



Ensuring a  
modern-functioning  
IRS for the  
21st century

# Ensuring a modern-functioning IRS for the 21st century

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## Preface

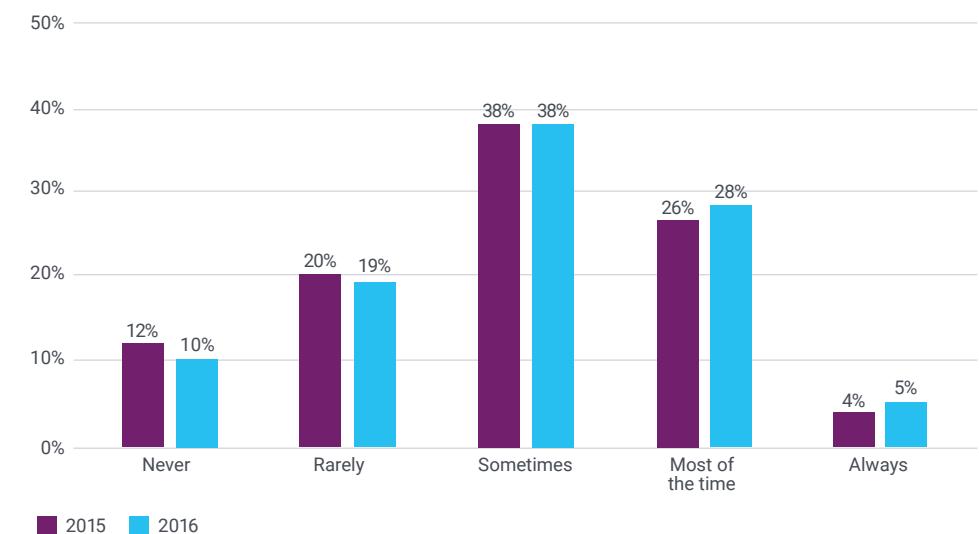
Concerned about the degradation of IRS taxpayer service, the American Institute of CPAs' (AICPA) governing Council in May 2015 adopted a resolution urging policymakers to "make recommendations that enable the Internal Revenue Service (IRS) to achieve its stated mission and to transform it into a modern functioning, evolutionary, and respected federal agency for the 21st Century." Numerous touch-points with Congress took place throughout the remainder of 2015.

In 2016, AICPA tax policy and advocacy staff and member volunteers took part in a fly-in to our nation's capital to meet with members of Congress and the IRS commissioner to discuss the unacceptable state of taxpayer service and to launch a dialogue about the IRS of the future. Members of Congress were particularly interested in the results of the member surveys the AICPA conducted in 2015 and 2016 immediately following the tax filing season. AICPA members' greatest concerns in both years were how often the first IRS representative answering their call on the Practitioner Priority Hotline was unable to answer their question (see Chart 1) and how long it took the IRS to provide a "substantive response" to written correspondence about an IRS notice to a client (see Chart 2).



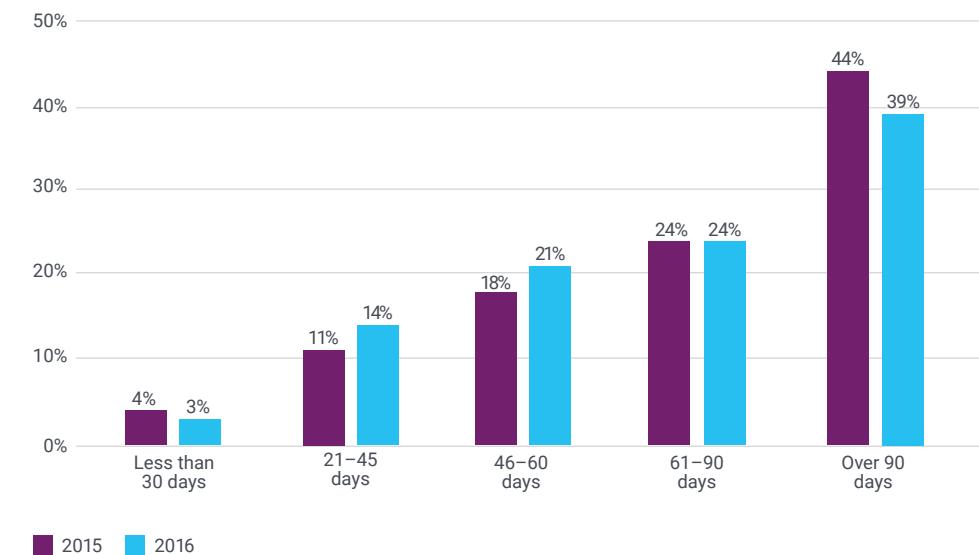
**Chart 1: IRS Practitioner Priority Hotline effectiveness**

If you called the Practitioner Priority Hotline, how often was the initial IRS representative able to answer your question without transferring you to another agent or claiming your question was "out of scope"?



