

**HEARING BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT**



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WRITTEN STATEMENT OF
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
J. RUSSELL GEORGE
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
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HEARING ON THE
2006 TAX RETURN FILING SEASON AND THE 2007 BUDGET PROPOSAL FOR
THE INTERNAL REVENUE SERVICE
APRIL 6, 2006

Chairman Ramstad, Ranking Member Lewis, and Members of the Subcommittee, I thank you for the opportunity to testify today on the Internal Revenue Service's (IRS) 2006 Filing Season and the 2007 budget proposal. I will discuss the challenges facing the IRS during the 2006 Filing Season, its longer term goal of increasing the number of taxpayers who file electronically, and its ability to provide quality taxpayer service.

The 2006 Filing Season

During the 2006 Filing Season, the IRS expects to process an estimated 135 million individual returns. One of the major challenges for the IRS each filing season is the implementation of tax law changes. Changes to tax law have a major impact on how the IRS conducts its activities, the resources it requires, and how quickly it can meet its strategic goals. Congress generally makes changes to tax law each year, and before each filing season begins, the IRS must identify tax law changes, revise various tax forms, instructions, and publications, and reprogram its computer system to ensure returns are accurately processed.

So far, TIGTA has not identified any significant problems with the IRS' processing of individual tax returns during the 2006 Filing Season. As of March 24, 2006, the IRS has received over 73.4 million returns. Of those, 50.3 million were filed electronically (an increase of 2.6 percent from this time last year), and 23.1 million were filed on paper (a decrease of 6.5 percent from 2005). Additionally, \$144.5 billion in refunds have been timely issued. Of this amount, \$113.4 billion were directly deposited to taxpayer bank accounts, an increase of 4 percent compared to last year.

Planning for the 2006 Filing Season was unusually difficult for the IRS because of many tax law changes enacted late last year in response to unprecedented natural disasters. Disaster relief provisions were enacted into law for taxpayers affected by Hurricanes Katrina, Rita, and Wilma, and were intended to provide relief to over 11 million taxpayers who lived in the affected areas of the Gulf Coast, as well as to others who may have been adversely impacted by these storms.

This year, TIGTA is reviewing 28 new tax law provisions and also closely monitoring the implementation of changes intended to assist taxpayers adversely affected by the 2005 hurricanes. New tax law provisions were included in the Katrina Emergency Tax Relief Act of 2005,¹ the Gulf Opportunity Zone Act of 2005,² and in provisions in the Working Families Tax Relief Act of 2004³ and the American Jobs Creation Act of 2004,⁴ all of which became effective in 2005. The latest legislation, the Gulf Opportunity Zone Act of 2005, was signed into law on December 21, 2005.

TIGTA reviewed the IRS' preparation for the 2006 Filing Season and determined that the IRS accurately updated its tax products and computer programming to incorporate the tax law changes effective in 2005. TIGTA reviewed 42 tax forms, publications, and instructions that required updating, and determined that they were accurately updated. The IRS also accurately updated its computer programming and returns processing programs for the new tax law provisions and other adjustments or changes.⁵ TIGTA will continue to monitor the IRS' processing of income tax returns during the 2006 Filing Season and will report its results later this year.

Electronic Filing

The IRS has seen a steady growth in electronic filing (e-file) of income tax returns over the past several years. In Calendar Year 2002, 35.9 percent of the 130.3 million individual income tax returns received by the IRS were e-filed. Last year, the percentage of e-filed returns increased to 51.7 percent of the total individual income tax returns received. The number of e-filed returns increased 46.2 percent over the three-year span. While the IRS will not meet its goal of having 80 percent of all tax returns e-filed by 2007, it does expect to see continued growth in electronic filing, although at a somewhat diminished growth rate from year to year. For example, the IRS expects the e-file percentage to reach 54.1 percent this year, 57.7 percent in 2007, and 60.6 percent in 2008.

