpayer is facing an immediate threat of adverse action.
Criteria 3	The taxpayer will incur significant costs if relief is not granted (including fees for professional representation).
Criteria 4	The taxpayer will suffer irreparable injury or long-term adverse impact if relief is not granted.

Systemic Burden cases are those in which an IRS process, system, or procedure has failed to operate as intended, and as a result, the IRS has failed to timely respond to, or resolve, a taxpayer issue.

Systemic Burden	
Criteria 5	The taxpayer has experienced a delay of more than 30 days to resolve a tax account problem.
Criteria 6	The taxpayer has not received a response or resolution to their problem or inquiry by the date promised.
Criteria 7	A system or procedure has either failed to operate as intended, or failed to resolve the taxpayer's problem or dispute within the IRS.

TAS acceptance of cases when it is in the best interest of the taxpayer will help ensure that taxpayers receive fair and equitable treatment and that their rights as taxpayers are protected.

Best Interest of the Taxpayer	
Criteria 8	The manner in which the tax laws are being administered raise considerations of equity, or have impaired or will impair the taxpayer's rights.

Acceptance of cases into TAS as a result of compelling public policy will be determined by the National Taxpayer Advocate, and will generally be based upon specific issues or problems of public concern.

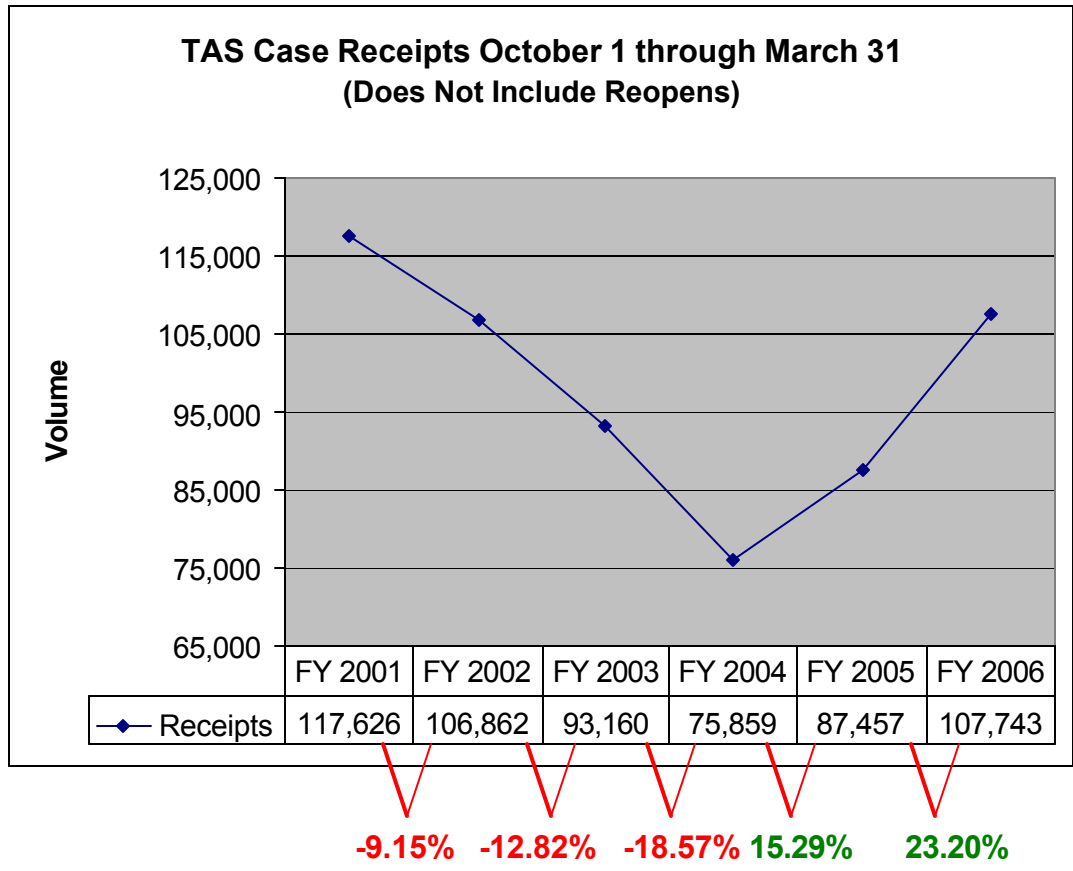
Public Policy	
Criteria 9	The National Taxpayer Advocate determines compelling public policy warrants special assistance to an individual or group of taxpayers.

TAS has shared the clarified criteria with the Business Operating Divisions (BOD), and is negotiating updates to the Service Level Agreements based upon the clarifications.

Trends in TAS Receipts

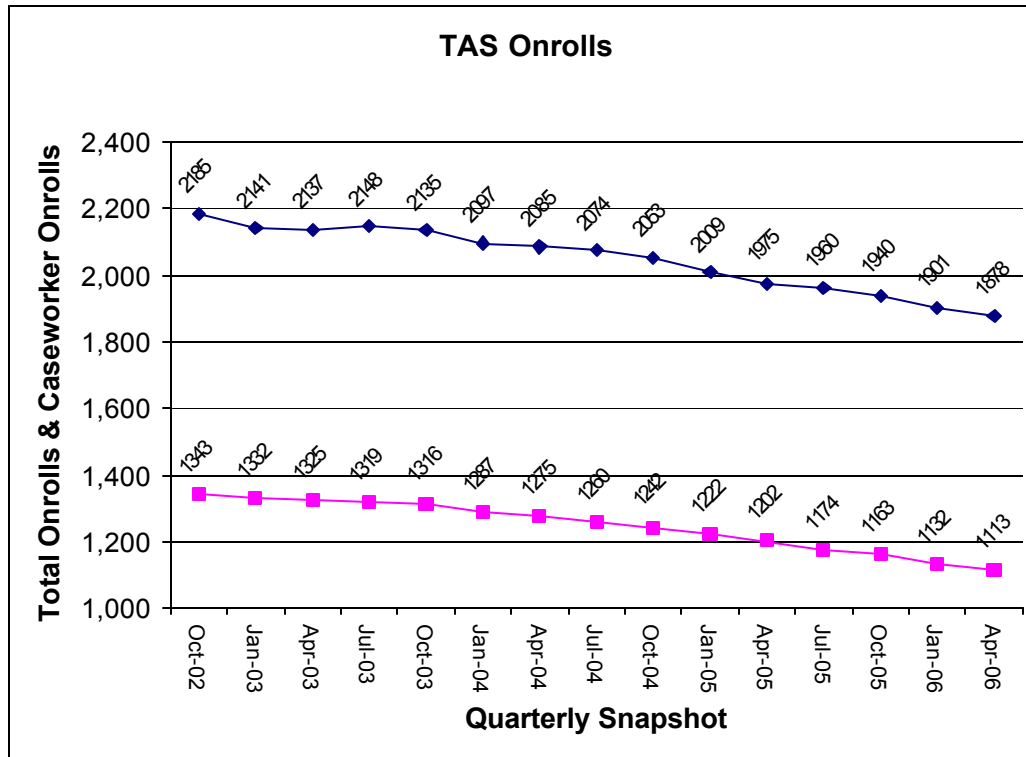
The Taxpayer Advocate Service is experiencing an upward trend of progressively more complex workload while its case advocacy resources decline. TAS case receipts for the first six months of FY 2006 increased by 23.2 percent over the same period last year, from 87,457 to 107,743. TAS predicts that its case receipts will total 243,768 for FY 2006 exceeding FY 2002 levels.⁸⁷

⁸⁷ Projected case receipts for FY 2006 were computed using a straight line method. FY 2002 total case receipts were 225,474.



Over this period, TAS case receipts have become more complex, involving multiple enforcement issues, tax periods, and even taxpayers. In the first six months of FY 2006, TAS receipts involving compliance issues increased 25.4 percent over the same period last year. Customer Service receipts increased 18.1 percent.

At the same time, due to real cuts in TAS’s budget, the number of case advocates available to work these cases has decreased by 230 full-time equivalent positions from FY 2002 to 2006.



The largest increases in TAS' case inventory have been in cases dealing with taxpayer delinquency investigation – substitute for return, levies, expedite refund requests, IRS offset, and automated underreporter. The following chart depicts TAS' top 15 case receipts.

TAS's Top 15 Case Receipts

Primary and Secondary Issue Codes	FY 2005	FY 2006	%Chg
	Mar Cum	Mar Cum	
Criminal Investigation	11,999	14,793	23.29%
Levy	5,143	8,338	62.12%
Earned Income Tax Credit	6,579	6,001	-8.79%
Processing Amended Returns	5,030	5,321	5.79%
Expedite Refund Request	3,601	5,206	44.57%
Reconsideration of Substitute for Return under IRC § 6020(b) ⁸⁸ and Audits ⁸⁹	3,473	4,823	38.87%
Processing Original Return	3,712	3,878	4.47%

⁸⁸ IRC § 6020(b): If any person fails to make any return required by any internal revenue law or regulation made thereunder at the time prescribed therefore, or makes, willfully or otherwise, a false or fraudulent return, the Secretary shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise.

⁸⁹ Reconsideration of a tax assessment resulting from an IRS examination, or an income or employment tax return prepared by the IRS under IRC § 6020(b).