**Chart 2: IRS response to practitioners' written communication**

If you represented taxpayers who received an IRS notice over the last six months, approximately how long did it generally take for the IRS to provide a "substantive response" to written correspondence?



In communicating with Congress about tax matters in private meetings, testimony and comment letters, the AICPA consistently has expressed the view that it is crucial for taxpayers and practitioners to have both timely and meaningful access to the IRS. We have urged the agency to focus on (1) using modern and secure technology, (2) developing and continuing to hire and train knowledgeable employees and (3) regularly seeking and using stakeholder engagement.

The CPA profession is committed to improving the taxpayer and tax preparer experience when interacting with the IRS. To that end, the AICPA this year convened a group of organizations representing diverse segments of the tax practitioner community to explore ways to improve the agency's taxpayer services.

Over the course of this process, the AICPA spearheaded an effort to identify and promote realistic, but meaningful, recommendations that would help IRS become modernized and respected.

The recommendations outlined in the pages that follow were developed by the nine approving organizations in consultation with former agency executives. The organizations also met with IRS Commissioner John Koskinen and IRS National Taxpayer Advocate Nina E. Olson. The group presented its recommendations to Congress on April 3, 2017.

## Statement of purpose

As we approach the 20th anniversary of the Report of the National Commission on Restructuring the Internal Revenue Service ("Restructuring Commission" or "commission"), we recommend that any effort to modernize the Internal Revenue Service (IRS or "Service") and its technology infrastructure should build on the foundation established by the Restructuring Commission. The similarities between the condition of the IRS today and the circumstances that motivated the creation of the Restructuring Commission are striking.

The current degradation of the IRS taxpayer services is unacceptable. The percentage of calls from taxpayers the IRS answered between 2004 and 2016 has dropped from 87% to 53%. Comparing 2004 to 2016, the number of calls the IRS received from taxpayers increased from 71 million to 104 million, yet the number of calls answered by telephone assistors declined from 36 million to 26 million.<sup>1</sup> The National Taxpayer Advocate Nina Olson observed that "taxpayers are receiving the worst levels of taxpayer service since at least 2001, when the IRS implemented its current performance measures. In fact, the levels of service are the lowest I have witnessed in my 40 years of working in the field of taxation."<sup>2</sup>

As tax practitioners, we advise millions of taxpayers on tax matters, assist them with compliance responsibilities, and represent them before the IRS. We understand what is working and not working with tax administration from both taxpayer and practitioner perspectives. As one of the IRS's most significant stakeholders,<sup>3</sup> we are both poised and committed to being part of the solution.

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<sup>1</sup> National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 16.

<sup>2</sup> National Taxpayer Advocate, written statement on "The National Taxpayer Advocate's 2014 Annual Report to Congress" before the Subcommittee on Government Operations Committee on Oversight and Government Reform U.S. House of Representatives, on April 15, 2015.

<sup>3</sup> 60% of all e-filed returns in 2016 were prepared by a tax professional, according to the Filing Season Statistic for Week Ending Dec. 2, 2016.



### Vision statement

The following vision statement is a quote from the original report of the Restructuring Commission issued June 25, 1997.<sup>4</sup> We believe this statement is as valid today as it was then, and is the basis of our efforts to provide recommendations on how to make the IRS an evolutionary and respected federal agency of the 21st century.

