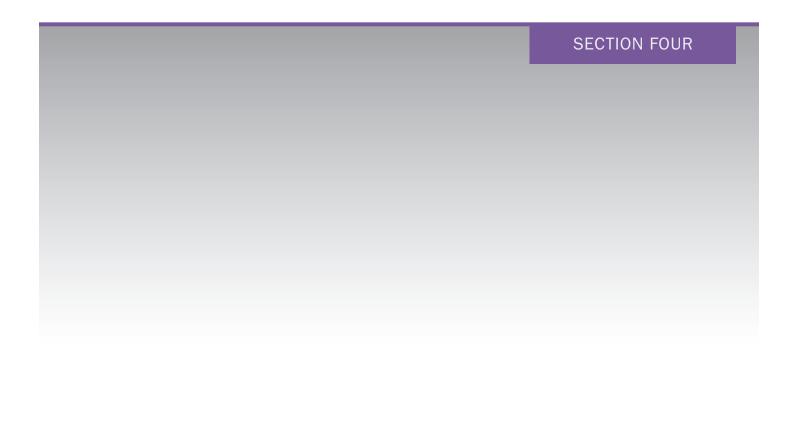# The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services

The Service Priorities Project: Developing a Methodology for Optimizing the Delivery of Taxpayer Services[1]

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INTRODUCTION

The objective of this report is to present a set of recommendations that will guide the development and implementation of the Service Priorities Project ranking methodology. The goal of the methodology is to identify, from both the government perspective and the taxpayer perspective, the value of each taxpayer service offered by the IRS. The IRS will be able to use this ranking methodology to make resource allocation decisions that will optimize the delivery of taxpayer service activities given resource constraints.[2] Congress will be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities. The implementation of this approach is particularly urgent in light of today's funding environment for taxpayer service.[3]

BACKGROUND

The National Taxpayer Advocate is concerned that the ongoing cuts to the IRS's budget in fiscal years (FY) 2010–FY 2013 have significantly eroded the quality of taxpayer service. In the long run, this erosion increases taxpayer burden, undermines taxpayers' faith in the tax system, and will reduce voluntary compliance.[4] While she believes high quality taxpayer service can only be restored by adequate funding, the National Taxpayer Advocate has urged the IRS to develop a methodology that would enable it to optimize the use of its limited resources to deliver the best possible taxpayer service given resource constraints.[5] This methodology would also help identify the impact of not funding certain core taxpayer services.

In response to the National Taxpayer Advocate's concerns, the Wage & Investment (W&I) Division and TAS are collaborating on an initiative, the Service Priorities Project, that will enable the IRS to identify a proper balance between automated and personal services. The project team is developing a ranking methodology for IRS taxpayer services that takes taxpayer needs and preferences into account. The methodology will value each of the major taxpayer services offered by the IRS from both the government's and the taxpayer's perspective. The IRS will be able to use this ranking methodology to make resource allocation decisions based on highest valued services in the face of budget or staffing constraints.

The methodology measures "value" using separate sets of criteria for taxpayers and the IRS. This is necessary because taxpayers and the IRS have different priorities. The IRS is concerned with conserving scarce resources, especially in a tight budget environment. Taxpayers need services that will enable them to understand their tax obligations and resolve tax issues without imposing undue burden. Frequently, these needs are best met by personal services that are more costly to the IRS than automated services, such as internet based services.

We use the word "optimize" to mean that the ranking methodology will provide the IRS with a rigorous way to select the combination of competing taxpayer service initiatives that maximizes the "value" of service delivery given available resources. The methodology assigns a score to each initiative that reflects

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2   The meaning of "optimize" for purposes of this study is discussed in the Background section below.

3   For a discussion of the current IRS funding environment, see Most Serious Problem: *IRS Budget: The IRS Desperately Needs More Funding to Serve Taxpayers and Increase Voluntary Compliance, supra* Vol. 1.

4   *See Progress on the Implementation of the Taxpayer Assistance Blueprint: Five-Year Progress Report: FY 2008–FY 2012* 45-47 (Apr. 23, 2012).

5   See National Taxpayer Advocate 2012 Annual Report to Congress 226 (Most Serious Problem: *The IRS Telephone and Correspondence Services Have Deteriorated Over the Last Decade and Must Improve to Meet Taxpayer Needs*). *See also Progress on the Implementation of The Taxpayer Assistance Blueprint: Five-Year Progress Report: FY 2008–FY 2012* 45-47 (Apr. 23, 2012).

its overall value based on an appropriate balance between criteria that weigh the value of the initiative to the IRS and to the taxpayer. The IRS can use these scores to choose between the competing initiatives.

