

103  
**PROBLEMS WITH INTERNAL REVENUE SERVICE  
COMMUNICATIONS WITH TAXPAYERS AND  
COLLECTION OF TAX DEBTS**

---

---

Y 4. W 36: 103-71

Problems with Internal Revenues Ser...

**HEARING**

BEFORE THE

**SUBCOMMITTEE ON OVERSIGHT**

OF THE

**COMMITTEE ON WAYS AND MEANS**

**HOUSE OF REPRESENTATIVES**

**ONE HUNDRED THIRD CONGRESS**

**FIRST SESSION**

NOVEMBER 9, 1993

**Serial 103-71**

Printed for the use of the Committee on Ways and Means



SUPERINTENDENT OF DOCUMENTS  
LEGISLATIVE  
AUG 11 1994  
BOSTON PUBLIC LIBRARY  
SUPERINTENDENT OF DOCUMENTS DEPARTMENT

U.S. GOVERNMENT PRINTING OFFICE

79-610 CC

WASHINGTON : 1994

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-044520-5



PROBLEMS WITH INTERNAL REVENUE SERVICE  
COMMUNICATIONS WITH TAXPAYERS AND  
COLLECTION OF TAX DEBTS

---

---

Y 4.W 36:103-71

Problems with Internal Revenues Ser...

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

---

NOVEMBER 9, 1993

---

**Serial 103-71**

---

Printed for the use of the Committee on Ways and Means



SUPERINTENDENT OF DOCUMENTS  
NEEDS

AUG 11 1994

BOSTON PUBLIC LIBRARY  
- SUPERINTENDENT OF DOCUMENTS DEPARTMENT

U.S. GOVERNMENT PRINTING OFFICE

79-610 CC

WASHINGTON : 1994

---

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-044520-5

## COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida	BILL ARCHER, Texas
J.J. PICKLE, Texas	PHILIP M. CRANE, Illinois
CHARLES B. RANGEL, New York	BILL THOMAS, California
FORTNEY PETE STARK, California	E. CLAY SHAW, JR., Florida
ANDY JACOBS, JR., Indiana	DON SUNDQUIST, Tennessee
HAROLD E. FORD, Tennessee	NANCY L. JOHNSON, Connecticut
ROBERT T. MATSUI, California	JIM BUNNING, Kentucky
BARBARA B. KENNELLY, Connecticut	FRED GRANDY, Iowa
WILLIAM J. COYNE, Pennsylvania	AMO HOUGHTON, New York
MICHAEL A. ANDREWS, Texas	WALLY HERGER, California
SANDER M. LEVIN, Michigan	JIM McCRERY, Louisiana
BENJAMIN L. CARDIN, Maryland	MEL HANCOCK, Missouri
JIM McDERMOTT, Washington	RICK SANTORUM, Pennsylvania
GERALD D. KLECZKA, Wisconsin	DAVE CAMP, Michigan
JOHN LEWIS, Georgia	
L.F. PAYNE, Virginia	
RICHARD E. NEAL, Massachusetts	
PETER HOAGLAND, Nebraska	
MICHAEL R. McNULTY, New York	
MIKE KOPETSKI, Oregon	
WILLIAM J. JEFFERSON, Louisiana	
BILL K. BREWSTER, Oklahoma	
MEL REYNOLDS, Illinois	

JANICE MAYS, *Chief Counsel and Staff Director*

CHARLES M. BRAIN, *Assistant Staff Director*

PHILLIP D. MOSELEY, *Minority Chief of Staff*

---

### SUBCOMMITTEE ON OVERSIGHT

J.J. PICKLE, Texas, *Chairman*

HAROLD E. FORD, Tennessee	AMO HOUGHTON, New York
CHARLES B. RANGEL, New York	WALLY HERGER, California
WILLIAM J. JEFFERSON, Louisiana	MEL HANCOCK, Missouri
BILL K. BREWSTER, Oklahoma	RICK SANTORUM, Pennsylvania
GERALD D. KLECZKA, Wisconsin	
JOHN LEWIS, Georgia	

# CONTENTS

---

	Page
Press release of Thursday, November 4, 1993, announcing the hearing .....	2

## WITNESSES

U.S. General Accounting Office, General Government Division, Tax Policy and Administration Issues, Jennie S. Stathis, Director, David Attianese, Assistant Director, Charlie W. Daniel, Assignment Manager, and Thomas Venezia, Assignment Manager, Chicago Regional Office .....	5
---	---

(III)



**PROBLEMS WITH INTERNAL REVENUE SERVICE COMMUNICATIONS WITH TAXPAYERS AND COLLECTION OF TAX DEBTS**

---

**TUESDAY, NOVEMBER 9, 1993**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON OVERSIGHT,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 10:05 a.m., in room B-318, Rayburn House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE  
THURSDAY, NOVEMBER 4, 1993

PRESS RELEASE #17  
SUBCOMMITTEE ON OVERSIGHT  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
1135 LONGWORTH HOUSE OFFICE BLDG.  
WASHINGTON, D.C. 20515  
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN,  
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,  
U.S. HOUSE OF REPRESENTATIVES,  
ANNOUNCES A HEARING ON PROBLEMS WITH INTERNAL REVENUE SERVICE  
COMMUNICATIONS WITH TAXPAYERS AND COLLECTION OF TAX DEBTS

The Honorable J. J. Pickle (D., Texas), Chairman, Subcommittee on Oversight, Committee on Ways and Means, U. S. House of Representatives, announced today that the Subcommittee will hold a hearing to review issues contained in six recent U.S. General Accounting (GAO) reports to the Subcommittee concerning problems with Internal Revenue Service (IRS) communications with taxpayers and collection of tax debts. The hearing will be held on Tuesday, November 9, 1993, beginning at 10:00 a.m., in room B-318 Rayburn House Office Building. The Subcommittee will receive testimony from representatives of GAO.

In announcing the hearing, Chairman Pickle stated, "More people have contact with IRS than with any other agency of the Federal Government. Therefore, it is imperative that IRS communications with taxpayers are clear, accurate and timely. Too often taxpayers encounter confusing or inaccurate forms and notices from IRS, or are unable to get timely or accurate tax assistance from IRS over the telephone. This situation undermines public confidence in the competence of IRS and the fairness of our tax system.

"With respect to collecting overdue taxes, IRS is facing a growing crisis. The IRS accounts receivable inventory is currently \$131 billion and continues to grow, while IRS collections from cases in the inventory has declined. Further, in some cases, IRS collection practices are not equitable or consistent throughout the country. Too often taxpayers do not personally talk to an IRS employee until after an enforced collection action has taken place. Further, IRS decisions on who should be subject to a collection action and the terms of resulting payment agreements are not uniform nationwide. We must ensure that IRS collection operations are fair and consistent in order to maintain the public trust and increase voluntary compliance with our tax laws."

During the hearing, GAO will discuss issues raised in the following six reports to the Subcommittee:

TAX ADMINISTRATION: Selected IRS Forms, Publications, and Notices Could Be Improved (GAO/GGD-93-72) (April, 1993) Highlights the need for changes to several of the most frequently used IRS forms and notices to improve their clarity and usefulness.

TAX ADMINISTRATION: IRS Correspondence Needs To Continue Improving (GAO/GGD-93-XX) (November, 1993) Highlights problems stemming from the fact that more than half of the interim correspondence IRS sends to taxpayers prior to making a final tax determination, is confusing, inaccurate or inappropriate.

TAX ADMINISTRATION: Successful 1993 Filing Season Clouded By Increased Fraud and Poor Taxpayer Access to IRS (GAO/GGD-93-XX) (November, 1993) Highlights problems encountered during the most recent filing season, including the decreasing availability of IRS telephone assistance for taxpayers, and a decreasing level of voluntary compliance as evidenced by the decline in the number of individual tax returns filed.

TAX ADMINISTRATION: New Delinquent Tax Collection Methods for IRS (GAO/GGD-93-67) (May, 1993) Highlights inefficiencies in IRS collections operations, noting that IRS follows a rigid three-stage collection process which includes a series of notices over a six-month period and levies on taxpayer funds before taxpayers are ever contacted personally, for example by telephone, by IRS.

(MORE)



TAX ADMINISTRATION: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97) (May, 1993) Highlights how staffing imbalances in IRS district offices result in some districts pursuing a broad range of small and large tax delinquencies, while in other districts the same levels of tax delinquencies go uncollected.

TAX ADMINISTRATION: IRS Can Do More to Collect Taxes Labelled "Currently Not Collectible" (GAO/GGD-94-2) (October, 1993) Highlights how the lack of IRS guidelines for writing-off delinquent accounts as "currently not collectible" results in allowing some taxpayers who earn more than \$70,000 annually to pay nothing toward their tax debt.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments for the printed record of the hearing should submit six (6) copies by the close of business, Friday, December 3, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

\* \* \* \* \*

Chairman PICKLE. I would ask the subcommittee to please come to order.

I have an opening statement and so does Mr. Houghton, and then we will be glad to hear the statements from Ms. Stathis of the GAO and any other experts who are here with us today. We are glad to have all of you here.

Most, if not all, of the people in this room today have had some personal contact with the Internal Revenue Service. This is true for almost everyone in the country, unfortunately. Few look forward to repeating their experience with IRS. Beyond just the pure "excitement" of receiving a letter from the IRS and wondering if you are going to have to pay more taxes, many face the very real dilemma of trying to figure out what the IRS is talking about.

Too often taxpayers are faced with confusing or incomplete tax forms and publications when attempting to file their tax returns. When they write to IRS, the agency's response is inaccurate or inappropriate over half of the time. Even worse, when you try to call IRS directly to straighten out the whole mess, you get a busy signal three out of four times.

In addition to the frustration of dealing with IRS bureaucracy, there is the nagging suspicion that not everyone is paying their taxes. IRS has an accounts receivable of over \$131 billion. This amount grows larger every year, so it is pretty clear that somebody is not paying their taxes. And so we ask ourselves, what is IRS doing to make sure that everybody pays their fair share? And the answer is, not enough. In some cases, IRS has determined that taxpayers with high incomes cannot afford to make payments on their delinquent taxes, yet they have enough to pay for personal luxuries, and IRS allows it. Moreover, in some areas of the country, IRS makes everyone pay their tax debts, while in other areas, large delinquencies are all but ignored.

Over the past year and a half, the General Accounting Office [GAO] has conducted extensive field investigations of the Internal Revenue Service at the specific request of this committee. GAO's testimony today provides a summary of the most important matters contained in these 16 different reports. IRS has taken positive steps in reaction to GAO's findings and recommendations in some cases; they have disagreed with GAO on other cases; and agreed to implement some reforms several years into the future. These are serious problems that need action now. Taxpayers cannot wait several years for better service. Before Congress adjourns, this subcommittee, I hope, will forward specific recommendations to the Internal Revenue Service for their adoption or for their response in some specific manner. We would expect the IRS to respond with how and when they will take action to correct many of these problems.

Now the Chair will recognize Mr. Houghton. Mr. Houghton.  
Mr. HOUGHTON. Thank you, very much, Mr. Chairman.

Ladies and gentlemen, it's good to see you here today. I am pleased to join Chairman Pickle in opening our hearing to consider GAO reports and analyze the various IRS problems regarding taxpayer communication.

The GAO, as you know far better than I, has completed more than a dozen of these reports. They give a very detailed and nar-

row analysis of a variety of different issues. If you look at the reports individually, they are interesting and very specific. But if you look at them collectively you can appreciate the overall message. This is one of the things we are trying to do today, to take a look at least at six of these reports and try to find out where we are going; to step back a little and get a little perspective.

I used to be in business and I know that even a company with a good product is going to falter if it has poor operational practices. The only thing that I ask is that when we look at some of the errors that have been made, as any human agency can make, that we make sure that Congress has given the IRS the proper resources to deal with the technical advances of today's world, specifically in the areas of taxpayer communication and collections.

Many of the GAO suggestions appear consistent with the Vice President's plan of reinventing government. I hope they can be implemented. I thank you very much for coming and look forward to the testimony.

Chairman PICKLE. We will now be glad to hear from the General Accounting Office, and I presume, Ms. Stathis, you will make your statement for GAO. Do these other individuals wish to have statements or are they here to accompany you?

Ms. STATHIS. No, they do not; they are here to help answer your questions, Mr. Chairman.

Chairman PICKLE. If you will proceed, then. Are you going to be following your outline; your copy?

Ms. STATHIS. I will be following it, moving around through it, and I will tell you when I am moving to a new section.

Chairman PICKLE. Good, if you will do that, we are glad to have you.

**STATEMENT OF JENNIE S. STATHIS, DIRECTOR, GENERAL GOVERNMENT DIVISION, TAX POLICY AND ADMINISTRATION ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY DAVID ATTIANESE, ASSISTANT DIRECTOR, CHARLIE W. DANIEL, ASSIGNMENT MANAGER, AND THOMAS VENEZIA, ASSIGNMENT MANAGER, (CHICAGO REGIONAL OFFICE)**

Ms. STATHIS. On my left is David Attianese; on my right is Charlie Daniel; and, to his right, is Thomas Venezia from Chicago—the other two are from Washington—and together they were responsible for much of the work that we will be talking about today.

Chairman PICKLE. Glad to have all of you.

Ms. STATHIS. The first part of my statement focuses on collecting tax debts.

The Federal Government has the opportunity to realize substantial revenue from taxes already owed if IRS can more effectively and efficiently carry out the process of collecting these debts. Again, this year collection results were disappointing. Collection of delinquent taxes declined from \$24 billion to \$23 billion.

At the end of fiscal year 1992, IRS' records show accounts receivable totaling \$131 billion. Of that amount, IRS estimated that \$22 billion was collectible.

Now, moving to the next section, IRS needs to revisit some of the accounts for which it has decided taxpayers cannot pay. The single largest segment of accounts receivable is \$52 billion in accounts

deemed "currently not collectible." District office staff now declare more tax debts "currently not collectible" than they collect. Our report to you on this topic is being released today. In that report, we say that IRS is forgoing the potential to collect hundreds of millions of dollars because of poor work and poor performance.

We reviewed a sample of 107 of those accounts. We concluded the actions taken were inadequate or at least questionable 55 percent of the time. The more serious problem, in 12 percent of them, involved failure to question living expenses and fully consider income. The outcome is that some taxpayers who reported incomes of more than \$70,000 paid nothing toward their tax debts. And we show two examples.

In the first one, married taxpayers with no dependents who earned nearly \$80,000 a year, owed \$123,000 in back taxes. Their financial statement showed expenses exceeding income by \$275 a month. IRS allowed as necessary expenses monthly life insurance payments of \$450 and over \$900 in monthly payments on debts to credit card companies and other creditors.

In the second example, married taxpayers with four dependents, earning almost \$80,000 a year, owed \$75,000 in taxes. IRS allowed a monthly mortgage expense of \$1,800 and payments for two cars totaling \$950 as necessary and reasonable expenses.

Chairman PICKLE. In either of those two cases, did they make payments to the Internal Revenue Service?

Ms. STATHIS. None.

Chairman PICKLE. None.

Ms. STATHIS. The collection staff have fairly vague guidance to help make these decisions and their supervisors did not identify and correct problems.

Now, the remainder of the "currently not collectible" decisions we questioned were based on inadequate work or questionable, given the available information, or did not fully provide for future collection potential.

In the first example IRS was not able to locate the taxpayer, but the file indicated that the taxpayer had accounts with a number of banks. These banks could have served as leads to locate the taxpayer, but none were contacted for that purpose. The taxpayer owed \$130,000 in back taxes. His income exceeded expenses by \$115 a month. Instead of making an installment agreement, the revenue officer closed the case as "currently not collectible."

A self-employed single taxpayer claimed living expenses that exceeded income by \$670 a month. The file did not explain how that could continue; but the case was simply closed as "currently not collectible."

Chairman PICKLE. And how much did they pay to the IRS?

Ms. STATHIS. In all of these cases, they paid nothing. They were closed as "currently not collectible."

Chairman PICKLE. None.

Ms. STATHIS. We also believe that IRS waits too long to follow up on some cases. IRS puts a 65 week hold on reactivating accounts. During this period, IRS does not review subsequent tax returns.



We are making a number of recommendations in the report. IRS has commented on the report and agreed, at least in principle, with most of them.

Congress, too, may be able to influence the number of these cases. Private firms measure collection success in terms of dollars collected and a key premise is that incentives based on individual performance motivate collectors. Tax law prohibits IRS from using collection performance to evaluate, compensate or reward employees. Under IRS' evaluation system, accounts classified "currently not collectible" are given the same weight as dollars collected. This could have contributed to the growth in these accounts.

Congress, long concerned that collection performance might be interpreted as quotas that might induce IRS staff to mistreat taxpayers, added this provision in 1988 to protect taxpayers from such actions. We believe that taxes collected is a reasonable basis on which to judge employees whose job it is to collect taxes, as long as other criteria, such as fair treatment are also evaluated.

Taxpayers who owe back taxes can also receive disparate treatment just by the way IRS assigns staff.

In May 1993, we reported to you that IRS has not allocated staff to maximize revenues and ensure that taxpayers in all parts of the country are treated the same. Revenue officer staffing varies dramatically among the districts, not always in proportion to the workload. As a consequence, wide variations exist in tax debts worked versus those kept in a queue. The range in fiscal year 1991 was from one district that worked all cases to another that worked just 27 percent.

While we cannot disclose exact dollar thresholds, we can say that taxpayers who owe substantial debts will not hear from a revenue officer in some districts; but in others, IRS has the staff to follow up on debts that are much smaller. Thus, delinquent taxpayers' treatment depends on where they live. Such imbalances also affect productivity. Collections per staff year in 1991 ranged in a low of \$175,000 in one district to a high of \$775,000 in another.

IRS needs to quit relying on staff growth and attrition to eliminate these imbalances. Instead, the agency needs a plan to maximize the collection of tax debts. But more fundamentally, IRS relies too heavily on visits by revenue officers.

In a report to the subcommittee, we said that IRS needs to revamp its collection process. It needs to place more emphasis on activities early in the process at service centers and call sites and less emphasis on district office activities.

Good business practice dictates that after a debt arises, efforts are to be made to secure some type of payment agreement as quickly as possible. IRS' process, however, is not based on this premise. The IRS process involves three steps: First, the service centers mail three to five computer generated bills at 30-day intervals. If the taxpayer has not responded to the final notice, IRS levies any known bank accounts. In step two, IRS telephones the taxpayer. In step three revenue officers visit the taxpayer.

The process is outdated, costly, and inefficient. A comparison with private firms shows three ways it could be improved. First, the process takes too long. Delinquencies in the private sector are

usually closed after 180 days. By that time, IRS has probably not even tried to telephone the taxpayer.

Second, the process is too rigid. IRS follows the same process for virtually all types of accounts, regardless of the taxpayer's compliance history.

Third, the process relies too heavily on step three, visits by revenue officers. IRS has allocated almost two-thirds of its collection staff to this step. Private companies avoid personal contact because of the cost and potential dangers. IRS' own data show that, on average, call site collectors are more productive. In 1991, each call site collector averaged \$1.5 million in collections while each revenue officer averaged \$331,000.

In addition to improving the collection of back taxes, IRS needs to better communicate with taxpayers who are trying to file and pay their taxes.

In moving down to filing tax returns, which is the first topic in this section, at the subcommittee's request, we monitored the 1993 filing season, and 1993 was an unusual year. By April 30, about 2 million fewer taxpayers had filed returns than the year before. Considering that the number usually grows each year, the number of filers was about 3.7 million fewer than IRS expected.

