



*The Internal Revenue Service Is Taking
Several Actions to Improve Its Toll-Free
Telephone Performance for the
2010 Filing Season*

March 2, 2010

Reference Number: 2010-40-031

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 2, 2010

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 Is Taking Several Actions to Improve Its Toll-Free Telephone Performance for the 2010 Filing Season (Audit # 200940041)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) adequately planned for the 2010 Filing Season,¹ including the effect of legislative and other events on toll-free telephone access and customer service. This audit is included in the Treasury Inspector General for Tax Administration's Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

Impact on the Taxpayer

Each year, millions of taxpayers contact the IRS by calling its various toll-free telephone assistance lines to seek help in understanding tax laws and meeting their tax obligations. The IRS' toll-free telephone system planning is on course for the 2010 Filing Season; however, call demand may exceed projections if planned actions are not implemented on schedule. For example, if the expected assistors are not hired and trained before the filing season, taxpayer access will be lower and wait times will be longer for those waiting to speak with an assistor. Also, if the Web-based and telephone applications for the Electronic Filing Personal Identification Number are not completed on time, taxpayers will need to call the IRS or visit a Taxpayer Assistance Center. Considering that the IRS received almost 5 million prior year Adjusted Gross Income (AGI) calls in the 2009 Filing Season, customer service would be significantly affected if the volume of prior year AGI calls is the same or more during the 2010 Filing Season.

¹ The filing season is the period from January through mid-April of each year when most individual tax returns are filed.



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Synopsis

For the last 2 filing seasons, the Customer Account Services Customer Service Representative Level of Service² was below 80 percent and the Average Speed of Answer³ increased. The Economic Stimulus Act of 2008,⁴ passed in February 2008, affected toll-free telephone access and performance measures for both the 2008 Filing Season and Fiscal Year 2008. Calls regarding the prior year AGI, the Recovery Rebate Credit, and the American Recovery and Reinvestment Act of 2009⁵ (Recovery Act) affected the 2009 Filing Season. Although some provisions of the Recovery Act affected Tax Year 2008 income tax returns, most of the provisions affect Tax Year 2009 returns that will be filed during the 2010 Filing Season.

The IRS is taking several actions to help ensure it will be able to provide a 71.2 percent Level of Service for the 2010 Filing Season. To reduce the burden on telephone assistors and improve taxpayer service, the IRS is taking the following actions/initiatives for this filing season:

- First The IRS plans to increase the number of assistors available during the fiscal year. It expects to have approximately 280 more assistors than the prior filing season. The Customer Account Services function has been allocated over 500 Full-Time Equivalents⁶ for the 2010 Filing Season specifically for the Recovery Act.
- Second The IRS has established six applications⁷ to handle Recovery Act call volume. In the event of high call volume, taxpayers have the option to route out to available assistors in a general account application. Recovery Act questions may also be answered by assistors in other applications if the taxpayer has more than one question.
- Third The IRS is developing a Web-based application for taxpayers who do not have their prior year AGI or Personal Identification Number. The application will provide taxpayers with an alternative number to allow them to file electronically. The application will be promoted through software to taxpayers and tax professionals who file tax returns electronically.

² Level of Service is the IRS' primary measure of providing taxpayers with access to an assistor.

³ Average Speed of Answer is the average number of seconds taxpayers waited in the queue (on hold) before receiving services.

⁴ Pub. L. No. 110-185, 122 Stat. 613.

⁵ Pub. L. No. 111-5, 123 Stat. 115.

⁶ A measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2009, 1 Full-Time Equivalent is equal to 2,088 staff hours.

⁷ The toll-free telephone assistance lines are subdivided into categories called applications, each of which is staffed with a group of assistors who have received specialized training to assist taxpayers with specific tax issues.



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In a report to Congress,⁸ the Government Accountability Office stated that it reviewed the plans and milestones for this new application. It indicated that testing is scheduled to continue up to the launch date of January 18, 2010, which is just after electronic filing begins, and that there is no time for schedule slippage. Because electronic filing begins on January 15, 2010, taxpayers accessing the Electronic Filing Personal Identification Number Web-based or telephone application will receive a message saying that the application will not be available until January 18, 2010, and asking them to retry on that date.