Components of the methodology include:

- Lists of government value and taxpayer value criteria to evaluate service activities (*e.g.*, answering tax law questions, helping with notices, etc.) by delivery channel;

- Weights assigned to each criterion;

- Operational and survey data used to quantify criteria; and

- The score for each of the service activities, which will be the sum of the weighted criteria values.

In order to populate the ranking tool that will implement the ranking methodology, the IRS must develop values for each of the ranking criteria. The values are scores that will range from a low of one to a high of five. The scores will be based on data relevant to the criteria being evaluated. Some of this data is readily available for services offered by the IRS, such as taxpayer wait time when calling the IRS. Other information will be collected through surveys or increased tracking of IRS service contacts.

In the sections that follow, the report covers the major elements of the methodology. It documents work completed by the project team to date, and presents recommendations to guide completion of the service ranking methodology.

IDENTIFYING THE SERVICE ACTIVITIES TO BE RANKED

The IRS delivers a broad variety of services to taxpayers over different service "channels." These channels include the telephone lines (some toll-free),[6] the IRS's Taxpayer Assistance Centers (TACs) that provide face-to-face assistance, electronic service via the Internet, and correspondence.

Given the broad scope of IRS services, the project team recognized the need to prioritize the coverage of the various service activities early on. The team decided to focus initially on the services delivered by the Wage & Investment Division (W&I), which address the needs of individual taxpayers, and to defer coverage of the correspondence channel.[7] Thus, the ranking tool currently focuses on toll-free telephone lines, TACs, and online service delivery.

The team developed an extensive inventory of W&I taxpayer services and initially targeted 21 activities for coverage. The team determined, however, that the IRS had limited data on many of the services, and research showed that a subset of them represents the vast majority of individual taxpayer service needs (see Figure 1 below).

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6   The taxpayer service telephone lines available to international taxpayers are not toll-free.

7   The IRS will need to extend the methodology to encompass the service needs of business taxpayers and tax exempt organizations at a future date.

FIGURE 1, Service Interactions by Issue, TY 2007-2011[8]

Issue	TY 2007	TY 2008	TY 2009	TY 2011
Refund Information	14%	24%	21%	30%
Get Form or Publication	23%	26%	26%	19%
Notice [9]	11%	14%	13%	12%
Tax Law Question while Preparing a Return [10]	6%	8%	9%	10%
Return Preparation Assistance	10%	10%	8%	9%
Payment Information	5%	6%	5%	5%
Obtain Prior Year Tax Return	6%	6%	5%	4%
Obtain Tax ID Number	2%	3%	2%	2%
Tax Law Information after Filing Return	n/a	n/a	3%	3%
Make a Payment	n/a	n/a	4%	6%
Other [11]	23%	3%	4%	0%

TAS therefore recommends that service ranking be limited to the following services (see Figure 2 below).

FIGURE 2, Services Recommended for Inclusion in Ranking Methodology

Pre-Filing
Help with tax law questions
Help obtaining tax ID number (EIN or ITIN)
Help obtaining forms & publications
Filing
Return preparation assistance
Providing date-stamped proof of filing of prior year tax return [12]
Post-Filing
Providing copy of prior year tax return
Help understanding a notice or letter
Providing refund information
Providing payment information (includes setting up a payment agreement)
Making a payment

Some of the omitted services are actually covered by the higher-level service categories recommended above. The IRS will need to develop separate procedures to prioritize the other omitted services. See Figure 3 below for a list of the services that would not be covered under the new ranking methodology:

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8   *Progress on the Implementation of the Taxpayer Assistance Blueprint: Five-Year Progress Report: FY 2008–FY 2012* 6 (Apr. 23, 2012). Information for tax year 2010 is omitted because the information source, the Taxpayer Experience Survey, was not administered for tax year 2010.

9   This service covers IRS assistance to taxpayers who are responding to IRS notices.

10   TY 2007 & 2008, includes before and after filing the return.

11   In TY 2007, includes questions about the Economic Stimulus Package.

12   Although this was not identified as a high-volume service, it is an essential service to both taxpayers and practitioners who require proof of filing to demonstrate that tax obligations have been met. Information needed to support this service can be collected in periodic TAC surveys, as discussed later in this report.