The main reason for this appears to be the change in the 1992 withholding tables. That change caused more taxpayers to owe taxes and fewer to receive refunds. IRS' current analysis shows that about 1.2 million taxpayers so affected did not file their returns, even though IRS made it much easier to pay by installments.

Now, telephone access was another filing season problem. IRS data indicated that taxpayers who called had a good chance this year of getting a correct answer to tax law questions; but their chances of getting through to ask questions were poor. People who called had a one in four chance of getting through—even worse than the one in three chance we reported for 1992.

Efforts to answer more calls by upgrading telephone equipment have been offset by reductions in staff and a larger number of calls, the net effect being a continuing erosion of service. IRS plans to merge various telephone operations, shift calls and automate some answers.

These changes will not be fully implemented before 1996. Meanwhile, demands for telephone service will likely grow in response to the recent tax law changes.

Electronic filing fraud is another problem that grew in 1993. Although the number of identified fraudulent returns is small in absolute terms, the rate of growth is not. Through the first 8 months of 1993, IRS identified more than 23,000 fraudulent electronic returns—100 percent more than during the same period last year. At least some of the growth may be due to IRS steps to improve detection of fraud.

What makes electronic filing such an appealing target for fraud is the speed with which perpetrators can get their money—about 2 weeks under normal procedures and even faster if the filer gets a refund anticipation loan. And because of this timing, IRS is less likely to stop the refund.

Now, the next section addresses IRS correspondence.

One of the main ways taxpayers communicate with IRS is through the mail. Each year, IRS receives about 20 million pieces of correspondence. At the subcommittee's request, we assessed IRS' efforts to improve its correspondence. Our assessment indicates that the correspondence has improved, nonetheless, problems still exist. Our analysis of almost 1,900 letters showed that 15 percent were incorrect, unclear, incomplete or nonresponsive; and 11 percent came from taxpayers trying to resolve something left unresolved during earlier contacts.

Another sample of 261 interim letters showed that half were unclear or not responsive to the taxpayers' reason for writing. Problems such as these increase cost, frustrate taxpayers and ultimately hinder compliance with the tax laws.

Now, we have three examples. A Spanish speaking taxpayer corresponded with IRS using Spanish language forms. IRS appropriately sent the taxpayer an interim response in Spanish explaining that more time was needed to address the questions. Unfortunately, when IRS completed its work, it responded in English.

The second example is a divorced taxpayer who asked for copies of joint returns filed while she was still married. Instead of sending the returns to the taxpayer making the request, IRS sent copies to the ex-spouse. This occurred because the ex-spouse had the primary Social Security number on the account and IRS sent the returns to the address of record.

The third example is a taxpayer who wrote IRS inquiring if he could combine monthly payments for three tax periods into one. IRS responded with an interim letter that thanked the taxpayer for the information submitted. Now, we believe this response was potentially confusing because the taxpayer was not submitting information but in fact was making an inquiry about his payment plan.

One IRS objective is to resolve more taxpayer issues over the phone. But before telling taxpayers to call instead of write, IRS must make it easier for taxpayers to get through by phone.

At the subcommittee's request, we recently examined 17 common forms and publications and suggested more than 50 ways to make them easier to understand and use. Generally, we suggested more specific language, consistent terminology, and more references to other forms and publications, and IRS has agreed with most of those suggestions.

We also looked at 21 computer-generated notices IRS sends to taxpayers. We suggested changes to make five of them easier to understand. The most significant of those changes concerns the way taxpayer account information is displayed. This information often appears as a section called "Your Tax Statement." The format we suggested would more clearly compare data reported on the taxpayer's return with IRS' proposed adjustment. IRS said that this change could not be made before 1995 because of limitations in computer programming and printing.

In requesting this series of GAO reviews, the subcommittee has focused on two of IRS' more vital roles: Collecting back taxes and communicating with taxpayers who are trying to fulfill their tax obligations. As results of our work point out, it is essential that IRS make fundamental changes to collect more back taxes. IRS needs to emphasize earlier contacts with taxpayers, tailor its ac-



tions to the taxpayers' compliance history, and more effectively allocate collection staff. In addition, IRS needs to develop better guidance for making "currently not collectible" determinations and improve its monitoring of those accounts. We also believe Congress should reconsider the present constraints in evaluating collection staff performance.

A successful filing season is dependent on IRS' ability to effectively help taxpayers meet their filing obligations. One way for IRS to do this is to be more responsive to taxpayers' correspondence and make its many forms, publications, and notices easier to understand. The 1993 filing season was marked by one surprising development—a reduction in the number of returns filed. It also saw the continuation of two disturbing trends—more fraudulent electronic refund claims and less access to IRS by telephone. The challenge for IRS is to reverse these trends in the next filing season.

That concludes my statement, Mr. Chairman. We will be pleased to answer your questions.

Chairman PICKLE. I thank you, Ms. Stathis, for your report.

[The prepared statement and attachment follow:]



COLLECTING DELINQUENT TAXES  
AND COMMUNICATING WITH TAXPAYERSSUMMARY STATEMENT OF  
JENNIE S. STATHIS  
DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES  
GENERAL GOVERNMENT DIVISION  
U.S. GENERAL ACCOUNTING OFFICE

GAO recently completed reviews for the Subcommittee on Oversight on the way IRS collects tax debts, processes tax returns, and communicates with taxpayers. GAO identified opportunities to increase revenues, treat taxpayers more evenly, reduce taxpayer frustration, and cut down the need for repetitive contacts to resolve tax questions. If IRS implements GAO's recommendations, major improvements should result in the collection of back taxes and in taxpayer relations.

For the third consecutive year, IRS' collection of delinquent taxes declined in 1993. GAO believes that increased collections may be achieved from delinquent tax accounts that IRS has deemed "currently not collectible." Questionable work and faulty monitoring systems have allowed taxpayers earning more than \$70,000 to pay nothing towards their tax debts. IRS' uneven staffing and antiquated collection process don't help the situation. With staffing imbalances, the extent of collection action may vary depending on where a taxpayer lives. Thus, the amount of revenues collected per staff year varies considerably among IRS districts. More fundamental changes are needed in the collection process, with more emphasis on earlier telephone contact, tailoring actions to the taxpayer's situation, and evaluating Collection staff performance.

GAO found that the 1993 tax filing season, while generally successful, was clouded by a few problems. About 2 million fewer returns were filed in 1993 than 1992. The main reason for this appears to be the revised 1992 withholding tables which resulted in more taxpayers owing taxes at the end of the year. Also, electronic filing fraud grew in 1993. In the first 8 months of 1993, IRS identified 100 percent more fraudulent electronically-filed returns than in 1992. One reason may be IRS' improved detection; however, no one knows how much fraud is not being detected. Also, taxpayers continued to have problems calling IRS. In 1993 taxpayers had a 1 in 4 chance of getting through to an IRS assistor--even worse than the 1 in 3 chance the year before.

Written communication is another continuing problem. Inaccurate, incomplete, confusing, and late responses to taxpayers continue to be problems for IRS. Forms, notices, and publications are also of concern and GAO suggested 59 changes to 19 of the commonly-used ones. IRS has made many of the suggested changes in forms and publications but will not be able to clarify the notices before 1995 because of computer constraints.

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to be here today to highlight our work for the Subcommittee this year on Internal Revenue Service (IRS) programs.<sup>1</sup> My statement has two sections. The first focuses on what IRS can do to collect more tax debts and at the same time treat similarly situated taxpayers the same. The second shows some of the difficulties taxpayers have in filing returns and communicating with the IRS--areas also in need of improvement.

#### COLLECTING TAX DEBTS

The federal government has the opportunity to realize substantial revenue from taxes already owed if IRS can more effectively and efficiently carry out the process of collecting those debts. Again this year, collection results were disappointing. For the third fiscal year in a row, IRS' collections of delinquent taxes declined--from \$24.2 billion in 1992 to \$22.8 billion in 1993.

At the end of fiscal year 1992, IRS' records showed gross accounts receivable totaling \$131 billion. Of that amount, IRS estimated that \$22 billion was collectible. The larger number reflects IRS' collection workload--accounts that must be resolved one way or another, either by attempting collection or correcting the records. But, because of errors and deliberate overstatements, as much as 35 to 40 percent of the recorded balance is invalid. Other accounts constitute real taxpayer debts but are uncollectible because IRS cannot find the delinquent taxpayers or believes they cannot pay. Thus, the smaller number is IRS' estimate of the amount the government could realize.

But IRS needs to revisit some of the accounts for which it has decided the taxpayers cannot pay.

#### Some "Currently Not Collectible" Accounts May Be Collectible

The single largest segment of the accounts receivable inventory--and one of its fastest growing portions--is \$52 billion in accounts IRS deems "currently not collectible." District office staff now declare more tax debt "currently not collectible" than they collect. Our report<sup>2</sup> to you on IRS' management of these accounts will be released today. In that report, we said that IRS is forgoing the potential to collect hundreds of millions of dollars because of poor work and poor procedures.

We reviewed a sample of 107 individual taxpayer accounts that five IRS district offices classified "currently not collectible" in August and September 1991. We concluded the collection actions taken by IRS were inadequate or at least questionable 55 percent of the time. The more serious problem--in 12 percent of the cases--involved IRS' failure to question taxpayers' living expenses and fully consider their income. The outcome is that some taxpayers who reported incomes of more than \$70,000 pay nothing towards their tax debts. The following examples illustrate these cases.

- Married taxpayers with no dependents, who earned nearly \$80,000 a year, owed \$123,000 in back taxes. Their financial statement showed expenses that exceeded income by almost \$275 a month. IRS allowed as necessary living expenses monthly life insurance payments of \$450 and over \$900 in monthly payments on debts to credit card companies and other creditors.

<sup>1</sup>Appendix I lists GAO tax-related work recently completed for this Subcommittee.

<sup>2</sup>Tax Administration: IRS Can Do More to Collect Taxes Labeled "Currently Not Collectible" (GAO/GGD-94-2, Oct. 8, 1993).

-- Married taxpayers with four dependents, earning almost \$80,000 a year, owed \$75,000 in taxes for 1984 through 1990. IRS allowed a monthly mortgage expense of \$1,800 and payments for two cars totaling \$950 as necessary and reasonable living expenses.

Collection employees are to obtain financial information from the taxpayer's current tax return, and third parties, such as employers and financial institutions, to determine the taxpayer's ability to pay taxes owed. Collection staff are also to consider what the taxpayer's reasonable and necessary living expenses should be. But the Collection staff have fairly vague guidance to help make these decisions and their supervisors did not identify and correct problems. As a result, IRS permitted taxpayers who reported substantial incomes to pay nothing towards their tax debts when installment payments may have been more appropriate. Allowing some taxpayers to avoid paying back taxes by choosing a more comfortable lifestyle is unfair to all those taxpayers who live within their means and pay their taxes.

The remainder of the "currently not collectible" decisions we questioned were based on inadequate work, were questionable given the available information, or did not fully provide for future collection potential. Examples follow.

- IRS was unable to locate the delinquent taxpayer. However, the file indicated that the taxpayer had accounts at one time with a number of banks. These banks could have served as leads to locate the taxpayer. However, the banks were not contacted for that purpose; and the case was closed as "currently not collectible."
- A taxpayer owed \$130,000 in back taxes assessed against profits from criminal activities. His current income exceeded expenses by \$115 a month. Instead of making an installment agreement, the revenue officer closed the case as "currently not collectible."
- A self-employed single taxpayer claimed living expenses that exceeded income by \$670 a month. The file did not explain how this could continue; but the case was closed as "currently not collectible."

We also believe that IRS waits too long to follow up on some cases. IRS puts a 65-week hold on reactivating accounts. During this period, IRS does not review subsequent tax returns for increased income. We analyzed over 300,000 such accounts and found that in almost 36,000, totaling \$250 million in delinquent taxes, the taxpayer had filed a new tax return showing substantial income. Yet the hold period precluded timely followup.

We made a number of recommendations in the report. IRS has agreed, at least in principle, with most of them. IRS promised action to address the issue of lifestyle choices involved in reasonable living expenses and committed to long-term improvements in the management of "currently not collectible" accounts. IRS did not agree to eliminate the 65-week reactivation hold because it precluded the premature reactivation of some cases.

Congress, too, may be able to influence the number of cases closed as "currently not collectible." Private firms measure their collection success in terms of dollars collected, and a key premise is that incentives based on individual collection performance motivate collectors.<sup>3</sup> Tax law prohibits IRS from

<sup>3</sup>Tax Administration: New Delinquent Tax Collection Methods for IRS (GAO/IGD-93-67, May 11, 1993).

using performance statistics to evaluate, compensate, or reward employees. Under IRS' staff evaluation system, accounts classified "currently not collectible" are given the same weight as dollars collected. This could have contributed to the growth in accounts being closed as "currently not collectible."

Congress, long concerned that collection performance might be interpreted as quotas that might induce IRS staff to mistreat taxpayers, added this provision in 1988 to protect taxpayers from such actions. We said then, and continue to believe now, that taxes collected is a reasonable basis on which to judge the performance of employees whose job it is to collect taxes, as long as other criteria, such as fair and courteous treatment of taxpayers, are also evaluated. The provision might be changed to specify prohibited behaviors that would be grounds for employee dismissal or other forms of discipline, rather than prohibiting the use of performance statistics as a management tool.

Taxpayers who owe back taxes can also receive disparate treatment just by the way IRS assigns its staff.

### Uneven Staffing

In May 1993<sup>4</sup> we reported to you that IRS has not allocated its staff to maximize revenues and ensure that taxpayers in all parts of the country are treated the same. Revenue officer staffing varies dramatically among district offices, not always in proportion to the workload. As a consequence, wide variations exist in tax debts "worked" versus those kept in a queue--accounts waiting to be assigned to revenue officers. The range in fiscal year 1991 was from one district that worked all delinquent tax cases to another that worked just 27 percent. In two districts, the dollar amounts of delinquencies that triggered collection actions were more than 10 times higher than amounts in seven others.

While we cannot disclose exact dollar thresholds, we can say that taxpayers who owe substantial debts will not hear from a revenue officer in some districts; but in other districts IRS has the staff to follow up debts that are much smaller. Thus, delinquent taxpayers' treatment depends on where they live. Taxpayers who reside in places like Wyoming may feel the full force of IRS' collection enforcement efforts while taxpayers living in New York may not. Such imbalances affect productivity. Collections per staff year in fiscal year 1991 ranged from a low of \$175,000 in one district to a high of \$775,000 in another.

IRS needs to quit relying on overall staff growth and attrition as the primary means of eliminating district staffing imbalances. Instead, the agency needs to develop a plan to maximize the collection of tax debts, using staff productivity measures in determining the most appropriate allocation of staff. To be most efficient, the increase in productivity achieved by adding the next staff person should be the same for each location.

### Antiquated Process

But, more fundamentally, IRS relies too heavily on visits by revenue officers to collect tax debts. In reporting to the Subcommittee on alternative collection strategies, we said that IRS needs to revamp its collection process. It needs to place more emphasis on collection activities early in the process at the service centers and call sites and less emphasis on district office collection activities.<sup>5</sup>

<sup>4</sup>Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97, May 5, 1993).

<sup>5</sup>GAO/GGD-93-67.

Good business practice dictates that after a debt arises, efforts be made to secure some type of payment agreement as quickly as possible. IRS' decades-old collection process, however, is not based on this premise. The IRS collection process involves three steps. In step one, IRS service centers mail the taxpayer a series of three to five computer-generated bills, at 30-day intervals. If the taxpayer has not responded to the final notice, IRS levies any known bank accounts. In step two, IRS call sites telephone the taxpayer to collect the money or otherwise resolve the debt. In step three, revenue officers visit the taxpayer.

The process is outdated, costly, and inefficient. A comparison with private debt collectors shows three ways it could be improved. First, the process takes too long. Delinquencies in the private sector are usually closed after 180 days. By that time, IRS has probably not even tried to telephone the taxpayer, a tactic private sector companies employ very early in their collection process.

Second, the process is too rigid. IRS follows the same three-step process for virtually all types of accounts, regardless of the taxpayer's compliance history.

Third, the process relies too heavily on step three, visits by revenue officers. IRS has allocated almost two-thirds of its Collection staff to this step. Private sector companies avoid personal contact because of the cost and potential dangers involved. IRS' own data show that on average, call site collectors are more productive than the revenue officers. In fiscal year 1991, each call site collector averaged \$1.5 million in collections while each revenue officer averaged \$331,000 in collections.

In addition to improving the collection of back taxes, IRS needs to better communicate with taxpayers who are trying to file and pay their taxes.

#### TAXPAYERS ENCOUNTER PROBLEMS IN COMMUNICATING WITH IRS

Other work for the Subcommittee focused upon a variety of problems taxpayers face when trying to file and pay taxes. Taxpayers' chances of reaching the IRS by telephone during the filing season worsened. The growth of electronically-filed returns led to a related increase in fraudulent returns. IRS correspondence with taxpayers continues to be a troublesome area. IRS letters to taxpayers are often inappropriate, unclear, and late. Tax forms, publications, and notices, while accurate, often need to be made more understandable to the taxpayer.

Now I would like to discuss each of these problems in greater detail.

#### Filing Tax Returns

At the Subcommittee's request, we assessed IRS' performance during the 1993 filing season. As discussed more fully in a report to be issued next month, 1993 was an unusual year. By April 30, about 2 million fewer taxpayers filed returns than the year before. Considering that the number of returns usually grows each year, the number of filers was about 3.7 million fewer than IRS expected. The main reason for fewer filers appears to be the change to the 1992 withholding tables; this change caused more taxpayers to owe taxes and fewer to receive refunds. According to IRS' current analysis, about 1.2 million taxpayers so affected did not file their returns, even though IRS made it much easier to pay by installments. IRS expects to complete its study of this problem in December 1993.



### Telephone Accessibility

IRS data indicate that taxpayers who call IRS have a good chance of getting a correct answer to their tax law questions; but their chances of getting through to ask those questions are poor. People who called during the 1993 filing season, for example, had a 1 in 4 chance of getting through--even worse than the 1 in 3 chance we reported for 1992.

Efforts to answer more calls, by upgrading telephone equipment, have been offset by reductions in staff and a larger number of calls--the net effect being a continuing erosion of telephone service. To counter this trend, IRS plans to merge various telephone operations, shift calls to locations where assistants are available, and automate answers to routine inquiries.

These changes will not be fully implemented before 1996. Meanwhile, demand for telephone service will likely grow in response to recent tax law changes, especially those affecting the Earned Income Credit. This credit has been a traditional source of taxpayer confusion, and with more taxpayers now eligible, IRS can expect more calls for help.

### Electronic Filing Fraud

Electronic filing fraud is another problem that grew in 1993. Although the number of identified fraudulent returns is small in absolute terms, the rate of growth is not. Through the first 8 months of 1993, IRS had identified more than 23,000 fraudulent electronic returns--100 percent more than during the same period last year. Conversely, the number of returns filed electronically grew by only 14 percent. At least some of the growth in identified fraud may be due to the fact that IRS took various steps in 1993 to improve its detection of fraud. It seems clear that the harder IRS looks for fraud, the more it finds. And no one knows how much is not being found.

What makes electronic filing such an appealing target for fraud is the speed with which perpetrators can get their money--about 2 weeks under normal procedures and even faster if the filer gets a Refund Anticipation Loan. And, because of this timing, IRS is less likely to stop the refund. Of the \$48.9 million claimed in the 23,000 fraudulent returns, IRS was able to stop only \$28.3 million.

With electronic fraud, as with telephone access, changes in the Earned Income Credit may increase IRS' problems. IRS' analysis of the 23,413 fraudulent electronic returns showed that all but 344 involved the Earned Income Credit.