Based on our audit work the last two filing seasons, we believe the IRS' performance measures for Fiscal Year 2010 are achievable if it completes all of its preparation for the 2010 Filing Season. However, delays to any of the initiatives listed above would pose significant risk for delivering a successful filing season. We are making no recommendations in this report.

Response

IRS management responded that all three initiatives listed in our report were successfully and timely deployed. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report results. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

⁸ *Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season* (GAO 09-1026, dated September 2009).



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Abbreviations

AGI	Adjusted Gross Income
CAS	Customer Account Services
IRS	Internal Revenue Service
PIN	Personal Identification Number
W&I	Wage and Investment



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Background

Each year, millions of taxpayers contact the Internal Revenue Service (IRS) by calling the various toll-free telephone assistance lines to seek help in understanding tax laws and meeting their tax obligations. Taxpayers called the IRS toll-free telephone assistance lines approximately 75.7 million times¹ during the 2009 Filing Season.² Of these calls, about 29.4 million were made to the toll-free telephone number that taxpayers call to ask account or tax law questions (1-800-829-1040). In addition, about 6.2 million calls were made to the IRS automated TeleTax system that provides recorded tax law and tax refund information. The IRS estimates that its toll-free telephone costs for Fiscal Year 2009 were about \$1.1 billion.

For the last 2 filing seasons, the Customer Account Services (CAS) Customer Service Representative Level of Service³ was below 80 percent and the Average Speed of Answer⁴ increased. Figure 1 shows the actual performance measures for the last four filing seasons.

**Figure 1: Comparison of Performance Measures
for the 2006–2009 Filing Seasons**

Performance Measures	2006	2007	2008	2009
Level of Service	82.0%	82.5%	77.4%	64.0%
Average Speed of Answer (seconds)	213	249	347	519
Assistor Calls Answered (millions)	14.8	14.7	16.1	17.7

Source: IRS Enterprise Telephone Data Warehouse.

The Economic Stimulus Act of 2008,⁵ passed in February 2008, affected toll-free telephone access and performance measures for both the 2008 Filing Season and Fiscal Year 2008.

¹ These calls were made to the suite of 20 telephone lines the IRS refers to as “Customer Account Services Toll-Free” and included calls made to the TeleTax system. Unless otherwise specified, all references made in this report to the toll-free telephone system performance data for the 2009 Filing Season are for Customer Account Services Toll-Free telephone assistance lines from January 1 through April 18, 2009, and comparable dates in prior years.

² The filing season is the period from January through mid-April of each year when most individual tax returns are filed.

³ Level of Service is the IRS’ primary measure of providing taxpayers with access to an assistor.

⁴ Average Speed of Answer is the average number of seconds taxpayers waited in the queue (on hold) before receiving services.



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Taxpayers made about 193.3 million call attempts⁶ to the IRS toll-free telephone assistance lines during Fiscal Year 2008. The IRS received approximately 132.8 million call attempts after the 2008 Filing Season.

Calls regarding the prior year Adjusted Gross Income (AGI), the Recovery Rebate Credit, and the American Recovery and Reinvestment Act of 2009⁷ (Recovery Act) affected the 2009 Filing Season. The Recovery Act was signed into law in February 2009. Although some provisions of the Recovery Act affected Tax Year 2008 income tax returns, most of the provisions affect Tax Year 2009 returns that will be filed during the 2010 Filing Season.

Most IRS taxpayer telephone assistance and telephone operations are the responsibility of the IRS' Wage and Investment (W&I) Division CAS function. The CAS function is composed of four units: Submission Processing, Accounts Management, the Joint Operations Center,⁸ and Electronic Products and Services Support. The CAS function's Joint Operations Center manages tax law, account, and compliance telephone calls for the W&I, Small Business/Self-Employed, and Tax Exempt/Government Entities Divisions.

