



*The Internal Revenue Service Provides
Helpful Tax Law Assistance but Still Has
Problems With Tax Return Preparation
Assistance*

August 24, 2007

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 24, 2007

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael R. Phillips
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Internal Revenue Service Provides Helpful
Tax Law Assistance but Still Has Problems With Tax Return
Preparation Assistance (Audit #200740021)

This report presents the results of our review to determine the quality of customer service the Internal Revenue Service (IRS) provides taxpayers who seek assistance when preparing their tax returns. This included assistance received from Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the Automated TeleTax Telephone Line (hereafter referred to as the TeleTax Line), the Free File Program, and IRS.gov (the public IRS web site).¹ This review was part of our audit coverage of the Wage and Investment Division and was included in our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

Taxpayers who seek IRS assistance with tax law questions or tax return preparation have various options from which to choose, including Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the TeleTax Line, the Free File Program, and IRS.gov. Auditors posing as taxpayers used these services and generally had positive experiences obtaining answers to tax law questions; however, tax return preparation assistance was limited and presented challenges. These challenges can unnecessarily burden taxpayers.

¹ Figure 1 in the report provides details about these and other customer service options available to individual taxpayers.



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Synopsis

During the 2007 Filing Season,² Treasury Inspector General for Tax Administration auditors used five scenarios and posed as taxpayers to obtain answers to tax law questions and prepare tax returns using various IRS services. The auditors' overall experiences in obtaining answers to the tax law questions were positive, and they received good customer service. Using Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the TeleTax Line, and IRS.gov, auditors were generally able to find answers to tax law questions and obtained correct answers for 50 (94 percent) of 53 questions. However:

- For 2 (4 percent) of the 53 questions, employees referred the auditors to publications to conduct their own research.
- For the remaining question, the assistor provided an incorrect answer. Had this incorrect tax return been filed, tax would have been underpaid by \$520.

Using Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the TeleTax Line, and IRS.gov, auditors were generally able to find answers to tax law questions and obtained correct answers for 50 (94 percent) of 53 questions.

Because of the complexity of the tax law, Taxpayer Assistance Center assistors are trained to answer questions dealing with specific tax topics, called in-scope topics, and are authorized to answer questions only within these topics. In-scope topics are not published on IRS.gov; therefore, taxpayers may be unaware of these limitations and may unnecessarily travel to Taxpayer Assistance Centers to ask their questions.

Taxpayers may also need to visit Taxpayer Assistance Centers multiple times before they receive appointments to have tax returns prepared. Auditors made 32 visits to evaluate the scheduling process or make this type of appointment and noted that:

- For 7 (22 percent) visits, tax return preparation service was limited to specific days or times. However, IRS.gov and the Toll-Free Telephone Assistance Line do not inform taxpayers of service time limitations; therefore, taxpayers cannot identify them until they visit the Taxpayer Assistance Centers.
- For 7 (22 percent) visits, screeners could not schedule appointments for the auditors within 5 business days; in 4 cases, screeners asked the auditors to return on other days to try to schedule appointments.
- For 14 (44 percent) visits, screeners required auditors to have all required documents with them before they would schedule appointments.

² The period from January through mid-April when most individual income tax returns are filed.



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- For 16 (50 percent) visits, screeners did not ensure the auditors did not have tax issues that were beyond the scope of IRS tax return preparation services.

Auditors were able to prepare correct tax returns when using available tax forms, instructions, and publications but were not always able to obtain or create correctly prepared returns when using Taxpayer Assistance Centers and the Free File Program. Of the 36 tax returns prepared, 24 (67 percent) were prepared correctly.³ If 7 of the 12 incorrectly prepared tax returns had been filed, taxpayers would have overpaid their taxes by \$1,808. Alternately, if the 5 remaining incorrectly prepared tax returns had been filed, taxpayers would have underpaid their taxes by \$5,120.

Recommendations

We recommended the Commissioner, Wage and Investment Division, include on IRS.gov the types of questions Taxpayer Assistance Center assistants are authorized to answer, ensure taxpayers know the scope of tax return preparation services offered at Taxpayer Assistance Centers and what is required of them to schedule appointments and/or to have tax returns prepared, and revise the appointment scheduling procedures to alleviate taxpayer burden.

Response

IRS management agreed with all of our recommendations. They will include on IRS.gov a list of topics assistants are authorized to answer, a link to tax law topics, and the scope of tax return preparation services offered in Taxpayer Assistance Centers. They will also consider options for revising appointment procedures to alleviate taxpayer burden, including gathering data on repeat visits to determine the causes. Management's complete response to the draft report is included as Appendix VI.

Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.

³ Although we are defining the mock returns as correct, we recognize that the final determination of the accuracy of a return is subject to IRS and court interpretation.



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Abbreviations

e-file; e-filing

Electronically File; Electronic Filing

IRS

Internal Revenue Service



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Background

Providing quality customer service to taxpayers is the Internal Revenue Service's (IRS) first step toward achieving taxpayer compliance. During Tax Year 2005, approximately 49 million taxpayers prepared their own tax returns without the assistance of a paid preparer.

Approximately 55 percent (26.8 million) of these taxpayers contacted the IRS for assistance in the past 2 years. In addition, the IRS estimated it took individual taxpayers more than 11 hours to prepare the simplest Tax Year 2005 return and more than 30 hours¹ to complete a more complex tax return with schedules.

Federal tax law is complex. Although average individual taxpayers file simple tax returns and receive refunds, many of their tax problems result from misunderstanding the tax law and their tax obligations. Ensuring taxpayers understand and comply with applicable tax laws are the overriding goals for the IRS.

Of the 124 million individual taxpayers who filed tax returns during Tax Year 2006, more than 88 million received refunds.

Taxpayers have different preferences and behaviors that affect their service needs. In addition, their education levels, incomes, and physical abilities play key roles in determining what type of service best meets their needs. The IRS' challenge, and goal, is to meet taxpayer needs and determine how to provide the best services with its limited resources.

