

Statement of Professor Diana Leyden
To the IRS Oversight Board

**Statement of Diana Leyden
Associate Clinical Professor of Law
University of Connecticut School of Law Tax Clinic
before the
IRS Oversight Board
February 8, 2006**

**Panel 1:
Customer Service Needs of Taxpayers**

Chairman Wagner and Members of the Board:

Thank you for inviting me to present to the Board on the topic of Customer Services Needs of Taxpayers. As you may know, I am a clinical professor at the University of Connecticut School of Law ("Law School") and Director of the Law School's low-income taxpayer clinic. Our clinic, which is staffed by 10 law school students each semester and two law interns during the summer, assists low income taxpayers on a pro bono basis who have controversies with the Internal Revenue Service. The clinic is also assisted by a panel of attorneys throughout Connecticut who volunteer their time and energies to provide pro bono legal representation to clients that the clinic cannot help due to case loads or conflicts. Further, about 40 law students volunteer during the spring semester to assist Hartford area Volunteer Income Tax Assistance sites prepare tax returns for qualified taxpayers. Since its inception in 1999, the Tax Clinic has helped hundreds of taxpayers. It has also been the recipient of an IRS low income taxpayer grant every year since its inception.

Before joining the faculty of the Law School and assuming the position of Director, I worked with two state departments of revenue, the Massachusetts

Statement of Professor Diana Leyden
To the IRS Oversight Board

Department of Revenue and the Connecticut Department of Revenue Services,
and I worked in private practice.

In all of my positions, and over the nearly twenty five years of practice, I have been on both the receiving and giving end of customer service to taxpayers. In my testimony today, I would like to share with you my ideas about IRS customer service, some ideas for changes and the impact of budget constraints, and what I see the role of customer service in effective tax administration.

I was given rather short notice to prepare my written comments. However, I have tried to respond to the direction provided by the Board and provide suggestions to improve customer service in a way that will also improve tax administration. My comments will focus on: (1) why customer service of the IRS, as a government monopoly in the tax administration business, needs to be measured differently than customer service of nongovernment businesses; (2) how I define “good service”; (3) the need for more reliable data and research, and the use of economic psychology to more accurately understand and predict, rather than guess, how taxpayers can be encouraged to voluntarily comply with the tax laws; (4) a concern that heavy reliance on electronic filing and electronic delivery of tax law and advice is misplaced absent more reliable data; and (5) suggestions for possible service delivery mechanisms based on feedback by my clients and my students.

Customer Services of a Government Agency

Currently, it is popular to believe that government agencies should be more like businesses in how they deliver customer services. This seems to lead

Statement of Professor Diana Leyden
To the IRS Oversight Board

to what I believe is an unrealistic and misplaced approach, especially in the tax area. Unlike businesses, where customer service has a direct impact on the number of customers and their loyalty, a government taxing authority has a monopoly on its business-the assessment and collection of taxes. Therefore, I believe it is a mistake to measure customer service the same way that businesses measure customer service, which includes looking at the profitability of services.

Customer service at the Internal Revenue Service has a direct impact on voluntary compliance and ultimately on the tax gap. For example:

1. Making it easier for taxpayers to get their past tax returns prepared free of charge and quickly encourages taxpayers to become compliant. (Businesses are not likely to engage in free services over an extended period of time.)
2. Providing face-to-face interaction with IRS employees helps taxpayers get advice in “real time” and usually reduces the time for resolution of problems. (Businesses have aimed toward less employees and more technology to deliver both products and services.)

Nongovernmental businesses are in the business of attracting and keeping customers. In contrast, the IRS does not have a choice about “attracting” customers; rather, it is required to administer and enforce that tax laws as they apply to all taxpayers.

The needs and abilities of taxpayers, and thus, the ways to encourage compliance, however, are different based on geography (urban vs. rural), age

Statement of Professor Diana Leyden
To the IRS Oversight Board

(young vs. old) and education. Thus, serving its many customers requires incredible flexibility and not a one-size-fits-all approach. This need to be flexible, I believe, is the biggest challenge to the IRS.