Our comments here and earlier are not intended to question the appropriateness of expanding the credit. Our intent is to show that IRS needs to continue dealing with telephone service and fraud problems. Our report will make several recommendations that should assist IRS with regard to the fraud issue.

### IRS Correspondence With Taxpayers

One of the main ways taxpayers communicate with IRS is through the mail. Each year, IRS receives upwards of 20 million pieces of correspondence from taxpayers. They write to respond to a notice or letter from IRS about a balance due, failure to file a return, or discrepancy in reported income. They also write to inquire about refunds, ask for an installment agreement, or request a penalty abatement.

Over the last 6 years, IRS has been criticized for sending delayed, inaccurate, incomplete, and confusing responses to taxpayers. At the Subcommittee's request, we assessed IRS' efforts to improve its correspondence.

Our assessment indicates that IRS' correspondence has improved. Nonetheless, problems still exist. Our analysis of almost 1,900 IRS letters showed that 15 percent were incorrect, unclear, incomplete, or nonresponsive; and 11 percent came from taxpayers trying to resolve something left unresolved during earlier contacts with IRS. Another sample of 261 "interim" letters-- letters IRS sent to advise taxpayers it needed more time to respond--showed that half were unclear or not responsive to the taxpayers' reason for writing. Problems such as these increase IRS' costs, frustrate taxpayers, and ultimately hinder compliance with the tax laws.

- A Spanish speaking taxpayer corresponded with IRS using Spanish language forms from IRS. IRS appropriately sent the taxpayer an interim response in Spanish explaining that more time was needed to address the taxpayer's questions. Unfortunately, when IRS completed its work, it responded in English. IRS officials speculated that the English response was sent because different IRS offices handled the interim and final responses and the last office to respond made an error.
- A divorced taxpayer asked for copies of joint returns filed while she was still married. Instead of sending the returns to the taxpayer making the request, IRS sent copies of the return to the divorced spouse. This occurred because the ex-spouse had the primary social security number on the account and IRS sent the returns to the address of record.
- A taxpayer wrote IRS inquiring if he could combine monthly payments for three tax periods into one. IRS responded with an interim letter that thanked the taxpayer for the information submitted. We believe this response was potentially confusing because the taxpayer was not submitting information, but in fact was making an inquiry about his existing payment plan.

One IRS objective is to resolve more taxpayer issues over the phone. Although not all matters can be resolved by phone, IRS believes that it is usually to the taxpayer's and IRS' benefit to use the phone when possible. Our results support the potential for greater phone usage. About 38 percent of the 1,900 taxpayers in our sample wrote IRS when they could have called and gotten an answer over the phone, in part because IRS does not tell taxpayers when a phone call will suffice. Before telling taxpayers to call instead of write, however, IRS must make it easier for taxpayers to get through by phone.

Our report will recommend a number of steps IRS can take to improve these and other correspondence problems.

#### Forms, Publications, and Notices

At the Subcommittee's request, we recently examined 17 commonly-used forms and publications and suggested more than 50 ways to make these documents easier for taxpayers to understand and use. Generally, we suggested more specific language, consistent terminology, and more references to other forms and publications. IRS agreed with most of our suggestions and is making the changes.

We also looked at 21 computer-generated notices IRS sends to taxpayers. We suggested changes to make five of these notices easier for taxpayers to understand. The most significant of these changes concerns the way taxpayer account information is displayed on many notices. This information often appears as a section called "Your Tax Statement." The format we suggested would more clearly compare data reported on the taxpayer's return with IRS' proposed adjustment. Information would be extracted from a taxpayer's return and shown alongside IRS' proposed adjustment. While agreeing to clarify the notices, IRS said that most changes could not be made until 1995 at the earliest because

of limitations in IRS' current computer programming and printing capabilities.

We are continuing to study this aspect of the agency's communications with taxpayers at the Subcommittee's request. We are analyzing another group of notices for clarity and evaluating IRS' process for developing forms, publications, and notices.

#### CONCLUSIONS

In requesting this series of GAO reviews, the Subcommittee has focused on two of IRS' more vital roles--collecting back taxes and communicating with taxpayers who are trying to fulfill their tax obligations. As the results of our work clearly point out, it is essential that IRS make fundamental changes to collect more back taxes. IRS needs to emphasize earlier contacts with taxpayers, tailor its actions to the taxpayers' compliance history, and more effectively allocate collection staff. In addition, IRS needs to develop better guidance for making "currently not collectible" determinations and improve its monitoring of these accounts. We also believe Congress should reconsider present constraints in evaluating collection staff performance.

A successful filing season is dependent on IRS' ability to effectively help taxpayers meet their filing obligations. One way for IRS to do this is to be more responsive to taxpayers' correspondence and make its many forms, publications, and notices easier to understand. The 1993 filing season was marked by one surprising development--a reduction in the number of returns filed. It also saw the continuation of two disturbing trends--more fraudulent electronic refund claims and less access to IRS by telephone. The challenge for IRS is to reverse these trends in the next filing season.

This concludes my statement. We welcome any questions that you may have.



APPENDIX I

APPENDIX I

GAO TAX-RELATED WORK RECENTLY COMPLETED FOR THE SUBCOMMITTEE ON  
OVERSIGHT, HOUSE COMMITTEE ON WAYS AND MEANSIRS Seized Assets (GAO/GGD-93-7R, Nov. 18, 1992)Tax Administration: Implementation of IRS Employee Suggestions  
(GAO/GGD-93-22, Nov. 24, 1992)Government Management: Status of Progress in Correcting Selected  
High-Risk Areas (GAO/T-AFMD-93-1, Feb. 3, 1993)Tax Administration: Delayed Tax Deposits Continue to Cause Lost  
Interest for the Government (GAO/GGD-93-64, Mar. 22, 1993)IRS-Customs Data Systems Exchange (GAO/GGD-93-33R, Apr. 6, 1993)Tax Administration: Information on Tax Counseling for the  
Elderly Program (GAO/GGD-93-90BR, Apr. 8, 1993)Tax Administration: Examples of Waste and Inefficiency in IRS  
(GAO/GGD-93-100FS, Apr. 27, 1993)IRS Correspondence (GAO/GGD-93-38R, Apr. 27, 1993)Tax Administration: IRS' Budget Request For Fiscal Year 1994  
(GAO/T-GGD-93-23, Apr. 28, 1993)Tax Administration: Selected IRS Forms, Publications, and  
Notices Could Be Improved (GAO/GGD-93-72, Apr. 30, 1993)Tax Administration: Recurring Tax Issues Tracked by IRS' Office  
of Appeals (GAO/GGD-93-101, May 4, 1993)Tax Administration: Improved Staffing of IRS' Collection  
Function Would Increase Productivity (GAO/GGD-93-97, May 5, 1993)Tax Administration: New Delinquent Tax Collection Methods for  
IRS (GAO/GGD-93-67, May 11, 1993)IRS' ADP Organization (GAO/GGD-93-37R, May 25, 1993)Corporate Taxes: Many Benefits and Few Costs to Reporting Net  
Operating Loss Carryover (GAO/GGD-93-131, Sep. 23, 1993)Tax Administration: IRS Can Do More to Collect Taxes Labelled  
"Currently Not Collectible" (GAO/GGD-94-2, Oct. 8, 1993)

(268629)

Chairman PICKLE. At the outset, I want to say that when we directed you or asked you to make this survey, we wanted some frank response about the specific examples, and you have given us that information.

I am afraid this kind of a hearing does not have much glamour to it. And the press, who are normally here, they are not here because there is not much glamour in talking about forms and procedures and practices. But the examples you give us are concrete and real, and I would say on the surface that this is an indictment of the Internal Revenue Service and the processes that they are using; that they could do a much better job.

We do not have the Internal Revenue Service before us today, but we will be talking to them, as we have been doing, and I assume you have also been talking to them. As we go through these different reports this morning, I want you to always try to tell me what the Internal Revenue Service has said to you or to your staff people in making these corrections.

I think, in all fairness, if you were to audit my office, you would find me less than 100 percent perfect in my correspondence. Nearly, but not altogether. But that is true of everybody else. So errors are going to slip through the crack and sometimes responses are going to be ridiculous and that is embarrassing when that happens. So I recognize in the beginning that what you have given us examples of are what you have picked up over a period of your survey, the time of your survey.

And it may sound like this is overblowing or accentuating the negative, but, at the same time, the examples you give us are there, they are real, and they are being repeated over and over and over. With our having a huge staff down the street of hundreds of people who are supposed to be working on forms and other things, somehow we keep repeating the same things and the same bogged down procedures exist. And that is why people, who are angry to begin with, when they get an improper answer, want to say to everybody in creation, let me tell you what the stupid IRS sent me. Whether that is fair or not, that is a fact.

So I want to walk through with you some of these things, to ask questions, and see what response you have. First, let me ask you with respect to your report number one. This is pertaining to the IRS forms, publications and notices.

Now, you have given us some background on it, but let me repeat that IRS has issued nearly 400 forms and accompanying instructions, approximately 100 publications and has an inventory of over 3,000 standard notices. You, GAO, recently examined about 27 of these forms and made over 50 recommendations to make these documents easier for taxpayers to understand.

Now, the changes that GAO suggested were directed toward the use of more specific language consistent with what you stated. Now, giving you an example, I don't think you gave me this, but you said on Instruction Form 2119, Sale of Your Home, you pointed out it was not clear if the term "sold" meant a date a contract was accepted from buyer or the date the title was transferred. You made that suggestion to them. What did IRS say to you?

Ms. STATHIS. On that particular example, I believe IRS agreed and has either made or will make that change.

Chairman PICKLE. That they will do it. So that one was done, then.

All right. Now, you looked at a number of computer-generated notices that IRS sent to taxpayers advising them of the status of their accounts, and you gave several suggestions to enhance their understandability. Now, you made some recommendations in that particular area. Did you get any response from IRS about the forms?

Ms. STATHIS. On the notices, the most important change we are recommending is in the format of a particular section called "Your Tax Statement." For that particular one, IRS says it will not be able to make that change before 1995, at the earliest, because of its printing and computer capabilities.

Apparently, it is using pretty old equipment and there are millions of these notices that come out.

Chairman PICKLE. Well, this is 1993, but you made the survey in 1992; is that correct?

Ms. STATHIS. That is correct.

Chairman PICKLE. So they say they will do this in 1995. So that is 3 years later they would change the forms. I guess that is questionable whether they can do it quicker. Seems to me like they could move it up 1 year. Is it because of old equipment primarily?

Ms. STATHIS. That is right. As part of the tax system's modernization, they are planning to bring online different equipment in different years, and they believe the equipment they will bring online in 1995 will allow them to make those changes. The changes would provide a column that shows what is on your return and then what IRS is proposing so you can see exactly where IRS wants to make changes in your return.

Chairman PICKLE. My question to you is, is there a valid reason for not changing these forms before 1995?

Ms. STATHIS. Well, it would require some outlay of money and I am not sure whether the timing is such that they could do it much before then even if they had the equipment. It takes—what they are using now requires a fairly extensive programming change.

Chairman PICKLE. Won't compliance suffer if you wait until 1995? If they say we will wait until 1995, it ends up being 1996.

Ms. STATHIS. It certainly does not help taxpayers understand what IRS wants them to do.

Chairman PICKLE. Well, does the Internal Revenue Service, based on your survey down there, does the IRS have adequate procedures in place to ensure that forms and notices are clear and understandable?

Ms. STATHIS. That is the part of our review that we are currently doing for you, Mr. Chairman, and we expect to have recommendations to you on that by next spring.

Chairman PICKLE. Well, I would like to have those things, and I will yield to Mr. Houghton for some questions. Thank you.

Mr. HOUGHTON. Thank you, Mr. Chairman.

The issue that I keep wrestling with is what is the problem here? Is it lack of capital; is it lack of objectives of where we are going; looking over the next hill; the vision; or whether it is just bad management? It almost seems they are damned if they do and they are damned if they don't.

Here they are moving toward electronic filing and yet, at the same time, you say that is great but still it makes it very easy for people to commit fraud. They upgrade their telephone equipment, yet at the same time because of the cost squeeze they have to reduce their staffs. So they nullify that.

Then you said here on page 16 that, obviously, it is important to make documents easier for taxpayers to understand and use. We all feel that very strongly. And yet there are limitations on the computer programming and printing capabilities.

So, again, it is like the pawnbroker. I mean, is it their attitude and objectives, is it management, is it lack of capital? Because something is happening here where they are tripping over themselves trying to do a good job and it just doesn't seem to come out the way you or we want it to. Maybe you can respond to that.

Ms. STATHIS. The electronic filing fraud is probably a good example, Mr. Houghton. It is absolutely essential that we get more returns filed electronically. We really need to work on that, and that is really one of the main ways that the IRS of the future is going to be able to save money and provide better service. So that absolutely has to happen.

But in devising that particular system, it was as though not enough thought was given to all of the risk and how to design the system to avoid the risk in the beginning. So each year IRS is playing catchup as something else happens and they are adjusting the process or the system a little bit to try to plug that leak. And I think there needs to be more systematic thought given to not only how we can encourage more people to file electronically, but how we will protect the government's interest as we do that.

So I think it probably is a combination of all the things you mentioned; that there are system constraints, but there are planning issues that have to be given more thought, but there are also resource constraints as well.

Mr. HOUGHTON. Let me just finish up with one other observation, and maybe it is a question, Mr. Chairman.

Periodically, in sort of the evolution of a service or a product, you have to really do something entirely different. You have seen it over the years in terms of a variety of different technologies. You try to take hand operations and move them to mechanical, and then you take the mechanical and go to more electronic processing or automated research. I wonder whether they are not trying to run faster, do better and be good civil servants with the same processes that they have had in the past. I don't make this as an observation with any great clairvoyance, but a friend of mine is the head of the tax section of the American Bar Association, and for the first time last year he had to have a lawyer do his tax forms.

So maybe these people are trying to do what is right, but must take an entirely different look in terms of the whole complicated process of getting information back and forth. What do you think about that?

Ms. STATHIS. I think that that is a pretty important point that you are making, and it is probably true not only of the IRS but of all of us, and particularly in large organizations. You are used to a certain paradigm, you are used to doing things a particular way, and so it is a little difficult to think about a different way of doing



things. That is what we are talking about in the collection area, where there is a paradigm there that for years they have gone through a particular process to collect back taxes, and that needs a very fundamental reengineering, if you will, to think about how to do that.

Mr. HOUGHTON. If I can make a further comment, Mr. Chairman. I don't mean to step over the boundary of what is congressional responsibility and what is operating responsibilities, but, at the same time, I wonder whether it would not be helpful for us to in the process of venting these various hearings to come up with a couple of touchstones which might look toward the next 20 years; whether we have the authority to do it or not, but just as sort of a template which they might be able to use?

Chairman PICKLE. I think that would be a good idea. I think we, this committee, and our full committee, should express ourselves clearly to IRS about how we think some of these things should be done. In most cases, the Internal Revenue Service just resists change because the forms are printed in the millions and it is easier not to do it, and it is easier to keep doing business as usual.

There is also a tendency on our part to fuss at IRS because of all this confusion, instead of giving them clear directions on what we expect or changing the law. I think if we could set a sort of a pattern or make some recommendations specifically from the Congress, that would help clear up some of the things.

I think Congress is sitting up watching it and making an observation and then we review this every 2 years and we do not follow through to get something done. I think probably we ought to express ourselves more clearly and give more direction and, in turn, expect some action down the street in a much faster way.

I believe it is a good idea, and that we have a responsibility in that field.

Are you finished?

Mr. HOUGHTON. Yes, Mr. Chairman.

Chairman PICKLE. I want to run through some things here because I want to put on the record here what is actually happening, and maybe some other people—oh, Mr. Brewster. I recognize—

Mr. HOUGHTON. The birthday boy.

Chairman PICKLE. The birthday boy. I didn't recognize you had come in, Mr. Brewster. Mr. Brewster, I would be glad to recognize you for questions.

Mr. BREWSTER. Thank you, Mr. Chairman. The birthday was yesterday.

First off, thanks for an excellent report. I think it is very in-depth. I think there is a lot we can learn from it.

A couple of questions I would like to ask. It bothers me that the staffing across the country in the different regions affects whether a person gets tracked down to pay their legally owed taxes. Is IRS moving to correct the disparities in staffing in different areas?

Ms. STATHIS. They have placed a freeze on hiring any more revenue officers. Other than that, I am not aware of anything specifically that they are doing.

Mr. BREWSTER. So they are not trying to shift people from one region to another if that region, as you said, in, say, Wyoming, maybe every person gets contacted who owes and maybe some

urban areas no one does. There is no attempt to balance that staff across the Nation?

Ms. STATHIS. Traditionally, IRS has not moved collection staff among district offices and they do not believe they should do that now.

Mr. BREWSTER. Would that not then say that a person in one area is much less likely to have to pay his taxes than a person in another?

Ms. STATHIS. It certainly is the case that when the tax debt gets to the revenue officer in the District that that disparity exists.

Mr. BREWSTER. So persons in some parts of this country, then, can evade taxes and be less likely to be apprehended than in other parts of the country?

Ms. STATHIS. Understand that they have gone through these first two steps, they have sent the notices and made phone calls.

Mr. BREWSTER. I understand.

Ms. STATHIS. But at the point where they send somebody to knock on doors, there are districts in the country where there are large numbers of cases not being worked.

Mr. BREWSTER. The American public is pretty smart, and fear of being apprehended is one of the major reasons that we do a lot of things. The reason we do not drive too fast on the highway is we are fearful of the highway patrolmen. So the IRS presence needs to be, in my opinion at least, level across the country.

Another thing disturbing to me—

Chairman PICKLE. Mr. Brewster, would you yield on that point?

Mr. BREWSTER. Yes, sir.

Chairman PICKLE. First, when you made this review on these field allocation officers, did you make a specific recommendation to IRS that they change that procedure and reallocate their personnel in the collection field?

Ms. STATHIS. We told them that we thought they needed to develop a plan to try to figure out where they need staff and how many they need in which place, given not only today's workload.

Chairman PICKLE. What did they say?

Ms. STATHIS. They agreed that that is a good suggestion. Now, I don't believe they have actually developed such a plan.

Chairman PICKLE. When did you make that recommendation to them?

Ms. STATHIS. That would be in the spring—I think that was the May 1993 report. But we, of course, have been discussing it with them many months before that.

Chairman PICKLE. 1992 or 1993?

Ms. STATHIS. No, this year. This May 1993.

Chairman PICKLE. Well, as I understand it, they did not agree with you, did not disagree, they just said they would take it under consideration?

Ms. STATHIS. They agreed, I think in concept, is the way I would describe that. They did not agree that they should move staff among offices. Of course, we said that they should only consider that as a last resort, but they did not think that moving staff was a good alternative.

Chairman PICKLE. Well, I am going to be asking some more questions. It seems to me when they say we will take it under con-

sideration on some of these recommendations, that means we will see you later, and I don't know that that is going to be done. That is usually what happens until we have another hearing 2 years later and we go through the same plowing.

Thank you, Mr. Brewster.

Mr. BREWSTER. Yes, sir.

Ms. STATHIS. Let me add on top of that, of course, in the subsequent report we did on alternative strategies, we are saying that maybe they have too many people allocated there to begin with. When you have two-thirds of all your collection staff doing that particular function, that they need to move more of them up earlier in the process anyway.

Mr. BREWSTER. Yes, I noticed that in the numbers there, and it would certainly make you think that if there are more staff involved earlier in the process, making contacts more quickly, then maybe you would not need so many at the end of the process.

Ms. STATHIS. That is right.

