

**Statement of Leslie S. Shapiro
Before the IRS Oversight Board
Room B-318 Rayburn House Office Building**

January 29, 2002

Mr. Chairman and members of the Board, I am honored to present this statement on behalf of the National Association of Enrolled Agents (NAEA), the professional society of Enrolled Agents.

I am Les Shapiro, an attorney and Enrolled Agent. I am here in my capacity as Chair of the NAEA Government Relations Committee. By way of background, I spent over thirty years as an employee of the Treasury Department and the Internal Revenue Service (IRS). I served as Director of Practice for more than twenty years of my government career. I now am President of the Padgett Business Services Foundation.

Background

NAEA's 10,000 members are tax professionals licensed by the Treasury Department to represent taxpayers before all administrative levels of the Internal Revenue Service. In this connection, Enrolled Agents were established in 1884 to ensure ethical and professional representation of claims brought to the Treasury Department.

Members of NAEA ascribe to a Code of Ethics and Rules of Professional conduct and adhere to annual continuing professional education mandates that exceed IRS requirements. Like attorneys and Certified Public Accountants, we are governed by Treasury Department Circular Number 230 in our practice before the IRS. We are the only tax professionals who are tested by the IRS on our knowledge of tax law.

Each year, our members collectively work with millions of individual and small business taxpayers. We are on the front lines of tax administration. Consequently, Enrolled Agents are uniquely positioned to observe and comment on the average American taxpayer's experiences within our system of tax administration.

NAEA chose to be part of this panel for a number of reasons. We are supportive of the general integrity of IRS employees, almost all of whom have faced the daunting experience of the recent restructure and the uncertainty it created for them personally. They now face new challenges in implementing the changes the restructure brought about. We believe they are up to those challenges if given the right tools and training. We chose this panel also because of our belief that the resources of the IRS traverse the subject matter of the first three panels. Those resources are key to the success or failure of the restructure, all IRS programs, and the many initiatives of Commissioner Rossotti.

Finally, we were intrigued by the reference in the description of this panel to the words “research results” as being an example of new capabilities employees should have to be successful.

Strategic Considerations

We commend IRS employees who, following the restructure, have demonstrated, at least outwardly, an outstanding attitudinal change. Customer service is at the forefront in this regard. When an IRS employee may not know the answer to a question, he or she will typically go the extra mile to assist in finding someone who CAN provide the correct answer.

Change, however, is going to be part of the IRS landscape for many years to come, simply because the reorganization cannot be accomplished at the snap of the fingers, although there are times we wish that it could.

NAEA would like to challenge you to consider how you go about implementing these changes and involving the practitioner community in them. Permit me to make reference to a few of those changes as examples.

1. Practitioner Priority Service As you undoubtedly know, this is a replacement of the practitioner “hot line” service. The service worked very well in some areas of the country, such as the Fresno, California site. In other geographic areas, it worked, but not necessarily well. Consequently, centralizing the operation, making it toll free, and other features ostensibly reflect desirable changes. However, the implementation has not been smooth.

Our Members report that local practitioner hotlines, which were supposed to be staffed for several more months, are barely functioning. This in great measure is because employees, concerned that they will lose their jobs, have found other opportunities within the organization and have left their hotline posts. Many that are functioning are slow and unsure of the manner in which to help practitioners.

The rollout across the country was a thoughtful, pragmatic approach, but it was timed to coincide with the filing season. This was not a good idea in the view of practitioners who don’t know where to call – the national number or the local number. Where there is success in reaching an assistor, we are finding that their levels of knowledge and certainty of what they are supposed to do are uneven. We want you to know that this type of transition during high-stress tax season is not helpful to your customers. If practitioners suffer because of the problems in using the priority service tool, so do their clients.

2. Employer Identification Numbers (EINs) We applaud the centralization of the service for obtaining EINs. However, the toll-free lines have been overwhelmed from the start. By way of background, the EIN system was shut down from close of business December 21 until January 2 in order to accommodate essential upgrades. When the sites

reopened on January 2, they were quickly overwhelmed by callers. Some needed EINs to set up trusts and to accommodate year end tax situations.

Seldom have we received the torrent of complaints that we experienced regarding a single IRS service. We have been advised that even the IRS was surprised by the sustained level of demand for EINs. We believe two things happened in this respect: First, the shut down meant that those who desperately needed EINs in order to effect year end transactions were frantic by January 2. Second, the information was placed on the Web site, thereby available to taxpayers as well as practitioners. This resulted in a flurry of calls apparently far beyond IRS expectations.

We understand that employees are being trained and that additional staff soon will be available. However, we are being cautioned not to expect a restoration of the service to something approaching normalcy for another two to three weeks. Practitioners who have faxed in requests for EINs have been asked to hold off calling about their requests. This is difficult for practitioners during the stress of tax season. This is so even though the IRS recommended that the words "EIN APPLIED FOR" be placed at the top of time sensitive documents, a pragmatic quick fix that helped alleviate some practitioner and taxpayer concerns. We hope the quick fix will not come back to haunt the taxpayers using it.

While we greatly appreciate the efforts that are being made to accommodate the situation, perhaps it could have been avoided altogether.