Primary and Secondary Issue Codes	FY 2005	FY 2006	%Chg
	Mar Cum	Mar Cum	
Closed Automated Underreporter Cases ⁹⁰	2,911	3,710	27.45%
Open Audit	2,638	3,182	20.62%
Lien	2,504	3,161	26.24%
Copies of Returns, Transcript of Accounts, Audit Reports, or Information Requested under the Freedom of Information Act	2,847	3,115	9.41%
IRS Offset	1,545	2,162	39.94%
Taxpayer Delinquency Investigation - Substitute for Return under IRS § 6020(b) ⁹¹	955	2,150	125.13%
Injured Spouse Claim	1,785	2,132	19.44%
Missing or Incorrect Payments	1,521	1,998	31.36%

The National Taxpayer Advocate expects a future operating environment characterized by a continuing rise in the number and percentage of taxpayer cases involving economic burden. TAS case receipts involving economic burden constituted 29.17 percent of all receipts during the first six months of FY 2006, up from 23.72 percent for the same period in FY 2005. As the National Taxpayer Advocate testified before Congress in April 2006:

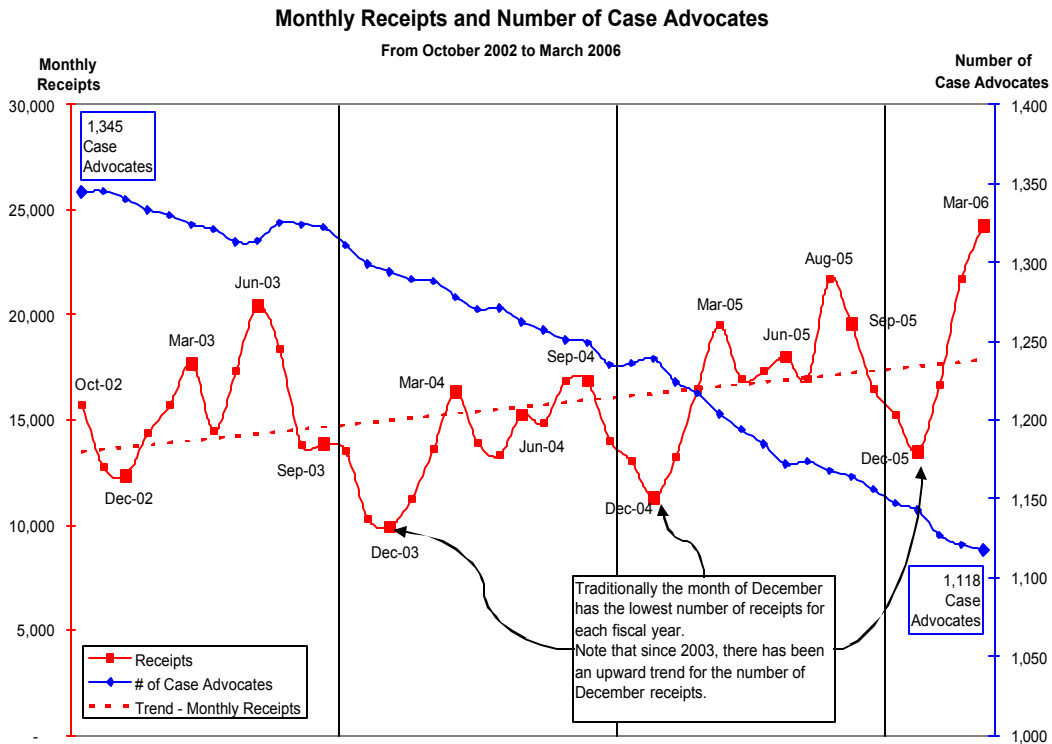
TAS case receipts themselves provide an interesting study in downstream consequences. As the IRS increases its enforcement activity, TAS compliance inventory increased to nearly seventy percent of our case receipts for the first quarter FY 2006, up from sixty seven percent in first quarter FY 2005. In FY 2005, TAS cases involving liens and levies increased by fifty percent and forty three percent, respectively, over FY 2004. During first quarter FY 2006, TAS continued to see an increase in lien and levy cases. Lien and levy cases tend to involve economic urgency to the taxpayer. TAS procedures require case advocates to respond immediately to the taxpayer's request for assistance in these cases. With the increasing number, complexity, and urgency of our case load, TAS risks getting behind on cases that involve IRS system failure as we give priority to cases that involve economic harm. If the balance between our staffing and number of cases we handle continues to deteriorate, TAS is in jeopardy of becoming part of the IRS problem rather than the advocate for the solution, as Congress intended.⁹²

⁹⁰ The Automated Underreporter program matches taxpayer income and deductions submitted by third parties against amounts reported on the individual income tax return.

⁹¹ Taxpayer Delinquent Investigations involve delinquent tax returns where the taxpayer disputes the filing requirement, proposed liability, or claims the return was previously filed.

⁹² *Internal Revenue Service FY 2007 Budget Request: Hearing Before the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development and Related Agencies,*

The impact of the IRS's substantial increases in enforcement activities is evident in the corresponding increase in TAS Taxpayer Delinquent Investigation, Levy, and Automated Underreporter case receipts. Individual income tax accounts for 46 percent of all tax receipts, but these accounts constitute about 57 percent of the overall tax gap.⁹³ The IRS' efforts to decrease the tax gap by putting more resources toward individual taxpayer enforcement, when combined with the current economic trends involving personal savings,⁹⁴ will likely result in increasing numbers of taxpayer requests to TAS for relief due to economic burden.



As illustrated above, the number of Case Advocates (TAS employees who work with taxpayers to resolve their problems with the IRS) has declined 17 percent since October 2002. TAS will conduct a significant hiring initiative in the summer of 2006 (57 Associate Advocates and 31 Intake Advocates). However, as of

Committee on Appropriations, U.S. Senate, 109th Cong. (April 27, 2006)(statement of Nina E. Olson, National Taxpayer Advocate).

⁹³ *The Tax Gap: Hearing Before the Committee On Small Business, U.S. House of Representatives, 109th Cong. (April 5, 2006) (Statement of Mark Everson, Commissioner of Internal Revenue).*

⁹⁴ The U.S. personal savings rate fell to minus 0.5 percent in 2005, the first time since the Great Depression that the country has a negative savings rate. U.S. Department of Commerce, the Associated Press, January 30, 2006.

December 31, 2006, 141 Case Advocates will be eligible for retirement.⁹⁵ Thus, while this hiring initiative is clearly a step in the right direction, it is not even enough to replace the case advocates lost through normal attrition, much less handle the increased caseload. As we discuss later in this report, TAS is attempting to close some of the shortfall through improved case management and other systems, as well as systemic advocacy to remedy or avoid problems.⁹⁶ The National Taxpayer Advocate remains concerned that TAS is entering a difficult period of responding to taxpayers needs while maintaining quality of service.

Trends in TAS Closures

TAS cases closures are lagging slightly behind our receipts, a reflection of the increasing workload on our case advocates. Overall, 72.23 percent of the taxpayers were granted full or partial relief during the first six months of FY 2006. Criminal Investigation cases make up the largest portion of TAS cases, and 58.39 percent were granted relief,⁹⁷ a 1.88 percent increase from FY 2005. TAS analyzed the first five issues⁹⁸ with the highest percentage increases in case closures during the first six months of FY 2006. This analysis revealed that in more than 50 percent of closed cases, the taxpayer was granted full relief. *In the case of Open*

Automated Underreporter cases, 90 percent of the taxpayers were granted either full or partial relief. TAS performed a trend analysis of each of these issues.⁹⁹

Disposition of All TAS Cases (October 1, 2005 through March 31, 2006)

Case Disposition	Count	% of Total
Full Relief Granted	63,431	61.36%
Partial Relief Granted	6,327	6.12%
No Relief (NR) Granted - Relief not appropriate	33,131	32.05%
NR Law Prevents Change	683	0.66%
NR Hardship Not validated or documentation/verification that the advocate deems necessary not provided by the taxpayer.	798	0.77%
NR No Response from the taxpayer.	13,888	13.43%

⁹⁵ HR Connect (IRS intranet), *Create a Retirement Projection Statistical Report*, run on 5/12/2006, through 12/31/2006.

⁹⁶ See Appendix V, Operational Priorities, for a discussion of some of TAS' improvement projects.

⁹⁷ Relief includes full, partial, and relief provided by the operating division.

⁹⁸ The first five issues include IRS Offsets, Open Automated Underreporter cases, Levies, Taxpayer Delinquency and Substitute for Return (IRC §6020(b)) issues, and Expedite Refund Requests.

⁹⁹ For purposes of this analysis, the Federal Payment Levy Program cases were broken out of the Levy category.

Case Disposition	Count	% of Total
NR Relief provided by IRS Operations prior to receipt of Application for Taxpayer Assistance Order (ATAO) or relief determination.	4,914	4.75%
NR Taxpayer rescinds ATAO, no longer requires relief.	1,604	1.55%
NR Taxpayer hardship did not involve the administration of internal revenue laws.	709	0.69%
NR Other	10,535	10.19%
Relief Not Identified	486	0.47%
Total Closures	103,375	

Disposition of All TAS Cases by Business Operating Division (BOD)
(October 1, 2005 through March 31, 2006)

Case Disposition	W&I		SB/SE		TEGE		LMSB	
	Count	% of Total W&I	Count	% of Total SB/SE	Count	% of Total TEGE	Count	% of Total LMSB
Full Relief Granted	33,814	59.8%	27,932	62.7%	1,211	75.7%	474	74.0%
Partial Relief Granted	3,266	5.8%	2,950	6.6%	73	4.6%	38	5.9%
No Relief (NR) Granted	19,238	34.0%	13,466	30.2%	302	18.9%	125	19.5%
NR Law Prevents Change	500	0.9%	176	0.4%	4	0.3%	3	0.5%
NR Hardship Not Validated	480	0.9%	309	0.7%	7	0.4%	2	0.3%
NR No Response	8,525	15.1%	5,241	11.8%	88	5.5%	34	5.3%
NR Relief provided by BOD	2,983	5.3%	1,821	4.1%	74	4.6%	36	5.6%
NR Taxpayer rescinds ATAO	829	1.5%	748	1.7%	15	0.9%	12	1.9%
NR Not IRS Jurisdiction	416	0.7%	285	0.6%	6	0.4%	2	0.3%
NR Other	5,505	9.7%	4,886	11.0%	108	6.8%	36	5.6%
Relief Not Identified	233	0.4%	235	0.5%	14	0.9%	4	0.6%
Total Closures	56,551		44,583		1,600		641	

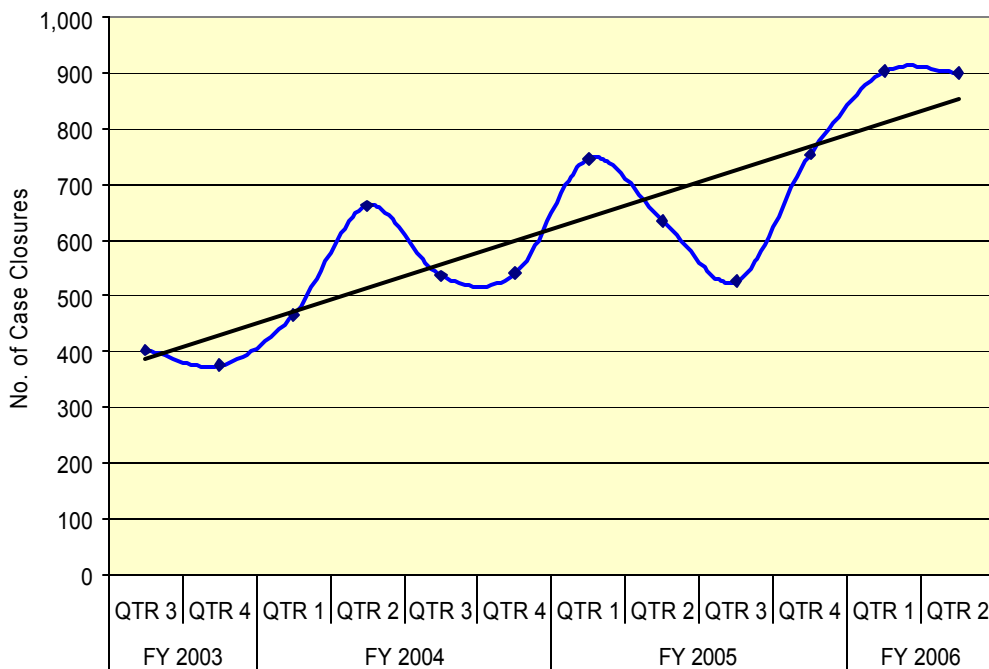
Expedite Refund Requests and IRS Offsets rise and drop cyclically each fiscal year; they show a steady increase in TAS closures over time. Case closures involving Taxpayer Delinquency Investigations and Substitute for Return procedures under Internal Revenue Code § 6020b (TDI SFR/6020B) show a 73 percent increase.¹⁰⁰ Levy closures remained fairly constant throughout FY 2003 – 2005, however TAS has shown a significant rise during the first two quarters of

¹⁰⁰ TDI/SFR/6020b closures were 772 and 1334 for Mar Cum FY 2005 and 2006 respectively

FY 2006 that can be accounted for by the increased enforcement activity by the Service.