This review was performed at the CAS function of the W&I Division Headquarters in Atlanta, Georgia, during the period July through October 2009. Since the CAS function had not completed planning for the 2010 Filing Season by November 1, 2009, many of the planning documents were still in draft status, were incomplete, or had not been finalized. We were provided select documents, but due to time constraints, we were not able to validate the data. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁵ Pub. L. No. 110-185, 122 Stat. 613.

⁶ These calls were made to the toll-free telephone lines the IRS refers to as "Customer Account Services" for the period October 1, 2007, through September 30, 2008.

⁷ Pub. L. No. 111-5, 123 Stat. 115.

⁸ The Joint Operations Center is responsible for building detailed telephone work plans and schedules for call sites based on operating division high level work plans. It also serves as the central control organization for all of the IRS' toll-free telephone call routing.



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Results of Review

The Internal Revenue Service Plans to Provide a Seventy-One Percent Level of Service for Fiscal Year 2010, Comparable to Fiscal Year 2009

The IRS plans to receive 28.1 million fewer calls in Fiscal Year 2010 than in Fiscal Year 2009 and plans to achieve a 71.2 percent Level of Service and 698-second (11.6 minutes) Average Speed of Answer. Figure 2 compares the IRS' expectations for Fiscal Year 2010 to the actual services provided during the last 4 fiscal years.

Figure 2: Actual Service Provided During the Last Four Fiscal Years Compared to the Fiscal Year 2010 Goals

Measure	2006	2007	2008	2009	Fiscal Year 2010 Goals and Projections*
Level of Service	82.0%	81.3%	52.8%	70.0%	71.2%
Average Speed of Answer (minutes)	4.0	4.5	10.4	8.8	11.6
Dialed Number Attempts (millions)	80.8	83.8	193.3	121.6	93.6
Assistor Calls Answered (millions)	32.7	33.8	40.4	39.0	32.4

* = Goals and Projections are as of August 11, 2009, and October 19, 2009. These projections may change as plans are finalized.

Source: IRS Enterprise Telephone Data Warehouse, Fiscal Year 2010 IRS Budget Submission, and Joint Operations Center workplans.

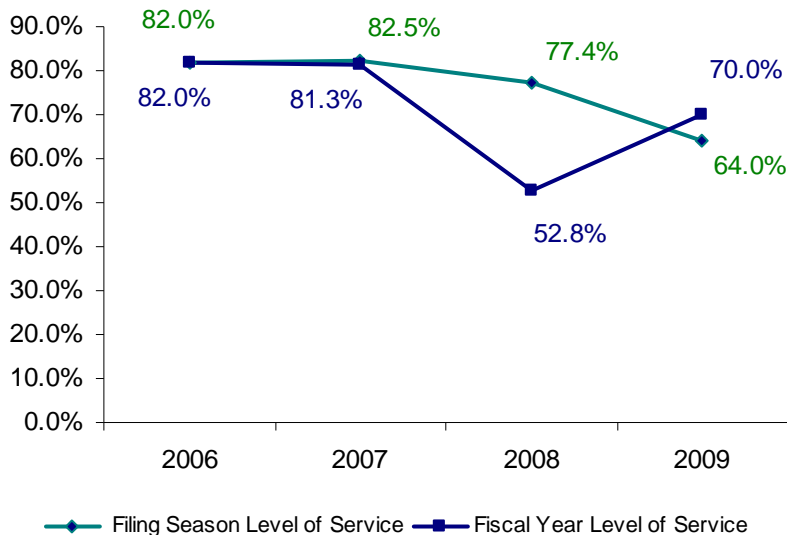
The CAS function provided several key documents to us after fieldwork for this audit was completed on November 1, 2009. We have incorporated this data as appropriate in the report, but could not validate the data. Projections for the 2010 Filing Season were expected to be finalized in December 2009.

The Level of Service provided during the filing season is generally comparable to that provided for the fiscal year. Nevertheless, this did not hold true for the last 2 fiscal years and filing seasons. See Figure 3 for a comparison of Level of Service for the last 4 fiscal years and filing seasons.



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**Figure 3: Comparison of the Level of Service
for Filing Seasons Versus Fiscal Years**



Source: IRS Enterprise Telephone Data Warehouse and Fiscal Year 2010 IRS Budget Submission.