3. Centralized Authorization File (CAF) The CAF is the repository and conduit for powers of attorney and other authorizations running to taxpayer representatives. Our experience has been that it never worked evenly or well when there was a CAF unit at each IRS processing center. Consequently, centralizing the program was welcomed. Such centralization also became effective on January 1. While we have not had the number of complaints and concerns about this initiative, we have been told by our members that the employees who staff the sites are not comfortable in their roles and that there are delays in transmitting the information to the IRS offices needing it.

It is our hope that the needed streamlining and effectiveness it promises to offer will be overcome with appropriate training.

4. Offers in Compromise (OIC) The OIC program has been a long-suffering enigma to the practitioner community. It was difficult to find collection officers who openly recognized an OIC as a viable option to resolve a collection matter. When an OIC was filed, there was no uniformity to the manner in which the submission was resolved and the length of time taken for a resolution worked to the detriment of the taxpayer who already was in dire financial condition. Previous attempts by the IRS to resolve the quagmire were only modestly successful. The backlog of open cases continued to grow. Consequently, the announcement that the system would be streamlined was met with cautious optimism by our members. The rumor that there would be user fees for an OIC took everyone by surprise for obvious reasons. The added factor it would be effective on

January 1, 2002 added to the surprise. It is regrettable that it was only after NAEA brought the surprise to the attention of the IRS that practitioner organization meetings began to be held.

The streamlined program is in effect. Our members continue to have concerns. There seems to be no reduction in the processing time. We find that employees of the IRS are uncertain as to where to direct us to make inquiries and there are no bright line answers when we think we have found the appropriate source.

This is an area where training and early practitioner outreach would have been helpful. Their absence has caused confusion and frustration to an initiative we would like to support. With that said, we commend the IRS National Office leadership for their hard work in the effort. In addition, the National Taxpayer Advocate is doing all she is able to help practitioners and taxpayers. We applaud her understanding and help.

Recommendations

The above examples presented in capsule form are not new to the Oversight Board and I suspect will have been addressed by those testifying before my turn. However, there are three themes that emerge from them.

1. Appropriate employee training is critical to the success of the restructured IRS and its many fine initiatives. Without it, they will not succeed. Further, employees will not have job satisfaction. Training and performance are inextricably intertwined. NAEA believes the training must be substantive and presented in an understandable manner. If online training does not produce the results sought, another method must be used. Group sessions should be held so that employees are able to dialogue and network. Please also consider practitioner involvement in the IRS training efforts. NAEA does not consider our relationship with the IRS adversarial. We want to make the system work as it should and offer our membership to help make that happen by sharing practitioners' perspectives in all aspects of tax administration and compliance.
2. Another theme that has emerged is to use practitioners in IRS research efforts. NAEA will be pleased to conduct surveys of our membership on any subject germane to the tax system. We regret that the IRS is not using us as much as it should in this regard. For example, had we been approached regarding the new EIN program at a time it was being considered, we could have provided insights that would have alleviated much of the frustration being experienced today. Further, NAEA has been involved in some pilot projects and believe the involvement to have been helpful to the IRS. This, in our view, is another aspect of research.
3. Keep the practitioner community in the loop. Let us know about new initiatives at the earliest time possible. Educate us on the manner in

which they will be implemented and let us react. Provide us time in which to prepare our practices for the initiative and to deal with our clients. We all will gain from early communication. A fine example of such communication is the Criminal Investigation Division. Mark Matthews made it a point of appearing before practitioner organizations and writing articles on the changes in his division. No one was blindsided and the communication fostered more potential for success for the changes.

With the above said, we are pleased with the philosophies and programs of the TEC component of the Small Business/Self Employed Division of the IRS. We think it is the way to go and encourage its full staffing in order to make the dream come true. We are less familiar with the SPEC component of the Wage and Investment Division, but believe it has potential similar to that of TEC.

A clear example of a current issue where all three themes would help the system is the National Research Program, the successor to TCMP audits. This is a program that never has been popular and has two strikes against it even before it begins. Yet appropriate training of IRS personnel who will be involved may make a huge difference in its acceptability and implementation. While it may be too late for research efforts by practitioner organizations, a reporting channel between the organizations and the IRS for trouble shooting and the like may be very productive. Further, educating us on the program and what to expect has positive potential.

The Impact of Tax Law Complexity on IRS Employees

We believe that tax law complexity is an area that requires your attention. It impacts IRS employees and we respectfully urge you to press for simplification of the tax code.

As the National Commission on Restructuring the IRS found, there is a clear connection between the complexity of the Internal Revenue Code and the difficulty of tax law administration and taxpayer frustration. Clearly, how the public perceives how well the agency is doing its job is tied directly to the level of frustration taxpayers have with the constantly changing tax code. We urge the IRS Oversight Board to add its voice to ours and that of the National Taxpayer Advocate as well as our fellow practitioner groups here today.

As frontline practitioners, we believe Congress could provide significant relief and make the job of IRS employees easier by making immediate changes in three areas. First, Congress needs to repeal the alternative minimum tax (AMT) for individuals. Second, it needs to simplify the rules for qualifying for the Earned Income Tax Credit. Third, phase-outs and phase-ins need to be standardized.

These changes would provide significant relief to taxpayers as well as allow the IRS to free up resources within the agency for other purposes.

Conclusion

In closing, let me assure you that the National Association of Enrolled Agents looks forward to assisting you as you make strategic plans for our nation's tax administration. We stand ready to provide you with the views of front-line tax practitioners who work daily with millions of individual taxpayers and small businesses.