FIGURE 3, Services Recommended for Exclusion from the Ranking Methodology

Pre-Filing
Providing general procedural assistance and information (covered under other categories)
Filing
Return preparation assistance for prior year tax return (covered under broader category)
Resolving issue on rejected e-file return
Facilitating the filing of Form 2290, Heavy Highway Vehicle Use Tax Return
Post-Filing
Providing tax account assistance (covered under broader category)
Providing transcript of prior year tax return (covered under broader category)
Providing assistance with responses to notices, audits, Injured Spouse and Innocent Spouse claims (covered under broader category)
Providing manual tax refund
Locating (trace), replacing lost or stolen refunds
Reissuing undeliverable checks
Providing Sailing Clearance

DEFINING THE GOVERNMENT VALUE AND TAXPAYER VALUE CRITERIA

As discussed above, the methodology will score both the government value and taxpayer value of each service activity on each of the channels (as noted above. the channels are the taxpayer assistance centers, the IRS toll-free telephone lines, and the IRS web site).

The project team initially proposed six government value and four taxpayer value criteria. After further analysis, TAS is recommending changes to both sets of criteria.

Government Value Criteria

The following are the government value criteria the team proposed for ranking each service activity by channel:

- Total taxpayer contacts – The number of times taxpayers received the particular service. This criterion enables the IRS to identify how heavily a service is used compared to other services.

- Assistor Service time – Average time (in seconds) the assistor spent providing service to a taxpayer. This criterion enables the IRS to estimate how costly each service contact is.

- Taxpayer contacts per Assistor – Number of taxpayer contacts for each taxpayer-facing full-time equivalent position (FTE). This criterion enables the IRS to estimate the total cost of delivering the service.

- Accuracy – Percent of times the information given and actions taken were correct. Incorrect information causes "downstream" costs, such as errors in tax returns that can lead to additional return processing costs associated with correcting errors, and the costs associated with audits that address errors not corrected during return processing.

- IRS issue resolution – Percent of taxpayers who had their issue resolved as a result of the service they received. This criterion is of high importance to the government, because taxpayers may

continue to contact the IRS until their issues are resolved, and each contact will require additional IRS resources (this is another kind of downstream cost).

■ Customer satisfaction – Percent of taxpayers who were satisfied or very satisfied with the service they received. Dissatisfied taxpayers may not have had their issues resolved completely or during the first contact. As discussed above, this can lead to downstream costs.

TAS recommends, however, that the taxpayer contacts per assistor measure be dropped, because it is redundant with the first two criteria (*i.e.,* the taxpayer contacts per assistor can be derived from the number of contacts and the assistor time spent on those contacts). Instead, we recommend that a new cost measure be included. None of the current criteria capture the costs associated with developing and maintaining the automated Internet and telephone-based activities. A cost measure that captures the overhead associated with the various service activities will provide a more accurate estimate of the cost to the IRS of delivering these services.

TAS also recommends that the accuracy criterion not be applied when scoring the web and telephone-based automated services. These activities are not analogous to the interactive services provided in IRS taxpayer assistance centers (TACs) and over the phone. Since there is no opportunity for interaction, it is unclear whether the taxpayer understood the information provided, or was even able to find the correct information.

In cases where a criterion is not applicable to a particular service activity or data is not available for scoring, TAS recommends that the remaining criteria be given additional weight to compensate for the missing criterion score, as long as scores for issue resolution and customer satisfaction are available. As discussed above, these criteria effectively summarize the likelihood that the IRS will experience resource intensive "downstream" costs. For example, if while completing a tax return a taxpayer is unable to find or understand the answer to a tax law question on the IRS web site, he or she will call the IRS, visit a TAC, or make an error that the IRS will subsequently have to correct. Taxpayers who have had inadequate service will give low ratings to the issue resolution and customer satisfaction criteria.

Taxpayer Value Criteria

As stated above, the project team initially proposed four taxpayer value criteria:

■ Taxpayer Issue Resolution – Percent of taxpayers who reported their issue was resolved after receiving service. This criterion measures taxpayers' perception that they received the correct answer to a tax law question or the assistance they needed to resolve a tax problem arising from a notice, audit, or other IRS contact. In prior research, taxpayers identified issue resolution as the most important attribute for service contacts. As discussed above, the project team also identified it as the most important attribute for the IRS, since resolution obviates the need for costly additional contacts.