Mr. BREWSTER. And that makes sense.

Ms. STATHIS. That is right. And you can make telephone calls from anywhere in the country. It is not as important then where those people are physically located.

Mr. BREWSTER. They are welcome to locate a large center in my district. But at any rate, certainly I agree with you, if you move more up in the process, maybe you would have earlier detection and collection. Because the longer a person goes in the process, the more difficult it will be to collect from them. Whoever we are, if we put things off for a period of time, it gets more difficult to ever get right with the world then.

But it bothers me to see that there was a 100 percent increase in fraudulent electronic filing claims. As you mentioned in your report, you do not know if that is better detection or if it has really increased to that extent, because electronic filing only increased 14 percent. In your personal opinion, is there more fraud or is it better detection efforts?

Ms. STATHIS. We really do not have any way of knowing that. We do know that paper returns also showed more fraud. IRS, I think, identified about four times the amount of fraud in paper returns.

So that gives some suggestion that maybe the detection is better as much as anything else.

Mr. BREWSTER. Or maybe the people are trying harder to deceive IRS?

Ms. STATHIS. Could be.

Mr. BREWSTER. If there is a continuing pattern there, you would have to think that.

Ms. STATHIS. With paper returns, IRS is more easily able to stop the refund going out.

Mr. BREWSTER. Mr. Chairman, I, for one, have no quarrel with performance review as a criteria. Anyone who does not have their performance reviewed is less likely to be real serious about doing their job. And I, for one, would support some changes on performance review. To me, the quota should be no less than 100 percent of what is owed.

Thank you, Mr. Chairman.



Chairman PICKLE. Thank you. Now, Ms. Stathis, I want to go through some of these recommendations and see what response there was. To start off with, in the overall picture you made suggestions for 54 changes that could be made to improve the understandability and use of these 17 selected forms. And the IRS responded that they could make 44 of the changes and 10 were under consideration. Now, that is not bad.

Ms. STATHIS. That is pretty good.

Chairman PICKLE. They are listening and/or willing. In some cases they just bury their heads in the sand, but overall, regarding forms, that is not a bad response.

Now, I am going to jump-start here a little bit. Back to the telephones. We know that it is getting worse. In 1992, 1 out of 3, and now 1 out of 4 is answered. I have had people finally call my office and say we cannot get into the IRS. And I say, oh, you can, I am sure, and I will try. And I have tried it for them, not the number we call when we have to get somebody, and I get the same response over and over again. So you understand, good citizens finally will say the hell with it and then they just dig in their heels, too.

Ms. STATHIS. I heard a story of someone who called 38 times and never got through.

Chairman PICKLE. Well, that is terrible. Now, we have the money within the budget to do these types of things, but IRS simply will not hire all the people they need. It has gotten so bad now.

What do you think about hiring some of our retired personnel on a minimum wage basis, we will say, and let them go to work answering the phones? Would that be workable?

Ms. STATHIS. In some of the districts where I have observed the telephone operations, they, in fact, have hired retired folks to do that. And they said those were some of their better employees because they have a lifetime of experience. So when a question is asked about a business or something, they have a far better chance of understanding what the question is oftentimes than the very young.

Chairman PICKLE. Well, I was talking to the chairman of our Social Security Subcommittee today, and he said earlier that that is a possibility; it had been suggested to him and it is being suggested to several of us that maybe that is a source of good personnel. At least to get the phones answered. It is either that or hire more persons themselves just on the staff.

Now, do you think we will get opposition in the unions if that were to happen? Don't know?

Ms. STATHIS. I don't really know. I am not sure that there would be, since IRS had already hired some of those folks.

Chairman PICKLE. Well, anyway, that is something that we are going to have to look at because we have to get these phones answered or else you can expect a breakdown on collections. It is going to get worse and worse so we have to do something about it.

Ms. STATHIS. This is, of course, the main way that most Americans deal with their government; that is, through dealing with the IRS and often through the phone contacts that they have. So if IRS does not do this job superbly well, it helps form the opinion that taxpayers have of all of the government.



Chairman PICKLE. I noticed in your testimony that you had suggested to IRS, I don't know what the particular aspects or sections of that Tax Administration's reports was, that Internal Revenue ought to use the telephone more. They had three steps, one, two, three, and at the end of 6 months, they are really not any further along than when they started because they have been sending out forms, no answer, sending out forms, so forth.

Now, was it your suggestion that they get on the telephone earlier at least?

Ms. STATHIS. Yes.

Chairman PICKLE. What did IRS say to you?

Ms. STATHIS. As I understand it, they are going to try that in 1994, on a prototype basis. After the second notice, they are going to call people, a sample of people, before, or instead of sending out the third notice. So I think that is a good development and I hope they carry through with that particular project.

Of course, down the road, when we get a better computer system, we would hope that the calls would be made even sooner than that, but that is a good first step.

Chairman PICKLE. Well, I think it is, too. There is always a question that you have no record when you make a phone call to somebody, because the individual will say nobody talked to me, but I don't know why you cannot make a phone call and then make an entry in the report about what they have done and about the conversation they had and I don't know why that could not work. I would think that they should do it.

Now, has IRS said they will do it or have they just said we will try it? Other than you said in some cases they are going to try it in 1994 or 1995?

Ms. STATHIS. This year, as I understand it, there will be a prototype where they will call a sample of taxpayers after the second notice.

Chairman PICKLE. All right. Now, on the GAO recommendation that you suggested the developments of detailed information on delinquent taxpayers and use it to customize collection procedure, the Internal Revenue Service said they agreed to consider how information on taxpayers' characteristics could be used to customize collection procedures. So I assume they are in the process of making that, adopting that recommendation; is that correct, Mr. Daniel?

Mr. DANIEL. Mr. Chairman, the Internal Revenue Service does have plans to develop some databases to better use characteristics of taxpayers to increase their collections. This is still something that they are just beginning to work on, so I don't expect that they will be able to fully use this information any time soon.

Chairman PICKLE. Well, I understand that the IRS has agreed to consider how this information can be passed on. Now, that is a response I have all through this report. They agreed to consider. And if they do not want to do it, don't think they should, I think we will have a specific response for them. But all you have done is make a recommendation and they have said they will consider it and there rests the case, does it not? In this case and in many other instances. So I think we have to—yes, Ms. Stathis.

Ms. STATHIS. I was just going to say that IRS, after our reports are issued, is required to make a formal written report on what it is going to do about recommendations. We do have that in a couple of these cases. That is more recent information than what is in our reports and we will provide those to you.

[The information follows:]



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224  
September 27, 1993

COMMISSIONER

The Honorable John Conyers, Jr.  
Chairman, Committee on Government Operations  
House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In accordance with 31 U.S.C. 720, I am writing you concerning actions taken by the Internal Revenue Service in response to recommendations contained in a report by the General Accounting Office entitled "Tax Administration: New Delinquent Tax Collection Methods for IRS" (GGD-93-67, May 1993).

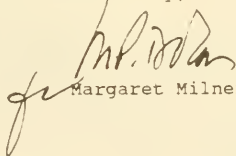
The report contains several recommendations to improve the collection process. We agree with the thrust of a number of the recommendations and are currently moving ahead to test or to implement initiatives designed to achieve improvements. However, as noted in the report, IRS does not agree with the recommendation to change the law to permit rewarding collection staff based on dollars collected. Also, agreement with other recommendations is contingent upon the results of tests that are currently pending or underway.

In addition, as the state of the art collection technology improves, we are continuing to improve our technological capabilities. For example, we are testing enhancements to the Automated Collection System that include automated telephone dialing equipment and a voice response unit which allows certain taxpayers to establish an installment agreement through use of a touch-tone telephone. Such initiatives, as well as other improvements to our collection process, are also detailed in the enclosed comments.

We have enclosed our responses to the report's specific recommendations. We believe these responses accurately indicate the significant steps we have taken, to date, and our intent to pursue all appropriate avenues to improve the collection process.

We hope you find these comments useful.

Sincerely,

  
Margaret Milner Richardson

Enclosure



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D. C. 20224  
September 27, 1993

COMMISSIONER

The Honorable John Glenn  
Chairman, Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In accordance with 31 U.S.C. 720, I am writing you concerning actions taken by the Internal Revenue Service in response to recommendations contained in a report by the General Accounting Office entitled "Tax Administration: New Delinquent Tax Collection Methods for IRS" (GGD-93-67, May 1993).

The report contains several recommendations to improve the collection process. We agree with the thrust of a number of the recommendations and are currently moving ahead to test or to implement initiatives designed to achieve improvements. However, as noted in the report, IRS does not agree with the recommendation to change the law to permit rewarding collection staff based on dollars collected. Also, agreement with other recommendations is contingent upon the results of tests that are currently pending or underway.

In addition, as the state of the art collection technology improves, we are continuing to improve our technological capabilities. For example, we are testing enhancements to the Automated Collection System that include automated telephone dialing equipment and a voice response unit which allows certain taxpayers to establish an installment agreement through use of a touch-tone telephone. Such initiatives, as well as other improvements to our collection process, are also detailed in the enclosed comments.

We have enclosed our responses to the report's specific recommendations. We believe these responses accurately indicate the significant steps we have taken, to date, and our intent to pursue all appropriate avenues to improve the collection process.

We hope you find these comments useful.

Sincerely,

Margaret Milner Richardson

Enclosure

IRS COMMENTS ON GAO REPORT ENTITLED  
"TAX ADMINISTRATION: NEW DELINQUENT TAX  
COLLECTION METHODS FOR IRS"

Recommendation: Restructure IRS' collection organization to support earlier telephone contact with delinquent taxpayers and determine how to use current collection staff in earlier, more productive phases of the collection cycle.

Response:

A long-term redesign of collection work processes is being developed through a Core Business Systems approach. As a result, in the past 18 months, the IRS Collection organization has greatly changed the way we do business, with particular emphasis on accelerating the collection process. Specifically:

1. Early Intervention Contact Project -- The Service will conduct a major test, the Early Intervention Contact Project, to demonstrate the effectiveness of earlier telephone contact. Telephone calls will be made to taxpayers in place of the third notice on a sample of balance due and return delinquency cases. We will also test the effectiveness of improved language in the notices sent to taxpayers.

Critical measurements of the test will be tracked, then compared with those of the current operations. These will enable us to evaluate the concepts, and consider improvements. If successful, these methods will result in earlier resolution of taxpayer cases before the liabilities become excessive through mounting penalties and interest, a greater likelihood of the taxpayer's being able to pay, and the potential to increase compliance levels. The test is planned to begin in October 1993 and continue through fiscal year 1994.

2. Streamlined Installment Agreement Procedures -- We have streamlined installment agreement procedures and expanded the authority of our employees to grant approval of installment agreements up to specified dollar amounts. This authority has been expanded cross-functionally, which has increased our ability to provide "one stop service." In addition, revenue agents and tax auditors now have the authority to offer installment agreements at the conclusion of an audit.

3. Form 9465, Installment Agreement Request -- We developed this form to accelerate the processing of pre-assessment installment agreements. This form can be attached by taxpayers when they file balance due returns. The form is also used as a stuffer in notices to taxpayers whose cases are awaiting field attention or are classified as currently not collectible. We are exploring the use of Form 9465 as a stuffer for underreporter cases, correspondence examinations, and returns prepared by IRS where taxpayers fail to file. Also, we

are testing the Voice Response Unit in the Laguna Automated Collection System (ACS) Call Site. This technology allows the taxpayer, using a touch tone telephone, to establish an installment agreement providing certain criteria are met. These criteria include limits on the amount owed and the time required to fully pay the account.

4. Automated Collection System (ACS) Planning for Quality Prototype in Newark -- Telephone calls are being made on all new individual tax delinquent accounts received in ACS, prior to levy action. Plans to have new automated telephone dialing equipment installed in Newark are under way. This equipment automatically dials the telephone numbers of taxpayers at times when they are likely to be available and, on getting an answer, switches the call to an available ACS employee. We expect this equipment will significantly increase the productivity of our ACS staff who will no longer waste time on calls which go unanswered.

5. Moving Calls or Cases to Locations Where Staffing is Available -- Baltimore and Philadelphia ACS staff currently share a service center data base, allowing them to work inventory from either district. In the near future, the Chicago and St. Louis sites will have the same capability. Ultimately, we plan to provide for the movement of work across service center lines.

6. Service Center Organizational Study (SCOS) and Customer Service Initiatives -- Efforts are underway that will significantly change the way we do business. As we implement new technology and new organizational designs, our emphasis will be on contacting taxpayers by telephone early on and resolving accounts much sooner than our current methods allow.

Recommendation: Develop detailed information on delinquent taxpayers and use it to customize collection procedures.

Response:

We are developing a major compliance system called Compliance Research Information Systems (CRIS). This system will profile taxpayers and allow us to understand the patterns of noncompliance.

Currently, a limited degree of customizing does exist in the collection process. The approach for each taxpayer varies depending on the type of delinquency, taxpayer history, and expected yield. In general, the collection effort begins with written notices from the service center, then proceeds to telephone contact from ACS and/or personal contact from the Collection Field function (Cff) if the delinquency is not resolved. Both ACS and Cff inventories are prioritized by expected yield, by priority code in ACS, and by the Resources and Workload Management System (RWMS) score in Cff.



Our workload management system uses taxpayer characteristics in prioritizing workload. Entity age, total positive income, and the number of other delinquent modules in the account are just a few of the taxpayer characteristics used in the prioritization process. In addition, the Research Division is considering securing additional taxpayer information called intelliscores from TRW, a private vendor. The intelliscores are real-time scores that use credit history to predict a taxpayer's ability to pay. The intelliscores could be used with other taxpayer characteristics in our continuing revision of workload measurement resource equations.

The Cincinnati Service Center is conducting three separate, concurrent Accelerated Notice Tests to study the effects on collectibility by eliminating one or more of the written notices (i.e., CP 501, 502, and 503) to the taxpayer, thus shortening the period a delinquent account spends in notice status, and promoting earlier use of other collection methods. The final report on this study will be available in the Fall of 1993.

We are conducting a study to identify the characteristics of cases most likely to be closed by either notice, ACS, or field processing. We anticipate that this information can be used to make better decisions on where cases should be assigned for work to better tailor the collection process to individual types of cases. The final report on this study will be available in 1994.

We are also working on an Accounts Receivable Analytical Model that will give us more information on receivables. This model will help us anticipate accounts receivable problems, help us evaluate collection performance, and give us insight into how best to custom tailor the collection processes for different delinquent taxpayer profiles.

Recommendation: IRS should identify and implement ways to increase cooperation with state governments in collecting delinquent taxes.

Response:

Since 1991, we have increased initiatives with state tax departments in the collection of delinquent taxes, some of which are mentioned in the GAO report. At the district level, FedState efforts include tape-to-tape matches of nonfilers, outreach programs for nonfilers, focusing on compliance of certain state licensed professional groups, securing the results of state audit examinations (Employment Tax Adjustment Program), use of state sales tax information to identify delinquent business master file

taxpayers, exchange of delinquent returns secured by one taxing agency with another, and setting up installment agreements by one taxing agency on behalf of the other with the cooperation of the taxpayer. Other projects include sharing training materials and procedures with interested states. Several states have already adopted IRS' procedures for offers in compromise.

Many of our district collection officials are currently meeting with their counterparts in the states to determine how they can pool their resources to be more effective collectors. Two districts have made joint installment agreement privileges available to taxpayers who owe both agencies. Other districts are considering doing the same. Many districts are looking at how they can cooperate in such areas as bankruptcy and resolution of tax lien issues. We are in the process of measuring the impact of setting up cooperative agreements in these areas. We are hopeful that these programs can be effective, reduce duplicate compliance efforts, and be cost effective.

We would like to highlight and expand on several issues that are mentioned in the GAO report section on "Increase Cooperation with State Governments to Collect Delinquent Taxes" (page 12-13):

The FedState committee is working on agreements with state tax agencies to deny issuance of professional licenses if all tax obligations (Federal and state) are not current (South Carolina has recently enacted such a law, and Hawaii is considering expanding its existing law).

Cooperative agreements now in place in 27 states provide a streamlined procedure for the Service to levy against state income tax refunds to collect delinquent Federal taxes. However, current law does not permit Federal income tax refunds to be offset for state liabilities. The states have requested this reciprocity for some time.

As cited on page 12 of the report, legislative approval to enter into cooperative agreements with the states was passed in 1992 (H.R. 11), but was vetoed by the President for other reasons. The same language is contained in H.R. 13 currently under consideration by this Congress. This provision would enable greater Fed-State cooperation in a number of areas.

Finally, the GAO report notes that only about 10 percent of the cooperative agreements between state agencies and the Service are directly related to tax collection. This is rapidly changing. The FedState Relations Division has received a current report from the field that presents 79 new joint efforts with the states. Of those 79, 18 (23%) are directly related to collection activities. Many other efforts will indirectly impact on collection.



Recommendation: That the Commissioner test the use of private collection companies to support IRS' collection efforts as permitted by current law.

Response:

We are considering a proposal to test the feasibility of using private sector companies to assist in locating and contacting taxpayers on cases that otherwise could not be actively worked by IRS. Funding of \$12.6 million for a one-year test was included as a compliance initiative in the President's 1994 budget request. However, our FY 1994 budget includes no money for a general pay raise or the first phase of locality adjustments to be implemented on January 1, 1994. Early estimates indicate that these will cost IRS approximately \$150 million in FY 1994. In the event that additional funding is not forthcoming, we would plan to cover these costs prior to implementing any new compliance initiatives. We will consider testing this concept in future years if funding levels permit.

Matter for Congressional Consideration: Congress should consider revising current tax law to allow the Internal Revenue Service (IRS) to use collection performance in determining compensation and rewards for its collection staff.

Response:

The Service does not support a change in the law which would reward Collection employees with incentives based on individual collection performance. We held this position long before the Omnibus Taxpayer Bill of Rights of 1988 codified into law existing IRS policy.

To support our position, we would like to provide the following background on this issue.

The report recognizes that current tax law prohibits IRS from using performance statistics to evaluate, compensate, or reward performance. However, as noted in the report, this is a recommendation that the GAO has offered on at least two other occasions. [See report footnote on pages 7 and 9.] The first was in 1987, "U.S. General Accounting Office Views and Observations on Various Taxpayer Bill of Rights Issues (B-229147, October 8, 1987). Despite this recommendation, Congress included the current restrictions on the use of enforcement statistics in the 1988 tax law. GAO repeated its recommendation in 1991, "Tax Administration: IRS' Implementation of the 1988 Taxpayer Bill of

Rights" (GGD-92-23, December 10, 1991). To date, Congress has not adopted this recommendation primarily because it has been concerned that the public may view this approach as establishing a quota system that would act to induce IRS staff to mistreat taxpayers.

The Service, with Congressional oversight, has invested a lot of resources to effect changes in the IRS' ethical climate by recognizing that taxpayers have legitimate concerns about the way we conduct business. GAO makes no attempt to address this effort or the potential impact statistical performance measures may have on the public's confidence in our ability to fairly administer tax collection responsibilities.

Consistent with stated Congressional concern, Collection currently takes great care to guard how we use such measures for fear of relaying a message that quotas do exist and that they have to be met regardless of the facts of each case. This care is clearly evidenced by the publication "Managing Statistics" which includes eight pages on the appropriate use of Collection statistics.

GAO's major support for its recommendation is a 1987 survey by the American Collectors Association which found that 80 percent of private collection companies (who responded to the survey) paid collectors a salary plus incentives. However, GAO also notes that the basis for incentive and bonus pay included such variables as number of contacts made, number of promises to pay obtained and other selected measures. The current elements and standards for Revenue Officers in fact do address these measures from a qualitative rather than a quantitative perspective.