Although e-filing continues to increase overall, TIGTA notes some indications that taxpayers are shifting between the various types of e-filed returns, and some segments of e-filed returns are starting to show a decrease in the numbers filed. E-filed returns are generated from three basic sources – paid preparers who transmit their clients' tax returns, taxpayers who purchase tax-preparation software and file their own returns via the Internet from their personal computers, and taxpayers who take advantage of free e-filing options, such as the Free File Program, or in years past, via the TeleFile Program.

¹ Pub. L. No. 109-73, 119 Stat. 2016 (to be codified in scattered sections of 26 U.S.C.).

² Pub. L. No. 109-135, 119 Stat. 2577 (2005).

³ Pub. L. No. 108-311, 118 Stat. 1166 (2004).

⁴ Pub. L. No. 108-357, 118 Stat. 1418 (2004).

⁵ Discussion Draft Report *Tax Products and Computer Programs for Individual Income Tax Returns Were Accurately Updated for the 2006 Filing Season* (Audit # 200640015)

Overall, as of mid-March of this year, e-filing has increased 2.6 percent compared to the same period in 2005, although this is significantly less than the 6 percent increase the IRS expected. While the number of taxpayers e-filing from their home computers is up 16.6 percent this Filing Season, the number of taxpayers taking advantage of free online filing is down 21 percent below last year. I am concerned that more taxpayers are not using the free e-filing services offered by the IRS, and I will discuss some issues related to the Free File and TeleFile Programs in the following sections of this testimony.

Free File Program

Background

In February 2002, President Bush established an agenda to improve management of the Federal Government. One of his agenda items is E-Government. E-Government is an integral part of the President's Management Agenda to make it easier for citizens and businesses to interact with the government, save taxpayer dollars and streamline citizen-to-government transactions. In response to the President's E-Government initiative, the Office of Management and Budget (OMB) developed the EZ Tax Filing Initiative. EZ Tax Filing was intended to make it easier for citizens to file taxes in a Web-enabled environment. Citizens would no longer have to pay for basic, automated tax preparation. The goal of this initiative was to increase the number of citizens who filed their tax returns electronically.

The IRS Restructuring and Reform Act of 1998 (RRA 98)⁶ established a goal for the IRS of having 80 percent of Federal tax and information returns filed electronically by 2007. It also required the IRS to work with private industry to increase electronic filing. In response to this requirement, in 2003 the Department of the Treasury (Treasury), OMB and the IRS launched the Free File Program featuring private-sector partners that allow qualifying taxpayers to prepare and file their taxes online for free. The Treasury, OMB and IRS made this possible through a public-private partnership with a consortium of tax software companies, the Free File Alliance, LLC (Alliance).

The Free File Program provides taxpayers with access to free online tax preparation and e-filing services made possible through a partnership agreement between the IRS and the tax software industry. Eligible taxpayers may prepare and e-file their Federal income tax returns using commercial online software provided by Alliance members. After the IRS and Alliance entered into a Free File Agreement, the Free File Program debuted in January 2003. According to statistics provided by the Alliance, more than 2.79 million taxpayers used the program in its first year. In subsequent years, use of the Free File Program increased significantly, to about 3.51 million taxpayers in 2004, and 5.12 million taxpayers in 2005.

⁶ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

The Amended Free File Alliance Agreement and Its Potential Impact on Electronic Filing

After the 2005 Filing Season, the IRS and the Alliance amended their agreement to continue the Free File Program through October 2009. With the amended agreement, the overall focus of the Free File Program changed significantly. While the amended agreement still contributes to the original goal of increasing the number of citizens who electronically file their tax returns, new limits effectively changed the intent of the Free File Program. The original intent of the program was to provide free tax preparation and electronic filing services to all taxpayers. The revised intent is to assist lower income and underserved taxpayers.

