

Electronic Tax Administration Advisory Committee
Internal Revenue Service Oversight Board Public Meeting
“Pivoting Away from Paper”
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IRS Electronic Tax Administration Advisory Committee (ETAAC)
Internal Revenue Service
Customer Account Services
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ETAAC mission

The Electronic Tax Administration Advisory Committee (ETAAC) was formed and authorized under the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98) to provide input to the IRS on the development and implementation of the IRS strategic plan for electronic tax administration.

ETAAC thanks the IRS Oversight Board for this opportunity to comment on a shared mission, consistent with the topic of this meeting, for the IRS to shift away from paper-and-phone based customer service processes and allow taxpayers and tax professionals to securely, effectively and efficiently interface with the IRS online.

Current IRS customer service

Today, the IRS uses a paper-and-phone approach to deliver most of its customer service to taxpayers and tax professionals. But this traditional way of doing business is increasingly strained by taxpayer expectations for online services and IRS resource reductions. The result is a customer service experience that places extra burden on taxpayers and tax professionals, hinders voluntary compliance and costs the government millions of dollars to support manual processes. In the face of increased demand and fewer resources, the IRS needs to develop a cohesive strategy to improve its manual, unsustainable customer service model.

Contained in this document is a discussion on why competing pressures *will* force change at the IRS, and how the IRS can start implementing a sustainable solution to those challenges. We also provide specific recommendations for strategies the IRS should pursue in developing technology that functions at customer service standards comparable to the consumer financial industry.

The IRS must adapt to consumer demand and budget cuts

Consumer demand

Since the emergence of the Internet, virtually all large-scale financial service providers have shifted away from person-to-person interaction to comprehensive online service. This approach has advantages for businesses and their customers. Financial service providers can reduce costs while providing scalable, efficient delivery models.¹ Customers benefit from convenient, immediate access to information and expanded real-time capabilities to interact and transact with their service provider, without having to call, write or visit an office.

To gain broad adoption and customer satisfaction, successful companies take a comprehensive approach to the online customer experience. Online banking and shopping are good examples of growing consumer preference for comprehensive online customer service and account capabilities. According to the Pew

¹ There are cost-savings when consumers use online transactions versus face-to-face transactions. For example, a study from financial research firm Javelin Strategy & Research estimates that the average cost of an in-branch transaction is \$4.25. The same transaction performed with a mobile device costs \$0.10: www.cutimes.com/2013/07/02/how-to-modify-mobile-banking-behaviors-to-maximize

Research Center, in 2013, 51% of Americans used Internet banking.² Online shopping growth continues to consistently outpace traditional brick-and-mortar retail sales.³ Large-scale financial institutions and retailers, as well as many other sectors, provide customers with a comprehensive, personalized online experience to manage their accounts, complete transactions, and interact without ever visiting an office or store. Technology also enables online providers to tailor the client experience to the customer's profile, buying habits and prior interests – all of which provide a highly engaging, effective service delivery model.

Now that 85% of Americans report regular use of the Internet⁴, the demand for seamless online service delivery will only grow in all sectors, including tax. In fact, data shows that each year, taxpayers increasingly prefer interacting online with the IRS, consistent with other consumer experiences. For example:

- In 2013, IRS.gov received 457 million visits⁵ and 198 million uses⁶ of its top two interactive tools⁷, compared with 109 million phone contacts.
- Visits to IRS.gov are up 23.8% from 2012 and 56.5% from 2008.⁸
- The rate at which taxpayers e-file their returns has also increased every year, up to 81% in 2013.⁹ This measurement reflects the most common taxpayer transaction with the IRS and demonstrates that taxpayers are more than willing to interact online¹⁰, especially when the filing process is greatly simplified by tax software.
- In 2012, 37% of taxpayers contacted the IRS for an issue other than the filing of their tax return.¹¹
- In 2013, 60% of taxpayers wanted a way to interact with the IRS via email, and 70% wanted the ability to get information online.¹²

To achieve high taxpayer adoption and satisfaction, ETAAC believes that taxpayers should have a comprehensive, customized online experience with the IRS – at the same standard expected of today's financial service providers. Several states have successfully implemented online accounts for taxpayers and tax professionals, reducing taxpayer burden and increasing operational efficiency.¹³ For the IRS, the importance of shifting customer service online has never been more apparent, in light of consistent budget reductions that erode its ability to serve taxpayers and tax professionals.