*"... This Vision embraces an efficient, service-oriented institution dedicated to collecting the proper amount of tax through the use of taxpayer education, modern customer service practices, and effective law enforcement techniques. The motivated, skilled employees of this new IRS would receive the proper training, incentives, authority, tools, and management oversight to get the job done. This new IRS would be able to help people comply with a simplified tax code, while managing its data collection and taxpayer accounts according to methods and standards employed in the best private and public sector organizations. Finally, taxpayers would have adequate protections when the agency exercised its powers in an improper fashion. ..."*

### IRS governance and oversight

As practitioners with vast experience working with the IRS, we have incorporated the lessons learned from the Restructuring Commission and outline below governance and oversight recommendations to shape the agency of the future that everyone desires.

#### Framework for ensuring a modern-functioning IRS

- Setting and maintaining consistent priorities and strategic direction
- Re-establishing the annual joint hearing review by the Joint Committee on Taxation
- Requiring the Joint Committee on Taxation to provide a bi-annual report
- Requiring a Government Accountability Office review of the IRS Oversight Board
- Enabling the hiring of qualified and experienced professionals at the IRS
- Determining the appropriate level of service and compliance the IRS should be held accountable to provide, and dedicating appropriate resources for the agency to meet those goals
- Gauging performance with customer satisfaction surveys
- Accommodating taxpayers' need for face-to-face interaction
- Designating an "executive level" practitioners unit

**Governance objectives** – Successful governance of the IRS will include strong leadership, accountability, and transparent policies working collectively towards needed change. In order to hold the IRS accountable, the agency's governance, management and oversight structure must:<sup>5</sup>

- ▶ Develop and maintain a shared vision among all personnel and stakeholders with continuity;
- ▶ Set and maintain consistent priorities and strategic direction;
- ▶ Impose accountability on senior management;
- ▶ Develop appropriate measures of success;
- ▶ Ensure that the budget and technology support priorities and strategic direction; and
- ▶ Coordinate oversight and identify problems at an early stage.

<sup>4</sup> The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS*, Report of the National Commission on Restructuring the Internal Revenue Service, June 25, 1997, page 8.

<sup>5</sup> *Supra*, page 9.

**Congressional oversight** — Congressional oversight is a critical process in ensuring executive branch compliance with laws, evaluating performance, and providing the transparency necessary to maintain the public's trust. We recommend **re-establishing the annual joint hearing review**<sup>6</sup> to focus on the following priorities: (1) strategic and business plans; (2) taxpayer service and compliance; (3) technology and modernization; and (4) filing season.

As once required by statute<sup>7</sup>, the Joint Committee on Taxation should provide a **bi-annual report on the overall state of the Federal tax system**.<sup>8</sup> However, the statute stipulates that the report is *only required if the necessary resources are appropriated* to carry out the requirement. We believe that such a report would contribute to stability at the IRS and assist the agency in achieving its mission. Therefore, we urge Congress to **appropriate the necessary funds for the report**.

**IRS Oversight Board** — The IRS Oversight Board was intended to provide experience, independence and stability to assist the IRS in moving in a focused direction. However, the board received criticism for being "ineffective" and "missing in action" in achieving its stated mission,<sup>9</sup> and suspended operations due to an insufficient number of members to constitute a quorum.

We recommend that Congress require a Government Accountability Office (GAO) **review of the private sector board** and determine if it is an essential component to providing the trust and continuity that will allow the IRS to become a respected, service-oriented organization. The GAO could provide recommendations to make certain the board has sufficient authority to (1) hold the IRS accountable for successfully fulfilling its mission; (2) oversee the implementation of key recommendations from advisory groups; and (3) ensure the IRS remains independent and non-partisan.

**Human resources** — Congress should enable and encourage the IRS to utilize the full range of available authorities to **hire and compensate qualified and experienced professionals** from the private sector, as needed, to improve the Service's ability to meet its mission. It is also crucial for the IRS to designate a senior-level executive dedicated to overseeing and collaborating with the practitioner community in creating a practitioner services unit (see discussion below).

### IRS taxpayer service

Congress and the administration should determine the appropriate level of service desired and needed by taxpayers. Agreed-upon measures of success are necessary to improve both customer service and voluntary compliance.

To instill trust in the tax administration system, we recommend taxpayer service goals based on the following two guiding principles:

- ▶ The IRS should only initiate contact with a taxpayer if the IRS is prepared to devote the resources necessary for a proper and timely resolution of the matter.
- ▶ Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions.<sup>10</sup>

**Resources necessary** — Appropriate hiring, adequate training, skillful management, and the necessary technological tools are essential for the IRS to meet its responsibilities. The leaders of the IRS must have the experience and skills to motivate their workforce and lead them to the realization of the desired vision. Organizational alignment from Congress, the President, the Commissioner, and through the ranks of the IRS, is necessary to delivering the promised goals. The legislative and executive branches should **determine the appropriate level of service and compliance** they want the IRS accountable to provide and then **dedicate appropriate resources for the agency to meet those goals**.