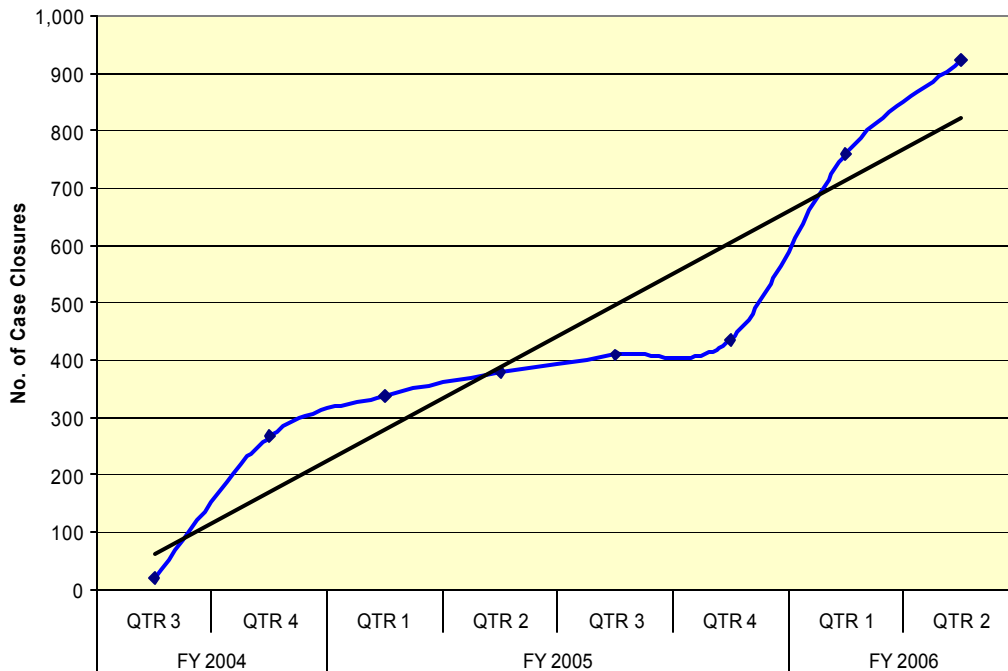
The areas with the most dramatic increases in case closures are Open Automated Underreporter and Federal Payment Levy Program (FPLP). Here, the trend is ever increasing, and with the continued emphasis on enforcement activities by the IRS, TAS expects this trend to continue. TAS has recently agreed to participate in a task force with the Wage & Investment Division to further explore the FPLP process and better address the need for an income filter (or similar mechanism) to minimize the potential for hardship to taxpayers.¹⁰¹

Trend Analysis: Automated Underreporter Program Quarterly Case Closures



¹⁰¹ See *Federal Levy Payment Program*, *supra*.

Trend Analysis: Case Closures Federal Payment Levy Program (FPLP)



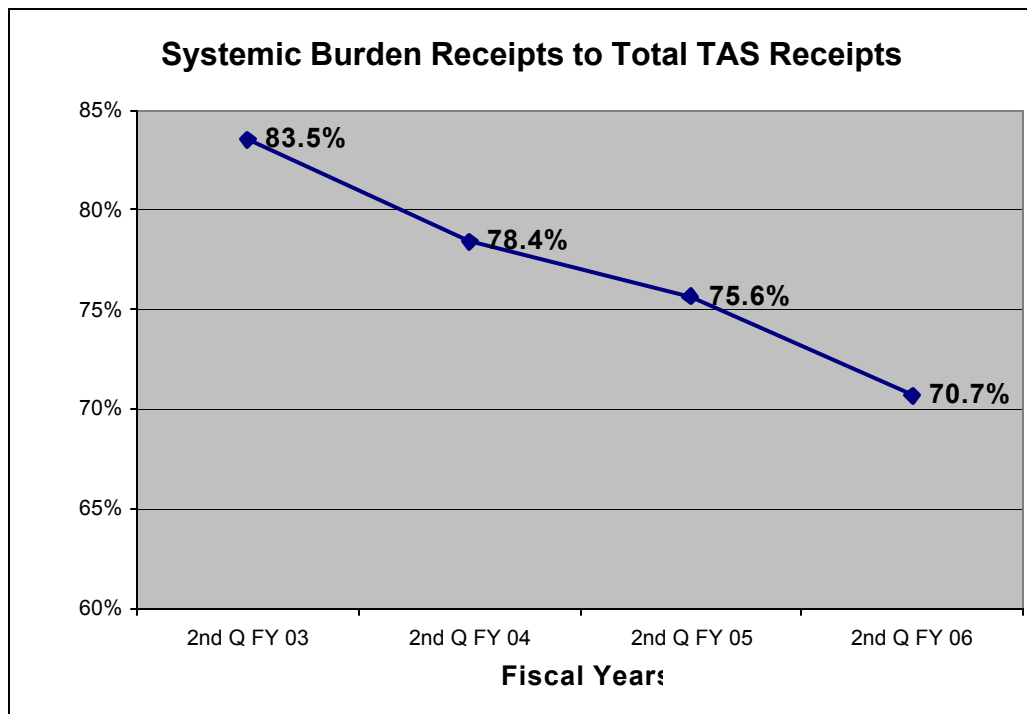
Systemic Burden Receipts – TAS Efficiency Measure

The Taxpayer Advocate Service’s efficiency measure is the ratio, represented by a percentage, of systemic burden case receipts (criteria 5 – 7) to total TAS case receipts.¹⁰² By measuring the ratio of systemic hardship case receipts to total case receipts, TAS can monitor its ability to identify problems that affect large numbers of taxpayers and work with the IRS to recommend changes to processes or procedures that will prevent the problems.¹⁰³ The greatest leverage point for IRS and TAS in reducing taxpayer burden is in terms of addressing the systemic factors that taxpayers face in being compliant with the tax law. That is, IRS has a better opportunity to reduce taxpayer burden that results from its own systems or processes failing taxpayers (e.g., when they do not receive responses to their inquiries on a timely basis). It should therefore be a mutually shared objective between TAS and IRS to reduce the efficiency measure on a continuous basis.

¹⁰² Systemic Burden cases are those in which an IRS process, system, or procedures has failed to operate as intended, and as a result, the IRS has failed to timely respond to, or resolve, a taxpayer issue. Criteria 5 is when the taxpayer experienced a delay of 30+ days to resolve the problem. Criteria 6 when is the taxpayer did not receive a response or resolution by the date promised. Criteria 7 involves a system or procedure failure, or the taxpayer requests TAS assistance.

¹⁰³ National Taxpayer Advocate Fiscal Year 2006 Objectives Report 49.

For the first six months of FY 2006, TAS's efficiency measure is 71 percent, a five percent reduction from the same period in FY 2005.¹⁰⁴ If the current trend continues, TAS will exceed its goal to reduce the efficiency measure to 74.8 percent by the end of FY 2006.¹⁰⁵ As the following discussion details, there is an identifiable trend toward increasing systemic cases that are attributable more to the increase in compliance enforcement activities by IRS rather than customer service-related issues.



Systemic Burden Receipts: Compliance Issues

Sixty-eight percent of the total systemic burden case receipts are compliance issues, a 17 percent increase from the second quarter FY 2005. Areas of significant increase in compliance-related systemic burden cases from the second quarter FY 2005 to the second quarter FY 2006 are:

- 95 percent increase in Federal Payment Levy Program levies on Social Security Benefits – 279 compared to 143 in FY 2005.
- 64 percent increase in Taxpayer Delinquency Investigation - Substitute for Return under IRS 6020(b)¹⁰⁶ cases – 1,111 compared to 679 in FY 2005.

¹⁰⁴ Efficiency Measure for the second quarter FY 2005 was 76 percent.

¹⁰⁵ During FY 2006, TAS plans to reduce the ratio of systemic hardship cases from 76.7 percent to 74.8 percent. National Taxpayer Advocate Fiscal Year 2006 Objectives Report 49.

¹⁰⁶ Taxpayer Delinquent Investigations involve delinquent tax returns where the taxpayer disputes the filing requirement, proposed liability, or claims the return was previously filed.

- 36 percent increase in Open Automated Underreporter cases – 1,726 compared to 1,269 in FY 2005.
- 35 percent increase in Reconsideration of Substitute for Return under IRC §6020(b)¹⁰⁷ and Audit¹⁰⁸ cases – 4,128 compared to 3,068 in FY 2005.
- 30 percent increase in Missing or Incorrect Payment cases – 1,826 compared to 1,402 in FY 2005.
- 25 percent increase in Failure to Pay or Failure to File Penalty cases – 1,845 compared to 1,472 in FY 2005.
- 1.3 percent decrease in CI Cases – 11,845 compared to 11,999 in FY 2005.

Systemic Burden Receipts: Customer Service Issues

Thirty two percent of the total systemic burden case receipts are customer service issues, a 12 percent increase from second quarter FY 2005. Areas of significant change in customer service related systemic burden cases are:

- 156 percent increase in Stolen Identity cases – 790 compared to 308 in FY 2005.
- 41 percent increase in Tax Question cases – 343 compared to 244 in FY 2005.
- 40 percent increase in Math Error cases – 810 compared to 577 in FY 2005.
- 23 percent increase in Requests for Copies of Returns, Transcripts, Reports and Freedom or Information Act (FOIA) cases – 2,620 compared to 2,125 in FY 2005.

