

CERCA TESTIMONY BEFORE THE IRS OVERSIGHT BOARD  
February 28, 2012

Customer Service Challenge: Delivering Effective Taxpayer Service in an Era of Budget Reductions

The challenge of providing informative, timely and helpful service to taxpayers is a growing challenge as Public Sector budgets tighten and consumers increasingly expect instant access to accurate information on a 24x7 basis. From CERCA's perspective of serving taxpayers as client customers, there are Immediate-Term and Longer-Term considerations which need to be factored into going forward business and strategic plans at the Internal Revenue Service. To frame the issue, we would observe:

\* It is the IRS's declared mission is to "provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."

\* In support of this mission, the current IRS Strategic Plan has a strategic goal to "Improve service to make voluntary compliance easier," and includes several key objectives: (i) incorporating taxpayer perspectives to improve all service interactions; (ii) expediting and improving issue resolution across all interactions with taxpayers, making it easier to navigate the IRS; (iii) providing taxpayers with targeted, timely guidance and outreach; and, (iv) strengthening partnerships with tax practitioners, tax preparers, and other third parties in order to ensure effective tax administration.

\* The practical challenges of the 2012 filing season reflect that the current IRS strategy is not adequately meeting taxpayer needs. This season taxpayers have experienced:

- Delays in return filing acknowledgements and refund delivery due to numerous IRS systems problems;
- Despite modernization, IRS is announcing longer refund issuance cycles not shorter ones
- Frequent systemic failures, and inaccuracies, with IRS online tools such as the IRS Efile PIN and Where's My Refund;
- Reduced call center service hour availability, and posted advisories asking taxpayers to stop calling to ask about their return or refund status because there is no status information to share;
- Disconnects and long wait times trying to reach IRS assistors and, after reaching them, frequently receiving incorrect information in key areas such as return receipt and refund delivery;
- A long and mixed history regarding accuracy issues in providing answers to tax questions through customer inquiry-response call centers.

\* However, as a practical matter, taxpayers need answers to questions in several key areas;

- Substantive Tax,
- Filing status, e.g., efile rejects and status,
- Return processing and refund status, and
- Post-refund taxpayer account issues, e.g., inquiries about notices from IRS.

\* IRS plays a key role in answering these questions, but we at CERCA believe a new customer service strategy is necessary if baseline taxpayer informational needs are to be met going forward. As a practical matter, "customer service" will not be successful if IRS tries to "go it alone" and husband vital information:

- IRS will have less funding and resources

- IRS will have a less experienced workforce – many are retiring, especially as IRS begins to offer “early retirements”
- IRS will need to “do more with less,” which will require a tight focus on its core mission and, in particular, on those critical few things that are uniquely governmental roles, such as tax return processing, tax administration, and examinations and enforcement.

#### Immediate-Term Considerations

1. IRS should leverage best practices from the call center industry and facilitate coordination and communication between IRS Call Center operations and industry tax services providers who also operate large call centers.

2. IRS needs an escalation system, for tax service providers who are dealing with extreme taxpayer dissatisfaction as a result of inadequate information availability about refund and return status.

-- Severe taxpayer frustration is generated due to the impact of delayed refunds and a lack of information on status. Such intense early season taxpayer frustration is directly related to the fact that significant numbers of early season return filers have the most urgent financial need for receipt of their tax refund to meet pressing household, personal or family bills. For many of these taxpayers the receipt of their annual tax refund is a major financial event which they and their families depend upon. When refunds are delayed and status information is not available or reliable, private sector tax call center staff suffer widespread verbal abuse from deeply frustrated taxpayers, while storefront associates have been physically threatened or even sustained personal property damage (e.g., rocks through car windshield).

3. IRS needs to think through customer service in the context of not only its own customer service operations, but for its relationship to the private sector providers of tax preparation and software services and products. Likewise, customer service and information sharing assumptions must be fundamentally re-thought in the context of modern social media communications among taxpayers themselves, who communicate with each other in real time about the information they are receiving, often comparing and contrasting what they and others in their community are hearing from the IRS or from their tax service providers. The times, tools and communications media of the American people have changed in significant ways, and that pace of change is accelerating. Old assumptions about how communications can be carried out and information shared, or withheld, have altered in significant ways as a result of the spread of consumer user of instantaneous social media exchanges, especially via mobile devices which are nearly ubiquitous in their penetration in American society. These changed social realities must also be dealt with in practical ways regarding the impact of information and communications on the private sector ecosystem of registered tax return preparers and electronic tax service providers.