The original 2002 agreement between the IRS and the Alliance established a minimum number of taxpayers who should be served by the Free File Program and was more in line with the intent of the EZ Tax Filing Initiative. There is, however, some support in Congress for the shift in the program's focus to lower income and underserved taxpayers. For example, according to the House Appropriations Committee Report accompanying the IRS' FY 2005 Budget Appropriations, the Committee reaffirmed its position that the Alliance is first and foremost intended to provide electronic Federal tax return preparation and e-filing services at no cost to the working poor and other disadvantaged and underserved taxpayers.

As part of the amended agreement, new limits were set for participation in the Free File Program. The new limits stem, in part, from the differing objectives of the IRS and the Alliance members. One of the IRS' principal purposes for establishing the program was to add another avenue for electronic filing with the intent of increasing electronic filing overall. However, Alliance members are businesses that incur a cost to provide free services. According to representatives of Alliance member companies that TIGTA interviewed,⁷ their primary goal is to keep the Federal Government from entering the tax preparation business. A secondary benefit of their participation in the program is the opportunity to market their other products for free. Taxpayers opting to use these services provide additional revenues to Alliance members.

Per the initial agreement, a minimum of 60 percent of all taxpayers (approximately 78 million) were eligible for the Free File Program. Last year, the Alliance opened the program up to almost 130 million taxpayers. However, only 5.12 million taxpayers took advantage of it. The amended agreement now limits the program's availability to 70 percent of taxpayers (approximately 93 million). For Tax Year 2005, this limitation equates to an Adjusted Gross Income (AGI) of \$50,000 or less. The maximum AGI to achieve the 70 percent limit, however, may vary from year to year. The net impact of this new limit is that during the 2006 Filing Season approximately 40 million taxpayers will no longer be offered free filing services through the program.

As mentioned earlier, online filing on home computers is up 16.6 percent this Filing Season. This increase, however, appears to be the result of additional taxpayers

⁷ TIGTA interviewed a sample of 6 of the 20 Alliance member companies.

paying for online filing services. As of March 18, 2006, paid online filing is up 33.8 percent while free online filing is down 21 percent. Two possible explanations for the growth in online filing from home computers and the decline in free online filing are: 1) taxpayers who filed electronically through a practitioner last year may have decided to purchase software and file online this year; and 2) taxpayers who filed through the program last year do not qualify this year, and they purchased software to file online.

Another factor that appears to have contributed to the decline in free online filing is elimination of the IRS' TeleFile Program. The IRS and the Alliance had hoped that many of the 3.3 million taxpayers who used TeleFile in 2005 would migrate to the Free File Program. However, current Filing Season statistics indicate that many former TeleFilers are no longer electronically filing and instead are filing their returns on paper.

Positive Provisions of the New Free File Alliance Agreement

Although the changes in the amended Free File Agreement limit the number of taxpayers offered free tax preparation and filing services, several other changes enhance the quality of the program. Under the amended agreement, Alliance members must adhere to more stringent disclosure on the nature, costs, and alternative methods of receiving refunds faster. In addition, not all taxpayers will be offered a Refund Anticipation Loan (RAL). There is some controversy over RALs because of the high fees and rates sometimes associated with those loans. Starting in 2006, the agreement guarantees that some taxpayers using the Free File Program will have the option to prepare and file their tax return without being offered a RAL. The decision of whether or not to accept an RAL lies with the taxpayer; however, these new provisions make the choice more clear. If taxpayers choose to apply for an RAL, all terms of the loans must be fully disclosed.

The amended agreement also increased security requirements and added performance measures for the individual Alliance members. Alliance members must have third party security assessments to ensure that taxpayer information is adequately protected. Also, performance standards require a 60 percent acceptance rate⁸ for providers who e-file returns through the program. This acceptance rate will be gradually increased in future years.

Under the amended agreement, Alliance members also agreed for the first time to provide the IRS with an indicator that identifies those taxpayers who use the Free File Program. Prior to the amendment, the IRS had no way to independently determine how many taxpayers participated in the program, or which taxpayers were using it. Previously, individual Alliance members reported data on participation in the program, and the IRS lacked a method to monitor participation. This significantly hampered the IRS' ability to evaluate the program's success or the effects of changes to the program.