The IRS offers individual taxpayers several prefilling service options, including paper and online tax forms and publications, Taxpayer Assistance Centers (walk-in sites), the Toll-Free Telephone Assistance Line, the Automated TeleTax Telephone Line (hereafter referred to as the TeleTax Line), and IRS.gov (the public IRS web site). These options provide both assisted and self-help service options. In addition, the IRS offers filing assistance through its Volunteer and Free File Programs. The Volunteer Programs provide no-cost Federal tax return preparation and electronic filing (*e-filing*) to underserved segments of individual taxpayers, including low- to moderate-income, elderly, disabled, and limited-English-proficient taxpayers. The Free File Program offers free, online tax preparation and *e-filing* through commercial tax return preparation companies accessed via IRS.gov.

Figure 1 provides information regarding each of the customer service options provided by the IRS.

¹ Included in the estimate are the U.S. Individual Income Tax Return (Form 1040), its schedules, and accompanying forms.



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Figure 1: Customer Service Options Available to Individual Taxpayers

<p>Toll-Free Telephone Assistance Line (800-829-1040)</p> <p>During the 2007 Filing Season,² assistors answered almost 7 million calls from taxpayers.</p>	<p>The Toll-Free Telephone Assistance Line assists taxpayers in understanding tax law and meeting tax obligations. Live telephone assistance is offered Monday – Friday, 7:00 a.m. to 10:00 p.m. local time (Alaska and Hawaii follow Pacific Time).</p>
<p>Automated TeleTax Telephone Line (800-829-4477)</p> <p>During the 2007 Filing Season, more than 766,000 taxpayers called the TeleTax Line to receive assistance with tax law questions.</p>	<p>The TeleTax Line has almost 150 recorded messages covering tax topics of interest to individual taxpayers, including “Who Must File?,” Highlights of Tax Changes, Education Credits, Individual Retirement Arrangements, Earned Income Tax Credit, and “What to Do if You Can't Pay Your Tax.”</p>
<p>Taxpayer Assistance Centers</p> <p>During the 2007 Filing Season, Taxpayer Assistance Centers served more than 2.2 million walk-in taxpayers. More than 361,000 of these taxpayers sought tax law assistance and more than 182,000 had their tax returns prepared.</p>	<p>There are 401 Taxpayer Assistance Centers for taxpayers who prefer face-to-face assistance. Taxpayers can obtain assistance with resolving tax problems, learning how the tax law applies to their individual tax situations, preparing their tax returns, making payments on tax accounts, and more. However, tax law and tax return preparation assistance is limited to less complex tax issues.</p>
<p>IRS.gov</p> <p>During the 2007 Filing Season, the IRS reported more than 133 million visits to IRS.gov.</p>	<p>IRS.gov offers more than 39,000 webpages on which taxpayers can, among other things, find information to answer their tax law questions; file tax returns; and obtain forms, instructions, and publications.</p>

² The period from January through mid-April when most individual income tax returns are filed.



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Volunteer Programs

During the 2007 Filing Season, more than 2.4 million taxpayers visited Volunteer sites to have their tax returns prepared.

The IRS sponsors Volunteer programs, such as the Volunteer Income Tax Assistance and the Tax Counseling for the Elderly Programs, to assist taxpayers in preparing tax returns. The Volunteer Income Tax Assistance Program offers free tax help for low- to moderate-income (generally, \$39,000 and below) individuals who cannot prepare their own tax returns. The Tax Counseling for the Elderly Program offers free tax assistance to people age 60 and over. For both Programs, certified volunteers sponsored by various organizations receive training to help prepare basic tax returns.

Free File Program

During the 2007 Filing Season, 3.7 million taxpayers used the Free File Program to have their tax returns prepared.

The Free File Program is a free Federal tax preparation and *e-filing* program for eligible taxpayers developed through a partnership between the IRS and private-sector tax software companies. The Free File Program allows taxpayers with an Adjusted Gross Income³ of \$52,000 or less to electronically file (*e-file*) their tax returns for free.

Forms, Instructions, and Publications

During the 2007 Filing Season, taxpayers downloaded 96 million documents from IRS.gov including forms, instructions, and publications.

The IRS provides taxpayers with many forms, instructions, and publications to assist in completing their tax returns. Taxpayers can obtain these documents by ordering them via toll-free telephone lines, downloading them from IRS.gov, or visiting a Taxpayer Assistance Center.

Sources: IRS Product Line Detail Reports, IRS Filing Season Reports, and Electronic Tax Administration Download Reports.

Auditors posed as taxpayers

Recent research by the IRS indicates taxpayers are most concerned about resolving issues during their first contact with the IRS and reducing the amount of time it takes to receive service. To test this and other customer service-related issues, Treasury Inspector General for Tax

³ Adjusted Gross Income is the total of a taxpayer's taxable income sources (e.g., wages, salaries, tips, taxable interest, dividends) minus specific deductions and expenses (e.g., educator expenses, the Individual Retirement Arrangement deduction, student loan interest deductions). A taxpayer's standard or itemized deduction is not deducted from Adjusted Gross Income.



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Administration auditors created five tax returns based on fictional taxpayers with typical tax issues. Each tax return had one unresolved tax law issue.

To evaluate taxpayers' experiences with pre-filing assistance, auditors posed as taxpayers and anonymously visited Taxpayer Assistance Centers,⁴ called the Toll-Free Telephone Assistance Line and the TeleTax Line, and accessed IRS.gov to obtain answers to questions about the tax law issue. The auditors asked 53 tax law questions through these 4 customer service options.

To evaluate taxpayers' experiences when obtaining tax return preparation assistance, auditors played the role of taxpayers and anonymously visited Taxpayer Assistance Centers; used the Free File Program available through IRS.gov; and prepared tax returns using only IRS forms, instructions, and publications downloaded from IRS.gov. Auditors used these services to prepare 36 tax returns. Auditors did not visit Volunteer Income Tax Assistance Program and Tax Counseling for the Elderly Program sites during the review because the Treasury Inspector General for Tax Administration had conducted a separate audit to review these Volunteer sites.⁵

This review was performed at the Customer Account Services and Field Assistance Offices in Atlanta, Georgia, and the Electronic Tax Administration and Media and Publications Offices in Washington, D.C., during the period December 2006 through May 2007. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ See Appendix V for specific cities and States visited during this audit.