-- In thinking about meaningful private/public partnership, Registered Tax Return preparers and electronic tax software providers need access to additional information sharing tools with which to inform taxpayers and respond accurately to inquiries from the taxpayers they serve. As a practical matter, each customer service interaction that is successfully handled by the private sector is one less customer service interaction that must be handled directly by IRS's limited inquiry response resources. In contrast, information that is disjointed, inaccurate, untimely, inconsistent, or simply unavailable, can quickly result in an escalating circle of taxpayer interactions back and forth repeatedly between public and private sector customer service operations, with inevitable rising costs and workload for both the

public and private sectors, and predictably escalating levels of taxpayer frustration, dissatisfaction and anger.

4. One valuable near term step could be a joint public-private customer service Symposium to be convened by IRS to seek closer coordination, information sharing, exchanges on best practices, and putting processes in place for simple but accurate message coordination so taxpayers are not subjected to circular and inconsistent experiences between public and private customer service functions, particularly with regard to refund and return status.

#### Longer-Term Considerations

1. In an era where consumers increasingly expect 24x7 access to information and customer service as a standard expectation based on their commercial experiences, IRS must think anew about end-to-end, and creative strategies and solutions that can better meet and respond to taxpayer's growing demand for information and service:

-- Highly innovative IRS programs like Free File may point the way to re-imagining strategies that could leverage the tax preparation industry and its resources, expertise and core competencies in the provision of customer service, much as the Free File strategy leveraged private sector resources to provide tax products and services to those in need.

-- Applying those lessons to today's growing taxpayer customer service challenges could involve leveraging the private sector core competencies and capabilities that today serve about 95% of all taxpayers. Under such an Innovation Strategy, IRS could provide a rich flow of accurate information through the tax preparation industry channel, harnessing the resources and capabilities of the private sector to provide taxpayers with timely information regarding their return and refund status. This would also be a much lower cost solution than for IRS to divert critical resources in an attempt to duplicate private sector customer service capabilities and resources to try to effectively meet the growing demand of taxpaying consumers for information and service.

-- Under such an Innovation Strategy, increased IRS reliance on the private sector as a primary channel to serve taxpayers effectively would, as an aside, also drive heightened expectations and performance standards for the tax preparation, technology and filing industry.

2. The reality today is that taxpayers already expect IRS and industry to work together to answer their questions, and cannot understand how it is possible that today such cooperative service is simply not forthcoming. To satisfy reasonable citizen expectations, IRS cannot continue a "business as usual" approach in an era of declining resources – it must instead focus and deliver on its most basic tax administration responsibilities in new and innovative ways, while finding new and innovative ways to deliver superior customer service at lower costs. To do this successfully, we recommend:

-- IRS must work actively and closely with industry to reduce unnecessary efile rejects

-- IRS must process returns and deliver refunds quickly and reliably and apply concentrated effort and resources to identify and correct the root causes of the difficulties and problems encountered in the 2012 tax season, while prudently addressing the strategy for subsequent tax seasons to take fully into account the practical limitations of systems and operations, and the impracticality of thinking in the context of a zero defect environment. Going forward strategies should have fallback systems and

alternatives that can accommodate the continuity of services during tax season when problems and difficulties are inevitably encountered.

-- The information that underlies today's 'Where's My Refund' and 'Efile PIN' tools has become critical information for the taxpayer and for their private tax service provider. That information must be available, and its content must be timely, accurate and understandable.

-- IRS should enable taxpayers to use information from the 'Where's My Refund' and the 'Efile PIN' tools more seamlessly – for example, .html page formats should enable industry to build electronic tools that directly empower taxpayers and their authorized representatives to be able to transfer information accurately and seamlessly from their browsers into their software tools

-- IRS must communicate with industry more frequently as a trusted, key partner during the filing season. IRS must be much more transparent about issues that are affecting tax processing. Such challenges require immediate notifications and information that the industry can reliably and swiftly share with taxpayers

-- IRS should provide industry with access to IRS' "assistor messaging" to enable industry to provide answers consistent with the facts and consistent with what IRS will say through its more limited customer service resources, so messaging is harmonized and accurate.

3. Provision of information needs to be viewed as an end-to-end process from the taxpayer's perspective, with a focus on accuracy and timeliness as the taxpayer's expectation.