The IRS is expecting fewer taxpayers to call the toll-free lines in Fiscal Year 2010 with questions regarding the prior year AGI and the Recovery Rebate Credit. However, it plans to receive 9.8 million more call attempts on its toll-free lines but answer 1.4 million fewer calls using assistors than it did in Fiscal Year 2007, when it provided an 81.3 percent Level of Service.

The IRS plans to receive 9.8 million more call attempts but answer 1.4 million fewer calls using assistors than it received in Fiscal Year 2007, when it provided an 81.3 percent Level of Service.

Based on our audit work the last two filing seasons, we believe the IRS' performance measures for Fiscal Year 2010 are achievable if it completes all of its preparation for the 2010 Filing Season. To help address the high call volumes received during the previous filing season and fiscal year, the

CAS function is implementing a new system to generate site-level telephone staffing requirements; implementing self-service telephone and Web-based applications that will provide taxpayers who do not have the prior year's AGI or a Personal Identification Number (PIN) with an IRS selected Electronic Filing PIN; establishing new applications for Recovery Act calls; and hiring additional assistors. Still, delays to any of these initiatives would pose significant risk for delivering a successful filing season.



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Based on available funding, the IRS determines the Level of Service it can deliver while still being able to also work correspondence and adjustment inventories

The CAS function begins planning for each fiscal year more than a year in advance. Planning for the 2010 Filing Season began in December 2008, but the budget for the IRS operations was established prior to that, when it was first submitted for Office of Management and Budget and Congressional approval in early Fiscal Year 2009.

In December 2008, the Joint Operations Center first made initial assumptions and established the initial plan (the number of expected calls) using historical data. The Accounts Management function sent requests to the four IRS business units to obtain information about any circumstances or situations that could affect toll-free operations during the upcoming fiscal year. This could include changes in the tax law or forms, new legislation and regulations, or changes to internal processes. In February 2009, a work plan conference was held for the 2010 Filing Season for stakeholders to discuss various assumptions and the effect of those assumptions on service delivery.

The W&I Division Strategy and Finance office advised the CAS function of the Full-Time Equivalents⁹ allocated to answer toll-free telephone calls and process taxpayer correspondence. The Joint Operations Center staff integrated the provided Full-Time Equivalents into the work plan to develop delivery goals for the upcoming filing season and establish performance measures.

The Accounts Management function used the input from the Joint Operations Center and business units and formalized its plan with its annual Program Letter. Its Fiscal Year 2010 Program Letter was signed on November 5, 2009. However, the Joint Operations Center had not formalized its plan for the 2010 Filing Season and planned to do so in December 2009 after refining planning assumptions.

For Fiscal Year 2010, the CAS function's goals are to:

- Balance resources between paper inventories and telephone calls, in order to deliver optimum service to taxpayers.
- Implement Phase II of the Centralized Contact Center Forecasting and Scheduling, which strives to maximize available employees for telephone and adjustments inventory through a centralized database.
- Work cross-functionally to assist taxpayers with identity theft issues by appropriately staffing the Identity Theft Hotline (1-800-908-4490).

⁹ A measure of labor hours in which 1 Full-Time Equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2009, 1 Full-Time Equivalent is equal to 2,088 staff hours.



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- Use Contacts Analytics at all contact centers to improve the capability to analyze the nature of the taxpayers' calls. Contact Analytics is a computer software program that examines audio from thousands of recorded telephone contacts and provides analysis of the content.
- Develop an online reference library by topic that will also assist employees in their research capabilities for assisting international taxpayers by developing Probe and Response Guide pages for international cases.

The IRS has few options if unplanned call demand occurs during the filing season

The budget cycle spans 2 years. During this time, negotiations take place in which budget figures are revised because of differing priorities and funding levels. Once the budget is passed by Congress, the business units and organizations must develop plans to provide service using the budget that has been allocated to them. However, circumstances often change between the time the budget is drafted and expectations are budgeted to the time the budget is approved.