⁸ The percentage of returns an individual provider must transmit to the IRS error free.

Difficulties Using the Free File Program

Although the Free File Program offers some taxpayers the option to prepare and file their tax return for free, the program may not be accessible to all who are eligible for it and it is not necessarily easy to use. The Free File Internet site easily allows taxpayers to determine whether they qualify for the program, but finding the best software provider for their needs is time consuming and may be difficult for less savvy computer users.

Taxpayers must access the Free File Program through the IRS' Internet site at IRS.gov. The Internet site clearly identifies the basic requirements for participation in the program and provides a tool that guides taxpayers to free filing providers. This tool presents taxpayers with a number of providers from which to choose based on some basic information that taxpayers provide. Although this tool guides taxpayers to the providers they qualify to use, the tool does not assist taxpayers with determining which of those providers best meets their needs.

Taxpayers must access each provider's Internet site to determine the services offered and must then compare the services offered and select the provider that is the best for them. Additionally, each Alliance member company sets taxpayer eligibility requirements for its own program. These requirements may differ from company to company. Generally, eligibility is based on such factors such as age, adjusted gross income, State residency, military status or eligibility for the Earned Income Tax Credit.

Although the Free File Program is currently focused on low-income taxpayers, many of these taxpayers do not have access to the tools to use it. For example, taxpayers who speak limited English have not been provided access to all the filing options offered. Only two providers offer services in Spanish and neither of them offer free electronic filing of Form 4868, Automatic Extension of Time to File.

The Free File Program also requires taxpayers to have access to a computer and the Internet. Taxpayers who have access to the necessary technology must also be savvy enough to navigate the IRS' and the Alliance members' Internet sites. The focus of the program on lower income taxpayers may be at odds with their ability to participate in it. In her 2004 Report to the Congress, the National Taxpayer Advocate wrote that in 2001 approximately 50 percent of low income families⁹ used a computer and only 38 percent had access to the Internet. Furthermore, access to a computer or the Internet does not necessarily indicate that a person has the ability to navigate the Internet or use tax preparation software.¹⁰

The IRS offers free assistance to taxpayers with tax preparation and filing through its Taxpayer Assistance Centers, Voluntary Income Tax Assistance, and Tax-Aide Programs as well as through the Free File Program. Similar to the Free File Program, taxpayers must meet certain requirements in order to receive assistance from those other programs. The Free File Program, however, is the only free filing option that taxpayers

⁹ Income of less than \$25,000.

¹⁰ *National Taxpayer Advocate 2004 Annual Report to the Congress, Volume 1* December 2004.

may use from their homes. Taxpayers must bring their tax documentation to an assistance site to take advantage of the other free tax preparation and filing services.

The addition of the RAL provisions, increased security, and added performance measures to the agreement are important means to further promote public confidence in the Free File Program. Adding the electronic indicator to returns filed through the program will provide the IRS with information to measure the program's success. However, limiting the scope of the program to 70 percent of taxpayers has impacted the use of the program. Based on the statistics Alliance members provided in previous years, the new limits in the amendment to the agreement appear to be substantially reducing participation in the program. Furthermore, the AGI limit also keeps the program from achieving the full intent of the EZ Tax Filing Initiative, which never specified any such limits for access to free, basic, automated tax preparation and electronic filing. Not yet known, however, is whether the IRS' ability to better understand who is using and who is not using the program will help the IRS better market the program and expand its usage despite the new limits. The answer to that question may ultimately have a significant effect on the overall growth rate of electronic filing.