⁵ *Accuracy of Tax Returns Prepared at Volunteer Sites Is Improving, but There Are Still Many Inaccuracies Because Procedures Are Often Not Followed* (Audit # 200740019, draft report issued June 22, 2007).



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Results of Review

Obtaining Answers to Tax Law Questions Was Generally a Positive Experience

Using Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the TeleTax Line, and IRS.gov, auditors were generally able to find answers to the questions and obtained correct answers for 50 (94 percent) of 53 questions asked. Figure 2 presents results of the responses to the auditors' tax law questions.

Figure 2: Results of Responses to Auditors' Tax Law Questions

	Assisted Options		Self-Help Options	
	Taxpayer Assistance Centers	Toll-Free Telephone Assistance Line	TeleTax Line	IRS.gov
Correct Responses	15 (83%)	15 (100%)	5 (100%)	15 (100%)
No Responses	2 (11%)	0 (0%)	0 (0%)	0 (0%)
Incorrect Responses	1 (6%)	0 (0%)	0 (0%)	0 (0%)

Source: Auditors' questions and responses.

Overall, auditors' experiences were positive and they received good customer service. While all taxpayer service options had advantages and limitations, the two telephone assistance lines and IRS.gov provided the fastest and best experiences for the auditors. Nevertheless, the Taxpayer Assistance Centers may be a preferred choice for taxpayers who want face-to-face assistance. Depending on their characteristics and circumstances, taxpayers can use the service option(s) that best meets their needs and desires.

The IRS has limited resources and is working to further improve the service it provides taxpayers while dealing with its own unique challenges and a complex tax code. In April 2007, the IRS issued the Taxpayer Assistance Blueprint, a 5-year strategy to improve customer service. The Blueprint is designed to answer questions about the service needs and preferences of individual taxpayers. IRS.gov states, "Because of the extensive research completed for the Blueprint, [the] IRS now knows more than ever before about taxpayer needs, preferences and behaviors."



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The Toll-Free Telephone Assistance Line provided positive experiences



Auditors called the Toll-Free Telephone Assistance Line and asked assistors 15 tax law questions. They obtained the information needed to correctly prepare all 15 tax returns and generally waited only a short time to speak with assistors. The assistors were professional and took an average of 11 minutes to answer the tax law questions. Each call was completed within 30 minutes.

Auditors waited an average of 2 minutes to speak with assistors. However, on 1 occasion, an auditor waited more than 10 minutes. The 2-minute average wait time was consistent with 2007 Filing Season results; the IRS reported the average wait time for all tax law calls was just over 4 minutes.

Taxpayers can locate the Toll-Free Telephone Assistance Line number using several sources, including local telephone books, the 2006 U.S. Individual Income Tax Return (Form 1040) Instructions, *Your Federal Income Tax* (IRS Publication 17), and IRS.gov. They can call the Toll-Free Telephone Assistance Line between 7:00 a.m. and 10:00 p.m. local time. When calling, taxpayers are given the option to hear menu choices in English or Spanish. In addition, they may choose to listen to automated services or speak to a live assistor.

When calling the Toll-Free Telephone Assistance Line, taxpayers hear menu choices in English or Spanish and may choose to listen to automated services or speak to a live assistor.

Although auditors did not experience long periods on hold, taxpayers hear only music while waiting to speak to assistors and are not advised of wait time. The IRS is looking into providing information on new tax laws or upcoming filing deadlines or dates while taxpayers are on hold. In addition, it has requested funding in Fiscal Year 2008 to provide taxpayers with a real-time message informing them about their expected wait time, which should allow them to make more informed decisions based on the nature of their calls.

To answer tax law questions, assistors ask a series of questions, called probing questions, to ensure they receive enough information to provide complete and accurate answers. At times, a taxpayer may find the questions burdensome and time consuming, but tax laws often have many exceptions and subtleties that require a thorough knowledge of the tax situation before an assistor can provide an accurate answer.

Based on auditors' experiences, the Toll-Free Telephone Assistance Line provided good service for taxpayers who need tax law questions answered quickly—especially after normal business hours. Without leaving the comfort of their homes, taxpayers can receive help from assistors specifically trained to answer their simple or complex tax law questions.



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Taxpayer Assistance Center assistors usually provided correct answers, but the tax law questions they are trained to answer are limited



Auditors visited 18 Taxpayer Assistance Centers to ask tax law questions. The assistors were professional and, like the Toll-Free Telephone Line assistors, asked questions to ensure they received enough information to answer the auditors' questions completely and accurately. Auditors waited an average of 38 minutes to receive assistance, including 4 of 18 visits during which the wait time exceeded 1 hour.

Auditors obtained the information they needed to correctly prepare 15 (83 percent) of 18 tax returns. For 1 (6 percent) of the 18 questions, the auditor received an incorrect answer and would have been unable to prepare a correct tax return. Had the tax return been filed, tax would have been underpaid by \$520. For the remaining 2 (11 percent) questions, assistors did not provide answers to the tax law questions. Instead, they advised the auditors to research IRS publications to obtain answers to the questions.⁶

- One assistor advised the auditor that the answer to the tax law question could be found in a specific IRS publication and that the auditor's research would probably be better than having the assistor state the answer.
- Another assistor advised the auditor that an answer to the question could not be given because the assistor did not have access to the current IRS publication.

Taxpayer Assistance Center assistors must use the required tools to ask all the probing questions outlined and answer tax law questions but only on topics for which they have been trained. Unnecessary burden and frustration result when taxpayers travel to a Taxpayer Assistance Center, wait to be assisted, and are not provided answers to their tax law questions.

Auditors were able to easily identify the addresses and hours of operation for the Taxpayer Assistance Centers by visiting IRS.gov. However, IRS.gov does not provide details on the scope of tax law assistance provided at the Taxpayer Assistance Centers, which is limited to less complex tax topics.

⁶ The two bulleted items have been summarized to meet privacy requirements.