Developing a variety of customer services and delivery systems, however, requires more research and data, something that the National Taxpayer Advocate has recommended.¹ The rational consumer, as economists have learned, does not exist. Economists have partnered with psychologists to assist businesses to market their products. So too must the IRS partner with other disciplines and professionals to collect and more effectively utilize data to help it administer the voluntary tax system.

Defining Good Customer Service

While the Board has asked us to assume that services that are “good enough” are the starting point, I believe that mediocrity in the tax area actually

¹ “The IRS has conducted only limited research on the impact of customer service on taxpayer compliance, and this relationship is still not well understood. Consequently, the IRS does not know whether recently proposed reductions in customer service will save the government money, since the potential impact on taxpayer compliance can not be quantified. Additional research should be conducted to enable the Service to identify and quantify the linkage between the variety of customer services it delivers and the impact those services have on taxpayer compliance.” The National Taxpayer Advocates Fiscal Year 2006 Objectives Report to Congress, p. 14. “The IRS delivers a variety of services through various channels to a diverse group of taxpayers. Although the Service has conducted significant research in this area, additional research is needed to enable the IRS to determine which channels are most effective in delivering each type of service to each segment of the diverse taxpayer population. Research can quantify current and projected future needs by channel and type of service, and identify barriers that currently inhibit some taxpayer segments from effectively using lower cost channels (e.g., the internet) for some kinds of service. The downstream costs associated with each channel can also be determined to identify the total cost of each alternative approach to delivering services.” The National Taxpayer Advocates Fiscal Year 2006 Objectives Report to Congress, p. 15.

Statement of Professor Diana Leyden
To the IRS Oversight Board

works counter to the goal of increasing compliance. So I suggest that we not accept just good service.

However, if that is the starting point, I believe that good customer service is when a taxpayer who already voluntarily complies can do so faster, more efficiently and believes he or she is treated respectfully.

But, taxpayers who are not fully compliant with the tax laws require a different level of service than compliant taxpayers. Taxpayers who are not compliant need more services to encourage them that complying can be done without expensive legal or accounting services, that the IRS will be reasonable and flexible in considering a fresh start, and there will be one point person at the IRS to work with the taxpayer to navigate the various hurdles.

For example, we often see a low income taxpayer who has filed a return claiming the earned income credit (EIC) come in after the return has been audited. Because she did not have representation, she was unable to prove her entitlement. While the first year is being audited, she files her return for the next year and claims the EIC, only to have the IRS contact her and inform her she needs to recertify. The third year, she does not bother filing. Currently, each one of these years is handled under a separate process and usually separate IRS functions and offices. It commonly takes our clinic one to three years to coordinate and resolve all three years. An unrepresented taxpayer would most likely simply give up and fall out of compliance. This is why I suggest that customer service for the labeled “noncompliant taxpayer” should have a goal of increasing compliance through coordination of services in a flexible manner. This

Statement of Professor Diana Leyden
To the IRS Oversight Board

same level of coordination and flexibility may not be necessary for a compliant taxpayer who merely wants updated information.

Electronic Filing and Services

For several years now, the IRS has tried to meet what I believe is an unrealistic goal set by Congress to have 80% of the taxpayers file electronically by the year 2008. There seems to be no reliable data on taxpayers' reaction to electronic filing. Congress and the IRS simply assume that taxpayers today will be easily directed to electronic filing if it is made available. The IRS has partnered with paid preparers in the Free File Alliance because it feels compelled to reach the goal. (Meanwhile, the IRS has been stymied and discouraged from creating its own software to provide a fill-in tax return.)

In my experience, increasingly clients are raising concerns about electronic filing because of press stories about how in other areas personal information obtained electronically is lost or stolen. Mere press releases or statements that the IRS maintains secure networks are not enough to change these perceptions.

Also, in my experience, the use of electronic filing and electronic means of getting IRS publications and information seem to be different based on age, socio economic status, education and literacy, language, and geography. But I cannot tell you why these factors impact taxpayers' choices. That, again, is why it is so important to develop good, reliable data.