Operations Assistance Requests

The Taxpayer Advocate Service issues Operations Assistance Requests (OARs) to operating divisions whenever TAS itself does not have the statutory or delegated authorities to take the actions necessary to resolve a case. TAS

¹⁰⁷ IRC § 6020(b): If any person fails to make any return required by any internal revenue law or regulation made thereunder at the time prescribed therefore, or makes, willfully or otherwise, a false or fraudulent return, the Secretary shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise.

¹⁰⁸ Reconsideration of a tax assessment resulting from an IRS examination, or an income or employment tax return prepared by the IRS under IRC §6020(b).

issued 89,332 OARs between October 1, 2005 and March 31, 2006. OARs may be sent to any function of the IRS, and it is a challenge for TAS employees to identify when an OAR should be sent, given the continuing state of change in operating division personnel and procedures.

An analysis of data on rejected OARs from the Taxpayer Advocate Management Information System (TAMIS) reveals that as TAS case receipts go up, so do the number of OARs issued and the number rejected. However, the percentage of rejected OARs has remained constant even as the number of cases assigned each advocate increases. TAS continues to analyze rejected OARs to identify opportunities for improvement.

Of the 89,332 OARs issued during the first six months of FY 2006, the operating divisions rejected 12.79 percent. Rejection of OARs creates delays for taxpayer case resolution and unnecessary rework for both TAS and the IRS. The two most common reasons for rejections were “OAR routed wrong” and “other”.

TAS reviewed explanations in the “Other” category for the OAR issues including Reconsideration of Substitute for Return under IRC §6020(b) and Audits, Processing Amended Returns, and Levy categories. We identified the following trends:

- More than 25 percent of the “Other” reasons should have been categorized as routed wrong;
- More than 25 percent of the “Other” reasons concerned additional documentation requests by the operating divisions;¹⁰⁹
- There are instances when an OAR is being coded as rejected when for whatever reason TAS never actually issued the OAR or where the action was performed by the operating division before receipt of the OAR; and
- Levy cases had a high number of “Other” reasons where the Operating Division disagreed with the requested action.

Clearly, misrouting is the most significant cause of rejected OARs. Wage & Investment has developed interactive addenda for Customer Account Services (released July 2005) and Compliance (released January 2006). It is anticipated that these tools will help alleviate misrouting. In FY 2007, TAS will evaluate how effective this tool is, identify areas for improvements, and develop a similar tool with the other operating divisions.¹¹⁰

¹⁰⁹ See *Campus Consistency Procedures* in this report.

¹¹⁰ See Appendix V - *Service Level Agreements* in this report.

In addition to the interactive addenda, during FY 2007, TAS will:

- Revise the Form 12412, Operations Assistance Request, to improve the clarity and functionality of the form thereby reducing rejections;
- Identify training needs for TAS and Operating Division employees for specific issues, such as documentation for levy releases;
- Analyze the current reasons for rejecting OARs; consider adding additional reasons, clarifying current reasons, and addressing withdrawal of OARs before issuance to the Operating Division; and
- Clarify the OAR processing and coding provisions in IRM 13 and train TAS employees, especially in OAR rejects.

Taxpayer Assistance Orders

Internal Revenue Code § 7811 authorizes the National Taxpayer Advocate to issue a Taxpayer Assistance Order (TAO) when a taxpayer is suffering or about to suffer a significant hardship as a result of the manner in which the IRS is administering the internal revenue laws.¹¹¹ The TAO requires the IRS to take an action which is specifically authorized by IRC §7811(b) or orders the IRS to expedite consideration of a taxpayer's case, review and reconsider its own determination, or review the determination at a higher level.

TAS issued five Taxpayer Assistance Orders (TAOs) during the first and second quarters FY 2006:

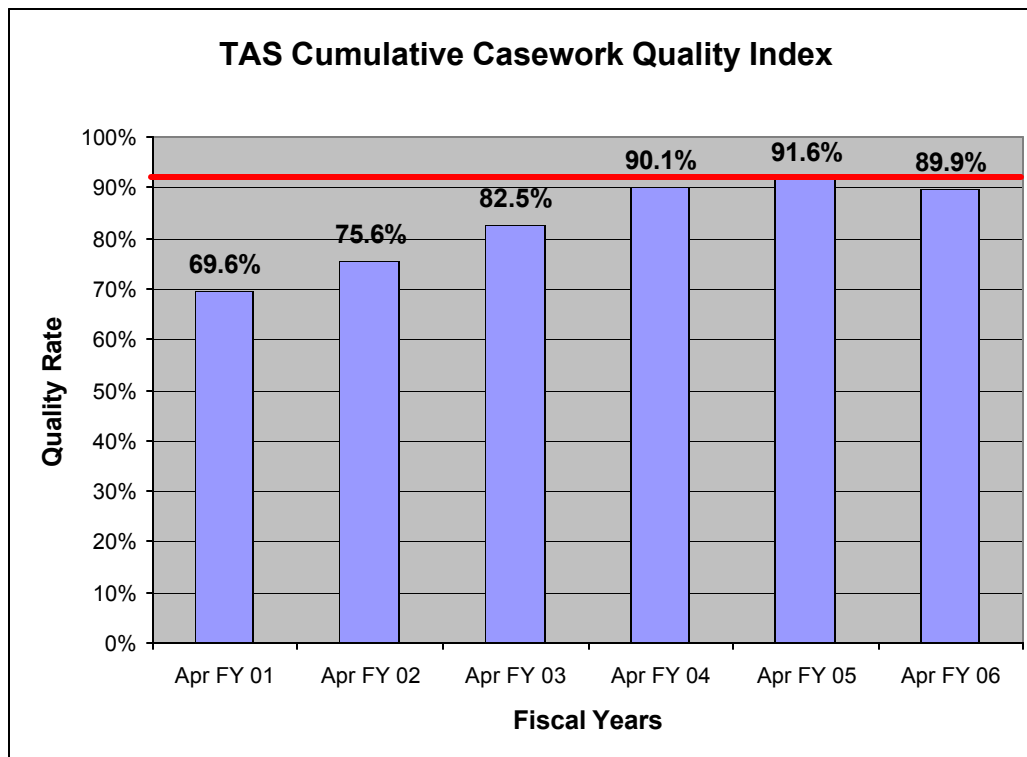
- A TAO was issued to an SB/SE Territory Manager requesting issuance of a claim denial letter denying the taxpayer's request for return of levied property. The taxpayer was unable to appeal the decision without a formal claim denial. The function complied.
- A TAO was issued to a W&I ACS support site requesting return of fifty percent of levy proceeds attributable to the marital property of a nonliable spouse. The function complied.
- Two TAOs were issued to a Campus Examination Operation to reconsider tip income allocation. The taxpayers were not subject to the IRS Tip Allocation program and reported the actual amount of tips received. However, the Examination function assessed additional tax based on allocated tip income. TAOs were issued to request reconsideration of the allocated tip income assessment. The function complied in both cases.

¹¹¹ The National Taxpayer Advocate delegated this authority to Local Taxpayer Advocates.

- A TAO was issued to W&I, to allow health cards as acceptable documentation of foreign status and applicant's identity for issuance of Individual Taxpayer Identification Numbers (ITIN). The corporate employer requested assistance in obtaining the ITINs for recipients of an Employee Stock Ownership Plan (ESOP) distribution. The function was unable to comply because the IRS does not consider the health card an acceptable form of documentation.

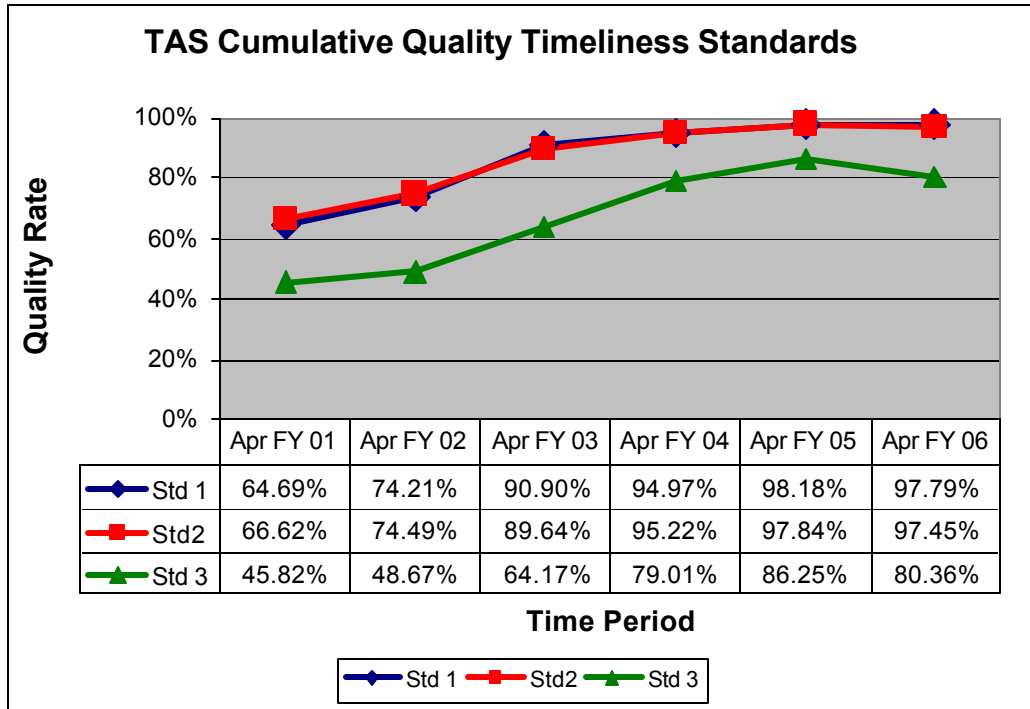
Case Quality

The Taxpayer Advocate Service has exceeded its annual case quality goal in each of the past two years.¹¹² This year, TAS stands by its goal of 91.5 percent but realizes this goal may not be reached in FY 2006 due to increasing caseload and reduced case staffing. The upward case quality trend in TAS since standup has been remarkable, increasing from 66 percent in FY 2000 to 91.6 percent in FY 2005. Results have improved each year. Significantly increasing receipts without additional resources, along with increasing case complexity, complicates TAS's drive for continuous quality improvement. Disaster and Private Debt Collection cases will further challenge improved results. As of April 2006, the overall quality measure stands at 89.93 percent compared to 91.63 percent at the same period last year.



¹¹² TAS quality goal for FY 2004 was 90%. National Taxpayer Advocate's FY 2004 Objectives Report, 38. TAS quality goal for FY 2005 was 91%.

Standard 3, "Did TAS take all subsequent actions timely from the time action could have been taken?" continues to be problematic with a quality rate of 80.36 percent as of April 2006, as compared to 86.25 percent a year earlier. TAS is committed to being responsive and taking timely action, especially since many taxpayers have already experienced delays before coming to TAS. We must reverse this trend or Customer Satisfaction results will be impacted.