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Taxpayers can use several sources to easily locate Taxpayer Assistance Centers and identify their hours of operation

Taxpayers wishing to visit a local Taxpayer Assistance Center can locate it by accessing IRS.gov and following links to the “Contact My Local Office” webpage. Once there, taxpayers are advised they can locate a Taxpayer Assistance Center in one of two ways:

1. To view a list of all Taxpayer Assistance Centers in a State, taxpayers can click on the map (as shown in Figure 3) or the State links provided by the web site. When taxpayers click on a State, the link takes them to a list of all Taxpayer Assistance Centers in that State and shows their addresses, hours of operation (usually between 8:30 a.m. and 4:30 p.m. local time), telephone numbers, and a link to services provided. Overall, auditors followed these steps and found it easy to locate the Taxpayer Assistance Centers they visited.

Figure 3: IRS.gov Navigation Map for Locating Taxpayer Assistance Centers



Source: IRS.gov.

2. To identify the closest Taxpayer Assistance Center, taxpayers can enter their 5-digit ZIP Code into the Office Locator-Walk-In Site Search. Taxpayers entering a ZIP Code are also asked to select a search range (from 5 miles to 100 miles). Once a selection has been made, the Office Locator will produce a list of Taxpayer Assistance Centers within that range.

Taxpayers that do not have access to the Internet can find Taxpayer Assistance Center addresses in local telephone books. They may also call the Toll-Free Telephone Assistance Line or the Taxpayer Assistance Center’s local number to hear an automated message with this information.

Taxpayers cannot obtain answers to more complex tax issues at Taxpayer Assistance Centers

Because of the complexity of the tax law and the need to assist more than 361,000 taxpayers with tax law questions, assistants are not trained to answer all types of tax law questions. Instead, they are trained to answer questions dealing with specific tax topics, called in-scope topics, and are



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authorized to answer only those questions within their scope of expertise. Because in-scope topics are not published on IRS.gov, taxpayers may be unaware of these limitations and unnecessarily travel to Taxpayer Assistance Centers to ask their questions.

When taxpayers ask Taxpayer Assistance Center assistors questions they are not authorized to answer, assistors should offer to prepare written referrals to another IRS function(s) or to assist taxpayers in calling the Toll-Free Telephone Assistance Line. During the 2007 Filing Season, assistors made approximately 10,700 referrals to the Toll-Free Telephone Assistance Line. Some of these referrals could have been avoided if the IRS had made taxpayers aware of the topics assistors are able to answer by publishing the topics on IRS.gov, which would have reduced the taxpayers' burdens and travel costs. In addition, if the taxpayers referred by assistors to the Toll-Free Telephone Assistance Line had initially called for assistance before visiting the Taxpayer Assistance Centers, the IRS could have reduced its cost of providing customer service by approximately \$307,000.

While visiting Taxpayer Assistance Centers may be the most desirable service option for taxpayers who want or need face-to-face assistance, many taxpayers may not find this option to be the most efficient and effective method available for seeking answers to tax law questions. In addition to limited hours of operation, Taxpayer Assistance Centers offer few advantages not offered by other customer service options that provide answers to tax law questions.

The TeleTax Line provided accurate answers or directed callers to other services



Auditors called the TeleTax Line to obtain answers to five tax law questions. They obtained correct answers and the information they needed to correctly prepare all five tax returns. For 3 (60 percent) of the 5 calls, the prerecorded messages provided information sufficient to answer the auditors' tax law questions and allowed them to prepare correct tax returns. For the other 2 calls (40 percent), the prerecorded messages did not provide enough information to answer the tax law questions but did direct the auditors to the correct publications and instructions to assist them in performing additional research.

The prerecorded messages were generally concise. For 4 of 5 calls, the messages lasted 5 or fewer minutes. Only the message addressing Earned Income Tax Credit issues lasted longer (17 minutes); but this is a complex tax issue. Once the originally selected message ends, taxpayers can disconnect the calls or elect to listen to other messages.

Taxpayers can easily locate the TeleTax Line number in various IRS publications and on IRS.gov. In addition, the Form 1040 Instructions, IRS.gov, and the *IRS Guide to Free Tax Services* (Publication 910) list the almost 150 individual tax topics provided on the TeleTax Line. Once taxpayers call the TeleTax Line, they can navigate menu selections to hear any of these messages in English and Spanish.



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While the TeleTax Line may not always answer taxpayers' specific tax law questions, it provides them with a valuable service at a relatively low cost to the IRS. Taxpayers can call the TeleTax Line to hear prerecorded messages any time of the day or night. If the taxpayers are unable to obtain answers, the messages will at least provide them with additional insight and direct them to appropriate research materials, such as publications and instructions.

IRS.gov contains valuable information, documents, and publications to assist taxpayers



Auditors accessed IRS.gov to obtain answers to 15 tax law questions. For all 15 research sessions, auditors easily located webpages and the relevant information (usually publications) required to obtain the answers they needed to correctly prepare their tax returns. To find their answers, auditors generally used the easy-to-follow links or the IRS.gov search engine.⁷

Auditors averaged approximately 24 minutes to research each tax law question and credited the search engine on IRS.gov for allowing them to quickly access pertinent information. In most instances, the search engine directed auditors to IRS publications and instructions.

IRS.gov maintains many different sources of information to assist taxpayers in answering tax law questions, including access to publications, tax topics, frequently asked questions, and supplemental information for common tax issues. For example:

- The Earned Income Tax Credit Assistant is an interactive tool that allows taxpayers to determine if they are eligible to claim the Earned Income Tax Credit on their tax returns.
- The Alternative Minimum Tax Assistant is an interactive tool that helps taxpayers determine if they are subject to paying the Alternative Minimum Tax.
- The Telephone Excise Tax Refund webpage contains answers to many common questions about this new tax issue.

IRS.gov enables the IRS to provide information to taxpayers at a relatively low cost per taxpayer assisted and enables taxpayers to have 24-hour access to valuable information. However, while IRS.gov does not yet provide interaction with subject-matter experts or assistants who are trained to answer specific tax law questions, taxpayers who wish to do their own research may find IRS.gov a valuable tool. The IRS is planning to further enhance IRS.gov through Taxpayer Assistance Blueprint initiatives, including adding more tax law support tools and calculators that

⁷ A search engine is a tool that acts as a card catalog. It attempts to index and locate desired information by searching for keywords that a user specifies.