Statement of Professor Diana Leyden
To the IRS Oversight Board

Tax Complexity and Customer Service.

I know that the Board has voiced concern about tax complexity and its impact on taxpayer compliance. Tax complexity also has an impact on the customer services needs and delivery of services. The harder it is to explain how a tax rule or law applies, the more likely it is that a taxpayer will need to speak with or meet with an IRS employee, or that the taxpayer's representative will want to meet with an IRS employee. In most of the appeals cases that we handle in our clinic, we find it utterly impossible to communicate the special circumstances of low income clients and how the tax laws apply to those special circumstances through correspondence. However, we find it very efficient to schedule a face-to-face conference with someone who is able to meet the taxpayer and to coordinate various aspects of the case. As long as the tax laws remain complex, I believe it will be extremely difficult and counter productive to move from employee-based customer service to electronic or correspondence customer service.

Suggestions based on my experiences.

Most of my above comments for customer service changes will not achieve budget savings. Because this Board has asked for suggestions that will reduce costs, however, I will provide what I think are options for cost savings. But, I want to make clear that they are based on the experiences of my clients and our clinic, and I have do not have any independent research that would support that other taxpayers in other areas of the country would see these as improvements in customer service.

Statement of Professor Diana Leyden
To the IRS Oversight Board

A. *Go to where the people are.* I firmly believe that taxpayer assistance centers (TACs) are important for both what they provide and a perception that the IRS is approachable and helpful. However, the IRS should not be chained to the current locations, many of which were established in an era of different work and housing patterns. The taxpayers and their patterns of work and leisure are very different than decades ago when the IRS set up its TACs. But it does not mean that TACs are obsolete or unnecessary. Rather, the IRS needs to partner with other service providers, both in government and business, to deliver its services to the changing demographics. For example, in some areas the IRS might want to relocate offices to other government buildings that get traffic- e.g., courthouses, social security offices or states' departments of revenue. The IRS might want to consider creating mobile TACs with computers that can go to where taxpayers are located. This is helpful not only in rural areas, but also in urban areas where mass transit may not be reliable enough to get taxpayers to the current IRS locations. Also, the IRS may want to go back to doing problem resolution days, but doing them at community centers, hospitals, colleges or schools, shopping centers and at offices of large employers.

B. *Use forms of electronic communication that provides real time communication.* Currently, the IRS is very reluctant to utilize email, instant messaging or chat room forms of electronic communication. While privacy and security of information must be a top priority, in some cases taxpayers

would be willing to use general questions without identifying information to have an electronic dialogue and obtain clearer advice about how to resolve tax problems. One of my students observed that almost everyone he works with at the Law School, in private practice and other agencies communicates with professional advisors by email. He wonders why the IRS does not create such a system for tax professionals.

C. *Continue to simplify and translate IRS information.* The recent shift by the IRS to provide tax law and procedure information in brochures based on life events (e.g., divorce) is an example of an improvement in services. Taxpayers are attuned to sound bites and simple messages today and seem to turn off long, complicated written materials. Also, the shorter brochures are easier for low literacy taxpayers and ESL taxpayers to understand, as well as easier for the IRS to translate.

D. *Voice mail and call back by IRS employees* Rarely do customer service representatives have voice mail or even the ability to call back a taxpayer. This means that a taxpayer might end up working with several IRS employees with various training or experience and who may have to rely on less than complete electronic notes. This means longer time to resolve issues and frustration by taxpayers. I think there is enough anecdotal information and internal IRS data to support the conclusion that the sooner a taxpayer resolves an issue, the more likely it is that the taxpayer will be compliant and the IRS will collect more dollars.

Statement of Professor Diana Leyden
To the IRS Oversight Board

In conclusion, I applaud the Board for conducting a hearing on this very timely and important topic. I hope that the Board will find my comments helpful and will informative. Finally, I hope that the Board will be convinced that budget savings at the IRS may not be realized immediately through changes in customer service, but that changes in customer service and its delivery can in the longer run lead to better tax administration and a lowering of the tax gap.