The TAS Leadership team recently addressed the flattening quality trend and considered inventory management enhancements in light of the workload realities. Additional hiring in critical locations based upon a strategic selection process is underway.

These initiatives should help stabilize results and return to an improving environment. However, the National Taxpayer Advocate is developing guidance on the issuance of Taxpayer Assistance Orders where operating divisions fail to be responsive in a timely fashion, requiring multiple follow ups by TAS and wasting resources.

QUALITY STANDARD	FY 2004 Apr	FY 2005 Apr	FY 2006 Apr	QUALITY STANDARD DEFINITION
1	94.97%	98.18%	97.79%	#1: Did TAS make timely contact with the taxpayer? (5 points)
2	95.22%	97.84%	97.45%	#2: Did TAS take initial action/request information

QUALITY STANDARD	FY 2004 Apr	FY 2005 Apr	FY 2006 Apr	QUALITY STANDARD DEFINITION
				within the specified time frame? (10 points)
3	79.01%	86.25%	80.36%	#3: Did TAS take all subsequent actions timely from the time action could have been taken? (10 points)
4	93.01%	94.06%	93.68%	#4: Did TAS resolve all taxpayer issues? (25 points)
5	84.52%	84.34%	87.07%	#5: Did TAS address all related issues? (10 points)
6	84.07%	84.90%	83.74%	#6: Were all actions taken by TAS and the IRS operations/functional divisions technically and procedurally correct? (15 Points)
7	92.24%	91.43%	88.87%	#7: Did TAS give the taxpayer a clear, complete, correct explanation at closing? (20 points)
8	85.69%	63.35%	98.33%	#8: Did TAS educate the taxpayer regarding any of his/her actions that contributed to the problem? (5 points)
Overall Quality Rate	90.08%	91.63%	89.93%	

A national team of TAS employees is preparing to make recommendations to enhance the current quality standards that have been in existence since TAS “stood up” as an organization in 2000. This effort will include expanding TAS’ quality measurement to include current customer-centric values. It recognizes and assesses managerial and other support required to accomplish quality work. The proposal expands review of effective case and OAR management and formally measures TAMIS accuracy. The goal is also to enhance analytical capability to isolate improvement opportunities. The team is also proposing corporate linkage with Form 13095 results (Manager Case Review Form). An informal test comparing previous and new standards applied to a case review is underway.

In FY 2007, a decision will be made to adopt any changes to the TAS Quality Standards and investigate the feasibility of an online Quality Review database.

Taxpayer Advocate Management Information System (TAMIS)

The Taxpayer Advocate Management Information System (TAMIS) is the TAS database that is exclusively dedicated to the recordation, control, and processing of TAS taxpayer cases and is used in the analysis of core tax issues, laws, policies, and internal IRS functional processes. TAMIS is a critical source of data for the National Taxpayer Advocate's Annual Report to Congress, for internal feedback reporting to the operating divisions and other functional areas, and for recommending changes tax legislation and internal IRS processes.

Improvements to Tracking Sources of Cases

One initiative that TAS continues to work involves the integration of systemic and case advocacy. It is important that TAS carefully consider the root causes of each case with an eye towards identifying the systems and practices that contribute to taxpayer problems. To improve our ability to accurately track the source of cases, TAS has taken steps to improve the accuracy of data entered into the TAMIS. As noted above, we also improved our ability to link TAMIS information with the Systemic Advocacy Management System (SAMS). The assurance of data accuracy and the ability to research and review data from both management information systems has been enhanced through the development and deployment of the TAMIS Portal.

The TAMIS Portal is a web-based application that provides a secure infrastructure for access to TAMIS and SAMS data. This technology provides TAS management and support staff improved access to customized data reports, including reports that help identify data inaccuracies or reports that improve the efficiency of data analysis.

For example, Systemic Advocacy personnel can utilize the portal to extract summary information about TAS cases, issues, and projects related to IRS processes, and drill down to the details to fully understand how a specific process is affecting TAS taxpayers.

Inventory Balancing

TAS implemented its nationwide inventory balancing process on October 3, 2005, in an effort to provide even distribution of cases among case advocates nationwide. TAS used the first 90 days as a test period, using previously established business measures and a management survey to determine the process' success. As a result we adjusted the procedures to provide better employee satisfaction and taxpayer service. TAS will continue to monitor this process during the next year to ensure its effectiveness.

Additionally, TAS implemented procedures to distribute Spanish cases throughout the organization and included partnership agreements to share bilingual resources with offices that do not have bilingual case advocates. TAS is planning to facilitate movement of these cases through an automated database using the zip code of the taxpayer.

In FY 2007, TAS will implement a time reporting component on TAMIS to capture actual time spent on casework. The first phase, to be implemented in July 2006, creates a background framework to start and stop time recording on user access and work on Taxpayer Advocate Management Information System (TAMIS) cases. This process will provide TAS with the capability to determine time worked on cases by various characteristics of the case (e.g., core issue code, TAS office). TAS is finalizing the requirements for the second phase of the system that will create TAMIS screens to capture time spent on cases when TAMIS is not required for the work – allowing the user to enter and edit his or her own time.

Timeliness and Time Tracking

In conjunction with the Inventory Balancing effort, TAS has worked on an automated time reporting system to determine exactly the amount of time spent to resolve cases. This information, along with the inventory balancing procedures and case advocate skill sets, will enable TAS to more precisely assign cases to the right employee in the right location.¹¹³ The first of two phases of the time recording application within the Taxpayer Advocate Management Information System (TAMIS) are complete. The Las Vegas Development Center (LVDC), the group responsible for programming TAMIS, has developed a timer application within TAMIS that will track the amount of time spent on a case while TAMIS is open. The timer is currently undergoing systems accessibility testing and is expected to be available in July 2006. For the second phase, TAS has written and LVDC is reviewing a Request for Information Services (RIS) to create a graphical front-end so users can add in time spent on a case while not in TAMIS.

LOW INCOME TAXPAYER CLINICS

The Low Income Taxpayer Clinic (LITC) grant program is entering its ninth year of operation. The program is designed to help organizations provide free or low-cost legal assistance to low income taxpayers in resolving tax disputes, and inform taxpayers for whom English is a second language about their tax rights and responsibilities.

TAS Business Performance Review presentation to the Commissioner, November 2005.

TAS views the concept of “access” as fundamental to universal achievement of taxpayer rights. For taxpayers to feel that they should comply with their tax obligations and tax responsibilities, they must have access to information, to the IRS, to the Taxpayer Advocate Service, and to representation. Low income taxpayers who cannot afford representation are at a disadvantage in attaining access to competent assistance in meeting their obligations. LITCs reduce taxpayer uncertainty and errors by clarifying tax law responsibilities. LITCs resolve issues early in the process and through their outreach efforts offer effective communication and education. Finally, LITCs are a safety net that provides low income taxpayers with the assistance they need while ensuring their rights are protected and preserved.

Grant Awards

A total of 213 organizations submitted grant applications for the 2006 grant cycle. TAS has awarded \$8 million in matching grants, ranging from \$5,000 to \$97,250, to 150 non-profit organizations and accredited academic institutions from all 50 states plus the District of Columbia and Puerto Rico. During 2006, TAS expanded the coverage of clinics into rural and other areas where disadvantaged taxpayers had very limited access to assistance, funding 11 new clinics in areas that were underrepresented. For the second straight year, TAS funded at least one LITC in each of the 50 states. Our goal for FY 2007 is to maintain at least one clinic in every state, the District of Columbia and Puerto Rico, and expand clinic coverage to Guam and rural areas.

TAS continues to market the LITC Program in states that are underserved by LITCs to identify organizations that may be interested in opening a clinic. As a part of this effort, the LITC Program Office visited the offices of members of Congress whose districts are underrepresented by clinics. Local Taxpayer Advocates (LTAs) in these states also worked to identify organizations that may be interested in the LITC program.

During the summer of 2006, an LITC grant application review panel will review applications for the 2007 grant cycle. The panel will receive extensive training on the standards of operation and the ranking process.

TAS revised Publication 4134, Free/Nominal Cost Assistance Availability for Low Income Taxpayers, which is a listing of all LITCs, their locations, languages served, and telephone numbers. Publication 4134 is published in both English and Spanish.

TAS revised Publication 3319, Low Income Taxpayer Clinic Grant Application Package, for the 2007 grant cycle. TAS is working to address concerns raised by Treasury Inspector General for Tax Administration (TIGTA) in a recent audit of the LITC Program and is continuing its efforts to improve the administration and oversight of the program. TAS has clarified the program standards and

guidelines to make them easier for applicants to understand. We have eliminated duplicate requests for information, thereby streamlining the application process. The program guidelines emphasize the importance of face-to-face contact as the primary means of educating taxpayers, but recognize the value of using pamphlets, brochures, and other advertisements so long as those outreach efforts include substantive tax information. We have incorporated the Tax Information Authorization Form to help the LITC Program Office identify whether each applicant is in compliance with all federal tax obligations.

TAS added language to Publication 3319 for the 2007 grant cycle to clarify that a controversy LITC that is solely making referrals to another LITC will not be funded. This language is designed to ensure reliability in the total number of taxpayers assisted by clinics and to ensure that funds are being used for *direct* program services.

The Taxpayer Advocate Service remains committed to achieving maximum access to representation for low income taxpayers under the terms of the LITC grant program. In addition to conducting a recruitment program that so each state (plus the District of Columbia and Puerto Rico) is served by at least one clinic, TAS will continue to work towards the following goals in awarding 2007 LITC grants:

- Expanding coverage in states that do not have both controversy representation and ESL education and outreach; and
- Evaluating that grant recipients demonstrate they serve geographic areas with sizable populations that need LITC services.

Site Assistance Visits

TAS periodically performs on-site assistance visits to selected LITCs to ensure that they fulfill their obligations. Each new clinic can expect to receive a visit during its first year of operation. TAS is working to develop a weighted criteria list to help identify which returning and continuing clinics should be visited each year. The list will include information based on interim and annual reports, Local Taxpayer Advocate observations, timeliness of revised program plans and budgets, and other criteria. During calendar year 2007:

- Each new clinic funded in 2007 will receive an on-site assistance visit;
- Every clinic funded in 2007 will be visited by the LTA in the state where the clinic is based; and
- The LITC Program Office will complete in-depth on-site assistance visits to at least 25 percent of the clinics funded in 2007.

