

IRS Oversight Board Public Meeting

May 13, 2014

“Pivoting Away From Paper”

How the IRS Can Overhaul Customer Service and Transform Its Business Practices

Panel 2 Discussion: Using Technology to Increase Customer Service for Taxpayers and Preparers

To: Paul Cherecwich, Moderator

From: Paul La Monaca, National Society of Tax Professionals (NSTP)

Good morning, ladies and gentlemen. My name is Paul La Monaca and I am the Director of Education for the National Society of Tax Professionals and I want to thank the members of the Oversight board, the IRS and Lisa McLane for inviting NSTP to participate in this very important forum.

The National Society of Tax Professionals is a nonprofit membership group of almost 6,000 quality tax professionals composed of Enrolled Agents, Certified Public Accountants, Attorneys, Financial Planners, Registered Tax Return Preparers and unenrolled tax preparers. NSTP’s goal and mission is to provide tax professionals with quality education and resources to achieve excellence. In addition, NSTP strives to protect the taxpaying public.

I am a member of the NSTP Board of Directors and have served in this capacity since 1996.

In addition, I have been a speaker at the IRS National Tax Forums since 2009 and will be participating in that important gathering of tax preparers again in 2014.

As the NSTP Director of Education, my main responsibility is to determine, design and deliver to our members and others who participate in our classes, the educational needs and requirements that they need and seek in order to be better equipped to participate in the profession that they have chosen. NSTP also provides education to these preparers through weekly updates, monthly newsletters and with any daily SOS that needs to be transmitted.

In addition to my role with NSTP, I am a tax professional who has been preparing tax returns since 1975. I have worked in tax departments of large international and small CPA firms. I have worked in Corporate America and was a full-time professor at the American University here in Washington, DC. Since 1989 I have been practicing tax in Falls Church, Virginia, where the bulk of our clients are mid-to-high-wealth individuals and small privately-owned businesses.

As a result of all my experiences dealing with the tax world, I can state that I am equipped to express the needs that the Service must consider.

On behalf of the NSTP membership, I have four (4) main topics of concern which need to be addressed dealing with “electronic” administration and which are:

1. The “expectations” of the public and the tax professional community;
2. The “Tax Gap” which at this moment is estimated to be an annual gross amount of \$455 billion and a net annual amount of \$390 billion;
3. The “brain drain” (People Gap) within the Service as highly skilled, dedicated civil servants age and retire; and
4. “Practitioner frustration” with the daily struggle to work within the system that has been delivered to them.

First let’s address Item #1: The “expectations” of the public and tax professionals.

In today’s world one can access almost any information about anything in their financial life with the click of a mouse or a button on a phone or an icon on other devices.

It happens almost in the blink of an eye. We have access to bank statements, credit card data, insurance records, purchases and returns, the tracking of shipments in and out and immediate confirmation when received or sent. As Americans and human beings we have become used to getting “what we want when we want it” and as a result we have become less tolerant when those needs and desires are not delivered in what we now believe is in a “timely manner”.

If one buys an item in a store at the Tyson’s Corner Mall in Virginia, and travels to another city anywhere in the country and wants to purchase that exact brand, color and size, they can go to the Service Department in that store in the other city and can buy a duplicate on the spot because the data is stored and available. Now that person has purchased that item again, and there are two winners: the customer who now has “what they want when they want it” and will continue to relate that experience to future purchases with that store; and the store because they have generated revenue and they have a loyal customer.

Our objective and goal should be that the customer is the taxpayer who can find information and answers when they want it and can resolve the issue on the spot and the Service should be that store who has generated revenue and has a customer who has been satisfied and is confident that if there are ever any future issues will be able to easily make the problem go away. In addition that “customer” is very likely to relay their positive experience to others who will need to deal with the IRS.

Item #2: Our second point addresses the “Tax Gap”. The IRS, Congressional Research Center, and the Inspector General for Tax Administration (TIGTA) have all been studying and reporting the issues of the “Tax Gap” which is a compilation of:

1. Non-filing;
2. Underreporting of income and overstating of expenses and allowable deductions and
3. Inability of the Service to actually collect the revenue which is due.