Furthermore, to enable the IRS to achieve the improvements required for a 21st century tax administration system, the IRS needs a modern technological infrastructure. Currently, the IRS has two of the oldest information systems in the federal government making the information technology functions one of the biggest constraints overall for the IRS.<sup>11</sup> Without modern infrastructure, the IRS is unable to timely and efficiently meet the needs of taxpayers and practitioners.

**Customer satisfaction** — Measurement tools are required to achieve customer satisfaction goals, including fairness in enforcement. The IRS made significant progress in measuring taxpayers' opinions in the years following the issuance of the Restructuring Commission. However, in recent years, the Service has stopped reporting on customer satisfaction surveys and analysis. We recommend that **customer satisfaction surveys**, gauging performance at all levels within the IRS, continue as an appropriate success measure. Congress should use the survey results during the oversight and appropriations processes to ensure the agency is continually meeting the needs of taxpayers.

A service-focused approach, with taxpayer education in mind, will require the IRS to take into consideration the needs of both tax practitioners and un-represented taxpayers, and the varying methods needed to interact with them. For example, the IRS may need to hone its traditional account services to provide the needed face-to-face interaction to accommodate those taxpayers who cannot afford or choose not to use the online account features.<sup>12</sup>

<sup>6</sup> P.L. 105-206, sec. 4002, expanded IRC section 8022(c) regarding reporting by the Joint Committee on Taxation. P.L. 108-311 (10/4/04) modified this provision by removing the specifics required for the annual report and eliminating the joint review after 2004 (also see IRC section 8021(f)). A statutory change is needed to reinstate the required joint review.

<sup>7</sup> *Id.*

<sup>8</sup> IRC section 8022(3).

<sup>9</sup> Morningstar, Inc., *The IRS Has No Independent Oversight This Tax Season*, April 18, 2016.

<sup>10</sup> Verbatim quote of the two guiding principles, *The National Commission of Restructuring the Internal Revenue Service, A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 23.

<sup>11</sup> National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 31-32. The report references a 2016 GAO report (GAO-16-468) which found that some of technology the IRS still relies on was first placed in use 56 years ago.

<sup>12</sup> Currently, the IRS is focusing on technological service by relying heavily upon the Web-First Strategy Conjoint survey which ignores those taxpayers who are not online or who are unwilling to participate in online surveys. National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 20.

## IRS Practitioner Services Unit

The IRS should create a new dedicated “executive-level” practitioner services unit that would centralize and modernize its approach to all practitioners. Over time, the IRS has established a number of functional departments. These individuals are dispersed across the IRS and are not coordinated in a way that enables practitioners to timely access critical information (such as, their clients’ account status or the availability of dispute resolution opportunities). Nor do the current teams or processes systematically solicit, gather or evaluate practitioner feedback. Enhancing the relationship between the IRS and practitioners would benefit both the IRS and the millions of taxpayers served by the practitioner community.<sup>13</sup>

### Recommended features of a dedicated “practitioner services” unit

- Centralize and modernize IRS’s approach to tax practitioners
- Provide tax practitioners with an online tax professional account with immediate access to all of their clients’ information
- Offer a centralized login system on a secure platform to allow for a single sign-on authentication of the practitioner (as opposed to authentication before accessing each client’s account)
- Provide a digital mechanism for power of attorney and disclosure authorization
- Replace the Centralized Authorization File with a consolidated online solution using electronic signatures and an algorithmic-driven approval process that is as close to real time as possible
- Communicate directly to tax practitioners and allow practitioner correspondence with timely acknowledgment of receipt
- Offer robust practitioner priority hotlines with higher-skilled employees
- Assign customer service representatives to address issues that practitioners are unable to resolve through the priority hotlines

A dedicated practitioner services unit would allow the IRS to rationalize, enhance, and place under common management the many current, disparate practitioner-impacting programs, processes, and tools. Moreover, by centralizing these programs, IRS employees would have a **consolidated approach to timely resolving issues**. This coordination and improved access of information would prevent unnecessary delays and inefficiencies (such as, requiring practitioners to submit the same information multiple times to multiple IRS employees).