■ Wait time – Average time the taxpayer spent waiting before receiving service. This criterion and the following two criteria, taxpayer service time and hours of operation, measure the amount of taxpayer burden (*e.g.*, time and inconvenience) associated with the service experience.

■ Taxpayer Service time – Average time the taxpayer spent getting service.

■ Hours of operation – The hours per week the channel is available to taxpayers.

TAS subsequently proposed four additional criteria:

- Willingness – Percent of taxpayers who would use this service channel in the future for the task under consideration. This measure captures taxpayers' preferences when choosing between competing service channels.

- Vulnerable population – Percent of vulnerable taxpayers who use the service channel for the task under consideration. The vulnerable population is: seniors, taxpayers with limited English proficiency (LEP), low income, or disabled taxpayers. Generally, these taxpayers are more dependent on the IRS for services than other segments of the taxpayer population. This criterion weights service activities based on how heavily they are used by vulnerable taxpayers.

- Taxpayer Impact – Impact on taxpayers if they do not receive the service (through a particular channel) from the IRS. In effect, this criterion measures how important the service activity is to taxpayers relative to other activities.

- Customer satisfaction – Percent of taxpayers who were satisfied or very satisfied with the service they received. The customer satisfaction criterion effectively summarizes the taxpayers' overall service experience and is therefore the single best criterion representing the taxpayer's perspective.

The IRS has agreed to incorporate the first three of the above four additional taxpayer value criteria as data becomes available.[13] TAS recommends the inclusion of the customer satisfaction criterion because it effectively summarizes the taxpayers' overall service experience, and can serve as a proxy for other criteria that cannot be scored if data is unavailable. TAS will collaborate with the IRS to ensure that customer satisfaction is accurately captured in future surveys.

TAS is also recommending some refinements to the scoring of the above criteria. Concerning the vulnerable population, TAS suggests that low income serve as a proxy for the other groups, since income data is generally available and is a good indicator of the extent to which an individual is dependent on IRS services.[14] Low income could be defined as taxpayers at or below 250 percent of the federal poverty level. The IRS uses this definition for related purposes, such as eligibility for access to the Low Income Taxpayer Clinics (LITCs).[15]

Use by the low income population could be calculated based on the percent of users of the service activity who are members of that population. For example, if low income taxpayers represented 40 percent of the taxpaying population, but comprised more than 40 percent of the users of a particular service, that service would be scored higher than the median (*i.e.*, higher than three, where scores range from one to five).

TAS is recommending that the taxpayer impact criterion be scored initially based on the combined judgment of W&I and TAS executives. In the future, ranking data could be captured from taxpayers in surveys.

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13 *See* National Taxpayer Advocate 2012 Annual Report to Congress 228 (Most Serious Problem: *The IRS Telephone and Correspondence Services Have Deteriorated Over the Last Decade and Must Improve to Meet Taxpayer Needs*).

14 For a discussion of the service needs and demographics of the low income population, see National Taxpayer Advocate 2009 Annual Report to Congress 110-133 (Most Serious Problem: *Beyond EITC: The Needs of Low Income Taxpayers Are Not Being Adequately Met*).

15 In 1998, the Congress enacted the Internal Revenue Restructuring and Reform Act of 1998 (RRA), in which it authorized matching grants for Low Income Taxpayer Clinics (LITCs). *See* Pub. L. No. 105-206, § 3601, 112 Stat. 685, 774 (July 22, 1998). For nominal or no cost, clinics represent taxpayers in controversies with the IRS, provide tax outreach and education to taxpayers who speak English as a second language (ESL), or both. Representation is generally limited to taxpayers whose income is at or below 250% of the federal poverty level. See Internal Revenue Code (IRC) §§ 7526(b)(1) for the definition of a qualified low income taxpayer clinic.

DATA SOURCES

In order to populate the ranking tool, the IRS must develop values for each of the ranking criteria. Operational data can be used, where available, to determine the values for the government and taxpayer value criteria (*e.g.,* how long taxpayers have to wait on hold to talk with an assistor). Survey data can be used for service activities when operational data is not available (*e.g.,* the percent of taxpayers reporting that their issue was resolved comes from survey data).