Elimination of the TeleFile Program

As mentioned earlier in my statement, one factor that appears to have negatively impacted the growth of e-filing this year is the elimination of the TeleFile Program. The IRS discontinued this program for individual taxpayers in August 2005. The TeleFile Program allowed taxpayers with the simplest tax returns¹¹ to file their returns by telephone. The pilot TeleFile Program was launched on a limited basis in 1992, and the program became available nationally in 1997. The RRA 98 included the expectation that the IRS would continue to offer and improve TeleFile, and make a similar program available on the Internet.

Despite its initial success, use of the TeleFile Program began to decrease in 1999. According to IRS electronic filing statistics as of April 17, 2005, approximately 3.3 million filers used TeleFile in 2005, a 12.7 percent decline from the previous year. Until the IRS eliminated the TeleFile Program last year, participation in the program had declined every year since 1999 when 5.2 million filers used it.

Declining use was one factor the IRS considered when deciding whether or not to end the TeleFile Program. Other contributing factors included the increasing cost of maintaining an aging TeleFile system, declining and discontinued State TeleFile programs, and the growing use of other electronic filing alternatives, such as the Free File Program.

¹¹ Forms 1040EZ.

According to the IRS, taxpayers who previously used TeleFile may continue to file electronically using one of the following five methods:

1. Tax preparers;
2. Personal computers with Internet access and tax preparation software;
3. IRS' Free File Program;
4. Free tax assistance sites, such as the Voluntary Income Tax Assistance and Tax-Aide Programs; and
5. IRS Taxpayer Assistance Centers.

However, two of the five alternatives require the taxpayer to pay for tax preparation and filing services that were previously free, and two other options require taxpayers to have access to computers and the Internet. Consequently, in many cases, the most cost-effective avenue for the taxpayer is to file a paper tax return. According to initial IRS statistics, a significant number of former TeleFile users are reverting to filing paper returns this year. As of March 17, 2006, the number of paper Form 1040EZ returns filed has increased 22 percent compared to this time last year (4.5 million in 2006 compared to 3.7 million in 2005), and there has been a corresponding decrease in electronically filed Forms 1040EZ (5.8 million in 2006 vs. 7.3 million in 2005).

TIGTA will further evaluate the impact of the elimination of the TeleFile Program on taxpayers and the IRS' efforts to increase electronic filing, and will report the results later this year.

Providing Quality Taxpayer Service Operations for the 2006 Filing Season

Providing quality customer service to the taxpayer is not only a primary goal of the IRS, but it is also one of its major management challenges. The Commissioner has frequently stated that service combined with enforcement will result in compliance. Quality taxpayer service includes helping the taxpaying public understand their tax obligations while making it easier to participate in the tax system.

Since the passage of the RRA 98, the IRS' focus on customer service has led to many improvements. One of the goals of the IRS is to improve taxpayer service by improving service options, facilitating participation in the tax system by all sectors of the public, and simplifying the tax process. Every year, the IRS helps millions of taxpayers understand their tax obligations by answering questions on its toll-free telephone lines or in person at local offices, making information available on its web site, and responding to correspondence.

Over the past seven years, the IRS has made commendable strides in customer service. However, I am concerned that the IRS does not sufficiently ensure that it uses adequate and reliable data for making decisions that impact customer service operations. Recent decisions to close Taxpayer Assistance Centers (TAC) and reduce the hours of operation for toll-free telephone service were based primarily on input from IRS functional areas and considered other factors that included internal priorities, resource demands, and shifts in the IRS' customer service perspective. However, data were not

obtained from taxpayers who use these services to determine the impact of removing or reducing them.

After the IRS' closure announcement, Congress enacted legislation to delay the closure of any TACs.¹² The IRS is prohibited from using funds provided in the Fiscal Year 2006 budget appropriation to reduce any taxpayer service function or program until TIGTA completes a study detailing the effect of the IRS' plans to reduce services relating to taxpayer compliance and taxpayer assistance.