IRS budget cuts

IRS funding demands that taxpayer customer service move to a more efficient electronic platform. From 2010 to 2014, IRS funding was reduced by almost \$1 billion – a 7% decrease – while the total number of tax returns filed increased by 4%.¹⁴

² <http://www.pewinternet.org/2013/08/07/51-of-u-s-adults-bank-online/>

³ Wall Street Journal reporting on a United Parcel Service study: In 2013, e-commerce grew seven times the growth rate of total U.S. retail spending. <http://online.wsj.com/news/articles/SB10001424127887324063304578523112193480212>

⁴ <http://www.pewinternet.org/2013/08/07/51-of-u-s-adults-bank-online/>

⁵ <http://www.irs.gov/PUP/newsroom/12-27-2013.pdf>

⁶ In its 2013 Tax Filing Season study, the Government Accountability Office (GAO) reported that taxpayers used the "Where's my refund?" tool 193 million times and used the Electronic Filing PIN request tool 15 million times. <http://www.gao.gov/assets/660/659777.pdf>

⁷ A recent example of taxpayer adoption of online tools is the IRS Get Transcript tool, released in 2014. This tool allows taxpayers to immediately access and download copies of their IRS transcripts for recent tax years. According to the IRS Office of Online Services (OLS), taxpayers downloaded more than 3.2 million transcripts from the Get Transcript tool in its first two months of availability.

⁸ The Taxpayer Advocate Service (TAS) reported 457 million visits to IRS.gov in 2013:

http://www.irs.gov/pub/tas/nta_testimony_housepprops_oversight_022614.pdf; GAO reported 292 million visits to IRS.gov in 2012, and 297 million visits in 2008: <http://www.gao.gov/assets/660/659777.pdf>

⁹ For the 2013 filing season, individual taxpayers e-filed 119.5 million (81%) of the total 148.2 million Forms 1040 filed.

<http://www.irs.gov/PUP/newsroom/12-27-2013.pdf>

¹⁰ According to the IRS Oversight Board Electronic Filing 2013 Annual Report to Congress, the percentage of the general public who think it is very important that the IRS provide service through electronic channels, including e-file, the IRS website, and email, has grown noticeably over the past decade. See page 21: <http://www.treasury.gov/irsob/reports/2014/IRSOB-E-File%202013.pdf>

¹¹ <http://www.treasury.gov/irsob/reports/2014/IRSOB-TAS%202013.pdf>

¹² <http://www.treasury.gov/irsob/reports/2014/IRSOB-E-File%202013.pdf>

¹³ New York, California, Oregon, Maryland, California and Illinois have online account offerings. As of March 1, 2014, New York had the most extensive capabilities for individuals and businesses, including the ability to respond to notices.

¹⁴ See IRS commissioner testimony before the House Appropriations Committee on Feb. 26, 2014, at page 12:

<http://docs.house.gov/meetings/AP/AP23/20140226/101771/HHRG-113-AP23-Wstate-KoskinenJ-20140226.pdf>

Even if the IRS wanted to sustain person-to-person customer service as the norm, it could not. In 2013, with limited resources, the IRS answered only 61% of the phone calls it received, and timely addressed only 47% of its correspondence.¹⁵ In the past four years, the IRS has decreased its workforce by 10,000.¹⁶ In fact, for the 2014 tax filing season, the IRS announced that it would drop some critical customer services, such as providing tax law assistance to taxpayers by phone, and instead directed taxpayers to self-service options at IRS.gov (tax publications and interactive tax tools) and to the tax law help sections included in tax software programs.¹⁷ Budget and personnel constraints have pushed the IRS past the tipping point, necessitating that the IRS develop more scalable, cost-effective electronic tax administration capabilities.¹⁸

IRS development efforts

ETAAC recognizes that the IRS is making efforts despite reduced resources and no published 2014-2018 strategic plan. The IRS has concentrated its ad-hoc development efforts on creating decentralized taxpayer tools across IRS.gov for specific taxpayer actions and information retrieval. While the IRS has developed several online tools for taxpayers, it has not prioritized the development of electronic tools for tax professionals, who prepare 60% of tax returns.¹⁹

Despite IRS efforts, the future roadmap for electronic customer service is uncertain. The IRS should strategically plan and prioritize the development efforts of its Office of Online Services, which is responsible for developing online tools for taxpayers and tax professionals. These efforts should be coordinated across all IRS functions and industry stakeholders to cohesively address the essential customer service needs of taxpayers and tax professionals.