Our experience in implementing our Ethics program indicates GAO's belief that the appearance of quotas could be overcome with a simple prohibition against it is too simplistic.

In conclusion, while numeric incentives may be an option for the private sector, we must emphasize that the Service has a broader obligation to serve the public trust through collection of the smaller and harder accounts as well. Given that our mission is to improve both short-term and long-term compliance of all taxpayers, it is reasonable to conclude that our management tools may be different from private collection firms. No doubt it is for the same reason that GAO found only eight out of 50 states that indicated any use of "collection performance results" in evaluating tax collectors. This reluctance by states to fully embrace private sector practices may evidence a genuine difference between private and public sector collection missions.



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

October 18, 1993

COMMISSIONER

The Honorable John Conyers, Jr.  
Chairman, Committee on Government Operations  
House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In accordance with 31 U.S.C. section 720, I am writing you concerning actions by the Internal Revenue Service in response to recommendations contained in the report by the General Accounting Office entitled "Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity" (GGD-93-97, May 5, 1993).

We agree that staffing-to-workload imbalances do exist within the Collection Field function (CFf) and this issue must be addressed. Our plan to implement the General Accounting Office recommendations is enclosed (Enclosure I). We hold to our belief that revenue maximization should not be the sole criterion in resource allocation decisions. Other intangibles, such as a minimum compliance presence, need to be considered as well. Pursuing revenue maximization alone may result in disparities in district Collection Resource and Workload Management System cutoff scores similar to those GAO believes have been created by the existing staffing-to-workload allocation. Further analysis is warranted to ensure an acceptable balance between revenue collected and services provided.

Collection's Resource Allocation Study Group, which includes Collection executives, played a key role recently in developing a blueprint for improving resource allocations. We are in the process of implementing this strategy and will continue their counsel and involvement as we move forward on GAO's recommendations.

Since GAO did not submit a draft report for review, we have provided comments on the text of the final report in Enclosure II.

We hope you find these comments useful.

Sincerely,

Margaret Milner Richardson

Enclosures



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE

WASHINGTON, D.C. 20224

October 18, 1993

COMMISSIONER

The Honorable John Glenn  
Chairman, Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

In accordance with 31 U.S.C. section 720, I am writing you concerning actions by the Internal Revenue Service in response to recommendations contained in the report by the General Accounting Office entitled "Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity" (GGD-93-97, May 5, 1993).

We agree that staffing-to-workload imbalances do exist within the Collection Field function (Cff) and this issue must be addressed. Our plan to implement the General Accounting Office recommendations is enclosed (Enclosure I). We hold to our belief that revenue maximization should not be the sole criterion in resource allocation decisions. Other intangibles, such as a minimum compliance presence, need to be considered as well. Pursuing revenue maximization alone may result in disparities in district Collection Resource and Workload Management System cutoff scores similar to those GAO believes have been created by the existing staffing-to-workload allocation. Further analysis is warranted to ensure an acceptable balance between revenue collected and services provided.

Collection's Resource Allocation Study Group, which includes Collection executives, played a key role recently in developing a blueprint for improving resource allocations. We are in the process of implementing this strategy and will continue their counsel and involvement as we move forward on GAO's recommendations.

Since GAO did not submit a draft report for review, we have provided comments on the text of the final report in Enclosure II.

We hope you find these comments useful.

Sincerely,

A handwritten signature in dark ink, appearing to read 'M.P. Richardson', with a large, stylized initial 'M' and 'R'.

Margaret Milner Richardson

Enclosures

Enclosure I

IRS COMMENTS ON GAO REPORT ENTITLED  
 "TAX ADMINISTRATION: IMPROVED STAFFING OF IRS' COLLECTION  
 FUNCTION WOULD INCREASE PRODUCTIVITY"

Recommendation

The Commissioner [should] direct the Assistant Commissioner (Collection) to develop a plan for ensuring that the Collection staff in field offices is balanced to maximize the assessment and collection of delinquent taxes.

COMMENT:

Collection has already begun to utilize staffing strategies that will accelerate the matching of staffing to workload needs in all functions, including the Collection Field function (Cff). These reallocations are based on the methodologies recommended by Collection's Resource Allocation Study Group. Recommendations of the group include:

- . Identifying a "minimum presence" required in a district.
- . Allocating staff with the objective of using a consistent Resource and Workload Management System (RWMS) cut-off score nationwide.
- . Labeling districts that have relatively higher staffing to workload levels as "No Growth Areas" (NGA).
- . Freezing revenue officer hiring in all "No Growth Areas" for the foreseeable future; tracking staffing patterns to verify that staff years freed up through attrition are transferred to districts which are relatively understaffed.
- . Working more cases earlier in the collection process (specifically in the Automated Collection System (ACS)) and thereby reducing the volume of casework flowing through to the Collection Field function. This will be accomplished by handling telephone work from where it can best be worked based on relative productivity and not geographic boundaries. Existing ACS technology simplifies migrating work to staff rather than vice versa.
- . Exploring other possibilities for redirecting work to free up more of the existing staff in relatively understaffed districts to be made available to pursue delinquent accounts. For example, potential opportunities exist to consolidate or centralize work in the Special Procedures function and Collection



Support function of designated key districts or in the Service Center Collection Branch (SCCB) thereby benefiting understaffed districts.

Recommendation:

The plan should include the use of marginal productivity indicators and multi-year economic forecasts in the methodology for determining the number of staff each field office should have.

COMMENT:

We are working with the Research Division on the best approach to incorporate econometric data and marginal productivity indicators in Collection's resource allocation decisions.

Recommendation:

The plan should provide a means for Collection to assess the impact of planned future technological, strategic, and organizational changes on Collection staffing needs and, if appropriate, to modify its plan on the basis of that assessment.

COMMENT:

We agree with the recommendation. As the Service implements the new Business Vision, Collection will work closely with appropriate functions to ensure that resource allocation decisions mirror the Service's overall direction. For example, Collection's plan to allocate ACS resources as a corporate asset maximizes use of available ACS technology and allows for distributing resources to sites in favorable labor markets.

Recommendation:

The plan should include strategies for transferring Collection employees to other functions as a means of eliminating staffing imbalances.

COMMENT:

This issue was considered early in the Resource Allocation Study Group's work. Several members of the group represent regions with districts that are overstaffed compared to staffing workload ratios in other districts. These executives advised that some of the other IRS functions in those districts are also relatively overstaffed. We will, however, revisit this issue as the Servicewide redeployment provides new opportunities to creatively resolve any staffing imbalances.

## Enclosure II

IRS COMMENTS ON TEXT OF GAO REPORT ENTITLED  
"TAX ADMINISTRATION: IMPROVED STAFFING OF IRS COLLECTION  
FUNCTION WOULD INCREASE PRODUCTIVITY"

Page 2: GAO's comment that allocation of staff should result in equal marginal productivity at each location to maximize revenue makes sense in theory, but is not an attainable or desirable goal for several reasons:

- . Minimum Compliance Presence: A small district, e.g., Cheyenne works almost everything while Manhattan has a RWMS cut-off score of 75,000. Staffing Cheyenne to a cut-off score of RWMS 75,000 would mean inadequate compliance presence (one or two revenue officers for the whole state of Wyoming), and even then we might not have sufficient resources to work everything in Manhattan. Small districts will always be able to work lower priority cases than large districts because of the need to maintain minimum compliance presence and because their universe of high scored work is smaller.
- . Caseload profile: Districts have varying percentages of individual master file and business master file workload and different distributions of cases by RWMS priority level. Generally, a high RWMS and a high percentage of business cases indicate a potential for collecting more dollars. However, if the cutoff scores for working cases were consistent, different districts would have varying results because their workload profiles differ, i.e., the higher the percentage of business master file and high RWMS scored work, the greater potential there is for collection.
- . Productivity factors: Productivity norms are not simply a factor of good management practices and devoted employees. The amount of travel between field calls, complexity of work, and grade level/experience of employees all impact on the norm and, hence, revenue. For example, collections per staff year in Cheyenne may never equal those in Manhattan because a revenue officer in Cheyenne may have to travel substantial distances between stops, while in Manhattan a revenue officer's entire inventory may be located within a few city blocks.

The above notwithstanding, we acknowledge that the gap between the highest and lowest yielding districts is too wide and must be narrowed, but marginal productivity cannot be equalized entirely.

Page 7: The use of "taxpayers subject to collection action" per staff year is not a good measurement because it doesn't account for differences in workload productivity and RWMS profiles between districts. We believe that staffing all but the smallest districts to work to a theoretical (but equal) RWMS cut-off score is more appropriate since it will lead to increased equity in the program.

For example, Albany needs 61.9 staff years to work to a cutoff of RWMS 10,000 while Atlanta needs 385.8 staff years to do the same. Taxpayers with equal collectible liabilities would stand the same chance of being pursued (or not pursued) in both districts. Using GAO's measure of taxpayers subject to collection action per staff year, Albany would be at 295.8 compared with Atlanta's 175.2. This is because 40% of Atlanta's work is RWMS 10,000 or above compared with 23% for Albany.

Page 9: GAO cites statistics that two-thirds of taxpayers in the Collection inventory are in the queue and now represent 12% of that inventory's dollar value. This shows that we are correctly prioritizing and working the highest potential yield cases.

Page 12: GAO's statement that the Collection Resource Database Information Tracking System (CREDITS) can do only single year allocations is technically correct. Yet, by using its multi-year forecasting utility, CREDITS can project subsequent year impact of individual initiatives. We used the multi-year utility to allocate our draft distribution of the proposed FY 94 initiative submission.

Chairman PICKLE. Well, I am going through this because this is a listing of your recommendations and the IRS' response and that is why I want to be sure we all kind of understand where we are.

You have recommended that the IRS identify and implement ways to increase cooperation with State government in the collection of delinquent taxes. And the IRS' response was they support exploring opportunity and increased cooperation. What does that mean?

Mr. DANIEL. Well, Mr. Chairman, since that time, the IRS has tried additional cooperative efforts with States to collect taxes. In one of their latest responses, they did mention the number of projects that are ongoing between IRS and States to collect taxes, have increased to about 23 projects. So they are moving forward in trying to do that.

Chairman PICKLE. Do you know in what way they are moving forward?

Mr. DANIEL. They are trying to, for example, have joint installment agreement arrangements with some States. They are also working with some States to increase collections through tax enforcement programs involving licenses and permits.

Ms. STATHIS. The example we had in our report, Mr. Chairman, was a project they had with Hawaii, in which the State would refuse to give the taxpayer a State license if in fact he had not paid his Federal tax debt as well as his State tax.

Mr. DANIEL. IRS is trying to expand that type of cooperative agreement.

Chairman PICKLE. Is that being adopted generally by other States? You do not know?

Ms. STATHIS. We just know of it in one case.

Chairman PICKLE. Well, we will ask about that.

Mr. DANIEL. It has to be done on a State-by-State basis.

Chairman PICKLE. I understand that, but I think it would be well to look into that.

Now, the GAO recommended that the IRS test the use of private collection agencies to support IRS collection efforts permitted by law. And the IRS, I understand, did not respond at all. Did they say anything to you or did they give any response about using private agencies?

Mr. DANIEL. The IRS agreed to do that, but they are now claiming that because of budget constraints, that they had to use money for other purposes. So I think at this point they have temporarily suspended that particular project.

Chairman PICKLE. You are saying, then, that rather than saying that is a good idea, we can use it, they just said we do not have the money and so they wrote it off. They didn't give a response because they don't have budgeted money.

Mr. DANIEL. That is their current response.

Chairman PICKLE. Well. Now, on this item of "currently not collectible," that is getting to be a bigger problem all the time. The committee really believes the Internal Revenue can do more to collect taxes that are labeled "currently not collectible," because that is so easy to find and to make an effort, and if you don't get any response it is easy for that worker to say "currently not collectible

[CNC],” and set it aside. And that list gets bigger and bigger and bigger.

Now, there are reasons a lot of times you have to kind of classify them that way, I suppose, but it is an easy haven to drop into and then pretty soon that amount gets bigger and bigger and bigger.

So you had recommended that the IRS eliminate the automatic 65-week reactivation hold period on CNC cases and allow employees to determine when each CNC case should be reactivated. What did IRS say to that?

Mr. VENEZIA. IRS disagreed with eliminating the 65-week hold. Chairman PICKLE. Why?

Mr. VENEZIA. They felt if they would revise their procedures for classifying accounts as currently not collectible, they would not have that problem.

Chairman PICKLE. So they just said—

Mr. VENEZIA. They disagreed. They said they needed it. What they are saying is they need the 65-week hold to avoid the reactivation of accounts where they have already considered the income at the time they made the investigation. So if the hold were eliminated, some accounts would be reactivated too soon.

However, we believe that this also precludes the timely reactivation of accounts that should be reactivated. These accounts then could sit in CNC for almost 2 years without being reactivated while they have income that could pay the taxes.

What we were suggesting is that during the investigation—designate the period of time that the hold should exist for and not have the arbitrary 65-week hold.

Chairman PICKLE. I understand your response on that.

Now, another recommendation. You suggested the IRS track both taxpayers and spouses with delinquencies to ensure that both taxpayers' ability to pay is considered, and the IRS responded; they agreed in principle, but said that the current system does not have the ability to track both taxpayers. This improvement will be pursued as an element of the tax system modernization.

Do you agree with that?

Mr. VENEZIA. IRS is saying that they need to incorporate this under tax system modernization because the current systems cannot be altered at this time to allow for the tracking of two taxpayers. We do not know specifically whether it could be done now or needs to be done under TSM.

Chairman PICKLE. If you have only one address and they have separated, one has money and one has not, might be the man or the female, but if they have only one address and they write and don't get a response, they just write it up as “currently not collectible.” Now, they could go to a lot of places, for instance at the banks alone, couldn't they, and get addresses?

Mr. VENEZIA. There are a lot of different sources they could go to to get the address on the taxpayers. They have the addresses themselves, if the taxpayers separated, under the spouse's Social Security number.

Chairman PICKLE. I wonder, though, do they make any effort? If they have two people they are trying to get money from, they have lost their addresses and they are not current—and that is the case a lot of time when people have separated. But there are sources to



go to to get addresses. Do they look for those sources? I am just saying there is a bank.

Mr. VENEZIA. During the investigation of the account initially, before it is CNC'd, they will pursue both spouses and they will go to other sources, such as banks and post offices, to look for current addresses.

Chairman PICKLE. We have a vote coming up. We will have to come back, but let me ask Mr. Houghton before we go.

Mr. HOUGHTON. I have no further questions, Mr. Chairman.

Chairman PICKLE. Then we will proceed then for a little further and then we will have to come back because we have a vote.

Now, you suggested the benefit of using other information, such as interest and dividend income as reactivation criteria. You also suggested that the IRS speed up the reactivation process by reducing the number of notices and making prior case files available to employees working these cases.

I don't know that I understand that, when you talk in terms of reactivating cases and speeding that up. Who handled that part and can respond to that?

Mr. VENEZIA. I was, Mr. Chairman.

Chairman PICKLE. All right, Mr. Venezia.

Mr. VENEZIA. When IRS classifies an account "currently not collectible for hardship," they set an income level which they believe at that time the taxpayer can make some payments toward the delinquency. When the taxpayer files a return at that income level, or higher, the account will be reactivated, placed back into active inventory.

At that point in time, the account goes through the same process as a brandnew delinquency, where the taxpayer is sent notices over a 6-month period, then goes to the second stage where they receive telephone calls. So we are suggesting that because IRS has evidence that the taxpayer can pay, that this account should be accelerated and it should not go through the same normal process.

Chairman PICKLE. All right. Now, I will suggest that we take about a 10-minute recess here, because this will be a routine vote and we can come on back. Is that agreeable to you, Ms. Stathis?

Ms. STATHIS. Yes, sir.

[Brief Recess.]

Chairman PICKLE. The subcommittee will resume.

With regard to these delinquent taxes and the ability to collect, you gave me three examples of people who are making \$60,000 to \$70,000, \$80,000, individual or couples, and they have a lot of payments, mortgages, insurance, living expenses, and the IRS said, well, you really are not making enough to make a payment to us, so we won't pursue it.

What should our policy be? You said in response to questions I asked you, specifically in some six instances, the Internal Revenue Service did not get any of that money and yet they were making anywhere from \$60,000, \$70,000, \$80,000 or more a year. What should be done about that?

Ms. STATHIS. We suggested in our report that people earning above some amount of money—at some set amount—should be expected to pay at least something toward their delinquent tax debts.

Chairman PICKLE. And IRS is not requiring that at all?

Ms. STATHIS. No.

Chairman PICKLE. They just make a judgment it is not worth it, and they are struggling, therefore, you do not have to pay to Internal Revenue. Everybody else but not IRS.

Ms. STATHIS. They are just doing a comparison of income and expenses.

Chairman PICKLE. Do you have any recommendations to them about what they should pay? Would it be on a one-on-one basis; case-by-case?

Ms. STATHIS. We thought it would be helpful to the revenue officers if they had more specific guidance as to what they should do. Above \$50,000 or above some amount of money, they should expect something or other. We did not leap ahead to say what that level should be or what the policy should be, but it seemed reasonable to us that they would have some type of guidance like that.

Chairman PICKLE. Should we, the Congress, try to tell IRS what that percentage should be; what that amount is?

Ms. STATHIS. Well, that is, of course, up to the subcommittee and the Congress to decide.

Chairman PICKLE. Well, the public generally might say these people ought to pay for their homes and their automobiles and other things and IRS ought to just step aside, and that is what happens; and yet the government has to run and we have to get our collections in. So I think we should stand in line appropriately, and I think we ought to talk to the IRS about how we think it should be handled, at least to have some kind of agreement, otherwise, the individual will just make a determination that they are having a hard time, therefore, we are not going to take their money. And he should be held to a standard of performance, so I think we will look into that further.

Ms. STATHIS. I will tell you, Mr. Chairman, that we did a similar study for the Congress a decade or more ago and we also had concerns then about this same issue. We view the IRS' response to this particular report as very encouraging, more encouraging than responses we received a decade ago. In the response, the Commissioner says that the agency will take this seriously, will move ahead to try to produce better guidelines.

Chairman PICKLE. Well, I am glad they are looking at it more affirmatively, and I think we, the Congress, should counsel with the IRS to see what we can set as guidelines, expectations, and then expect them to do this. So that is encouraging.

That brings up a question. We have asked you to make a survey, and you conduct these studies about forms, collectibility, and so forth, which has been going on for years and years. Now, you have made your study, you made your recommendations to the IRS, and they made their report to you and to us, a copy, so we can see what is going on. Now, what happens with that report once it is made?

Ms. STATHIS. Well, once we make a recommendation and IRS responds to it, we put it in our system and we keep following up, and we will be continuing to follow up on these recommendations. We are very serious about the issue of the accounts receivable and we are not going to let up on this.

Chairman PICKLE. I am glad you say that. I am also thinking in terms of our subcommittee and the committee as a whole. We get

these reports, and more likely we fuss about it, we make quite a to-do about it today, and then in the push of things we set it on the shelf and 2 years later we make another survey, and then 2, 4 years later another survey. That has been going on for years and years.

Have any of you had this experience with previous surveys and nothing comes of it much, a lot of times? It just is not done, and I think we have to, the subcommittee, put a tracking on it; we will give you so much time to make a response, and if they don't agree with it, they can say we just don't agree and at least we will know, but at least it does not get fuzzy and it floats off, and that is what happens.

I have had two or three members of the committee say, well, while you make all those recommendations on forms and so on, but nothing comes of it. So I think together we have to follow through with a strict accountability measurement.