IRS.gov

IRS.gov continues to be one of the most visited Web sites in the world, especially during filing seasons. As of the week ending March 18, 2006, the IRS is reporting a 5.7 percent increase in the number of visits to IRS.gov over the same period last filing season. The IRS now provides practitioners with online tools to provide better service to their customers, such as electronic account resolution, transcript delivery, and disclosure authorization. As of the week ending March 18, 2006, the IRS is also reporting a 17.9 percent increase in taxpayers obtaining their refund information online via "Where's My Refund."

Toll-Free Operations

The 2006 Filing Season has presented unique challenges for the IRS toll-free operations. The IRS had also planned to reduce the hours of its toll-free telephone operation in Fiscal Year 2006. The IRS has about 400 fewer full-time equivalents for toll-free telephone operations than it had in Fiscal Year 2005 because of plans to reduce operating hours from 15 to 12 hours per day. Congress, the Taxpayer Advocate and the National Treasury Employees Union have expressed concerns about the IRS reducing operating hours for the toll-free telephone lines. A new law enacted in November 2005 requires the IRS to consult with stakeholder organizations, including TIGTA, regarding any proposed or planned efforts to terminate or significantly reduce any taxpayer service activity.¹³ Congress recently further defined a reduction of taxpayer service to include limiting available hours of telephone taxpayer assistance on a daily, weekly, and monthly basis below the levels in existence during the month of October 2005. TIGTA is currently assessing the IRS' plans to reduce operating hours and will report its results later this year.

As of March 18, 2006, assistor level of service has not been negatively impacted, with an IRS reported level of service rate of 84.3 percent. In addition, about 8 percent fewer assistor calls are being answered but the number of taxpayers who hang-up prior to reaching an IRS assistor is up 8.5 percent. The average speed of answer is about 60 percent of the time planned so those taxpayers who are calling and talking with an assistor are not experiencing longer wait times.

¹² Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006, Pub. L. No. 109-115, 119 Stat. 2396 (2005).

¹³ The Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, Pub. L. No. 109-115, 119 Stat. 2396 (2006).

In planning for Fiscal Year 2006, IRS management expected fewer calls program-wide, even after taking into consideration taxpayers affected by Hurricanes Katrina and Rita. IRS management believed that most taxpayers needing disaster relief assistance obtained it during the latter part of 2005. Prior to the start of the filing season, TIGTA brought to IRS management's attention our concern that more taxpayers than expected could call the help line with questions due to the effects of Hurricanes Katrina and Rita.

After we shared our concern, IRS management raised the estimated volume of services to these telephone lines by about 78,000 services, from approximately 27,000 to about 105,000 from January through June 2006, a 365.1 percent increase over the total Fiscal Year 2005 services provided on those telephone lines. For the 2006 Filing Season it appears that the calls to these telephone lines are higher than anticipated. For example, the IRS had planned 59,081 services for one of its applications devoted to assisting disaster victims; however, through March 16, 2006, the IRS has already provided 106,141 services.

Taxpayer Assistance Centers

The TACs are walk-in sites where taxpayers can receive answers to both account and tax law questions, as well as receive assistance preparing their returns. The IRS has acknowledged that staffing would be a challenge during the 2006 Filing Season since not all TACs would be fully staffed and not all TACs will provide standard services or standard hours of operation (from 8:30 a.m. to 4:30 p.m., Monday through Friday). As of December 1, 2005, the IRS identified 47 TACs with critical staffing shortages (a critical vacancy is one that must be filled to ensure that a TAC remains open).

The IRS took actions to minimize the impact of the staffing shortages. As of January 31, 2006, the IRS had hired additional frontline technical employees, recalled intermittent employees back to work, detailed former TAC employees from their current positions in other IRS functions back to the TACs, and made plans to have some employees travel between TACs to ensure that all TACs remain open daily. The IRS' decision to focus more resources on compliance activities, however, has further limited resources available for the TAC Program. As a result, the IRS has limited some assistance services and not all TACs are open during standard operating hours. As of the week ending March 11, 2006, the IRS is reporting a 12.8 percent reduction in TAC contacts with taxpayers.