Annual LITC Conference

TAS conducted the Annual 2006 LITC Conference in December 2005. All 150 of the 2006 grantees participating, including the 11 newly selected ones, with 320 participants attending. The LITC Conference enables TAS to educate clinics about clinic operating guidelines, as well as substantive tax administration issues affecting low income taxpayers and allows clinics to share best practices.

The 2006 Conference agenda included technical tax topics on problems faced by low income taxpayers and those with limited English proficiency in areas such as the Earned Income Tax Credit (EITC), Uniform Definition of a Qualifying Child, Offer in Compromise, Bankruptcy and Innocent Spouse. In two plenary sessions, TAS emphasized the value and importance of direct contact with taxpayers and the requirement that grantees submit their interim and year end reports timely. The National Taxpayer Advocate, IRS operating division executives, and the Director of the LITC Program Office delivered key addresses to the 320 conference participants.

TAS is planning the Annual 2007 LITC Conference, which will be held in December 2006. One focus of this year's conference will be improving the understanding of and involvement with technical components of LITC operations including confidentiality and security of taxpayer information, client attorney privilege, and LITC reporting requirements. TAS will also share with all participants a Program Letter outlining the performance measures by which clinics will be evaluated.

Compliance Reviews

In FY 2005, TAS established procedures to check for federal tax compliance before awarding LITC grants. Prior to awarding the 2006 LITC grants, TAS verified that each grantee was compliant with all federal tax obligations. TAS will conduct a follow up compliance check during the 2006 grant cycle. TAS works closely with the Office of Chief Counsel to develop formal procedures so that no unauthorized disclosure of return information occurs if TAS needs to contact a clinic regarding noncompliance of the institution with which the clinic is affiliated. TAS and Counsel developed a Tax Information Authorization form allowing each clinic to designate an authorized official whom TAS can contact to discuss noncompliance with federal tax issues.

Performance Measures

TAS is working to establish goals and performance measures for the LITC Program to assist Congress and the IRS in evaluating the success of the program. TAS will communicate the general expectations derived from these

measures to prospective clinics during the application process and reinforce the measures to grant recipients at the Annual LITC Conference and during site assistance visits.

LITC Annual Report

The LITC Program Office will work with the LITCs to capture statistical and anecdotal information about LITC casework and outreach activities. The LITC Director will consolidate and report on the findings to the National Taxpayer Advocate. TAS has developed a new form that each clinic must submit with its interim and annual reports that will assist in consistently reporting the number, and type of cases worked and taxpayers served throughout the year.

LITC Communication

The LITC office has publicized the awarding of the grants for the 2006 calendar year through an IRS press release that was carried by major news outlets and local papers. The offices began publicizing the open grant application in mid-May via another press release, articles in IRS publication geared for practitioners, and the IRS website. In addition, the LITC Office is aggressively using local media in select cities that are underrepresented by clinics. This year the LITC office will accept applications from Guam and has launched an aggressive outreach campaign to alert organizations in Guam about the program.

TAXPAYER ADVOCACY PANEL

The Taxpayer Advocacy Panel (TAP) serves as an advisory body to the Secretary of the Treasury, the Commissioner of the Internal Revenue, the National Taxpayer Advocate, and the IRS Operating Division Commissioners to improve IRS service and customer satisfaction. The TAP was initially established in 1998 as a federal volunteer advisory panel to identify “grass roots” issues and provide opportunities for taxpayers to make comments and suggestions on improvements within the IRS. The TAP has evolved into a structure that consists of seven area committees and seven issue committees. Representatives come from all 50 states, Washington D.C., and Puerto Rico. The TAP has been credited with making numerous documented recommendations to improve processes and procedures within the IRS.

The TAP’s charter was renewed in March 2006 for a two year term through March 2008. This renewal was accomplished in a very short timeframe and meets one of the key objectives to maintain this grassroots volunteer organization. These actions comply with the provisions of the Federal Advisory Committee Act.¹¹⁴

¹¹⁴ Pub. L. No. 92-463 (5 U.S.C. App).

The Taxpayer Advocate Service provides support to and oversight of the TAP through the TAP Director and his staff, TAS promotes TAP internally and externally, and encourages the IRS operating divisions to utilize TAP prior to making decisions on programs and as issues develop. All levels of IRS executive support have offered commitments that TAP will continue to play an integral part in operating division decision-making. FY 2007 strategic accomplishments will include:

- Preparing the initial draft of business measures to determine TAP effectiveness. The measures will explore the areas of TAP member satisfaction, IRS operating division satisfaction with TAP, and burden reduction created by implementing member recommendations;
- Comparing the FY 2005 and 2006 exiting TAP member surveys to identify improvement opportunities in recruitment, training, and issue development; and
- Accomplishing its one-third retention goal, by recruiting to fill 28 vacancies during the 2006 campaign.

As the TAP continues to advance in all program areas, it maintains the focus of serving taxpayers and the IRS. Accomplishments to date include:

- The TAP Member Handbook and staff Standards of Operation were fully implemented in January 2006 during the TAP 2006 Annual Meeting in Washington D.C. All TAP members received extensive training on the handbook, along with detailed information on their role as federal advisory committee members. In addition, all issue and area committee chairs received training that focused on leadership responsibilities within TAP.
- The 2006 TAP Communications covered a variety of internal and external messaging, including:
 - A communication workshop conducted at the 2006 Annual Meeting;
 - The formation of three distinct subcommittees in the Communications Issue Committee that focus on internal, external, and outreach communications; and
 - A new TAP Poster distributed to all IRS Taxpayer Assistance Centers.
- Members of the Joint Committee had a face to face meeting with the Commissioner Internal Revenue in April 2006, to discuss TAP's current role, future roles and accomplishments;
- Two new Issue Committees were created in January 2006: The Volunteer Income Tax Assistance and Taxpayers Assistance Center Committees;

- The 2006 TAP Annual Report issued in April 2006 details 78 recommendations and issues worked in 2005;
- TAP has conducted Town Hall Meetings across the nation as a form of outreach. Seven sites were chosen to host these interactive sessions that are designed to educate taxpayers about TAP, solicit ideas for customer service improvement opportunities, and conduct focus groups to identify potential grass-root issues. The National Taxpayer Advocate has played a key role in the success of these events. By serving as the keynote speaker, she has acted as the catalyst in obtaining honest, open feedback from taxpayers nationwide. TAP has held meetings in:
 - Philadelphia, Pennsylvania
 - San Diego, California
 - Davenport, Iowa
 - Jackson, Mississippi
 - Fargo, North Dakota
 - Cranston, Rhode Island
 - Cincinnati, Ohio

TAP Committee Structure

Each TAP member serves on a geographic committee and a national issue committee. Geographic committees are designed to address area-specific issues and focus on the needs of the constituents represented by the TAP members. Issues are identified via a variety of sources, including taxpayer input from open meetings, correspondence, telephonic contact and outreach. Geographic committees are outlined as follows:

- Area 1: Northeast
- Area 2: Mid-Atlantic
- Area 3: Southeast
- Area 4: Mid-States
- Area 5: Central
- Area 6: Mountain-Pacific
- Area 7: West

Issue committees are designed to provide direct feedback to IRS operating divisions on numerous issues that affect taxpayers. TAP issue committees communicate their concerns to the IRS via liaison contacts with the SB/SE and W&I operating divisions. These relationships have afforded members the opportunity to offer comments as part of focus groups, forms certification, forms review, website review, and multilingual initiatives. The Issue Committees are:

- Ad Hoc Committee (Multi-Lingual / Forms & Publications)

- Earned Income Tax Credit Committee
- Notices Committee
- Burden Reduction-Small Business/Self Employed Committee
- Communications Committee
- Taxpayer Assistance Center Committee
- VITA Committee

TAP Annual Report

The “Taxpayer Advocacy Panel – 2005 Annual Report” serves as a compilation of the panel’s efforts during the 2005 fiscal year. The report consists of an Executive Summary, Area and Issue committee reports, a list of all recommendations for 2005, structure, procedures, partnering, marketing, and recruitment. The highlight of the report is an individual self-assessment of each committee including:

- Recommendations submitted through the Joint Committee to the IRS;
- Issues currently under consideration; and
- Other accomplishments.

This report is available in printed format and on the TAP website at <http://www.improveirs.org>.

TAP Communications Plan

The TAP national communications strategy is designed to raise the organization’s profile and strengthen its identity as the preeminent national forum for taxpayers to make their voices heard directly at the IRS, on issues of customer service. The strategy has four goals:

Strategy 1: Raise TAP’s profile externally, with taxpayers, the media, the public, and other external stakeholders. TAS Communications and Liaison (C&L) worked in collaboration with IRS Media Relations and the TAP members to promote TAP Town Hall Meetings, resulting in greater attendance than normal face-to-face meetings.¹¹⁵ In addition, focus groups followed each meeting to dig deeper into taxpayer views of IRS customer service. Surveys collected from attendees will provide additional feedback on IRS customer service problems and recommendations for improvement.

Strategy 2: Raise the TAP profile internally. TAS regularly publishes TAP articles on the IRS and TAS intranet websites covering recruitment, town hall meetings, and other TAP developments.

¹¹⁵ Attendance ranged from six to 60 members of the public, including tax practitioners, taxpayers, and other stakeholders.

Strategy 3: Improve media outreach. TAS C & L and IRS media relations collaborated with TAP staff and members to publicize the local Town Hall meetings. IRS media relations published media releases at the appointment of each new TAP member.¹¹⁶

Strategy 4: Publicize the TAP recruitment campaign. The FY 2006 campaign drew a record number of applications; as of April 20, TAP received 455 final and 1035 draft applications.¹¹⁷ TAP applicants were asked how they found out about TAP and the responses will be used to target campaign messages in FY 2007.

In FY 2007, the TAP Communications Committee will develop a new national communications strategy. By continuing to elevate TAP's profile both externally and internally, increasing visibility and awareness among all its audiences and stakeholders, TAS has improved the "brand recognition" of TAP's national identity. This recognition will increase participation and feedback from taxpayers and allow TAP members to achieve broader influence within IRS, which ensures pre-decisional input concerning IRS policy or procedural customer service matters directly affecting taxpayers.

TAXPAYER ADVOCATE SERVICE COMMUNICATIONS AND LIAISON

The TAS Office of Communications and Liaison (TAS C&L) serves as the vehicle for the National Taxpayer Advocate's strong commitment to a well-informed and educated workforce. Through the TAS intranet website and a series of email publications, TAS emphasizes consistency in procedures and integration among case and systemic advocates. The website is both an instrument of policy and an interactive portal, addressing employee concerns and giving case advocates the latest information on helping taxpayers.

When Hurricane Katrina struck, TAS immediately created web pages on how to deal with hurricane-related cases, conveying both TAS-specific and Service-wide guidance. We solicited employee questions via email, posted the answers on the site, and distributed the information in TAS-wide email newsletters and bulletins. Through our communication initiatives we use a similar process to disseminate information about major employee education events such as the 2006 Technical Training Symposium.