ETAAC strategic recommendations

In the face of increased demand and fewer resources, the IRS needs to adopt and communicate a cohesive online strategy for electronic tax administration to improve its manual, unsustainable customer service model. To achieve high taxpayer and tax professional adoption and satisfaction, ETAAC recommends that each taxpayer and tax professional have a comprehensive, customized online account with the IRS – at the same standard expected of today’s financial service providers.

For the IRS to successfully break the paper paradigm, ETAAC strongly urges the IRS and Congress to take the following actions:

1. The IRS must commit, in its pending 2014-2018 strategic plan, to the planning and implementation of a comprehensive online account for taxpayers and tax professionals that is customized to the user’s profile and that covers a wide range of fundamental informational and transactional tax needs.
2. The IRS must involve taxpayers, tax professionals and tax software companies in the design and development of online accounts to ensure an online experience that is consistent with users’ expectations and that is designed to maximize adoption.
3. Congress must adequately and consistently fund IRS development efforts to create comprehensive online accounts for taxpayers and tax professionals.

¹⁵ The IRS defines timeliness as responding to the taxpayer within 45 days of receiving the taxpayer’s correspondence. See page 4 of the GAO 2013 Tax Filing Season study: <http://www.gao.gov/assets/660/659777.pdf>. For IRS overage correspondence data, see page 9 of TAS testimony: http://www.irs.gov/pub/tas/nta_testimony_housepprops_oversight_022614.pdf.

¹⁶ See IRS Commissioner testimony before the House Appropriations Committee on Feb. 26, 2014, at page 13:

<http://docs.house.gov/meetings/AP/AP23/20140226/101771/HHRG-113-AP23-Wstate-KoskinenJ-20140226.pdf>

¹⁷ <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>

¹⁸ Developing improved electronic capabilities makes sense from revenue-production and cost-savings perspectives. The IRS commissioner reports that for every \$1 in budget cuts, the U.S. Treasury loses \$4 in revenue. See <http://www.irs.gov/uac/Newsroom/Prepared-Remarks-of-Commissioner-of-Internal-Revenue-Service-John-Koskinen-before-the-National-Press-Club-2014>. In addition, using electronic tools is shown to produce cost savings. In February 2014, the IRS Oversight Board reported a five-year savings of \$69 million as a result of the increase in e-filing over paper filing. See page 9: <http://www.treasury.gov/irsob/reports/2014/IRSOB-E-File%202013.pdf>.

¹⁹ In the 2009 IRS Return Preparer study, the IRS noted that 60% of all tax returns are prepared by a paid professional. See page 9: <http://www.irs.gov/pub/irs-pdf/p4832.pdf>

Taxpayer and tax professional online accounts

Development recommendations

For several years, ETAAC has consistently recommended that the IRS develop electronic capabilities for taxpayers and tax professionals through a variety of online tools and resources that are consistent with financial industry standards. For example, in 2013, ETAAC recommended specific online tools that would allow taxpayers to:

- Have dynamic access to their tax information.
- Assign access to authorized tax preparers to facilitate requests and transact with the IRS.
- Request and receive their record of account online in a single session.

In the past, ETAAC has recommended that the IRS roll out tools on an individual basis rather than combining them into one large-scale launch of a taxpayer or preparer portal. ETAAC's forthcoming 2014 recommendations are consistent with a phase-in approach, but emphasize that the IRS should work toward a single, comprehensive account for taxpayers and tax professionals.

Taxpayer online account

ETAAC recommends that the IRS develop a single, comprehensive taxpayer online account (TOA) for individual and business taxpayers, to provide broad capabilities to obtain tax and account information, manage tax accounts, and interact with the IRS on account-related and compliance issues.

A single TOA would be the taxpayer's central source for information about his or her tax account and would house online services specific to the taxpayer's needs. Rather than continuing to build multiple, decentralized tools that taxpayers must use to actively search for and determine applicability to their situation, the IRS should develop a single TOA that would provide tax account information and features specific to the taxpayer's profile.