-- As noted, the "Where is my Refund" online tool needs to be continuously functioning, timely and accurate. A lack of information, or the repeated unavailability or non-functionality of the tool itself, adds to the growing frustration of the taxpayer and directly drives growing call volumes for both the public and private sectors alike. IRS posting of notices asking taxpayers to stop calling because it has no information does not help the problem, and does not produce the desired behavior within the impatient taxpayer population. If the taxpayer does indeed stop calling the IRS, they just start calling, emailing, texting, blogging or tweeting somebody else. A lack of information or customer service does not result in the taxpayer patiently going away and waiting. It is not a behavior that a dissatisfied consumer of services is accustomed to in the modern 24x7 world of instantaneous communications and constant access to desired information and services. A fundamental customer service paradigm shift has taken place in the commercial world, and the government sector is not immune from its impact.

-- Once the IRS does issue the refund, the agency can today provide no further support to the taxpayer when researching where the refund actually is, and what happened, for example, with regard to offsets.

Tax practitioners and electronic service providers need access to FMS information to verify where disbursement is in the process, so that if there's been a problem with the funds they can be traced. Lack of timely, accurate, accessible information drives negative taxpayer experiences, particularly with early return filers who have the most urgent need to receive their refunds.

-- Despite years of public predictions of significant acceleration in refund cycle times due to major public investments in IRS systems, this year the IRS official guidance, and actual experience, was of a significantly longer refund cycle time than in the past. Going forward strategy must either align performance and management objectives back to the long time predictions and commitments made to the public, or begin a major public re-education program to change public expectations about the

timeliness of refund availability from the US income tax system. The IRS Refund Cycle Chart has been out of synch this tax season with actual refund turnaround time, and out of synch as well with the IRS's own projection posted in January that lengthened the predicted amount of time it might take refunds to be processed to be 10-21 days. The disconnects in these types of critical datapoints add to taxpayer confusion and anxiety, and an objective for future seasons must be a standard of simplicity and consistency and timeliness in information and messaging.

The role of tax refunds as an incentive for taxpayer voluntary compliance in the United States is foundational to the very high tax compliance rate the U.S. Government has come to expect and enjoy over many decades. The role of tax credits as a lever of national economic policy has likewise become central to the role of the U.S. tax system in the American economy. If the timeliness of tax refunds is going to fundamentally change as the 'new normal' of American taxation, the taxpaying public must be informed and educated. Changing citizen expectations and behaviors took 10 years to produce a conversion from paper returns to electronic filing and achieving an 80% e-file rate. Changing citizen expectations about the timeliness of their access to their tax refund money would likely be a more difficult challenge that would encounter a more a challenging range of taxpayer behaviors and emotions, if this tax season is any indication.

4. Mechanisms for oversight and external input and objective insights remain not only valuable and important to the long term success of the IRS, but perhaps more important than ever given the current and emerging challenges, resource investment choices, and budgetary limitations the IRS faces. Congress in its wisdom created operating mechanisms like the IRS Oversight Board and the Electronic Tax Administration Advisory Council (ETAAC) to help ensure balance and strategic thinking in the functioning, performance and strategic direction of the IRS. These resources may be more important and consequential than ever before as the IRS adapts to the needs and challenges of the 21st Century. These strategic assets must continue in law and in operation.

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#### RESOURCE REFERENCES:

##### ETAAC 2010:

##### Internet Strategy:

IRS' Internet Strategy should be implemented through a rigorous process that ensures any online service will solve real customer problems that are aligned with IRS' strategic priorities and yield the highest "return on investment" for taxpayers, IRS, tax preparers and software companies with a potential focus on:

Reducing existing IRS call volumes and associated costs, and improving taxpayer service, by answering existing taxpayer questions more effectively through the Internet.

Improving IRS online services for preparers and the electronic tax preparation and filing industry.

Extending to taxpayers those IRS online services that are currently available only to preparers.

##### Focus

First, IRS must make decisions about developing and providing Internet-based services based on a rigorous evaluation process to ensure that real customer problems are being solved and that its limited resources are being used to their best advantage:

There must be a clear understanding and identification of the customer segment(s) being served, and the customer problem(s) being solved.

The targeted customer segment and problem must be solved well on the Internet, and not require the adoption of new behaviors or tasks that the customer segment does not currently perform (for example, it cannot be a task that a taxpayer “should perform” but, instead, one that the taxpayer already performs).

The new service must be clearly aligned with and support the accomplishment of an important IRS strategic goal or objective that relates to IRS’ core mission.  
Success must be defined in advance, along with clear metrics.