Our focus for FY 2007 will be to assess, improve, and renew strategies and processes, with an eye toward further centralizing key information on the website and keeping TAS' field and headquarter elements in touch with each other. TAS C&L will solicit feedback from managers and employees on the types of

¹¹⁶ To date, an estimated 30 stories about TAP have appeared in mainstream and trade media in FY 2006.

¹¹⁷ The recruitment campaign ended April 28, 2006.

information they need to do their jobs and the best ways of delivering that information.

Congressional Outreach

The annual Congressional Affairs Program (CAP) conference was held in Washington D.C., February 13– 17, 2006. The Local Taxpayer Advocates (LTAs) scheduled meetings with their respective congressional offices to deliver and discuss the Annual Report to Congress (ARC). Two national issues categorized as “Most Serious Problems” facing taxpayers for 2005, Levies on Social Security Payments and Criminal Investigation Refund Freezes, were highlighted in the discussions. Local Taxpayer Advocates were provided with a compact disk of individual filing statistics by state, stratified by congressional districts, to take with them as they presented the report. LTAs will conduct similar outreach meetings with local congressional offices throughout the year. We are currently planning for the 2007 CAP conference and the development of the filing statistics data.

On April 18, 2006, the Gallup Organization began an electronic survey of more than 800 congressional office staff members who work with local offices on constituent cases. TAS is the key point of contact for congressional offices in resolving constituent tax account issues.¹¹⁸ We will use the results to drive improvements in service to members of Congress and to develop FY 2007 congressional outreach strategies.

TAS contributed several articles to the January 2006 IRS Congressional Update newsletter and continues to use the newsletter to highlight TAS initiatives. Submissions for the May 2006 issue included articles on the recent Capitol Hill Visits to share the ARC, the LITC grant application period, and the congressional survey. Additionally, TAS participates on the cross-functional Congressional Affairs Program (CAP) Council with Legislative Affairs and Governmental Liaison to facilitate a multi-functional approach to working with members of Congress.

Marketing Campaign And External Outreach

TAS’s outreach strategy for FY 2006 focused on delivering our message to a greater number of markets to ensure that taxpayers are aware of our organization and its services. Our marketing campaign targets several taxpayer populations that are underserved by TAS: surviving spouses, unmarried low income individuals, and struggling young families.¹¹⁹ The campaign began in ten

¹¹⁸ Through April 2006, TAS has resolved 5,861 congressional inquiries in FY 2006.

¹¹⁹ Russell Marketing Research, *Findings from Task 149 – The Taxpayer Advocate Service Research Program with a Focus on the Detailed Study of the Underserved Segment – Phase II, Study #3* (July 2002).

cities in 2004, and expanded to 16 cities in FY 2005. In FY 2006, we added ten more cities, for a total of 26.

In order to reach a broader taxpayer base, in 2006 TAS modified the criteria employed to identify cities with significant populations of the target segments and to determine the new test cities. Criteria include:

Group	Age Limitations	Household Income
Surviving Spouses & Seniors	Adults 65+	\$15K - \$50K
Unmarried Low Income	Adults 18 – 65	\$10K – 40K
Struggling Young Families	Adults 25 – 40, with children less than 17.	\$10K - \$50K

TAS identified these groups as a result of market research showing they were underserved by TAS. Moreover, these taxpayers are more likely to experience economic burden as a result of the IRS’s increased enforcement initiatives – including levies on social security benefits, automated underreporter, EITC correspondence examinations, and Private Debt Collection.

In addition to reaching underserved taxpayers through radio and print public service announcements (PSA),¹²⁰ TAS expanded the FY 2006 campaign to outdoor PSAs. Beginning in June, outdoor/transit signage in ten of the market cities will carry TAS messages on 550 billboards, trains, buses, and transit stop shelters.

Local Taxpayer Advocates (LTAs) continued their grassroots outreach initiative to taxpayers using low or no cost opportunities. Each office will complete a minimum of forty grassroots activities by the end of the year. Some of the highlights to date include:

- In Brooklyn, the Local Taxpayer Advocate submitted an article for the March/April Consolidated Edison employee newsletter, which will be followed up with a subsequent article for company retirees.
- In Delaware, a contact with the Department of Labor led to a request to conduct a “lunch and learn” seminar for their employees. The Training Administrator believed it would be helpful to the employees on a personal level and would provide them with information they could share with their clients.
- In New Orleans, local TAS employees partnered with W&I employees to participate in an E-Bus event. The bus, owned by Freddie Mac, visited a Federal Emergency Management Agency (FEMA) Village to help disaster

¹²⁰ As of April, 2006, the total media value was \$900,000,

victims with tax return preparation and to provide information on the assistance they could obtain from TAS.

- In Des Moines, the LTA contacted the Low Income Home Energy Assistance Program and was able to share information about TAS throughout 120 offices, reaching an estimated 90,000 taxpayers. Additionally, an article about TAS appeared in the local utility newsletter reaching 850,000 customers in Iowa and surrounding states.
- In Denver, a TAS manager identified a local Internet outlet for many of the neighborhood newsletters in the metropolitan area and smaller towns across the state. TAS successfully placed articles in over 40 local hubs; the print media in some locales also picked up the articles.
- In Washington State, TAS employees contacted sources in their own neighborhoods to place TAS-related articles in Parent Teacher Association (PTA) and insurance newsletters, reaching readers from varying economic backgrounds and education levels.
- In New Mexico, the LTA attended a Bar Association event for agencies and associations, which provide free legal assistance to low income taxpayers for specific issues. The New Mexico District Court subsequently contacted the LTA to refer individuals in its Pro Se Services for Family Law who have problems with IRS refund offsets, collection actions or who have hardship refund needs.
- In Nevada, instead of flying to an annual practitioner event in Reno, two case advocates drove together and stopped in 22 small towns along the way. They left flyers and pamphlets regarding the Taxpayer Advocate Service and answered questions about how TAS can help taxpayers.

The marketing campaign to tax practitioners and small business owners continued at the national level through outreach at Tax Forums, seminars, and trade shows. The e-mail message campaign to opt-in listserv subscribers in the practitioner community in FY 2005 was expanded to the small business community in FY 2006. Email blast waves are scheduled for May and July 2006.

In FY 2007, TAS will continue with its fourth and final year of the marketing campaign to underserved taxpayers at both the local and national level. LTAs in all offices will again conduct a minimum of 40 low or no cost grassroots outreach activities, designed to reach a broad base of taxpayers. Activities will continue to provide disaster relief assistance in affected areas.

LTAs in the 26 test market cities will continue their efforts to reach underserved populations. Supplemented by public service announcements in radio, newspapers, magazines and outdoor signs, LTAs in these communities will

maximize opportunities to increase TAS awareness in groups who may need TAS services but do not know that help is available at no charge.

To determine the change in taxpayers' awareness of the Taxpayer Advocate Service, TAS will commission a marketing study in FY 2007. The study will use techniques similar to those employed in a 2002 analysis, which found that many taxpayers who may need TAS services are unaware these free services are available.

National Taxpayer Advocate Satellite Media Tour and Other Media Coverage

For the third year, the National Taxpayer Advocate conducted a satellite and audio media tour discussing the work of the Taxpayer Advocate Service and the role of the National Taxpayer Advocate. In February 2006, in a single day, the National Taxpayer Advocate conducted 19 interviews with television and radio stations specifically targeted to taxpayers most in need of TAS services as identified by market research. Three of the interviews were with stations in the top five television markets, ten took place in the top 25 television markets and five interviews were conducted by the national media including the Associated Press radio and television. More than 200 stations played portions of the interviews, and there were more than two million media impressions.

Nationwide Tax Forum

The Taxpayer Advocate Service maintains an integral role in the IRS Nationwide Tax Forums, which provide up-to-date information to tax practitioners and legal community. In addition to presenting sessions on the role of the Taxpayer Advocate Service and staffing an exhibition booth, TAS coordinates the Case Resolution Room Program. This program, staffed primarily by TAS case advocates and managers with support from W&I and SB/SE provides practitioners the opportunity to bring difficult cases in need of resolution. In 2005, the program resolved 89 percent of the 1,089 cases received. All unresolved cases are handled within TAS. In 2006, in addition to the activities previously mentioned, TAS will present a Tax Forum seminar entitled "How to Resolve Big Issues with the IRS" which will include information on financial literacy.

Outreach Within The IRS

The Taxpayer Advocate Service Communication Strategy identified a need to increase IRS employee awareness regarding the role of TAS as an advocate for all taxpayers. Our communications department has developed two scripts that are intended to educate employees on TAS Criteria, Systemic Advocacy, and the Operations Assistance Request (OAR) Process. Upon approval of the scripts by

the National Taxpayer Advocate (NTA) and Deputy National Taxpayer Advocate (DN TA), TAS will work with the IRS Television Studio to produce the videos.

TAS developed a resource webpage on the TAS intranet website dedicated to helping IRS employees make TAS referrals and provide oversight to ensure consistency with national guidelines.

TAS Multilingual Web Page

TAS launched its multilingual web page on the IRS intranet in June 2005 as the result of a recommendation by a joint TAS / National Treasury Employee Union (NTEU) team to improve and expand the organization's bilingual and multilingual resources. While designed primarily for TAS employees, the page is available to all IRS employees, and links the Service-wide Multilingual Initiative site. This site in turn carries a link to and information about the TAS page.

The TAS site, titled "The Multilingual World of TAS," contains a variety of products and resources to help case advocates deal with a diverse, multilingual customer base. FY 2006 enhancements to the site include Chinese, Korean, Russian, and Vietnamese translations of Publication 1546, How to Get Help with Unresolved Tax Problems.¹²¹ Additionally, the page contains job aids in Spanish and a list of employees available to help taxpayers in languages including Polish, Armenian, Hindi, and Tagalog.

The TAS Multilingual Team carried its mission beyond the web during the 2005 TAS Technical Training Symposium, by holding the first-ever Symposium class for bilingual case advocates, bilingual volunteers, multilingual volunteers, and their supervisors. The class dealt with the Individual Taxpayer Identification Number (ITIN), a common issue for those who work daily with immigrants. Additional classes are planned for the 2006 Symposium.

Operating Division Employee Awareness Efforts

Internal Revenue Code § 7803(c) (2) (C) (ii) requires the National Taxpayer Advocate and the Commissioner to develop guidance for all IRS officers and employees outlining the criteria for referral of cases to the Taxpayer Advocate Service. In the past, LTAs have included TAS Awareness training as a part of their outreach plan. We now have computer-based training, which helped reduce the demand on LTA time for training.