The gross annual amount is estimated to be \$455 billion and through the collection efforts of the Service, \$65 billion is recovered, with the net Tax Gap of \$390 billion annually left on the table. No business in America would tolerate such results. These amounts don’t even include the lost revenue from illegal activities in this country, which is an unknown figure.

The Tax Gap is only going to widen if the Service doesn’t have the ability and opportunity to design computers that can talk to each other. The Service needs to stop relying on antiquated designs and it has a responsibility to the taxpaying public to collect the money that is owed. That collection can be better accomplished by more modern systems. Furthermore, Congress needs to take the handcuffs off of the Service so that it can do its job. Funding cuts across the board are unacceptable for an agency whose job is to collect revenue. This is a simultaneous equation which needs to end.

If the Service could have a system designed which better tracks trends of each individual tax return submitted, then the opportunity to collect underreported income and deny overstated deductions in a more timely manner would greatly increase the collection of much needed revenue. Businesses in this country are able to track “spending and buying” habits and trends of their customers so that they can generate future revenue from these individuals; therefore the Service should have a system which does essentially the same thing. If the Service could have this type of “marketing” approach to revenue collection then the “respect factor” for our tax system would greatly increase. If the Service doesn’t work toward this type of design, then respect for the system will diminish.

The more taxpayers lose respect for the system, the bigger the noncompliance and the larger the Tax Gap.

Item #3: The “brain drain” (People Gap) at the Service. As we age and begin to walk away from our life’s profession, the system begins to weaken. Experienced, “seasoned” Service employees leave because they have reached their qualifying period of age and service and look to “their time now”.

After working in any job or profession one develops a “sixth sense” about what they do on a daily basis; they are able to “predict, anticipate and resolve” way before the event or issue occurs. We are in a period where 10,000 baby boomers reach 65 years of age every day. At

the Service those retiring are, many times, years younger than 65 because of their service time and age with many being able to include military service.

New replacements enter the Service and other current employees move up in the ranks but it takes time and development to get anyone to the point of knowledge of that retiring person. Replacements can't be trained and developed that fast. A solid computerized system doesn't need to know who is working that position. It works the same way whether it is an employee who has been in the position 25 years or 25 days. Electronic administration helps in solving this "People Gap". With seamless systems the people working in the IRS will be able to be better allocated to the most important human capital roles.

Item #4: "Practitioner frustration". Many of NSTP's members as well as those practitioners attending the IRS Forums who stop and speak with me after my presentations tell me countless stories of not being able to resolve issues with the Service in a timely manner because access to information is difficult. They are frustrated that they sometimes wait ½ hour or more for a telephone service representative to answer and then spend sometimes another ½ hour or more before the issue can be moved to the next level because the representative either doesn't have ready access or the caller must be put on hold so that the representative can access information in another system.

In some cases, the telephone system is so bad that when the practitioner's time in the queue has finally gotten to their call it gets cut off and it begins again.

The practitioners are also frustrated that they are receiving notices from different IRS offices around the country for the same taxpayer for the same tax years.

These types of experiences cause the tax practitioner (as well as their clients) to lose respect for the tax system in which they are trying to work. This, in the long run, causes greater noncompliance by the tax paying public and unfortunately by some tax preparers.

We must remember that our system is a self-assessing system and we rely on the American taxpayer and the American tax preparer to "do the right thing". Self-assessment is the backbone of how we do the business of reporting and collecting tax and it needs to be able to continue to work this way and it can only continue if the administration of the law is modernized. Believe it or not, other countries study our tax system and want one like ours.

In conclusion, we may have to destroy the current computer system that we use and start all over from the beginning with a blank piece of paper.

I liken this to whether you knock a building down and build a new one which meets today's standards or do you gut it in piecemeal and renovate as you go, hoping that the foundation doesn't crumble in on you as you're making the changes.

In either sense whether it is a knockdown or a renovation it must begin today.

Again, ladies and gentlemen and members of this fine panel, I thank you for your attention and your time.

I am Paul La Monaca, Director of Education for the National Society of Tax Professionals.

Respectfully,

A handwritten signature in cursive script that reads "Paul La Monaca". The signature is written in black ink and is positioned above the typed name and title.

Paul La Monaca
NSTP Director of Education