Although the IRS publicized when TAC operating hours are limited, it did not publicize when TACs limit their services. When notified by TIGTA, the IRS implemented changes and standardized the list of services offered at each TAC. Furthermore, the IRS modified its Internet site, IRS.gov, to indicate when TACs would provide limited services.

While planning for the 2006 Filing Season, the IRS considered the impact of Hurricanes Katrina and Rita. Specifically, the IRS accounted for all employees affected by the hurricanes and located alternate office space in affected areas. All TACs in impacted areas are open and operational for the 2006 Filing Season. The IRS also added

services to help lessen taxpayer burden, including tax return preparation for taxpayers affected by the hurricanes regardless of the income guidelines. Additionally, the scope of tax law topics in which assistors are trained was expanded to provide assistance to taxpayers with questions about casualty losses. Furthermore, the IRS will treat taxpayers affected by Hurricanes Katrina and Rita as meeting extreme hardship criteria. That designation allows affected taxpayers to request and immediately receive transcripts of prior year tax returns instead of having to order them and wait for delivery.

TIGTA is currently in the process of making anonymous visits to TACs to determine if taxpayers are receiving quality service, including correct answers to their questions. TIGTA will also visit additional TACs to ask tax law questions specifically related to the Katrina Emergency Tax Relief Act of 2005. IRS assistors should have been trained to answer these questions. TIGTA's preliminary observations are that assistors sometimes inappropriately refer taxpayers to publications to conduct their own research, or respond to tax law questions without following required procedures such as using the publication method guide that requires them to ask probing questions.

Volunteer Income Tax Assistance (VITA) Program

The VITA Program plays an increasingly important role in IRS' efforts to improve taxpayer service and facilitate participation in the tax system. The VITA Program provides no-cost Federal tax return preparation and electronic filing to underserved taxpayer segments, including low income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply tax law.

TIGTA is currently in the process of visiting VITA sites to determine if taxpayers are receiving quality service, including the accurate preparation of their individual income tax returns. TIGTA developed scenarios that are designed to present volunteers with a wide range of tax law topics that taxpayers may need assistance with when preparing their tax returns. These scenarios include the characteristics (e.g., income level, credits claimed, etc.) of tax returns typically prepared by the VITA Program volunteers based on an analysis of the Tax Year 2004 VITA-prepared tax returns. TIGTA's preliminary observations are that volunteer sites do not always use the tools and information available when preparing returns.

Conclusions

To date, TIGTA has not identified any significant processing problems during the 2006 Filing Season. Furthermore, the IRS has taken a number of actions to ensure that taxpayers impacted by Hurricanes Katrina and Rita are able to obtain disaster relief assistance. TIGTA will continue monitoring the IRS' administration of the disaster relief provisions to ensure that impacted taxpayers are receiving the relief to which they are entitled.

While the 2006 Filing Season appears to be progressing without major problems, I am concerned that changes in the Free File Agreement as well as the elimination of Telefile Program may have contributed to a significant slowing of the growth in electronic filing this year. This slowed growth comes at a time when the IRS is still far from reaching Congress' goal of 80 percent electronic filing by 2007. Slower growth in electronic filing will defer the efficiency gains for the IRS that result from electronic filing.

Reducing customer services, such as TAC closures, the elimination of the TeleFile Program, and a reduction in toll-free hours of operation, to gain resource efficiencies must be carefully considered before any further decisions are made. TIGTA continues to be concerned that the IRS does not ensure that it has adequate and reliable data prior to making decisions that impact customer service operations. Before proceeding with these efforts, the IRS needs to better understand the impact of such changes on taxpayers as well as taxpayers' abilities to obtain these services through alternative means.

I hope my discussion of some of these 2006 Filing Season issues will assist you with your oversight of the IRS' filing season operations. Mr. Chairman and Members of the Subcommittee, thank you for allowing me to share my views. I would be pleased to answer any questions you may have at this time.