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would enable users to conduct keyword queries and interactively receive answers to tax law questions.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should include on IRS.gov the types of questions Taxpayer Assistance Center assistors are authorized to answer. When a taxpayer researches IRS.gov to locate the closest Taxpayer Assistance Center and identify the services available, a link to a list of in-scope tax law questions should be prominently displayed.

Management's Response: IRS management agreed with the recommendation. Management will include on IRS.gov a list of in-scope topics Taxpayer Assistance Center assistors are authorized to answer and will display on IRS.gov a link to the alphabetical list of in-scope tax law topics.

Experiences Were Mixed When Tax Return Preparation Assistance Was Used

Auditors were able to prepare correct tax returns when using available tax forms, instructions, and publications but were not always able to obtain or create correctly prepared returns when using Taxpayer Assistance Centers and the Free File Program. Of 36 tax returns prepared, 24 (67 percent) were prepared correctly.⁸ Figure 4 provides the results of the tax return preparation.

Figure 4: Results of Tax Return Preparation

	Taxpayer Assistance Centers	Free File Program	IRS Forms and Publications on IRS.gov
Correct Tax Returns	6 (75%)	13 (57%)	5 (100%)
Incorrect Tax Returns	2 (25%)	10 (43%)	0 (0%)

Source: Auditors' tax return preparation efforts.

If 7 of the 12 incorrectly prepared tax returns had been filed, taxpayers would have overpaid their taxes by \$1,808. Alternately, if the 5 remaining incorrectly prepared tax returns had been filed, taxpayers would have underpaid their taxes by \$5,120.

⁸ Although we are defining the mock returns as correct, we recognize that the final determination of the accuracy of a return is subject to IRS and court interpretation.



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For the IRS, tax preparation assistance can be costly and require significant resources. The IRS encourages taxpayers to use the Volunteer and Free File Programs for tax preparation assistance so it can use its limited Taxpayer Assistance Center resources for other customer service needs. The IRS estimates it costs \$28.73 to assist a taxpayer who visits a Taxpayer Assistance Center. In contrast, it costs only \$12.01 when a taxpayer uses a Volunteer Program to prepare a tax return.

Tax return preparation services at Taxpayer Assistance Centers can be time consuming



Auditors made 32 visits to 30 Taxpayer Assistance Centers to evaluate the screening and appointment process and to have 8 tax returns prepared. Taxpayer Assistance Center employees were courteous and professional. However, not all tax returns were prepared correctly, and auditors experienced difficulties scheduling appointments for tax return preparation. In 4 of 32 attempts, the auditors could not schedule appointments.

Auditors had 8 tax returns prepared during their visits; 6 of the 8 (75 percent) were prepared correctly. The remaining 2 tax returns were incorrect because a \$112 Estimated Tax Penalty was imposed on each return. Assistors use checklists as an interview tool to ask taxpayer probing questions and ensure information is obtained to accurately prepare tax returns. However, the auditors were not asked questions sufficient to determine if this Penalty was applicable.

Additionally, taxpayers may need to visit Taxpayer Assistance Centers multiple times before they receive appointments. Taxpayers seeking tax return preparation assistance must visit their local Taxpayer Assistance Centers to make appointments. Screeners at the Taxpayer Assistance Centers are to ensure taxpayers qualify for return preparation assistance before they schedule appointments for them. Of the 32 visits made to schedule appointments to have tax returns prepared, auditors noted:

Taxpayers may need to visit Taxpayer Assistance Centers multiple times to have their tax returns prepared.

- For 7 (22 percent) visits, tax return preparation service was limited to specific days or times. For example, one Taxpayer Assistance Center prepared tax returns only on Tuesdays and Thursdays, while another offered return preparation services only in the morning. The number of tax return preparation appointments available at each Taxpayer Assistance Center is based on the availability of assistors to perform the task. However, IRS.gov and the Toll-Free Telephone Assistance Line do not inform taxpayers of service time limitations; therefore, taxpayers cannot identify them until they visit the Taxpayer Assistance Centers.



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- For 7 (22 percent) visits, screeners could not schedule appointments for the auditors within 5 business days. In 4 cases, screeners asked the auditors to return on other days to try to schedule appointments. While IRS guidelines state screeners should schedule each appointment within 5 business days of the taxpayer's visit, the guidelines also give Taxpayer Assistance Center managers the discretion to allow screeners to schedule appointments beyond 5 business days. However, the 4 Taxpayer Assistance Centers chose not to schedule appointments beyond the 5 business days and therefore would not schedule appointments for the auditors. In addition, 2 Taxpayer Assistance Centers scheduled appointments only within 3 business days.
- For 14 (44 percent) visits, screeners required auditors to have all required documents (e.g., driver's licenses, income documents, and Social Security cards) with them before they would schedule appointments. IRS procedures require that screeners only ensure taxpayers are aware they need to bring these documents to their scheduled appointments. Taxpayers may be unaware they need to bring the documents with them to schedule appointments because IRS.gov does not show this as a requirement.
- For 16 (50 percent) visits, screeners did not ensure the auditors did not have tax issues that were beyond the scope of IRS tax return preparation services. Because of the complexity of the tax law, assistors are not trained to deal with all potential tax issues. Instead, they are trained to deal with specific, in-scope tax topics and are not authorized to prepare tax returns with issues outside of these topics. Because in-scope topics are not published on IRS.gov, taxpayers may be unaware of these limitations.

When taxpayers are unaware of limitations—when Taxpayer Assistance Centers are either limiting services to certain hours and days or limiting the scope of services—they can be unnecessarily burdened. Taxpayers who have this information may be able to make more informed decisions regarding their best options for obtaining tax return preparation assistance. Those who do not have this information may need to make three or more visits to have tax returns prepared.

The Free File Program requires users to already know tax law and provides little support



Auditors used the Free File Program to prepare 23 tax returns and correctly prepared 13 (57 percent). If 5 of the 10 incorrectly prepared tax returns had been filed, taxpayers would have overpaid their taxes by \$1,584. Alternately, if the 5 remaining incorrectly prepared tax returns had been



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filed, taxpayers would have underpaid their taxes by \$5,120. Although auditors found the Free File Program software easy to use,⁹ they believed the software did not always provide much assistance in understanding tax law and did not always ask appropriate interview questions.