Ms. STATHIS. I think in the case of the forms and publications, probably as well other types of correspondence, it is the type of thing where with tax law changes and with other kinds of updates, it is something over which the agency has to be ever vigilant, because it will always require an effort to make sure that those are as good as they can be.

Chairman PICKLE. Those are forms, notices and that kind of thing can be corrected easily. Now, once you get into the problem resolution stage, where it is a discussion or an argument or disagreement on the amount of money or whether they should be taxed, that is another matter. That is a judgment or agreement they can reach. But in the case of a lot of these forms and a lot of these letters, a much better job can be done, and I think we should do it.

I am encouraged in my congressional district. The Internal Revenue had put an emphasis on taxpayer services. I think the attitude the IRS people have in many respects will help. I think their invitation to people to come in and talk with them; their efforts to arrange for a person-to-person meeting would help tremendously, and a face-to-face hearing, in some cases, and they know they can talk to the same person twice, that would be just like inventing a new round wheel, but that is not being done now.

I think every region has to do a better job on the personality aspect of it.

Now, let me go back to some of these questions. Here is what bothers me. After reviewing 1,232 CNC cases, currently not collectible cases, GAO determined that 55 percent of accounts should not have been approved for CNC status. Now, that is, to me, a shocking figure. Out of that number, 55 percent of them you thought should not have been approved for CNC status.

Does IRS review the CNC decisions and, if so, why is the quality control so terrible?

Ms. STATHIS. The supervisors are supposed to review the CNC determinations. In many cases they seem to do that very hurriedly, and they seem to rely on the judgment of the revenue officer.

Chairman PICKLE. I can see why there would be a tendency to do it because that gets rid of the question easily but it does not collect money. Because you say the IRS statistics alone indicated



\$52.4 billion, or 40 percent of accounts receivable, had been classified as CNC.

Now, that is a kind of an indictment by itself, isn't it? Now, nearly a quarter of the accounts receivable inventory has been given up for lost with almost no quality control or supervision of any kind. Isn't that troubling to you?

Ms. STATHIS. It is very troubling.

Chairman PICKLE. Do you dispute the figures that I have just quoted?

Ms. STATHIS. No, I don't believe that I do.

Chairman PICKLE. Well, that seems to me something that we should look at. Now, once a CNC determination is made, the case is closed for at least 65 weeks. What is the reason for waiting 65 weeks in all cases before reactivating a case?

Ms. STATHIS. That is the case that we were discussing earlier, where the IRS does not want to prematurely reactivate a case and only have information that it already had at the time it made the determination.

So it is a timing issue.

Chairman PICKLE. But at that point, after a case is reopened, a new case file is started and the whole collection process starts all over again, with months of delay while written notices are sent out. Even worse, new IRS employees then begin to file a whole new case file, apparently ignoring the previously gathered information.

Does the Internal Revenue Service offer any justification for treating reactivated CNC cases as brandnew cases?

Mr. VENEZIA. Not really, Mr. Chairman.

Chairman PICKLE. They just—

Mr. VENEZIA. They recognize there may be some advantages to bypassing or reducing the number of notices sent, and they said they would consider it. That would be something that needs to be followed up on to see if they really take action.

In regard to the availability of the old accounts, they say that they are available at the records center and that the new revenue officer could request it. However,—

Chairman PICKLE. But they don't.

Mr. VENEZIA. Talking to field people, they say it is nearly impossible to retrieve files from the records center.

Chairman PICKLE. Well, is that something that we can change the law on or is that just better administration?

Mr. VENEZIA. It is just better administration.

Chairman PICKLE. And they are not doing it.

Mr. VENEZIA. That is correct.

Chairman PICKLE. I am afraid you are right, the IRS has a long way to go. They are supposed to be professionals and yet it is somebody else's worry, and I am afraid they don't tend to it like they should. But it is kind of an individual—it is an administration problem; that aspect of it?

Mr. VENEZIA. Yes.

Chairman PICKLE. All right.

Now, the IRS interim correspondence sent in response to taxpayers' inquires are often confusing and inappropriate because there is no quality review process for letters. They just put out an-

other letter and that is it and there is really no way for somebody to set standards on it.

What is the Internal Revenue Service's reasoning for not having a quality review process for interim letters?

Ms. STATHIS. Well, I think that primarily revolved around the cost of doing that; that they felt that it would add cost, and since it was in fact just an interim letter, to let the taxpayer know they are working the case, that they were not quite as important as the final letter.

Chairman PICKLE. Well, doesn't the IRS have a whole department down there that is called—what do they call their review—Tax Forms Correspondence Administration? Tax Forms and Correspondence. Now, how many people do they have in that department down there?

Ms. STATHIS. I am not sure, Mr. Chairman, but I think what you are talking about is the Forms and Publications Unit.

Chairman PICKLE. Yes, yes, yes.

Ms. STATHIS. This is the type of correspondence that goes out from each service center and it is in that correspondence that these interim letters occur. So that the people who work on the forms and publications are not really involved in this.

Chairman PICKLE. Well, how do we do a better job on this interim letter? Do we let them just handle their own interim correspondence?

Ms. STATHIS. Well, obviously, the best solution would be to get the final answer out in 30 days in which case you would not need an interim letter. The only case you do an interim letter is when you are not going to answer in 30 days, and they are doing that about 75 percent of the time. So this is the remaining 25 percent.

If in fact IRS is going to continue sending out interim letters, IRS is either going to have to go to a more generic kind of a general notice that would apply to all situations or they could quit doing interim letters. Of course in both those cases, it would not always help the taxpayer.

The other suggestion is that they can try to insert some type of quality review, by reviewing a sample of them.

Chairman PICKLE. Well, it seems to me, with as large as a staff down there, whose job it is to have better forms and better understanding, that we can do a better job. I think we get rather hardened to the process, and it is easy to say, well, this is uniform, we understand it and everybody else does.

The first reaction that an individual has when they get a letter from the IRS is, one, they wonder what in the world have I done wrong now and they get scared, and if they don't understand it, they start getting mad about it. And a lot of that can be changed just by changing the form to be easily understood, and I think we can do a lot better job on that. I think it is fair to jump on the IRS for sending out foolish letters, because you are talking about dollars and cents and a lot of people's lives and future, and it seems to me we should do a better job of it.

I think what we perhaps ought to do is take your report in counsel with IRS and see which recommendations they have adopted and which ones they have not, and then put a date on it and follow this through at another specific time. We will say within 1 year.



We should call back and say what have you done about this and what is your answer? Otherwise, it is just swallowed up and forgotten, and I don't think we should allow that.

I think that will be my recommendation to the committee, that we set up a specific followthrough procedure on all these recommendations.

Do you have any suggestions over and above what you have given us today about steps that you would take? You made your examination of all these different cases and you gave your recommendations; how do we get a better job on forms and publications and collectibles?

It is not acceptable to have \$131 billion out there noncollectible. The American public, when they really see that, and then they say, well, you can collect \$30 billion of it.

Ms. STATHIS. Twenty-two billion dollars is IRS' estimate of the collectible part, the \$131 billion.

Chairman PICKLE. Something is terribly wrong with our accounting if we have that much out there and the rest cannot be collected. What can we do? How can we get these collections in better?

Ms. STATHIS. Well, I think the most significant recommendations we have made regarding collecting taxes are in the report we did for you on alternative strategies. We believe that it really is going to require a fundamental change in the way the whole process works. It needs to be rethought from beginning to end. It just has to come more into conformance with current standards, world class standards, if you will, in terms of how debt is collected.

And that is going to be very difficult for the Service to do because it will be a drastic change in the culture and in the way they have done this; but it is something that just absolutely has to be done.

Chairman PICKLE. In your contacts with the Internal Revenue Service, do you go in and talk to the revenue officer or do you talk to the average person who is handling cases? Do you have a sort of town hall meeting with the officers, or do you just go to the individuals that are involved on a particular case?

Ms. STATHIS. Usually we take a sample of cases and look at that, and then we work backward from that to the person who handled the case.

Chairman PICKLE. Do you ever go into an IRS office and say we would like to have suggestions from the employees and you have 100 of them in the room? What suggestions do you have? Have you attempted something like that?

Ms. STATHIS. Not recently. No, we have done that—

Chairman PICKLE. Have any of the officers here, Mr. Attianese?

Mr. ATTIANESE. No, I don't recall doing that.

Chairman PICKLE. I think that might be good. I have gone into district offices, when we visited a district office, and found out, for instance, a couple of years ago, one of the biggest flaws in electronic filing is with respect to EITC cases. We had not realized that. We found out that was a real loophole and we found it out because the employees volunteered it.

Now, I think in many instances we can go into these IRS offices and if we can just hold meetings, we can get some good suggestions of how we can do things better.

Ms. STATHIS. Generally, the way we do our work, we are at the service center or at the district office often, and the IRS employees do usually pass on a lot of good ideas to us as we are doing that work.

Chairman PICKLE. I find a lot of cases where an individual has a problem with IRS, if they could ever have an individual interview with somebody, the individual, the taxpayer, finally decides that they are not ignoring me, and this old adage that the IRS is—what did the fellow 2 weeks ago say they were? Brutes and overbearing and vicious and a few other descriptive terms about IRS officers. And a lot of that stems from poor communication, both in forms and from individual treatment, and I think we have to do a better job.

So I think we have to hold IRS accountable to make changes. Why do they want to wait until 1995 just to change a form? Now, this was 18 months ago or 8 months ago. Why do they wait? In some cases, they want to wait 10 years before they change a form. Where was the instance they didn't want to change it for 10 years? Some cases they would not be able to do it because computerization was going to be changed and we will wait for 10 years. Taxpayers won't accept that and neither should the Congress.

Now, we will not have the IRS in front of us today because we wanted to receive your report. We are glad to have it and we are going to try to match your report with IRS, what has been done, what is promising to be done or what is disagreed to, and then we will start a tracking session and have another session on this later on. So we will be talking to them, as you have, and we have been talking to them, too, and they are not—they are not playing good looking, hard to get, they are trying to do better, but I think they have to pick up their feet. Because for too long they have said, tough, you get this, you get the money, and everything else. So I think we have to do better.

I appreciate your review and going into these offices. I don't think I have any other questions particularly about these forms unless some of you have something you want to add or any other suggestions.

Mr. Attianese, you have not said anything this morning.

Mr. ATTIANESE. That is right.

Chairman PICKLE. Well, I think we ought to stop at that point.

Well, I thank you very much for your testimony and we will follow through on each of these recommendations. Thank you for your diligence in pursuing this request that we have made, and it is a good one, and I think we have made some headway on it, so thank you very much. The committee is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

[The following information was received from the Department of the Treasury:]



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D. C. 20224

May 12, 1994

RECEIVED

MAY 15 1994

Ways and Means  
Subcommittee on Oversight

The Honorable J. J. Pickle  
Chairman, Ways and Means Subcommittee on Oversight  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In your letter of January 10, 1994, you asked that we respond to each of the General Accounting Office's (GAO) recommendations contained in six specific reports.

Our enclosed response discusses the reports in the order in which they are listed in your letter. We are also responding to the specific questions raised in your letter.

We hope that our response covers the GAO recommendations to your satisfaction and also fully addresses your specific questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Margaret Milner Richardson".  
Margaret Milner Richardson

Enclosure

cc: The Honorable Amo Houghton

□ Selected IRS Forms, Publications, and Notices Could Be Improved - GAO/GGD - 93-72, April 1993.

In this report GAO identified 54 changes that could be made to improve the understandability and usefulness of various forms and publications to taxpayers. Changes were also suggested for 5 of the 21 notices reviewed by GAO. Generally, the changes suggested by GAO were for the use of more specific language, consistent terminology, and inclusion of appropriate references to other forms and publications.

Forms

Except as noted below, all of the suggested changes to the IRS forms and publications listed in the April 1993 GAO report "Selected IRS Forms, Publications, and Notices Could Be Improved" have been made. The exceptions are as follows:

Form SS-4, GAO Concern 5: The phrase "DO NOT apply if you already have an EIN" is not used in the paragraph "purchased going business," although this phrase is used in similar paragraphs in the section.

Response: IRS agreed to add this phrase to this example during the 1994 revision of Form SS-4.

Status Update: Change will be made to the next revision.

Form 709, GAO Concern 5: Technical terms are used frequently with the definitions interspersed throughout the instructions. We suggested that a detailed glossary would be helpful.

Response: IRS agreed to include a glossary in the 1993 revision of Form 709 if there is enough space.

Status Update: Due to the lack of space, we were not able to add a glossary to the 1993 revision. However, we will continue to look for the opportunity to add the recommended glossary in future revisions of this form.

Form 709, GAO Concern 11: In the discussion of "Consent of Spouse," a reference is made to the availability of Form 709-A. Form 709-A is used by certain married couples to report nontaxable gifts that they consent to split. Because no revenue is collected through this form, its usefulness to IRS is questionable, and the burden imposed by it may be unnecessary.

**Response:** IRS agreed to study the elimination of this form in greater detail. However, IRS could not eliminate this form without legislative approval from Congress.

**Status Update:** After careful consideration, we have decided not to adopt this recommendation. We believe that the IRS must have a signed agreement in all split gift situations.

When a taxpayer consents to split gifts with his or her spouse, both spouses become jointly and severally liable for all gift tax liability for the year (IRC section 2513(d)). A consenting spouse could even incur gift tax liability where none appeared to exist, such as when a gift is undervalued, or if the annual exclusion is incorrectly claimed because the gift is of a future interest.

For this reason, we feel that any time there is a consent to split gifts, we need the signature of the consenting spouse. This applies even when a gift tax return, on its face, involves no tax liability.

Form 709-A satisfies this signature requirement. If we were to eliminate Form 709-A taxpayers would be forced to file the more complicated Form 709. We, therefore, feel that we should retain Form 709-A.

**Form 709, GAO Concern 12:** The filing requirement for donors making gifts to charitable organizations may not be necessary because no tax is paid on these gifts. Therefore, GAO believes the need for reporting these gifts is questionable.

**Response:** IRS agreed to study the elimination of this filing requirement in greater detail. However, IRS could not eliminate this filing requirement without legislative approval from Congress.

**Status Update:** This suggestion was developed as a legislative proposal and circulated for National Office review. Based on the comments received from Chief Counsel and several other functions we have decided not to pursue the matter. Specifically, it is our opinion that the chance for abuse in this area would be increased by adopting the suggestion to eliminate the requirement for filing the Form 709 in the case of charitable gifts in excess of \$10,000 and charitable gifts of a future interest.



**Notices**

**Recommendation:** CP 16 - GAO found the reference to Individual Retirement Account (IRA) taxes on this notice confusing.

**Response:** The Notice Clarity Unit officials agreed, and suggested revisions to the specific language in this notice.

**Status Update:** We have revised the language for CP 16. We prepared the Request for Information Services (RIS) to secure the necessary programming changes for January 1995. The revision calls for a page two legend titled, "Where We Applied Your Overpayment." There is a specific reference to IRA applications, "We applied \$nn,nnn,nnn.nn to the tax on your Individual Retirement Account (IRA). Since our records keep IRA and income tax in different tax accounts, you may receive a separate notice from us about your IRA taxes."

**Recommendation:** CP 49 - This notice does not specifically address the taxpayer's particular situation. GAO suggested that IRS change the language in this notice to more specifically address both the taxpayer's account and IRS' actions.

**Response:** IRS' Notice Clarity Unit officials agreed that clarification is needed.

**Status Update:** For January 1995, we are revising CP 49 to more clearly state what is being done when an overpayment is applied to an outstanding balance. The new language will read: Our records show that you owe other federal taxes. Your overpayment was applied as follows. The notice will then provide specific information under the following categories: Form(s), Tax Period(s), Amount(s) Applied, and Balance Remaining.

**Recommendation:** CP 138 - Conflicting direction on this notice could confuse taxpayers and possibly hinder the processing of payments. GAO suggested that IRS either delete the reference to a forthcoming bill in the notice or remove the stub which directs the taxpayer to remit payment with the stub.

**Response:** IRS' Notice Clarity Unit officials agreed that these instructions were conflicting.

**Status Update:** In January of 1995, we will change the format and text. The revised notice will remove the reference to the forthcoming bill and will not have a tear off stub. When appropriate, a narrative will appear on the notice when a balance due still exists. The narrative will read: "We will bill you later."

**Recommendation: CP 253** - GAO questioned the appropriateness of this notice's title and content. GAO suggested that some clarification in either the text or title may be needed.

**Response:** IRS' Notice Clarity Unit officials agreed that some clarification in either the text or the title may be needed.

**Status Update:** In January of 1994, we changed the title on CP 253 to read- "Your Wage Reports Don't Match Your Employment Tax Returns." In January of 1995, we will change the notice to provide more detailed information. The amounts for Federal Income Tax Withheld, Advance EIC payments, Social Security wages, Social Security tips, and Medicare Wages reported on the Form 941 will be compared with the amounts shown on the Forms W-2, W-2G, and Forms 1099R, and the difference will be shown in a third column. This will allow the taxpayer to quickly ascertain the problem area.

**Recommendation: CP 267** - This notice is intended to advise taxpayers that some tax payments may have been misapplied, possibly resulting in an overpayment. GAO suggested that IRS should be more explicit in detailing what was reported and what was actually owed.

**Response:** IRS' Notice Clarity Unit officials said they are working with other IRS groups to revise it.

**Status Update:** We are changing the format and text of CP 267 for January 1995. A RIS has been prepared that will provide a complete and concise breakdown of any payments or changes to the taxpayer's account. With the explicit payments being provided we are confident that the incidence of taxpayers requesting clarifying information will decline.

**IRS Correspondence Needs to Continue Improving** - GAO/GGD - 94-XX, November 1993.

**Recommendation 1:** Clarify the wording in notices, letters and publications to better inform taxpayers of those situations that can be handled by a telephone call.

**Response:** Several of our planned modernization efforts rely heavily on telephone contact between the Service and the taxpayer. We are currently conducting a test at the Fresno Service Center, in which mailed notices encourage telephonic rather than written responses. To the extent our communications systems allow, we will continue encouraging telephone contact.

**Status Update:** Our modernization efforts encourage telephonic contact. The Fresno Service Center is consolidating Collection, Taxpayer Relations, and Adjustment Branch work into new Customer Service Branches which will respond to taxpayer telephone inquiries. Certain types of correspondence are being sent with notices encouraging telephone contact. We provide toll-free telephone numbers. In addition, an automated call distribution system was installed to expedite responses. During the Fresno test, we will be using the current Program Analysis System, Quality Management Information System, and Integrated Test Call Survey System to evaluate the quality of our telephonic responses. We are working with Fresno to develop a consolidated Quality Measurement System for the new customer service branches.

The experience gained from the Fresno test will facilitate the practical expansion of this concept to our other customer service sites. Expanded telephone contact is a significant piece of our business vision for the next several years. Our goal is to have substantive account information easily and quickly accessible within an expanded communications network.

**Recommendation 2:** Clarify existing procedures for responding to taxpayer requests to ensure that taxpayer's questions do not go unanswered.

**Response:** We agree with GAO's recommendation to improve the quality of correspondence we send to taxpayers so that all their inquiries are answered. A key GAO concern has been IRS' failure to always promptly acknowledge taxpayer questions regarding installment agreement payments. To address this specific concern, we are amending appropriate Correspondence Letters and notices to include acknowledgement of taxpayer payments. We will review correspondence procedures regarding taxpayer inquiries and make sure they are in conformance with Action 61 guidelines. The draft Internal Revenue Manual (IRM) procedures incorporating the new procedures will be completed by Central Region no later than January 1, 1994.