Finally, to ensure success of the practitioner services unit, it is essential for these services to approximate comparable private sector services and allow practitioners to resolve account issues for their clients in a timely and efficient manner.

**Online tax professional account** — The IRS should provide tax practitioners with a tax professional account as part of the IRS’s **online portal with account access to all of their clients’ information** (both individual and business accounts) where the practitioner has a valid power of attorney (POA) on file. Additionally, the secure tax professional account should allow the IRS to communicate directly to practitioners the information necessary to improve taxpayer awareness and allow **practitioner correspondence** with timely acknowledgment of receipt.

Furthermore, a **centralized login system** allowing for single sign-on authentication of the practitioner and immediate access to all client data, as opposed to practitioner authentication before accessing each client’s account, is an indispensable efficiency for the IRS and practitioners alike.

**Secure platform** — The development of the online portal should include a comprehensive, agile platform that protects users’ identities and their data, detects threats and immediately responds to potential security breaches. In order to enhance taxpayer protection, practitioners who want access to taxpayer accounts should consent to guidelines such as Circular 230 or other similarly approved requirements.<sup>14</sup> Professional tax practitioners can become particularly active and safe users of online services if the IRS invests early in providing a **digital mechanism for POA and disclosure authorization** and creates practitioner accounts contemporaneously with individual online accounts.

To continue to improve efficiency, we also recommend that the IRS focus its attention on replacing the Centralized Authorization File (CAF) with a **consolidated online solution using electronic signatures and an algorithmic-driven approval process** that is as close to real time as possible.

A dedicated practitioner services unit would prevent unnecessary delays and inefficiencies (such as, requiring practitioners to submit the same information multiple times to multiple IRS employees). Moreover, this coordination and improved access of information would allow the IRS employees and practitioners a consolidated approach to timely resolving issues.

<sup>13</sup> The IRS’s Office of National Public Liaison (NPL) has enhanced the communications between the IRS and national stakeholder organizations with an interest in tax administration. The new unit would focus on centralizing and modernizing its overall approach (technology, programs, processes, communications and tools) to practitioners.

<sup>14</sup> At the time of drafting this document, Circular 230 is under the process of review. Circular 230 is a document containing the statute and regulations detailing a tax professional’s duties and obligations while practicing before the IRS; authorizing specific sanctions for violations of the duties and obligations; and, describing the procedures that apply to administrative proceedings for discipline.

**Robust practitioner hotlines** — IRS should provide practitioners with a **robust practitioner priority hotline** (or hotlines) with higher-skilled employees. These employees should have the experience and training to understand and address more complex technical and procedural issues. This expertise would allow the IRS to focus its training to a particular technical area allowing designated employees to resemble its counterparts in the private sector. The IRS should also consider hiring experienced people such as graduate students or retired practitioners seeking part-time or seasonal employment.

**Designated customer service representatives** — Under the practitioner services unit, the IRS should assign **customer service representatives** (also known as a single point of contact) to each geographic area to address unusual or complex issues that practitioners were unable to resolve through the priority hotlines. We recommend allocating the number of representatives based on the number of practitioners in a specific geographic area.

### **Summary**

The current level of IRS taxpayer services is simply unacceptable. By ensuring an appropriate governance and oversight structure which focuses on taxpayer service and creating an executive-level practitioner services unit, we will increase the likelihood that the agency serves the needs of taxpayers and practitioners in a timely and efficient manner.

To summarize, we offer the following recommendations:

- ▶ Re-establish the annual joint hearing review;
- ▶ Require the Joint Committee on Taxation to provide a bi-annual report;
- ▶ Require a GAO review of the private sector board;
- ▶ Enable the hiring of qualified and experienced professionals at the IRS;
- ▶ Determine the appropriate level of service and compliance the IRS is accountable to and dedicate appropriate resources for the agency to meet those goals;
- ▶ Gauge performance with customer satisfaction surveys; and
- ▶ Establish a dedicated “executive-level” practitioner services unit that provides for centralized and modernized services to timely resolve issues.

We are committed to a service-oriented, modernized tax administration system that earns the respect and appreciation of all taxpayers and stakeholders.

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