The IRS provides easy access to Free File Program software during the filing season by providing taxpayers with a link on IRS.gov. Once linked to the Free File Program web site, auditors were presented with a list of 19 service providers and the qualifications users must meet for each service provider's software.

For 15 (65 percent) of the 23 tax returns prepared, auditors knew the correct refund or amounts of taxes owed. These auditors correctly prepared 11 (73 percent) of 15 tax returns. If the 4 incorrectly prepared tax returns had been filed, 1 taxpayer would have overpaid taxes by \$416 while 3 taxpayers would have underpaid taxes by \$2,660. The four tax returns were incorrectly prepared because:

- The auditor was not prompted to include the Child Tax Credit and Retirement Savings Contribution on the tax return.
- The software computed and allowed child care expenses and a Child Tax Credit, although the facts of the scenario did not allow for them.
- The auditors were able to incorrectly claim the Head of Household filing status instead of the Single filing status. The interview questions were insufficient to ensure the correct filing status was claimed.

For the remaining 8 (35 percent) of 23 tax returns prepared, auditors did not know the correct amounts of the refunds or taxes owed. The auditors were simply provided the scenario (e.g., income, members of the household). These auditors correctly prepared 2 (25 percent) of 8 tax returns. If the 6 incorrectly prepared tax returns had been filed, 4 taxpayers would have overpaid their taxes by \$1,168 while 2 taxpayers would have underpaid their taxes by \$2,460. Again, the software allowed auditors to use an improper filing status or claim credits and expenses to which they were not entitled. The interviews were not sufficient to ensure the auditors claimed the correct filing status or received all credits and deductions to which they were entitled.

According to Treasury Regulations,¹⁰ tax return preparers must exercise due diligence in preparing or assisting in the preparation of tax returns filed with the IRS. In addition, the Free File Program Operating Agreement requires Program members to guarantee the calculations performed by their software packages.

⁹ Recently, to evaluate taxpayers' experiences with the Free File Program, the IRS conducted a satisfaction survey; it indicated 94 percent of the users surveyed found the Program easy to use.

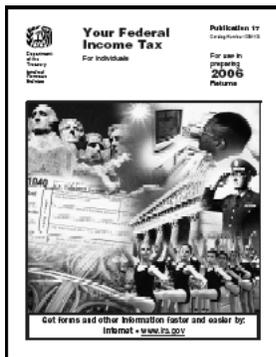
¹⁰ Treas. Reg. § 10.22 (2005).



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We previously reported the IRS does not adequately test Free File Program software to ensure the accuracy of calculations.¹¹ Taxpayers must be able to rely upon the accuracy and thoroughness of the software they use to calculate their tax returns as well as believe they are receiving quality service. If their tax returns are calculated incorrectly, taxpayers could experience increased burden if later reviews (audits) of their tax returns identify the mistakes or if they do not receive credits to which they are entitled. This could undermine taxpayers' confidence in the Free File Program and negatively affect the IRS' goal of increasing the number of tax returns filed electronically.

Taxpayers who prepare tax returns manually have many sources of good information



Auditors manually completed five tax returns using “paper” publications, forms, and instructions. All five tax returns were prepared accurately. Auditors took an average of 90 minutes to prepare the tax returns, including obtaining and researching all pertinent documents.

The IRS provides many sources of information, such as publications and instructions, that can assist taxpayers in preparing tax returns themselves. These materials are easy to obtain and readily available. While the instructions may be challenging to use due to the complexity of the tax laws, they provide valuable information.

Auditors identified several options to obtain the forms, publications, and instructions they needed. Taxpayers can:

- Download forms and publications from IRS.gov, which provides more than 900 different documents including several available in Spanish and in audio versions for taxpayers with limited or no vision.
- Visit a Taxpayer Assistance Center, each of which maintains the most commonly used forms and publications.
- Call the Toll-Free Telephone Assistance Line to order any form or publication, including Spanish, large-print, and audio versions.

Auditors generally used IRS.gov to download the documents they needed and primarily used the Form 1040 Instructions to guide them through preparing the Forms 1040. The Instructions provide guidance for each line item on the Forms 1040 as well as tax tables, flowcharts, and schedules, to assist taxpayers in computing credits or expenses they may be entitled to claim.

¹¹ *Additional Action Is Needed to Expand the Use and Improve the Administration of the Free File Program* (Reference Number 2007-40-105, dated June 28, 2007).



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For more complex issues, the Form 1040 Instructions direct taxpayers to the specific IRS publications addressing the issues.

Overall, taxpayers who do not wish to use other IRS customer service options or pay a preparer to prepare tax returns may find the IRS provides many publications and instructions to assist in meeting their tax obligations.

Recommendations

Recommendation 2: The Commissioner, Wage and Investment Division, should ensure taxpayers know the scope of tax return preparation services offered at Taxpayer Assistance Centers and what is required of taxpayers to schedule appointments and/or to have tax returns prepared by publishing this information on IRS.gov.

Management's Response: IRS management agreed with the recommendation. Management will include information on IRS.gov regarding the scope of tax return preparation services offered in Taxpayer Assistance Centers and what is required of taxpayers to schedule appointments and/or to have tax returns prepared.

Recommendation 3: The Commissioner, Wage and Investment Division, should revise the appointment scheduling procedures to alleviate taxpayer burden (e.g., having to return to Taxpayer Assistance Centers multiple times just to schedule appointments to have tax returns prepared).