While some of this information is available, other information must be collected through surveys or increased tracking of IRS service contacts. In particular, TAS recommends the following:

- The Taxpayer Experience Survey (TES) collects valuable data on issue resolution and customer satisfaction by channel for most of the major service activities discussed above.[16] This data is not available elsewhere. In recent years, the IRS has decreased the survey sample size, and it is not sufficient to accurately score some of the service activities. TAS recommends that the sample be increased to at least 5,000 respondents. In the interim, TAS will develop scores based on the 2009 TES for illustrative purposes, since it had a significantly larger sample size than subsequent versions of the TES.

- To meet project data needs, TAS recommends changes to the TES survey. Questions ranking the importance of service activities should be added to facilitate scoring for the taxpayer impact criterion. Also, some of the service activity definitions should be refined to align more closely with the project methodology definitions:

  - Getting information about making a payment should explicitly include the establishment of installment agreements.

  - Making payments should be a separate category.

  - Getting prior year return information should explicitly be defined as obtaining a prior year return or transcript.

  - Getting help to prepare a tax return should be included as a separate category.

- Because taxpayers use the TACs less than the other service channels, surveys administered to the general population of taxpayers usually have insufficient sample sizes to capture adequate volumes of TAC service usage. TAS recommends that IRS periodically conduct surveys in the TACs to capture this data. Data should be collected at several times during the year to capture seasonal changes in usage patterns and should include both taxpayers who were served in the TACs and taxpayers who were turned away from the TACs because of staffing levels or service unavailability.

CAPTURING INCREMENTAL CHANGES IN LEVELS OF SERVICE

The ranking methodology captures the government value and taxpayer value of the scored services at a particular time. These values can be viewed as the base case. Typically the IRS needs to make budget decisions that change the level at which service activities are delivered. For example, the IRS might want to

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16 The TES is administered annually to a representative sample of US individual taxpayers (*i.e.*, those filing Form 1040, U.S. Individual Income Tax Return, or other returns in the 1040 series) by the IRS Wage & Investment (W&I) Division. The purpose of the survey is to capture information about the taxpayer service experiences and service needs of this diverse population. Information is collected on a variety of subjects, including service usage, issue resolution, and customer satisfaction by channel, among others.

compare the impact of reducing the number of assistors answering taxpayer calls to reducing the number of assistors helping taxpayers prepare tax returns. The IRS needs a methodology to evaluate these kinds of incremental service changes.

The IRS currently has mathematical models that it could adapt to estimate the impact of changes in service delivery on taxpayer value.[17] These models calculate the change in the "utility" of a service activity to taxpayers given one or more changes to service level parameters, such as hours of operation, issue resolution rate, or wait time. The percentage increase or decrease in utility could be used to scale the baseline taxpayer value score up or down. To implement this approach, the IRS would estimate how funding increases or decreases would impact service delivery parameters (*i.e.*, attributes the IRS will use to measure taxpayer value and government value, such as number of taxpayer contacts, time spent getting service and issue resolution rate).

The IRS could also use the estimated change in service delivery parameters to compute updated scores for all of the government value criteria, except customer satisfaction, which could be scaled up or down based on the percentage change in utility. The updated government value score could be compared to the baseline score to determine the change in government value.

CONCLUSION

Research by the project team has already benefited the IRS, since it highlights the areas where we need to do additional research and analysis to determine how taxpayer services are being used and how taxpayers would like to use these services. Continuing research to populate the ranking tool will help the IRS understand the best ways to deliver each type of service to the taxpayer and optimize its overall taxpayer service strategy.

The National Taxpayer Advocate is pleased that the IRS has agreed to collaborate with TAS to develop this tool and to use it to inform future taxpayer service decisions. The project requires additional data, however, and much work remains to fully populate the ranking tool. The National Taxpayer Advocate urges the IRS to complete the research and data collection necessary to make the ranking tool effective. While populating the tool will require an investment upfront, it will enable the IRS to make better decisions and to allocate resources more appropriately in the future.

The Service Priority Ranking Tool will also provide congressional appropriators with a valuable tool for identifying whether core taxpayer services are being adequately funded. But time is of the essence here: already the IRS has made potentially harmful service delivery decisions without having the benefit of this methodology.[18]

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17 In 2008, a vendor developed the Taxpayer Value Model (TVM) for the IRS. It measures how changes in service level parameters, such as hours of operation, impact the utility of the service to taxpayers. In 2012, the IRS developed a similar model, the Taxpayer Choice Model (TCM), using more current information.

18 *See* IRS, e-News for Tax Professionals – Issue Number 2013-49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources, available at* http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources (last visited Dec. 23, 2013).