For example, during the Fiscal Year 2008 and 2009 budget cycles, the Economic Stimulus Act of 2008 and the Recovery Act were enacted, creating significant unplanned demand on the IRS' toll-free operations. If call demand is significantly greater than expected, the following options may be available.

- Hiring and training additional assistors and/or opening more call sites.
- Reprioritizing programs—pulling assistors from working taxpayers' correspondence and adjustments to answering taxpayers' calls, or temporarily transferring assistors from other IRS functions and training them to respond to taxpayers' calls, usually focusing on specific applications.
- Lowering the expected Level of Service.

Which options are feasible depend on the lead time needed to hire and train assistors and/or open more call sites. Historically, lead time has been insufficient to hire and train additional assistors and/or open more call sites. The IRS believes it has existing processes in place to deal with unplanned call demand. These plans are executed throughout the filing season and fiscal year to maintain the level of service provided to the telephone and paper programs.

Because of the magnitude of prior year AGI requests last year, and the associated potential risks to the upcoming filing season, the IRS stated that it developed a formal action plan specifically related to this issue. A review of the draft contingency plan for prior year AGI requests shows that the draft contingency plan was not being kept current as actions occurred. The IRS did not document why several of the start and end dates or decisions due for some of the action items were delayed or allowed to pass. For example, the recruitment of additional staff was to have been completed by November 13, 2009. When we asked about the status of this action item on November 18, 2009, we were advised that a decision had been made to proceed with recruitment.



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While we understand this was a draft document, the necessity of hiring staff in time to train them before the filing season makes it critical that the dates for this action item be monitored carefully. Keeping the contingency plan current would aid the IRS in its monitoring.

Assistors are generally hired and trained before the start of the filing season because it is very difficult to train newly hired assistors during the filing season

- Background checks must be completed on employees hired by the IRS.
- Experienced assistors serve as instructors to train newly hired assistors. Using experienced assistors as instructors means there are fewer assistors to answer incoming telephone calls.
- Once new assistors are out of the classroom and answering telephone calls, additional monitoring is required of new assistors to ensure quality responses are being provided to taxpayers. This also reduces the number of calls that can be answered because experienced assistors may serve as mentors and guide the newly trained assistors.
- Training for newly hired assistors lasts several weeks because of the complexity of the tax code. The filing season only lasts for about 15 weeks.

For the most part, the IRS reprioritizes programs to meet temporary increased call demand

Reprioritizing programs usually includes requiring assistors to answer telephone calls rather than work taxpayer correspondence or adjustment inventories. This results in increased inventories of taxpayer correspondence and adjustments.

When reprioritizing programs is insufficient to meet demand, the IRS may transfer assistors from other IRS functions. IRS officials stated this happens infrequently, when there are unusual circumstances. For example, during the 2008 Filing Season, the IRS temporarily diverted about 1,500 Automated Collection System Program¹⁰ assistors (one-half of the assistors who normally answer calls on the Automated Collection System Program lines) to answer calls about rebates. Therefore, the Automated Collection System Program did not meet its Level of Service goal for the 2008 Filing Season. Collection activities were also put on hold. The IRS suspended notices sent by Automated Collection System Program staff, including final notices before enforcement, collection due process notices, and notices of levy. The IRS estimated that the reallocation of hundreds of IRS collections staff to answering taxpayer telephone calls resulted in \$655 million in foregone collections revenue.¹¹

¹⁰ The Automated Collection System Program is a telephone tax collection system designed to assist Collection function representatives in the resolution of delinquent taxpayer accounts.

¹¹ *IRS's 2008 Filing Season Generally Successful Despite Challenges, although IRS Could Expand Enforcement during Returns Processing* (GAO-09-146, dated December 2008). Foregone revenue estimate is as of August 9, 2008.