Management's Response: IRS management agreed with the recommendation. Management agreed to review and consider options for revising appointment procedures to alleviate taxpayer burden, including gathering data on repeat visits to determine the causes.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine the quality of customer service the IRS provides taxpayers who seek assistance when preparing their tax returns. This included assistance received from Taxpayer Assistance Centers, the Toll-Free Telephone Assistance Line, the Automated TeleTax Telephone Line, the Free File Program, and IRS.gov (the public IRS web site).¹ To accomplish the objective, we:

- I. Judgmentally selected 31 (out of 401) Taxpayer Assistance Centers located in all 5 IRS geographical areas for auditors to visit and evaluate the screening and appointment process, have tax returns prepared, and/or ask tax law questions that an individual taxpayer might ask. We selected Taxpayer Assistance Centers located in large cities that also had multiple Centers in close proximity to each other. We used judgmental sampling because we did not plan to project any statistics over the entire population of Taxpayer Assistance Centers and statistical sampling would have required more audit resources than were available.
- II. Visited 30 Taxpayer Assistance Centers to evaluate taxpayers' experiences when visiting Centers.
 - A. Evaluated the screening and appointment process at 30 Taxpayer Assistance Centers. Two Centers were visited twice (for a total of 32 visits).
 - B. Asked assistors to prepare a total of 8 tax returns at the 30 Centers visited.
 - C. Asked assistors at 18 Taxpayer Assistance Centers a total of 18 tax law questions and determined if we could use the answers to prepare accurate tax returns.
 - D. Evaluated the internal control breakdowns in the processes that led to preparation of inaccurate tax returns and/or less than satisfactory quality experiences.
- III. Determined the quality of customer service provided on the Toll-Free Telephone Assistance Line. We asked assistors 15 tax law questions and determined if we could use the answers to prepare accurate tax returns. We used judgmental sampling because we did not plan to project any statistics over the entire population of calls to the Toll-Free Telephone Assistance Line and statistical sampling would have required more audit resources than were available.

¹ Figure 1 in the report provides details about these and other customer service options available to individual taxpayers.



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- IV. Determined the quality of customer service provided by researching printed tax forms, instructions, and publications on IRS.gov. We researched 15 tax law questions and determined if we could use the answers to prepare accurate tax returns. We used judgmental sampling because we did not plan to project any statistics over the entire population of printed tax forms, instructions, and publications on IRS.gov and statistical sampling would have required more audit resources than were available.
- V. Determined the quality of customer service provided by the Automated TeleTax Telephone Line. We listened to five prerecorded messages to determine if information regarding the tax law question topics was available and could be used to assist in the preparation of accurate tax returns.
- VI. Evaluated taxpayers' experiences when using the Free File Program to have 23 tax returns prepared. We judgmentally selected 3 of the 19 Free File Program tax return preparation software providers based on the qualifications taxpayers would need to meet to use the software. We chose software providers in which the largest number of taxpayers would meet the criteria to qualify to receive assistance by using the software.
- VII. Determined the quality of self-help options available on IRS.gov and if research of available information provided correct answers to tax law questions. We prepared five tax returns using information available on IRS.gov.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Augusta R. Cook, Director

Frank Jones, Audit Manager

Kenneth L. Carlson, Jr., Lead Auditor

Jerome Antoine, Auditor

Jerry Douglas, Auditor

David Hartman, Auditor

Andrea Hayes, Auditor

Mary Keyes, Auditor

John Mansfield, Auditor

Geraldine Vaughn, Auditor



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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance SE:W:CP
Director, Customer Account Services SE:W:CAS
Director, Customer Assistance, Relationships, and Education SE:W:CAR
Director, Electronic Tax Administration SE:W:ETA
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA
Director, Media and Publications, Wage and Investment Division SE:W:CAR:MP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 13 incorrect tax returns and answers to tax law questions (see pages 5 and 11).

Methodology Used to Measure the Reported Benefit:

If the accuracy results for the 53 tax law questions asked and 36 tax returns prepared during the 2007 Filing Season¹ are indicative of the actual responses and services taxpayers receive when they use IRS programs to assist them in preparing and filing tax returns, we estimate 13 taxpayers could have received incorrect tax returns and/or responses to tax law questions.

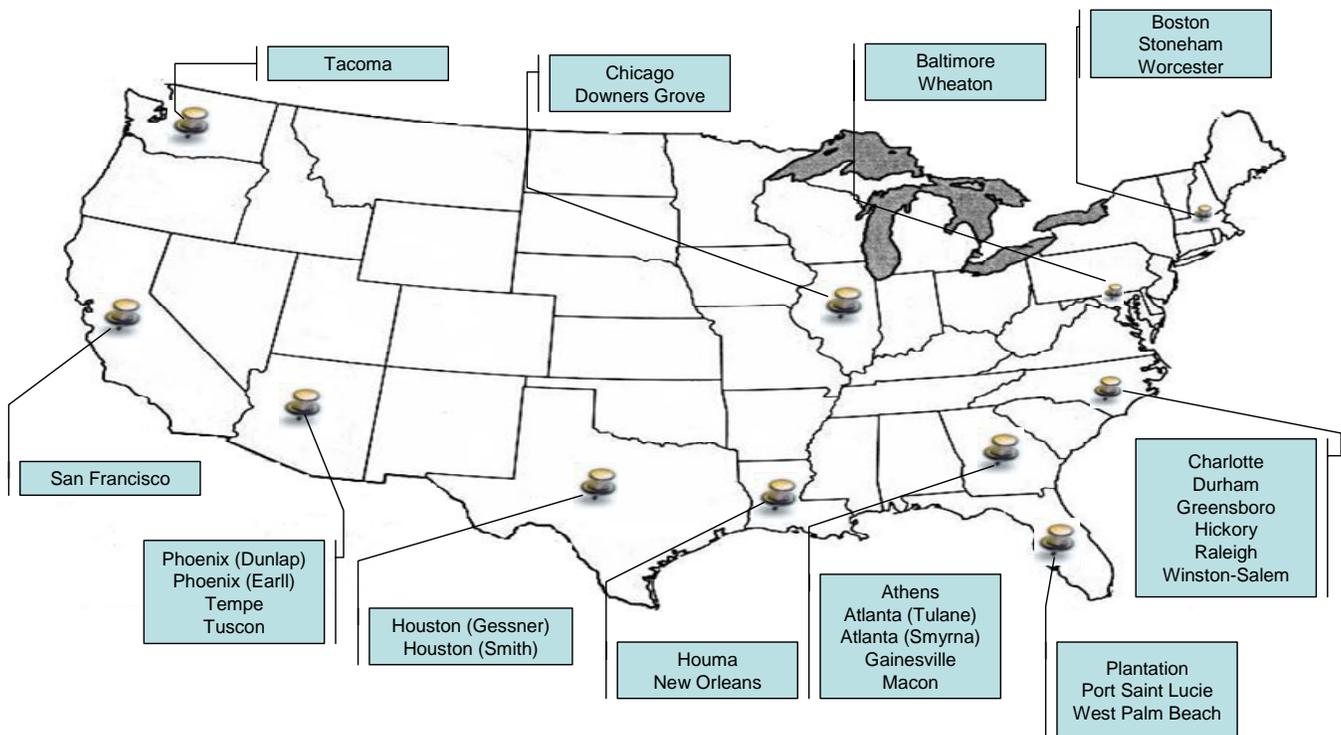
¹ The period from January through mid-April when most individual income tax returns are filed.