There must be a clear understanding of project risks, and an articulated risk mitigation strategy.  
The project must reflect the “best use” of IRS’ limited resources, which includes a determination of whether the subject services could or should be offered by private industry instead of by government and, if by government, then IRS must:  
Conduct a rigorous analysis of the project’s return on investment and benefit/cost, and,  
Be explicit about the tradeoffs it is making – that is, by doing this project, IRS is choosing not to do that project.

Third, ETAAC believes that the IRS should focus on solving three broad customer problems that are directly related to electronic tax administration:

Reduce existing IRS call volumes and associated costs and improve taxpayer service by answering existing taxpayer questions more effectively through the Internet. IRS is faced with a monumental customer service challenge. As of March 6, 2010, IRS Customer Account Services had already answered over 8,500,000 taxpayer calls while delivering an overall level of service of about 74%. IRS understands that it must do more to provide self-serve options through [www.irs.gov](http://www.irs.gov) where taxpayers can find the answers to their questions. However, building effective online customer service capabilities goes far beyond just posting FAQs. IRS should find opportunities to work collaboratively with states and the electronic tax preparation and filing industry to share best practices to improve the capability of the overall tax eco-system to answer taxpayer questions quickly and accurately.

Improve IRS online services that enable preparers and the electronic tax preparation and filing industry. Providing enhanced online services to preparers enables them to better serve taxpayers in a manner that has a multiplying effect because a single preparer likely serves a hundred or more taxpayers. One area of focus should be IRS’ current professional “e-Services” suite, which is quite dated. These services need to be revitalized, especially given the increased load they will be under as IRS registers hundreds of thousands of new preparers and requires them to become EROs.

Extend IRS online services that are currently available only to preparers to taxpayers as well. Innovative advances with technology and the Internet have already enabled third party tax related data -- such as W-2's and 1099's -- to be available from primary sources for instant download into tax software today directly from their original sources. On the other hand, an authorized preparer has online access via IRS to a taxpayer’s prior year tax information, while taxpayers themselves do not have similar access. However, neither the preparer nor the taxpayer can electronically import this type of information into the commonly used software. ETAAC believes that information uniquely in the government's possession, such as prior year tax information, should be electronically available to both taxpayers and preparers, which would speed and simplify return preparation and increase return accuracy. Likewise, if a Debt Indicator (DI) is provided in connection with a return, then IRS should also provide explanatory information about the nature of the refund offset. (We understand that the IRS is already considering this enhancement to the DI). These types of ideas are consistent with President Obama’s goals for an “open government” that encourages transparency and collaboration.

## Rejects

In its 2009 Report, ETAAC recommended that “The IRS should establish a permanent operational process to review and improve its current e-filing practices and procedures with respect to rejects.” We continue to believe opportunities exist to formalize the current ad hoc process of IRS/industry engagement concerning e-file rejects by forming an ongoing working group to identify, review, track and publicly report on actions taken to reduce rejects. As we suggested last year, those actions include: Thoroughly reviewing new reject codes and utilizing the software community to test criteria and provide feedback, Defining escalation procedures for reporting and resolution to critical errors, especially during filing season, Ongoing analysis for the right degree of parity between paper and e-filed returns, and Providing a communication portal for stakeholders on issues, potential timelines for resolution and actual resolution.

Consistent with the views expressed in ETAAC’s 2009 Report, GAO reported that “IRS has the opportunity to improve service to millions of taxpayers and reduce its own costs by reducing electronic filing rejects and providing more automated services.” GAO also noted that, if IRS took advantage of these opportunities, it might be able to reduce the volume of taxpayer phone calls, thereby improving taxpayer access to IRS assistors. Significantly, out of the 600 possible error codes, GAO reported that only fifteen error codes accounted for 85 percent of those received by taxpayers.

## ETAAC 2011 Report

As ETAAC noted in last year’s Report, these trends have several significant implications for electronic tax administration including: reduced IRS funding and resources for its operations; loss of experienced executives, managers and technical personnel; steadily rising taxpayer demands and expectations; a need to focus on core missions; increased reliance on the electronic tax preparation and filing industry to serve taxpayers effectively; the need to think about electronic tax administration as an end-to-end ecosystem that includes all the stakeholders, including IRS, states and electronic tax preparation and filing industry; and, the need for robust partnering, collaboration and innovation between IRS and industry to solve taxpayer problems.

Given the strong interdependencies between stakeholders in electronic tax administration, there are opportunities for improved business processes that can address these challenges – both within IRS, and between IRS and other stakeholders. The Oversight Board touched on this need with its theme of IRS “becoming more effective with less resources.”