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Because of the challenges of the last two fiscal years, the IRS has reduced its Level of Service goal for Fiscal Year 2010

The IRS experienced increased call demand during Fiscal Year 2008, mainly after the filing season, related to the economic stimulus payments. It again experienced increased call demand during the 2009 Filing Season because taxpayers called:

- To ask economic stimulus payment and Recovery Rebate Credit questions and respond to math error notices¹² issued by the IRS relating to the Recovery Rebate Credit.
- To obtain information on the various tax relief provisions of the Recovery Act.
- To obtain the amount of their prior year AGI. In Fiscal Year 2009, the IRS discontinued the use of U.S. Individual Income Tax Declaration for an IRS *e-file* Online Return (Form 8453-OL) for Tax Year 2008. Now, taxpayers choosing to electronically prepare and file their tax returns are required to provide their prior year AGI and use a self-selected, five-digit PIN as their signature. By the end of the 2009 Filing Season, the IRS had received 4.8 million calls from taxpayers requesting their Tax Year 2007 AGI. The IRS only planned for 2.0 million prior year AGI calls.

Because of the additional call volume, the IRS did not meet its Level of Service and Average Speed of Answer performance measurement goals for the 2009 Filing Season.

The IRS believes that the volume of calls will continue to be high because taxpayers will continue to call about the Recovery Act and math error notices. The IRS is projecting 421.6 Full-Time Equivalents will be needed for Recovery Act calls during the 2010 Filing Season and is allocating \$25.1 million¹³ for Recovery Act purposes. The IRS has projected it will receive 496,216 calls regarding the Recovery Act math error notices for the 2010 Filing Season and 1,045,000 calls for Fiscal Year 2010. The IRS provided 474,422 Recovery Act information messages,¹⁴ with an estimated 150,000 callers speaking to an assistor in the 2009 Filing Season.

The IRS received almost 5 million calls during the 2009 Filing Season from taxpayers requesting their prior year AGI. The IRS expects to continue to receive contacts regarding prior year AGI, but expectations are that not all contacts will be assistor calls and that many will be handled differently from last year. It has planned for 769,802 prior year AGI calls for the 2010 Filing Season, significantly less than the volume received in the prior filing season. In addition, the IRS is developing a Web-based application in English¹⁵ that will provide taxpayers who do not have the prior year's AGI or PIN with an IRS-selected Electronic Filing PIN. For taxpayers

¹² The IRS created three math error notices for Recovery Rebate Credit math errors. Math error notices are issued to taxpayers when changes to the tax return during processing result in an overpayment or balance due.

¹³ \$46.5 million is allocated for Recovery Act purposes for Fiscal Year 2010.

¹⁴ For the period March 8, 2009, to April 18, 2009.

¹⁵ A Spanish version of the Web-based application for prior year AGI is being pursued for the 2011 Filing Season.



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filing electronically through a preparer, an automated self-service telephone application will be available to provide an Electronic Filing PIN.

The IRS estimates that it would need an additional 374 Full-Time Equivalents to deliver an 82 percent Level of Service for the 2010 Filing Season and increase the Fiscal Year 2010 Level of Service from 71.2 to 74.8 percent. These Full-Time Equivalents would cost about \$22.9 million in salary and benefits alone.¹⁶

The IRS is taking several actions to help ensure it will be able to provide a 71.2 percent Level of Service

To reduce burden on telephone assistors and improve taxpayer service, the IRS is taking several actions for this filing season.

First The IRS plans to increase the number of assistors available during the fiscal year. It expects to have approximately 280 more assistors than the prior filing season. It is building prior year AGI and Recovery Act demand into the Fiscal Year 2010 work plan. The CAS function has been allocated over 500 Full-Time Equivalents for the 2010 Filing Season specifically for the Recovery Act.

Second The IRS has established six applications¹⁷ to handle Recovery Act call volume. In the event of high call volume, taxpayers have the option to route out to available assistors in a general account application. Recovery Act questions may also be answered by assistors in other applications if the taxpayer has more than one question.

Third The IRS is developing a Web-based application for taxpayers who do not have their prior year AGI or PIN. The application will provide taxpayers with an alternative telephone number to allow them to file electronically. The application will be promoted through software to taxpayers and tax professionals who file tax returns electronically.