TOA functionality should allow taxpayers to:

- Understand their tax accounts in a user-friendly manner, including electronic views, with descriptions, of transcript information.
- Obtain an electronic filing authorization code (i.e., Electronic Filing PIN) through the account.
- View IRS notices received and be contacted via email or other electronic communication when postings/alerts are made to the account, such as the issuance of a new notice or the posting of an estimated tax payment.
- Have the information and capabilities to efficiently resolve IRS account issues, including obtaining any applicable case-assignment information and contact information, uploading responses to IRS inquiries, and viewing the status of account issue online.
- Address underpayment issues, including accessing unpaid account balances and payoff amounts, paying taxes through an online portal, and directly addressing penalty issues.
- Access tax law tools and a tax calendar specific to the taxpayer's profile.
- Electronically initiate an authorization for a tax professional to represent the taxpayer before the IRS or receive information from the IRS on the taxpayer's behalf. Taxpayers should be able to see who is authorized on their account and have the ability to revoke any existing authorizations.

The IRS should also allow business entities to establish online accounts to access tax information and resolve tax issues. Businesses should have functional capabilities similar to individual taxpayer accounts, and should also be able to view information statements filed and received under their Employer Identification Number. Currently, the IRS does not allow business entities access to their transcripts online. As soon as it is feasible, the IRS should extend online transcript access to business entities.

Improved access to information for small businesses would decrease taxpayer burden, increase reporting compliance and discourage business identity theft.²⁰

To facilitate taxpayer adoption of online accounts that would allow the IRS to shift away from paper, the IRS should encourage taxpayers, through software providers, to set up a secure online account when filing their returns electronically.

Tax professional online account

Currently, three out of five taxpayers use a tax preparer to complete a tax return on their behalf. Taxpayers can also allow tax professionals to receive information from the IRS on their behalf and to represent them before the IRS, depending on the practitioner's professional designation.

To facilitate effective tax administration, ETAAC recommends that the IRS provide tax professionals with a single, secure online account with similar informational and functional capabilities as the TOA, plus additional capabilities that would allow tax professionals to:

- Finalize signatures and submit authorizations on behalf of their clients to have immediate capabilities to represent their client and/or receive information on behalf of their client.²¹
- View a complete listing of all authorizations currently in effect, taxpayers for whom they are authorized, years and forms authorized, and the expiration dates of the authorizations.
- Electronically withdraw an authorization, have the withdrawal immediately recorded by the Centralized Authorization File (CAF) unit, and obtain a confirmation that the authorization has been withdrawn.
- View client notices, understand client tax account transactions, and respond on behalf of their clients for account-related and compliance issues.

ETAAC recommends that the IRS develop a tax professional online account *in conjunction with* the taxpayer online account to lessen taxpayer and IRS burden and improve adoption for both groups.

Conclusion

ETAAC recommends that the IRS take a strategic approach, and that Congress invest in IRS efforts to transform its paper-and-phone approach to a more efficient and effective electronic customer service experience.

If the IRS and Congress work together on these strategic and financial commitments, this investment would reduce burden, increase tax revenue through voluntary compliance, present a sustainable solution to increasing IRS customer service challenges, and break the paper paradigm.

²⁰ Information transparency would reduce taxpayer burden by reducing the need for calling or writing to the IRS for information or to resolve problems. An online account would increase reporting compliance by allowing taxpayers to easily discover and correct potential reporting discrepancies. For example, the IRS could use the online account to alert taxpayers to potential underreported income and request correction by filing an amended return, if appropriate. Because of the current IRS process of notifying taxpayers by mail, the IRS can contact only a small portion of individual taxpayers with potential underreported income. In 2010, the IRS automated underreporter program flagged 24 million returns with discrepancies between income reported on the return and information statements on file with the IRS. However, the IRS investigated only 5.3 million (22%) of these discrepancies (<http://www.gao.gov/assets/660/655020.pdf> - page 12). Within an online taxpayer account, the IRS could send "soft notices" to the additional 19 million taxpayers to alert them to potential underreporting. Taxpayers could also be alerted to potential tax identity theft through online notifications of returns filed or transactions made under their Taxpayer Identification Number.

²¹ Tax professionals generally file two types of disclosure authorizations: Form 2848, *Power of Attorney and Declaration of Representative*, to represent clients before the IRS, and Form 8821, *Tax Information Authorization*, to access client information from the IRS. The main difference between the two is that the Form 2848 allows a licensed tax professional (usually an attorney, CPA or enrolled agent) the ability to advocate his or her client's position, especially to an IRS compliance unit such as Examination, Collection, or Appeals.