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Appendix V

Taxpayer Assistance Centers Visited During the 2007 Filing Season



¹ The period from January through mid-April when most individual income tax returns are filed.



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Appendix VI

Management's Response to the Draft Report



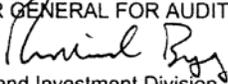
COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
AUG - 7 2007

AUG 07 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Internal Revenue Service Provides Helpful Tax Law Assistance but Still Has Problems With Tax Return Preparation Assistance (Audit # 200740021)

I reviewed the draft report and appreciate your acknowledgment that auditors' overall experiences in obtaining answers to their tax law questions were positive, and they received good customer service. We believe these results are directly attributable to our continued efforts to provide quality customer service to taxpayers who seek assistance when preparing their tax returns.

We appreciate the positive comments regarding your experience with our toll-free lines. Through June 2007, our cumulative fiscal year accuracy of 90.8 percent for tax law and 93.2 percent for account questions is higher than the same period last year. We continually focus on identifying top defects and providing the information to call sites to share with telephone assistors. Accuracy gains can be attributed to the improved quality review process and Contact Recording that allows managers to listen to and review recorded customer contacts as a part of performance feedback to employees.

We also appreciate the positive comments concerning the effectiveness and ease-of-use of the IRS.gov search engine. A major redesign in November 2005 was based on formal usability studies with actual IRS.gov site users. We upgraded the search functionality based on the American Customer Satisfaction Index feedback and continue to monitor the effectiveness of search capabilities on customer satisfaction. We continuously improve the IRS.gov search engine by fine-tuning it to recognize synonyms, alternate spellings and misspellings of tax law terminology. We analyze monthly web traffic reports; soliciting input from subject matter experts regarding the best results for responding to users' search terms for various tax administration subjects.



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While the overall results of your review were favorable, you indicate there were some problems with tax return preparation assistance. For example, you state taxpayers may need to visit Taxpayer Assistance Centers (TACs) multiple times before they receive appointments to have their returns prepared and that your auditors were not always able to create correctly prepared returns when using the Free File Program.

We recognize having taxpayers return to TACs multiple times to schedule return preparation appointments can create taxpayer burden. However, the demand for return preparation greatly exceeds the number of return preparation appointments available in many of our TACs. Currently, return preparation appointments are scheduled on a first-come first-served basis. If there are no other appointments available that day, or the taxpayer does not have all the necessary documents, the taxpayer will be scheduled for an appointment within five business days. Extending appointments beyond five days would increase the no-show rate and cause missed opportunities in preparing tax returns. We believe our current return preparation appointment procedures reduce the number of no-shows, and thus ensure the return preparation appointments available are fully utilized. However, we will review and consider options for revising these procedures, including gathering data on repeat visits and their causes.

Regarding the accuracy of Free File Program software, we review the accuracy of Alliance members' software to ensure it operates within the parameters of the Free File Agreement. Other tests ensure these electronic returns are compatible with IRS' systems requirements, and that the software correctly calculates the entries on the return. However, these tests do not assess the accuracy of applying the tax law. Testing of commercial tax preparation software to determine its accuracy in applying the tax law would be a monumental challenge for IRS.

We agree that taxpayers must be able to rely upon the accuracy and thoroughness of the software they use to calculate their tax returns, as well as believe they are receiving quality service. We also believe that minimizing software errors would benefit taxpayers, the service and the software preparation industry. We have initiated discussions with the Free File Alliance to identify possible opportunities to help ensure the most accurate return preparation possible.

We reviewed your measurable benefit and agree with the outcome measure. Attached are our specific comments to your recommendations. If you have any questions, please contact me at (404) 338-7060, or members of your staff may contact Julie Rushin, Director, Strategy and Finance, at (404) 338-8800.

Attachment



The Internal Revenue Service Provides Helpful Tax Law Assistance but Still Has Problems With Tax Return Preparation Assistance

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should include on IRS.gov the types of questions Taxpayer Assistance Center assistors are authorized to answer. When a taxpayer researches IRS.gov to locate the closest Taxpayer Assistance Center and identify the services available, a link to a list of in-scope tax law questions should be prominently displayed.

CORRECTIVE ACTION

We agree to include on IRS.gov a list of in-scope topics Taxpayer Assistance Center assistors are authorized to answer. We also agree to display a link on IRS.gov to the alphabetical list of in-scope tax law topics.

IMPLEMENTATION DATE

November 15, 2007

RESPONSIBLE OFFICIAL

Director, Field Assistance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management plan.

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should ensure taxpayers know the scope of tax return preparation services offered at Taxpayer Assistance Centers and what is required of taxpayers to schedule appointments and/or to have tax returns prepared by publishing this information on IRS.gov.

CORRECTIVE ACTION

We agree with this recommendation and will include information on IRS.gov regarding the scope of tax return preparation services offered in Taxpayer Assistance Centers and what is required of taxpayers to schedule appointments and/or to have tax returns prepared.

IMPLEMENTATION DATE

November 15, 2007

RESPONSIBLE OFFICIAL

Director, Field Assistance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management plan.



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2

RECOMMENDATION 3

The Commissioner, Wage and Investment Division, should revise the appointment scheduling procedures to alleviate taxpayer burden (e.g., having to return to the Taxpayer Assistance Centers multiple times to schedule appointments to have tax returns prepared).

CORRECTIVE ACTION

We agree to review and consider options for revising appointment procedures to alleviate taxpayer burden, including gathering data on repeat visits to determine the causes.

IMPLEMENTATION DATE

February 15, 2008

RESPONSIBLE OFFICIAL

Director, Field Assistance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management plan.