In a report to Congress,¹⁸ the Government Accountability Office stated that it reviewed the plans and milestones for this new application. The Government Accountability Office indicated that testing is scheduled to continue up to the launch date of January 18, 2010, which is just after electronic filing begins, and that there is no time for schedule slippage. Because electronic filing begins on

¹⁶ If the full costs of providing toll-free telephone service for Fiscal Year 2009 are allocated per Full-Time Equivalent, the additional 374 Full-Time Equivalents would cost about \$46.3 million.

¹⁷ The toll-free telephone assistance lines are subdivided into categories called applications, each of which is staffed with a group of assistors who have received specialized training to assist taxpayers with specific tax issues.

¹⁸ *Opportunities Exist for IRS to Enhance Taxpayer Service and Enforcement for the 2010 Filing Season* (GAO 09-1026, dated September 2009).



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January 15, 2010, taxpayers accessing the Electronic Filing PIN Web-based or telephone application will receive a message saying that the application will not be available until January 18, 2010, and asking them to retry on that date.

Call demand may exceed projections if planned actions are not implemented on schedule. If the expected assistors are not hired and trained before the filing season, taxpayer access will be lower and wait times will be longer for those waiting to speak with an assistor. If the Web-based and telephone applications for Electronic Filing PIN are not completed on time, taxpayers will need to call the IRS or visit a Taxpayer Assistance Center. Considering that the IRS received almost 5 million prior year AGI calls in the 2009 Filing Season, customer service would be significantly affected if the volume of prior year AGI calls is the same or more during the 2010 Filing Season.

New legislation may increase the volume of calls received during the 2010 Filing Season

For Tax Years 2009 and 2010, the Making Work Pay provision¹⁹ of the Recovery Act will provide a refundable tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns. This tax credit will be calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with a modified AGI in excess of \$75,000, or \$150,000 for married couples filing jointly. For people who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes in early spring. These changes may result in an increase in take-home pay. The amount of the credit must be reported on the employee's Tax Year 2009 return filed in Calendar Year 2010. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their Tax Year 2009 return.

Concerning the Making Work Pay Credit, more than 15.4 million taxpayers could unexpectedly owe taxes for Tax Year 2009 because the IRS did not take the following situations into consideration when changing the withholding tables:

- Dependents who receive wages.
- Single taxpayers with more than one job.
- Joint filers where one or both spouses have more than one job or both spouses work.
- Individuals who file a return with an Individual Taxpayer Identification Number.
- Taxpayers who receive pension payments.
- Social Security recipients who receive wages.

¹⁹ *Millions of Taxpayers May Be Negatively Affected by the Reduced Withholding Associated With the Making Work Pay Credit* (Reference Number 2010-41-002, dated November 4, 2009).



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Of the 15.4 million taxpayers affected, the Treasury Inspector General for Tax Administration estimated that more than 122,000 taxpayers may be assessed the estimated tax penalty in Tax Year 2009 and an additional 1.2 million taxpayers may have their estimated tax penalty amount increased due to the Making Work Pay Credit withholding issues.

The Worker, Homeownership, and Business Assistance Act of 2009²⁰ was signed into law on November 6, 2009. This newly enacted law has several provisions that affect tax law, thereby affecting taxpayer call demand.

- **Extension and Modification of the First-Time Homebuyer Credit.** Taxpayers will receive extensions on the First-Time Homebuyer Credit, and the law has been expanded to include existing homeowners purchasing a replacement home that meet certain specifications. The law also includes a provision for members of the uniformed services, members of the Foreign Service, and employees of the intelligence community serving overseas. The credit will apply to these members if they buy, or enter into a binding contract to buy, a principal residence on or before April 30, 2011. If a binding contract is entered into by April 30, 2010, then they have until June 30, 2011, to close on the purchase.
- **5-Year Carryback of Operating Losses.** The 5-Year Carryback of Operating Losses provision that was first introduced in the Recovery Act has been extended an additional year, as well as expanded to cover medium and large businesses.
- **Certain Tax Return Preparers Required to File Returns Electronically.** This provision requires any individual income tax return prepared by a tax return preparer be filed electronically if the tax return preparer files more than 10 tax returns during the calendar year. This provision applies to returns filed after December 31, 2010.