For FY 2006 TAS met its obligation to provide training to all IRS employees by including a stuffer with information about TAS in one of their bimonthly Earnings & Leave statements. LTAs may elect to provide additional outreach to the operating divisions in "no or low cost" locations.

¹²¹ Publication 1546 is also available in English and Spanish.

In FY 2007, LTAs will plan an aggressive internal outreach campaign. TAS C&L is developing two TAS Awareness products to assist in this endeavor:

- A ten minute DVD providing an overview of TAS, case acceptance criteria and how to refer cases; and ¹²²
- If funding permits, a two-minute overview on TAS to be shared with all IRS employees via email.

Identification Requirements for Federal Buildings

Recent events have highlighted the need to aggressively publicize the identification requirements needed to enter buildings where IRS offices are located. Taxpayers are frequently referred to Taxpayer Assistance Centers by both internal and external sources to submit ITIN applications, to visit a TAS office, or to meet with collection or examination employees; all of these offices are frequently located in federal buildings that require photo identification for admittance. Taxpayers without adequate identification can be denied access, or as recent incidents demonstrate, may be detained and investigated by U.S. Immigration and Customs Enforcement. Many of those referred are immigrants with limited English proficiency (LEP). TAS is working with W&I to communicate these identification requirements to the general public, to external partners who send taxpayers to IRS offices, and internally to IRS employees. TAS will include additional guidance will be included in a financial literacy project already underway by TAS. TAS will continue to work with W&I, nonprofits, and LITCs to ensure that all taxpayers are able to receive assistance necessary for compliance.

Access for Persons with Disabilities

TAS is committed to making our intranet and Internet content compliant with Section 508 of the Rehabilitation Act of 1973 as amended (29 U.S.C. 794d). The law requires electronic and information technology (EIT) that is developed, maintained, used, or procured by the federal government to be accessible to persons with disabilities, including both federal employees and the public. The enforceable provisions of Section 508 apply to a broad range of EIT, from computers hardware and software to office equipment.¹²³

TAS routinely works with the IRS's Public Portal Branch, which manages the IRS website at <http://www.irs.gov>, to ensure that our public Internet pages follow the requirements of the law. Similarly, TAS periodically reviews and reassesses its

¹²² The DVD will be available in late FY 2006, to allow LTAs to start outreach planning for FY 2007. In the interim, they may use Document 9186 (Rev. 2-2006) for internal outreach.

¹²³ 36 C.F.R. 1194.22 provides the technical standards for Web-based intranet and internet information and applications.

intranet site (for IRS employees only) for 508 compliance and issues updated guidance, as needed, to the TAS employees who contribute content to the site. TAS C&L also ensures that our educational videos, multimedia products, and outreach materials such as PowerPoint presentations comply with the law.

TRAINING INITIATIVES

The Learning and Education function plays an important role in fulfilling the National Taxpayer Advocate's strategic vision of ensuring a strong connection between employee training and the organizational business drivers, customer and employee satisfaction as well as business results. The Learning and Education function facilitates the development and delivery of training that reflects the National Taxpayer Advocate's commitment to continuously improve skills and engender the self-efficacy so critical to sustained performance as advocates for the American taxpayer.

Four Year Training Plan (4YTP)

The Four Year Training Plan is a web-based product focused on identifying employee training needs based upon competencies that all TAS employees share, as well as competencies that are position specific. There are eight separate Professional Development Plans categorized by occupation on this system. The goal is to give TAS employees in all occupational categories the opportunity to assess their proficiency in their core competencies and identify training opportunities that will enhance their proficiency and become more effective advocates for the taxpayer.

TAS commissioned a team to implement improvements to the Four Year Training Program (4YTP), including updating data and making it more user friendly. The goal of the 4YTP is to engage employees in taking charge of their own development by identifying their critical training needs and methods to meet them in a timely manner.

An aspect of the 4YTP is the link of training courses to job competencies. Over time it is expected that this link will allow TAS employees to improve their skills for their current occupation as well as building skills for future positions.

Training Advisory Board

The Training Advisory Board is developing the TAS multi-year Training Strategic Plan and developing the training topics for the FY 2006 Training Symposium. Teams are reviewing training topics for each TAS occupation including case advocate, analyst and manager. The teams will identify the training objectives and recommend ten training topics for each occupation.

TAS Training Program

Case Advocate Curriculum

TAS is in the process of developing a new Case Advocate curriculum. Key components include pre-classroom activities, formal paper based and computer based training, and post classroom on-the-job training. *Integrating advocacy* will be a prevalent theme.

The curriculum will be delivered in phases. The first phase encompassing basic training for Associate Advocates will cover TAS case processing, Accounts, Collection and Examination Issues and will be used in the August 2006 Case Advocate class for new hires. In FY 2007, TAS will develop and deliver the second phase, focusing on technical tax law concepts associated with complex cases.

Development Centers

A key component in the TAS training program and strategy is the development center concept, which focuses on TAS training needs and building course material around those needs. The Laguna Niguel TAS office has been named the new site for the Case Study Development Center. The Laguna office follows the Houston Development Center as the primary office for the development of all Symposia related case studies. The case studies for the FY 2006 Symposium include:

- Disaster Losses;
- Questionable Refund Program/Revenue Protection Program;
- Preparer Audits; and
- Alternative Resolution Strategies for Lien and Levy Issues.

Leadership and Succession Planning

TAS uses four structured Leadership Readiness Programs to transform TAS employees into future leaders. These programs include Front Line Readiness Program (FLRP), Senior Manager Readiness Program (SMRP), Director Readiness Program (DRP), and Executive Readiness Program (ERP). The programs incorporate formal leadership training classes, individual and team projects, book study and lecture, self-study on-line courses, and strong mentoring to prepare these emerging leaders to meet the challenges of the twenty first century. Special emphasis is placed on quarterly self-assessments and one-on-one counseling.

The first FLRP class of ten participants graduates in July 2006. TAS has recently selected its second class of eight and is proud that several members of its initial class have already been selected as Front Line managers.

TAS has just announced its fifth SMRP class, and will select up to ten participants to begin the program in the fourth quarter of FY 2006. Employees selected for the program receive priority for details into senior management positions or as project leads for national impact teams. Additionally, TAS has introduced a formalized Leadership Mentoring Program. Senior Managers and SMRP participants have been trained as mentors, and serve as mentors for employees in FLRP. The TAS Mentoring Program is in the process of a national solicitation for mentor volunteers. This will be followed by a solicitation for TAS Protégés, after which matching will be done using leadership competencies.

Funding for these leadership initiatives has been challenging. TAS has used technology such as web meeting and CENTRA to convert some readiness training and many project team meetings to the virtual environment. Technology initiatives include offering "hot button" leadership training.¹²⁴ The pilot hot button training in *Travel Credit Cards* met with great success and will be used for training on the Family Medical Leave Act (FMLA) in the summer of 2006.

Annual Technical Symposium

The TAS Annual Technical Symposium will be held in New Orleans, Louisiana, and will consist of two consecutive one-week mirrored sessions between July 10 and 21, 2006. To ensure adequate coverage during the training, half of TAS will attend the first week and half the second. Each week kicks off with a plenary session in which the National Taxpayer Advocate and other TAS executives present "The State of TAS." The training focuses on key organizational messages as well as occupation specific development. The key message, Integrating Advocacy, will thread through all topics, in addition to being the topic of a stand-alone workshop. The Symposium provides TAS employees time to talk about advocacy with colleagues from around the country. Town Hall meetings are planned to allow employees to discuss occupational issues with TAS executive leadership. Employees are encouraged to engage top management in informal discussions throughout the event.

Occupational Analysis Study

The purpose of this study is to integrate the case advocate job competencies into the Four Year Training Plan, to allow TAS employees to evaluate their potential

¹²⁴ Hot Button topics are administrative program issues Labor Relations has identified, based upon their work across the IRS, as timely and important for our newer managers to be familiar with so as to be able to capably address these issues in their work groups.

for other IRS occupations, identify areas of Case Advocate specialization, and establish definitive case grading criteria. The information gathering phase of the Occupational Analysis Study is complete. In FY 2007, the IRS Human Capital Office will use the information gathered to develop an instrument designed to assess technical knowledge typically used by Case Advocates when serving taxpayers. In FY 2007, the instruments will be utilized in the creation of case advocate competencies.

EQUAL EMPLOYMENT OPPORTUNITY (EEO) & DIVERSITY

On October 1, 2003, Management Directive – 715 (MD-715) became effective, replacing previous directives. MD-715 provides policy guidance and standards for establishing and maintaining effective affirmative programs of equal employment opportunity.

In accordance with MD-715, TAS conducted its annual self-assessment. A status report was prepared and submitted to IRS Headquarters EEO & Diversity. The self-assessment, which measures the TAS EEO program against the elements identified by the Equal Employment Opportunity Commission (EEOC) as being essential to a model EEO program, revealed that the areas TAS most needs to focus its efforts on are, “integration of EEO into TAS’ strategic mission” and “management and program accountability.” Additionally, a review and analysis of workforce data from Treasury Integrated Management Information System (TIMIS), uncovered triggers in TAS, such as low participation rate of employees with targeted disabilities, lower participation rate of Hispanics in TAS senior management positions, and lower participation rate of males of all races in TAS jobs. To address these conditions and to accomplish TAS’s EEO & Diversity long-term strategic goals of attracting and retaining a competitive and diverse workforce, effectively managing and leveraging the diversity of the TAS workforce, and complying fully with all EEO laws and regulations, a comprehensive strategic plan was developed and disseminated to all TAS managers. An action plan, consisting of specific action items, was shared with all TAS senior leaders for implementation.

TAS has undertaken the following initiatives in FY 2006:

- Communicated to employees TAS’s commitment to EEO and Diversity and how it is beneficial to TAS’ mission;
- Developed the MD-715 Report;
- Participated in the Department of Labor, Workforce Recruitment Program for College Students with Disabilities by authorizing up to ten summer positions to be filled TAS-wide;

- Implemented a strategy to employ a diverse workforce, including utilizing the Workforce Recruitment Program to identify potential candidates and advertising vacancy announcement as widely as possible; and
- Developed an exit interview survey proposal to assist with barrier identification.

In FY 2007, TAS will evaluate its EEO & Diversity program against the MD-715 six essential elements of a model EEO program to:

- Develop strategies to address any deficiencies identified;
- Evaluate TAS policies, procedures and practices to identify areas where barriers to employment might exist and develop Affirmative Employment Plans to remove those barriers; and
- Ensure TAS recruitment activities demonstrate a commitment to addressing areas of under representation and that hiring practices encourage the selection of a diverse group of employees at all levels of the TAS organization.