A standard part of our Quality Assurance Staff's review includes checking to ensure that each taxpayer question is addressed. If not, the error is noted and the case returned to the tax examiner for correction. Our staffing does not permit a 100 percent quality review of all outgoing correspondence. However, we will make every reasonable effort to ensure every taxpayer inquiry is answered.

**Status Update:** The new procedures were completed and distributed in early 1994.

**Recommendation 3:** Use correspondence mail out dates instead of the date a response was initiated as a timeliness indicator and adopt goals for providing taxpayers with final responses.

**Response:** Using mail out dates as a timeliness factor is not logistically feasible in the service centers. We will continue to monitor the interval between correspondence initiation and mail out, and whenever feasible, act to reduce the interval. Beginning in October 1993, we began tracking how often we provide a final response to the taxpayer within a 14-day time frame and a 30-day time frame.

**Status Update:** Several different systems are used to generate correspondence. Within each type of correspondence (e.g. notices, letters, etc.) there are hundreds of unique documents each having their own generation/mail out intervals. Another problem in using the mail out date as the measurement device is that when the correspondence is finally mailed out, the case file is no longer associated with the outgoing correspondence. Significant resources would be expended to re-associate the case files to determine timeliness. The correspondence generation date remains the most cost efficient and practical method for determining timeliness.

Our Correspondence Review Program began in October 1993 and tracks how often we provided a final response to the taxpayer within a 14-day time frame and a 30-day time frame. These new measures were added to our Quality Index as key performance indicators.

Baselines and current performance rates follow:

14-Day Response

FY '94 Baseline	34.0%
Current National Rate	40.7%

30-Day Response

FY '94 Baseline	55.0%
Current National Rate	72.7%

We will continue to monitor the interval between correspondence initiation and the mail out with the ongoing goal to reduce the interval.

**Recommendation 4:** Reassess the purposes of interim letters and then provide the service centers clear guidelines for accomplishing those purposes.

**Response:** Interim letter guidelines will be issued by February 1, 1994. A training package will also be issued by February 1, 1994, that will provide further guidance regarding interim letters.

**Status Update:** The guidelines and training packages took longer than expected. They were issued on May 11, 1994. The letter guidelines cover such topics as:

- When to send an interim letter
- What information must be included
- Subsequent interim letters
- Interim letters issued when cases are transferred
- Locally developed interim letters

A training package was sent to the Service Centers in February of this year. It provides further guidance regarding interim letters. The package is intended for use as a training guide and as a desk reference.

**Recommendation 5:** Review samples of interim letters to ensure that improvement in quality results from the revised guidelines.

**Response:** Service Centers will begin conducting a product review of interim letters in all function areas. These reviews are scheduled to begin March 31, 1994.

**Status Update:** The Interim Guidelines instruct service centers to establish quality product reviews of interim letters in all functions. The purpose of the quality reviews will be to: assure that service centers are sending accurate interim letters which include all necessary information and address all issues, and identify problem areas for improvements. Problem issues will be forwarded to the National Office for appropriate action. National Office analysts will critique the product reviews during field program visitations.



**Recommendation 6:** Implement Correspondence Task Force recommendations to (1) incorporate correspondence improvements at the district offices, (2) meet user requirements for a letter writing system and an automated inventory control system, and (3) measure taxpayer satisfaction.

**Response:** (1) We continue to work towards district office implementation. (2) The development of a letter writing system and an automated inventory control system as part of the TSM also continues. (3) Due to costs and OMB requirements, we believe that a Service-wide sponsored effort to measure taxpayer satisfaction is more viable than one sponsored and conducted strictly by the Taxpayer Service function.

**Status Update:** (1) The District Office Implementation Report for Action 61 has been completed and is awaiting final approval. The report recommends the establishment of a multi-functional group to coordinate the implementation of the recommendations. The approval should take place within the next two or three months. (2) The development of a letter writing system and an automated inventory control system as a part of the TSM Case Processing System is ongoing. (3) One recommendation of the report deals with securing taxpayer feedback. The executives responsible for the District Office Implementation Report briefed the Executive Committee during March of this year. The report, when finally approved, will be sent to the appropriate chiefs for implementation.

- **Increased Fraud and Poor Taxpayer Access to IRS Cloud 1993 Filing Season** - GAO/GGD - 94-65, December 1993. (IRS has not previously responded in writing to the GAO recommendations in this report.)

The Service believes we must maintain a real and perceived separation from the RAL (Refund Anticipation Loan) banks since we do not approve, control or regulate Refund Anticipation Loans. We are interested in receiving the results of the banks' fraud detection efforts, but need to avoid the perception of "partnership" in the RAL process.

**Recommendation 1A:** Require Criminal Investigation to work with the large RAL banks to obtain more timely data on potentially fraudulent cases.

**Response/Status Update:** Criminal Investigation has met with representatives of the Fraud Service Bureau (the four major RAL banks' fraud bureau) and requested more timely data on potentially fraudulent refund claims. The banks have agreed

to furnish the information within 5 days rather than the previous average of 7-10 days. The banks' screening of claims is their basis for loan approval. Therefore, they are reluctant to identify a claim as potentially fraudulent until the borrower has had an opportunity to supply additional or corrected information to avoid possible liability for incorrect lending decisions.

Recommendation 1B: Require Criminal Investigation to analyze the fraud cases IRS identified from information provided by the banks to see if those cases involve unique features that should be included in IRS' fraud scoring criteria.

Response/Status Update: The information which was received from the banks was compared to previously identified fraudulent returns. The ones which were identified solely from the bank information are reviewed to determine if there are unique characteristics which can be scored in the IRS' fraud scoring criteria.

Recommendation 1C: Require Criminal Investigation to determine which banks were used for fraudulent refunds to see if special attention should be given to banks that do not use the Fraud Service Bureau (FSB).

Response/Status Update: In order to determine which banks were used for fraudulent refund schemes, it would be necessary to know the Routing Transfer Number (RTN) of the bank to which a fraudulent electronic refund was made. Each bank has a unique RTN. This information is not a field that is currently kept in all the service centers' Questionable Refund Program (QRP) databases. The ones that do maintain that information will be requested to determine the volumes of fraudulent returns from the FSB banks as compared to the non-FSB banks. This will not distinguish between RALs and regular direct deposits. Once this information has been gathered and the results reviewed, a determination can be made as to how much attention this particular characteristic should receive.

Recommendation 2: Allow electronic filers to transmit Form 9465 as part of their electronic submission if IRS decides to continue using that form for requesting installment agreements.

Response: Although officials agreed that the Form 9465 should be included among the forms that can be filed electronically, they said that they did not plan to make such a change until 1995 because of other priorities.

**Status Update:** The primary focus of the programming changes for 1994 was directed towards improving fraud detection. As a result the programming changes to allow the filing of Form 9465 had to be deferred until 1995. The Request for Information Services has been prepared for including the Form 9465 in the ELF system for January 1995 implementation.

- **New Delinquent Tax Collection Methods for IRS** - GAO/GGD - 93-67, May 1993.

**Recommendation:** Restructure IRS' Collection organization to support earlier telephone contact with delinquent taxpayers and determine how to use current Collection staff in earlier, more productive phases of the collection cycle.

**Response:** A long-term redesign of collection work processes is being developed through a Core Business Systems approach. As a result, in the past 18 months, the IRS Collection organization has greatly changed the way it does business, with particular emphasis on accelerating the collection process. Specifically:

1. Early Intervention Contact Project -- The Service is conducting this major test, which will evaluate the effectiveness of earlier telephone calls. Telephone calls are being made in place of the third notice on a sampling of balance due and return delinquency cases. Calls are being made from the Fresno Service Center and the Jacksonville Automated Collection System (ACS) call site to the taxpayers who are normally served by those locations. In addition to the phone calls, we are also testing the usefulness of improved language in the notices sent to taxpayers. Results of the test will be tracked and compared with those of the current operations. Critical measurements include: total cases resolved; method of disposition; returns secured; dollars collected; account problems resolved; elapsed time and burden reduction; and future compliance. These measurements, when combined with detailed costing data, will enable the Service to effectively evaluate the concept and consider operational improvements to better fulfill its mission.

The Service expects the following benefits: earlier resolution of taxpayer cases; reduction of financial burden; and a greater likelihood of the taxpayer having the ability to pay and perhaps avoid further delinquencies. The test commenced on October 18, 1993, and will continue through FY'94.

2. Streamlined Installment Agreement Procedures -- We have streamlined installment agreement procedures and expanded the authority of our employees to grant approval of installment agreements up to specified dollar amounts. This authority has been expanded cross-functionally, which has increased our ability to provide "one stop service." In addition, revenue agents and tax auditors now have the authority to offer installment agreements at the conclusion of an examination.

3. Form 9465, Installment Agreement Request -- We developed this form to accelerate the processing of pre-assessed installment agreements. This form can be attached by taxpayers when they file balance due returns. The form is also used as a stuffer in balance due notices that are sent to taxpayers. We are exploring the use of Form 9465 as a stuffer for underreporter cases, correspondence examinations, and returns prepared by IRS where taxpayers fail to file. Also, we are testing the Voice Response Unit in the Laguna Niguel ACS call site. This technology allows the taxpayer, using a touch tone telephone, to set up an installment agreement provided certain criteria are met. These criteria include limits on the amounts owed and the time required to fully pay the account.

4. ACS Planning for Quality Prototype in Newark -- Telephone calls are being made on all new individual tax delinquent accounts received in ACS, before levy action. Plans to have new automated telephone dialing equipment installed in Newark are underway. This equipment automatically dials the telephone numbers of taxpayers at times when they are likely to be available and, on getting an answer, switches the call to an available ACS employee. We expect this equipment will significantly increase the productivity of our ACS staff, who will no longer expend time on returned calls which go unanswered.

5. Moving Calls or Cases to Locations Where Staffing is Available -- Where ACS call sites share a service center data base, the technology exists to work inventory from either site. Currently the Baltimore and Philadelphia ACS sites and the Chicago and St. Louis sites are taking advantage of this capability. Ultimately, we plan to provide for the movement of work across service center lines, but this is not possible with our current system.

6. Service Center Organizational Study (SCOS) and Customer Service Initiatives -- Efforts are underway that will significantly change the way we do business. As we implement new technology and new organizational designs, our emphasis will be on contacting taxpayers by telephone early on and resolving accounts much sooner than our current methods allow.

**Recommendation:** Develop detailed information on delinquent taxpayers and use it to customize collection procedures.

**Response:** We are developing a major compliance system called the Compliance Research Information System (CRIS). This system will profile taxpayers and allow us to understand the patterns of noncompliance.

Currently, a limited degree of customizing does exist in the collection process. The approach for each taxpayer varies depending on the type of delinquency, taxpayer history, and expected yield. In general, the collection effort begins with written notices from the service center, then proceeds to telephone contact from ACS and/or personal contact from the Collection Field function (Cff) if the delinquency is not resolved. Both ACS and Cff inventories are prioritized by expected yield, using priority codes in ACS and the Resources and Workload Management System (RWMS) score in Cff.

Our workload management system uses taxpayer characteristics in prioritizing workload. Entity age, total positive income, and the number of other delinquent modules in the account are just a few of the taxpayer characteristics used in the prioritization process.

We are conducting three separate, concurrent Accelerated Notice Tests to study the effects on collectibility by eliminating one or more of the written notices to the taxpayer, thus shortening the period a delinquent account spends in notice status and promoting earlier use of other collection methods. The final report on this study will be available in the fall of 1994.

We are conducting a study to identify the characteristics of cases most likely to be closed by either notice, ACS, or Cff processing. We anticipate that this information can be used to make better decisions on where cases should be assigned for work to better tailor the collection process to individual types of cases. The final report on this study will be available by late 1995.



We tested an early prototype of the Accounts Receivable Analytical Model software. We believe that this model, when fully developed, will help us anticipate accounts receivable problems, help us evaluate collection performance, and give us insight into how best to tailor the collection processes for different taxpayer profiles.

**Recommendation:** IRS should identify and implement ways to increase cooperation with state governments in collecting delinquent taxes.

**Response:** Since 1991 we have increased initiatives with state tax departments in the collection of delinquent taxes, some of which were mentioned in the GAO report. At the district level, Fed/State efforts include tape-to-tape matches of nonfilers, outreach programs for nonfilers and focusing on the compliance of certain state licensed professional groups, securing the results of state audit examinations (Employment Tax Adjustment Program), use of state sales tax information to identify delinquent business taxpayers, exchange of delinquent returns secured by one taxing agency with another and setting up installment agreements by one taxing agency on behalf of the other with the cooperation of the taxpayer. Other projects include sharing training materials and procedures with interested states. Several states have already adopted IRS' procedures for offers in compromise.

Many of our district collection officials are currently meeting with their counterparts in the states to determine how they can pool their resources to be more effective collectors. Two districts have made joint installment agreement privileges available to taxpayers who owe both federal and state taxes. Other districts are considering doing the same. Many districts are looking at how they can cooperate in such areas as bankruptcy and resolution of tax lien issues. We are in the process of measuring the impact of setting up cooperative agreements in these areas. We are hopeful that these programs can improve compliance, reduce taxpayer burden, and be cost effective.

**Recommendation:** That the Commissioner test the use of private collection companies to support IRS' collection efforts as permitted by current law.

**Response:** We have serious concerns about the accounts receivable inventory and have been exploring many alternative actions to reduce that inventory. However, we are very concerned about the impact on tax administration, the privacy of taxpayer information and our employees if we were to contract out collection activities. We need to

learn more about its ramifications before we would be prepared to approve Service testing of this concept. We also recognize that in light of the significant accounts receivable inventory, we must be open to suggestions and ideas that can help us to reduce that inventory.

□ Improved Staffing of IRS' Collection Function Would Increase Productivity - GAO/GGD - 93-97, May 1993.

**Recommendation:** The Commissioner direct the Assistant Commissioner (Collection) to develop a plan for ensuring that the Collection staff in field offices is balanced to maximize the assessment and collection of delinquent taxes.

**Response/Status Update:** A complete list of our actions to address workload/staffing balances, with target completion dates is enclosed. Collection has already begun to put in place strategies which will accelerate the migration of staffing to workload in all its functions, including the Collection Field function (CFf). Collection's Resource Allocation Study Group, which includes several Collection executives, has been reviewing our resource allocation methodologies. Recommendations of the group include:

- Identifying a "minimum presence" required in a district;
- Allocating staff with the objective of leveling the Resource and Workload Management System (RWMS) cut-off score nationally. This would help equalize the treatment of taxpayers;
- Classifying relatively overstaffed districts as "No Growth Areas" (NGAs);
- Freezing revenue officer hiring in all NGAs for the foreseeable future; tracking utilization to verify that attrition Full Time Equivalents (FTEs) are transferred to districts which are relatively understaffed;
- Treating the Automated Collection System (ACS) as a corporate asset beginning in FY '94. Insure that existing ACS technology simplifies migrating work to staff rather than vice versa;
- Exploring other possibilities for treating resources as corporate assets. The Special Procedures function (SPf) and Collection Support function (CSf), which are

included in the Cff, present potential opportunities to consolidate and centralize work in designated key districts or in the Service Center Collection Branch (SCCB). In addition, we will soon begin working with the regions to assign relatively understaffed district workload to staff in contiguous NGAs. Long-term details and voluntary reassignments among unbalanced districts will also be considered.

**Recommendation:** The plan should include the use of marginal productivity indicators and multi-year economic forecasts in the methodology for determining the number of staff each field office should have.

**Response:** We are working on the best approach to incorporate econometric data and marginal productivity indicators in Collection's resource allocation decisions. We plan to have a system in place by October 1995.

**Recommendation:** The plan should provide a means for Collection to assess the impact of planned future technological, strategic, and organizational changes on Collection staffing needs and, if appropriate, to modify its plan on the basis of that assessment.

**Response:** We agree with the recommendation. As the Service implements the new Business Vision, Collection will work closely with appropriate functions to ensure that resource allocation decisions mirror the Service's overall direction.

For example, Collection's plan to allocate ACS resources as a corporate asset maximizes use of available ACS technology and allows for distributing resources to sites in favorable labor markets.

**Recommendation:** The plan should include strategies for transferring Collection employees to other functions as a means of eliminating staffing imbalances.

**Response:** This issue was considered early in the Resource Allocation Study Group's work. Several members of the group represent relatively overstaffed regions. These executives advised that many of the other IRS functions in their regions were also relatively overstaffed. We will, however, revisit this issue as the Service-wide redeployment provides new opportunities to creatively resolve our staffing imbalances.

□ IRS Can Do More to Collect Taxes Labeled Currently Not Collectible - GAO/GGD - 94-2, October 1993.

**Recommendation:** The Commissioner should establish specific guidelines for determining taxpayer ability to pay delinquent taxes, including criteria for determining dollar ranges for reasonable and necessary expenses.

**Response:** We have assembled a cross-functional task force to examine the issue of reasonable and necessary expenses. Initial efforts involve primarily Collection and Research Division personnel examining income and cost of living data to establish some baselines for reasonable and necessary expenses in key areas such as housing, food, and transportation. As a result of these actions, we hope to simplify the decision process for Collection personnel whether an account should be paid immediately, subjected to an installment agreement or offer in compromise, or determined Currently Not Collectible (CNC). Our goal is to establish guidelines which recognize the variance in living expenses from one area of the country to another.

While guidelines will eliminate some of the inconsistency with which reasonable and necessary expenses are determined, there will still be a need for Collection personnel to exercise their best judgment on a case by case basis. For example, a taxpayer leases a luxury residence at a cost substantially exceeding the housing norms for that geographical area. Is the taxpayer forced to default on the lease agreement and look for less expensive quarters immediately, or should action be deferred until the conclusion of the lease agreement?

The initial recommendations of the task force will be presented to the practitioner community and other outside stakeholders.

**Recommendation:** The Commissioner should establish specific guidelines for selecting an income level at which unable to pay CNC accounts will be reactivated.

**Response:** We agree with this recommendation. A comprehensive revision of the applicable portions of the Internal Revenue Manual (IRM) is one anticipated result of the task force noted above. Selection of the income level at which an account will be reactivated is one of several issues to be included.

**Recommendation:** The Commissioner should require, except in extraordinary situations, at least minimum payments from delinquent taxpayers with incomes above a specified level.

**Response:** We agree with the principle of this recommendation. Again, the determination of the specified income level may vary based upon local cost of living issues. Additional IRM guidance will consider the recommendations of the task force noted above.

**Recommendation:** The Commissioner should eliminate the automatic 65-week reactivation hold period and allow employees to determine when CNC accounts should be considered for reactivation purposes.

**Response:** We do not agree with this recommendation. Our discussions with GAO personnel attempted to explain our position that the 65-week reactivation hold is necessary to prevent unnecessary reconsideration of recent account dispositions. The reactivation programs are such that an employee could not prevent the reactivation of the account if the next filed return met the total positive income criteria and the hold period had not passed. This raises the possibility of large numbers of accounts being reactivated when collection potential has not changed significantly. If Collection employees are selecting conservative reactivation codes, even marginal income improvement would reactivate the account.

Our Internal Audit (IA) function is also considering a comprehensive review of the cost effectiveness of the total positive income reactivation programs. IA has speculated that the overall return from reactivated accounts represents a poor use of scarce resources, both in reactivation program maintenance and in Collection personnel use. Given the size of queue inventories, there are real concerns that continuing to revisit older accounts with reduced collection potential is adversely impacting the Service's ability to service newer, revenue productive accounts.

**Recommendation:** The Commissioner should track both taxpayers with joint delinquencies to ensure that each taxpayer's ability to pay or status is considered in the reactivation decision.