²⁰ Pub. L. No. 111-92, 123 Stat. 2984.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the IRS adequately planned for the 2010 Filing Season,¹ including the effect of legislative and other events on toll-free telephone access and customer service. To accomplish this objective, we conducted the following tests.

- I. Evaluated the IRS' preparation for the toll-free telephone system 2010 Filing Season.
 - A. Analyzed select IRS planning documents.
 - B. Identified new tax legislation passed during Calendar Years 2008 and 2009 affecting toll-free telephone operations.
 - C. Determined the process used to develop the work plans for the 2010 Filing Season.
 - D. Obtained IRS data for the total costs of the toll-free telephone operations for Fiscal Year 2009.
- II. Determined what plans the IRS has in place to handle spikes in call demand, especially when it is able to predict that call volumes are going to be considerably higher than the IRS can normally accommodate.
- III. Determined whether the IRS plans to implement any new operational processes to improve taxpayer access to the toll-free telephone system for the 2010 Filing Season.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the CAS function's policies, procedures, and practices for preparing for delivery of toll-free telephone service during the 2010 Filing Season. We evaluated these controls by interviewing management and reviewing IRS reports and other documents.

¹ The filing season is the period from January through mid-April of each year when most individual tax returns are filed.



*The Internal Revenue Service Is Taking
Several Actions to Improve Its Toll-Free Telephone
Performance for the 2010 Filing Season*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Augusta R. Cook, Director

Paula W. Johnson, Audit Manager

Patricia A. Jackson, Lead Auditor

M. Jean Bell, Senior Auditor

Nelva A. Usher, Auditor



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Appendix III

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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA GA 30308

RECEIVED
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BY: *DAS*

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MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *Richard Byrd, Jr.*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Internal Revenue Service Is Taking
Several Actions to Improve Its Toll-Free Performance for the
2010 Filing Season (Audit # 200940041)

I reviewed the subject draft report and appreciate your acknowledgement that due to our planning efforts, our performance measures for Fiscal Year (FY) 2010 are achievable. Situations arise outside of the planning process which can create additional demand above that which was expected. Historically, the IRS has responded to these unexpected increases in demand quickly and successfully. This FY will not be an exception.

In your report you note three specific initiatives and suggest that any slippage in the scheduled deployment could create additional demand. I am pleased to report that all three initiatives listed were successfully and timely deployed:

- Hiring and training for the filing season was completed timely with assistors in place to staff the phones at the beginning of January 2010, in time for the filing season.
- Six assistor-staffed applications were deployed in 2009 in anticipation of questions specific to the provisions of the American Recovery and Reinvestment Act of 2009. There have been over 57,000 assistor services provided in these specific applications this filing season through January 23, 2010.
- The web-based application, Electronic Filing Pin Help, was successfully deployed as scheduled on January 18, 2010. The first day the application was in service over 15,000 customers received a personal identification number allowing them to electronically file a tax return.



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An important part of the planning process is determining how to distribute resources across various programs to reach the maximum number of customers. As stated in your report, the IRS intends to answer fewer calls using assistors for FY 2010 than were answered in FY 2007. For the filing season (January through April), however, we are planning 15.1 million assistor answered calls compared to 14.7 million assistor answered calls in the 2007 filing season. This increased allocation to the telephone program during the filing season ensures that the maximum number of customers receive the assistance needed to meet their tax obligations.

The balance between available resources and customer demand determines the service that can be provided through the various contact channels offered to our customers, as well as the goal for Customer Service Representative Level of Service (CSR LOS). For FY 2009, additional resources were directed to the telephone channel during the filing season to address higher than planned customer need for prior year adjusted gross income information. The goal for CSR LOS was revised to 70 percent to reflect the experience during the filing season, and the IRS met the revised goal for the FY.

As noted in your report, based on available funding, the IRS determines the Level of Service that can be delivered while still being able to work correspondence and adjustment inventories. It is this reality and the challenges associated with the current FY that determines the level of service that can be delivered.

If you have questions, please call me at (404) 338-7060, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.