**Response:** Our ability to accomplish dual tracking is limited by the ability of the current master file to track only the primary taxpayer identification number. The long-term solution lies in Tax Systems Modernization. We are exploring whether any interim solutions can be built upon the current joint refund offset programs.



**Recommendation:** The Commissioner should study the benefits of using other pertinent information, such as interest and dividend income and proceeds from the sale of assets, in addition to total income as reactivation criteria.

**Response:** We agree there may be benefits to using information such as interest and dividend income or proceeds from the sale of assets as reactivation criteria. However, as the report indicated, "The number of returns that contained indicators of collection potential was not large enough to provide meaningful statistical estimates for the population of unable to pay CNC taxpayers."

This is an element which we will incorporate into our reviews of CNC activity for study purposes. Additional information is needed to determine if this recommendation should be pursued under Tax Systems Modernization.

**Recommendation:** The Commissioner should expedite the processing of reactivated cases by reducing the number of notices and making prior case files readily available for IRS employees working reactivated cases.

**Response:** We believe this recommendation needs further study during FY 1994. As noted above, Internal Audit has expressed its concerns over the cost effectiveness of our reactivation programs. We are presently unable to determine the relative effectiveness of "passive" actions such as notices, refund offsets, and the effects of notices of tax lien compared with active intervention by our personnel on CNC accounts.

Each reactivated case competes with more current inventory for our available staffing and related resources. We are not in a position to abandon the gains from our notice programs when local workload conditions may only result in these reactivated cases being placed in the Resources and Workload Management queue.

Ideally, prior CNC case files would be readily available to employees working reactivated cases. This implies filing operations on the local level. However, given the volume of accounts reported as CNC, district office maintenance of background files for all potential reactivations is not practical. Retrieval of information from Federal Records Centers is not always assured, but this storage method is the only viable option. Providing better instructions for information retrieval is one possible answer.

**Recommendation:** The Commissioner should reinforce with supervisors and post reviewers the need to thoroughly review CNC determinations.

**Response:** We are currently reviewing the range of expectations placed upon first line Collection managers. Ensuring quality and efficiency from a group of employees is the core responsibility of a Collection manager. We are looking for ways to reduce routine and administrative tasks which have substantial impact on a manager's available time.

One option we are considering is removing mandatory approval requirements for work products generated by experienced revenue officers. This would give managers the flexibility to concentrate their review efforts in areas of weakness or concern. Without some compromise along these lines, the volume of CNC recommendations will tend to produce less thorough reviews.

Effective October 1, 1993, the CNC post review process was incorporated into the Collection Quality Management System (CQMS). We anticipate that the centralized site review will result in a better quality product.

**Recommendation:** The Commissioner should establish processes that will ensure that the proper number of CNC post reviews are thoroughly done.

**Response:** Under the prior post review system, the number of completed reviews was affected by programs which competed for staffing located in the district Special Procedures function.

Achieving established review samples, including that for CNC accounts, is one of the key expectations for the CQMS sites. The checklists established for review operations also result in a better quality product.

**Recommendation:** The Commissioner should establish requirements for post review reports that will ensure that they provide meaningful information that can be used in determining whether changes are needed.

**Response:** As sufficient data is accumulated under the combined CQMS/post review process, we have the capacity to produce national reports on the core elements specific to CNC quality. These reports will be the basis for analysis to identify systemic issues and needed procedural changes.

Your letter also expressed concerns over taxpayer access to telephone assistance, IRS interim correspondence, IRS collection staffing policies, IRS collection procedures and the "currently not collectible" category.

**Concern:** We ask that you provide us with a description of specific steps that IRS is taking to ensure improved access to telephone assistance, what will be done to improve the situation in 1994, 1995, and 1996, and what you expect the access rate to be for the 1994 filing season.

**Response:** In 1994, our plans are to answer at least the same number of calls as last year. This filing season, through March 19, 1994, we have answered over 11.6 million calls, an increase of 706,000 over the same period last year. We are optimistic that through numerous initiatives undertaken, we will improve our telephone service. At the same time, we are concerned with the trend of increased demand for telephone assistance and the apparent decrease in access to our system. Through the week ending March 19, 1994, the level of service was 52.9% compared to 57.2% last year.

We are working to improve access in a number of ways, including:

- implementing a "Customer Service Network" to equalize telephone access by transferring calls to sites with less demand. We have already shifted portions of traffic from a call site where demand has been consistently higher than expected to a call site in another region experiencing less demand than anticipated. In addition, this network enabled us to transfer telephone demand for service sites across the country after the recent California earthquake, thus allowing IRS to make employees available to help at FEMA sites;
- installing the new Aspect Automated Call Distributor (ACD) equipment with voice response unit (VRU) capability in more sites. This equipment increases our productivity by about 10%, enabling our current staff to serve more customers; and,
- standardizing and extending hours of operation, including some weekend service. (We are opening earlier, closing later, and working selected Saturdays

during the filing season, especially between 9:00 a.m. and 1:00 p.m. when demand is greatest. In addition, we have begun providing after-hour access to our automated Tele-Tax system for customers who dial in to our regular live-assistor toll-free system.)

As part of our Business Vision, we plan to improve service by installing new equipment that will be networked and nationally managed. We will use the latest technology and research tools to increase productivity through automated devices such as VRUs and we will increase hours and days of service based on customer demand. Already, 16 of our 32 toll-free telephone sites have VRUs giving us enhanced capability network and equalize access to systems nationally. Ultimately, all answering sites will be VRU-based and inter-connected to maximize service to the customer.

We are also pursuing efforts to more accurately estimate the demand for our service. We are now receiving new reports from our telephone carrier, SPRINT, which allows us to pinpoint more accurately the number of callers who request assistance. The reports provide additional information such as the number of attempts callers made before reaching us. Our analysis of these reports indicates that there are fewer callers attempting to reach us than our current method of demand would project. Because the new reports measure actual callers and the current formula is an estimate, we believe these new reports will become the accepted measure of service.

While we do know that, on average, about one in four customer "call attempts" were answered last year, forecasting future accessibility rates is a nearly impossible task, and must be reduced to a common sense approach. In addition to IRS telephone staffing and equipment which obviously influence access rates, taxpayer behavior is a big factor as well. How many call attempts is the customer willing to make? How many customers use automatic redial equipment? All these factors play a role in the accessibility picture. Therefore, while we do not and can not "predict" accessibility rates, it is reasonable to expect that 1994 telephone accessibility should be slightly better than in 1993 unless telephone demand grows dramatically. Similarly, accessibility rates for 1995 and 1996, given the same caveat, ought to continue to improve as we gain experience and proficiency in shifting traffic through our Customer Service Network, refine true taxpayer demand and accessibility rates, and take advantage of technological advances, such as VRUs.

Your concerns with respect to IRS interim correspondence are addressed in our responses to the GAO report "IRS Correspondence Needs to Continue Improving" which appear earlier in this response.

**Concern:** IRS Collection Staffing Policies

**Response:** We agree that significant workload/staffing imbalances exist among Collection Field function (Cff) districts. Before FY 1992, our resource allocation models were unsophisticated and outdated. Beginning with FY 1992, the Collection Resource Database and Information Tracking System (CREDITS) model has been available. This budget and work planning model provides us with improved information on which to base resource allocation decisions. A complete list of our actions to address workload/staffing balances, with target completion dates, is enclosed.

While the workload/staffing balance among districts can be improved, it will never be "perfectly" balanced due to geographic and demographic differences. Districts which include large urban areas (such as the Manhattan and Los Angeles Districts) can never be staffed to the same proportional level as small rural districts (such as the Cheyenne, WY and Aberdeen, SD Districts) because of the resources this would require. Conversely, staffing the rural districts to the same level as the urban districts would result in such restricted staffing in the rural districts that an effective collection program could not be maintained. One solution that we are pursuing is to define a minimum program for each district, staffing all districts to achieve that program, then allocating our remaining staff based on workload priority.

**Concern:** Effectiveness of IRS Collection Procedures

**Response:** We are constantly looking for ways to improve our collection process and have established a project under the Assistant Commissioner (Collection) to coordinate our efforts. Specific steps underway or under consideration are described in our previous responses to GAO's report on our collection methods. Not mentioned previously is our long-standing practice of allocating resources first for our service centers and Automated Collection sites, which deal with accounts early in the collection process, with remaining resources allocated to the districts for revenue officer and other staffing. This ensures that the service centers and ACS sites will have resources to deal with their anticipated workload.



**Concern:** Currently Not Collectible Program

**Response:** We share your desire to improve our currently not collectible (CNC) program.

In addition to the issues identified by GAO and previously covered in this response, your letter questioned our treatment of CNC cases with respect to staff evaluations. We do not use statistics in evaluating our collection staff. To do so would violate section 6231(a) of P. L. 100-647, a provision of the Taxpayer Bill of Rights. This provision expressly prohibits such use of this information. If a case is properly worked, the disposition is determined solely by the taxpayer's ability to pay. Evaluations of our collection employees are based on how well they complete their casework.

Clearly, since our mission is to secure the proper amount of revenue from each taxpayer, a CNC is not a desirable case disposition. However, for purposes of resource estimates, a CNC disposition is equal to a fully paid account. Given the clear language of IRC section 7811, relating to Taxpayer Assistance Orders, and IRC section 6343(a)(1)(D), relating to release of a levy which is creating an economic hardship, CNC is the only possible disposition of an account when the taxpayer is unable to make any payments. There are other cases, for example bankrupt corporations, where there is no potential for further collection. However, all these cases require investment of resources to conduct the investigation. It is important for planning purposes that we give the same weight to these dispositions as we do to cases which result in full payment.

This is not to say that we see no need to better apply our resources. As we have discussed elsewhere in this letter, we are trying to better select cases for our staff to pursue toward the goal of increased collections.

## COLLECTION ACTIONS TO ADDRESS WORKLOAD/STAFFING IMBALANCES

Action	Target Date	Status	Comments
Fully implement Collection Resource Database and Information Tracking System (CREDITS) model.	10/1/93	Complete	Completed for FY 1994 Collection Field function resource allocation. CREDITS use will continue for FY 1995 and beyond.
Use actual productivity standards for each location.	10/1/93	Complete	Use of actual standards achieved by each district allows allocation based on district's experience, not a national standard. Standards may vary due to travel requirements, case complexity, grade and experience levels of revenue officers, etc.
Allocate Collection Field function resources to level Resource and Workload Management System cut-off scores nationally.	10/1/94	Ongoing	Ensures that resources made available through attrition and compliance initiative staffing will be allocated to those districts where RMS cut-off scores are above the national average.
Explore the use of the Special Procedures function as a "corporate asset," consolidation of Special Procedures in certain districts, and redistribution/centralization of work in other Collection functions.	10/1/96	Pending	There are a number of pending automation projects, both in the Service and in the Bankruptcy Courts, which will allow us to prototype centralized processing of major portions of bankruptcy activities in a key district. We expect these to begin in the first half of FY 1995.
Determine the subsequent year impact of single year benchmark distributions.	10/1/93	Complete	Completed for FY 1994 financial plans. We have built this action into the annual plan development process.
Determine the impact of staffing allocation changes in one function on the others.	7/1/94	In progress	We plan to complete this analysis as part of the FY 1995 plan development process.

COLLECTION ACTIONS TO ADDRESS WORKLOAD/STAFFING IMBALANCES			
Action	Target Date	Status	Comments
Issue a memorandum to plan managers restricting hiring in overstaffed districts.	9/17/93	Complete	
Determine the definition of "minimum presence" in Collection Field function districts.	1/1/95	In progress	This study is currently being considered under the "Corporate Workload and Queue Reduction Team" which has been chartered in Collection.
Explore the movement of work across Collection Field function district lines.	7/1/94	In progress	This study is currently being considered under the "Corporate Workload and Queue Reduction Team" which has been chartered in Collection.
Incorporate econometric forecasting techniques into workload projection methodologies.	10/1/95	Pending	
Reconsider the decision not to transfer Collection staff between Field offices.	10/1/94	Ongoing	We will continue to revisit this issue in connection with our planning for each fiscal year's financial plan. However, we believe this action should be a last resort, to be used only if substantial progress toward rectifying imbalances cannot otherwise be achieved.

J.J. PICKLE, TEXAS, CHAIRMAN  
SUBCOMMITTEE ON OVERSIGHT

HAROLD E. FORD, TENNESSEE  
CHARLES B. RANGEL, NEW YORK  
WILLIAM J. JEFFERSON, LOUISIANA  
BILL H. BRWSTER, OKLAHOMA  
GERALD D. KLECZKA, WISCONSIN  
JOHN LEWIS, GEORGIA

JMO HOUGHTON, NEW YORK  
WALLY HERGER, CALIFORNIA  
MEL HANCOCK, MISSOURI  
TICK SANTORUM, PENNSYLVANIA

PHIPPS  
DAN ROSTENKOWSKI, ILLINOIS  
BILL ARCHER, TEXAS

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN  
COMMITTEE ON WAYS AND MEANS

JANICE MAYS, CHIEF COUNSEL AND  
STAFF DIRECTOR  
BETH KUNTZ VANCE, SUBCOMMITTEE STAFF DIRECTOR

PHILIP D. MOSELEY, MINORITY CHIEF OF STAFF  
MICHAEL A. SUPAKATA, MINORITY OVERSIGHT COUNSEL

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON DC 20515

SUBCOMMITTEE ON OVERSIGHT

January 10, 1994

The Honorable Margaret Milner Richardson  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

Dear Commissioner Richardson:

On Tuesday, November 9, 1993, the Subcommittee on Oversight held a hearing to review issues contained in six recent U.S. General Accounting Office (GAO) reports to the Subcommittee concerning problems with Internal Revenue Service (IRS) communications with taxpayers and the collection of tax debts. GAO's testimony at the hearing highlighted a number of problem areas which we believe require prompt attention from IRS. A list of the six reports reviewed at the hearing and a copy of GAO's hearing statement to the Subcommittee are attached.

In general, the six reports contained recommendations that IRS take action to reduce taxpayer frustration in dealing with IRS, cutdown on repetitive IRS and taxpayer contacts to resolve tax-related questions, treat taxpayers uniformly throughout the country when collecting delinquent taxes, and increase the effectiveness of IRS tax collection efforts. We believe that IRS implementation of GAO's recommendations will result in major improvements in taxpayer relations with IRS and the collection of delinquent taxes. Therefore, we request that you provide the Subcommittee with a detailed response to each of the GAO recommendations contained in the six reports reviewed by the Subcommittee, including whether you agree or disagree with each GAO recommendation, when and how each recommendation will be implemented, and related actions IRS will take to address the problems.

In responding to these GAO recommendations, we ask that you give special attention to the following specific concerns. First, we are concerned about the increasing difficulty taxpayers encounter in obtaining IRS telephone tax assistance. During the 1993 filing season, taxpayers had a one in four chance of getting through to an IRS assistant. This is not acceptable and worse than the one in three chance taxpayers had the year before. We

consider taxpayer access to IRS tax assistance essential and recommend that taxpayer access to IRS be improved. We ask that you provide us with a description of specific steps that IRS is taking to ensure improved access to telephone assistance, what will be done to improve the situation in 1994, 1995, and 1996, and what you expect the access rate to be for the 1994 filing season.

Second, we are concerned that half of IRS interim correspondence sent in response to taxpayer inquiries is inaccurate, incomplete, confusing, or late. We believe that such responses only serve to undermine public confidence in IRS and the tax system. We recommend that IRS improve accuracy in this area to include imposing a quality review process for interim correspondence. We ask that you provide us with a description of specific steps that IRS is taking to improve the accuracy and timeliness of interim correspondence in 1994, 1995, and 1996, and whether and how you will implement a quality review process.

Third, we are concerned about certain IRS collection staffing policies. Uneven staffing levels at IRS field offices result in disparate treatment of taxpayers in different areas of the country. Taxpayers who live in some States are being pursued for relatively minor tax delinquencies, while taxpayers with much larger delinquencies who live in other States are not being pursued. The failure of IRS to reallocate the workload and/or transfer staff among field offices has allowed staffing imbalances to persist. We believe that IRS has ineffectively relied on additional staff year authorizations from the Congress and attrition to address such imbalances. Even after two recent large hiring initiatives, IRS has not rectified the situation. We recommend that IRS develop a plan to treat taxpayers uniformly throughout the country. We ask that you provide us with a description of specific steps that IRS plans to take to ensure that these imbalances are addressed, and in what timeframes.

Fourth, we are concerned that current IRS collection procedures do not result in efficient collection of taxes. We believe that current reliance by IRS on repeated and lengthy written notification of tax delinquencies, instead of establishing early telephone contact with delinquent taxpayers, reduces the likelihood of successfully collecting the full amount of many taxes owed. We recommend that IRS shift more staff activities to early contact with taxpayers. We ask that you provide us with a description of specific steps that IRS plans to take to promote earlier, direct contact with delinquent taxpayers, and in what timeframes.

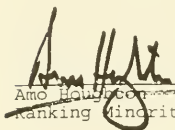


Fifth, we are concerned that IRS collection procedures for designating taxes as "currently not collectible" (CNC) are inadequate. We believe that the lack of meaningful supervisory review of cases designated as CNC, the lack of uniform guidelines for making CNC determinations, and the inability of IRS to keep track of income data from jointly liable taxpayers throughout the CNC process, contribute to the inability of IRS to effectively deal with the \$131 billion in accounts receivables. We recommend that IRS establish CNC review procedures, specific criteria for CNC determinations, and procedures to deal with joint filers. We request that you provide us with a description of the specific steps that IRS is taking to improve the CNC process, including what changes will be undertaken to establish CNC review procedures, uniform guidelines, and data on joint filers.

Also, we are troubled by the fact that CNC determinations are treated as case closures, just as if the taxes were collected in full, when evaluating IRS staff productivity. Further, we are troubled that IRS staff handling "reactivated" CNC cases do not use earlier IRS files, but rather "start again from scratch." We believe that treating CNC closures as full tax collections encourages CNC determinations, and that ignoring existing case files results in unnecessary rework. We recommend that IRS reevaluate whether case closures through CNC determinations are being appropriately used in IRS staff evaluations, and determine the extent to which existing IRS records should be used in CNC cases that are reopened. We request that you provide us with an analysis of how IRS uses CNC determinations and prior files in the collection process and a description of any specific changes that IRS plans to make in this area.

We request that you respond to this inquiry by the close of business, Friday, February 4, 1994. If you have any questions, please contact Beth Vance, Staff Director, Subcommittee on Oversight, at 225-5522.

Sincerely,

  
 Amodeo  
 Ranking Minority Member

  
 J. J. Pickle  
 Chairman

Enclosures

TAX ADMINISTRATION: Selected IRS Forms, Publications, and Notices Could Be Improved (GAO/GGD-93-72) (April, 1993)

TAX ADMINISTRATION: IRS Correspondence Needs To Continue Improving (GAO/GGD-94-XX) (November, 1993)

TAX ADMINISTRATION: Successful 1993 Filing Season Clouded By Increased Fraud and Poor Taxpayer Access to IRS (GAO/GGD-94-65) (November, 1993)

TAX ADMINISTRATION: New Delinquent Tax Collection Methods for IRS (GAO/GGD-93-67) (May, 1993)

TAX ADMINISTRATION: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97) (May, 1993)

TAX ADMINISTRATION: IRS Can Do More to Collect Taxes Labeled "Currently Not Collectible" (GAO/GGD-94-2) (October, 1993)



BOSTON PUBLIC LIBRARY



3 9999 05983 306 9



ISBN 0-16-044520-5



9 780160 445200