COMMISSIONER

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

RECEIVED
JUN 27 2000
DA 9:00 A.M.

June 23, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: for Charles O. Rossotti Bob Wenzel
Commissioner of Internal Revenue

SUBJECT: Treasury Inspector General for Tax Administration (TIGTA) Draft Report – The Process of Developing Tax Forms for Individual Taxpayers Should Be Further Improved (Audit No. 19990076)

Thank you for the opportunity to review and comment on the subject draft report. As noted in the report, the Internal Revenue Service (IRS) continually acts to reduce tax form complexity and burden, and uses a process that produces tax forms that provide taxpayers with a reasonable opportunity to comply with federal income tax laws. I welcome suggestions that help us design and produce tax forms that minimize burden and enhance voluntary compliance.

I would like to share some of our initiatives that contribute to our effort to design forms, instructions, and publications that meet the needs of the taxpaying public. Some examples of these initiatives are:

- We hold Tax Forms Coordinating Committee meetings. These meetings, which are chaired by the National Director, Tax Forms and Publications and include representatives from other functions, provide a forum where issues and concerns, including those raised by taxpayers, can be shared and discussed.
- We maintain an award winning Web site that provides an opportunity for taxpayers and tax professionals to offer feedback on current and early release draft forms. This feedback is shared with the office that can best evaluate it.
- We solicit comments from taxpayers in our form instructions. When we receive comments they are evaluated and, if appropriate, changes are made.
- We conduct focus groups to review new and revised forms and instructions. Data is collected and changes are made when appropriate.
- We collect and share information about common taxpayer/practitioner errors internally and consider those errors when revising forms.
- We are working with a contractor to develop a new method of calculating taxpayer burden.

In the comments below, I will describe some of our efforts in more detail and provide responses to your recommendations.

IDENTITY OF RECOMMENDATION/FINDING #1
The Assistant Commissioner (Forms and Submission Processing) should develop and/or improve procedures that provide individual taxpayers with a convenient method to provide tax form comments to the IRS (such as a toll-free telephone number). These procedures should be clearly detailed on the tax forms.

ASSESSMENT OF CAUSE(S)
While business and practitioner organizations routinely meet with the IRS to provide feedback on tax forms, individual taxpayers generally are limited to written correspondence and e-mail for providing their comments and suggestions.

A few years ago the IRS tested a toll-free number for taxpayers to use to provide comments about forms. This test was conducted over a 2-year period but discontinued because it was not cost effective. The resources expended to listen, transcribe, and analyze the comments far exceeded the value derived. Not only were a significant number of calls unrelated to tax forms, a large percentage of comments were too general to be of value (for example, taxpayers would call and simply say the forms need to be simplified).

CORRECTIVE ACTIONS
We agree the IRS needs to expand its ways of collecting data from individual taxpayers about the tax forms. Listed below are some initiatives that are already underway:

- We are working with a contractor to develop a long-term strategy for gathering data about tax forms. This strategy will include the use of surveys to gauge the effectiveness of our products.
- With the explosive use of the Internet, we anticipate taxpayers will make more frequent use of e-mail to provide us with comments and suggestions.
- Our Small Business Lab in Seattle is experimenting with an artificial intelligence process that will enable the IRS to scan volumes of e-mail and quickly identify issue trends.

IMPLEMENTATION DATE:
Completed: June 1, 2000

RESPONSIBLE OFFICIAL
Assistant Commissioner (Forms and Submission Processing)

IDENTITY OF RECOMMENDATION/FINDING #2
The Assistant Commissioner (Forms and Submission Processing) should enhance its process to compile and use the tax forms information provided by individual taxpayers to support business decisions regarding tax form development and possible legislative proposals for tax form simplification.

ASSESSMENT OF CAUSE(S)
The IRS receives a large volume of tax form comments and suggestions from a variety of sources—taxpayer correspondence, meetings with professional organizations, employee suggestions, field office visits, and focus group testing, just to name a few. While many of these comments are transcribed on computer systems for control purposes, we do not have a process or program to analyze problem areas and help us make decisions on tax forms.

Even without a formal compilation, we use taxpayer feedback to support decisions during forms development. We proactively solicit and receive taxpayer feedback from a variety of sources. These comments and suggestions are forwarded through management to tax law specialists, who initiate form changes, and are used extensively to improve our products.

In many cases, tax law specialists deal directly with customers and stakeholders regarding problem areas. We are also working to develop a Simplified Filing Research Strategy. Part of this strategy involves extensive use of Compliance Research data to identify taxpayer error trends and determine how to effectively use resources to focus on forms most in need of improvement.

CORRECTIVE ACTIONS
We do not agree we should expend the resources that would be needed to establish a formal process to compile comments regarding individual taxpayers. Given the large number of comments and suggestions we receive both formally and informally, the resource demands to accomplish this would be prohibitive.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
Assistant Commissioner (Forms and Submission Processing)

IDENTITY OF RECOMMENDATION/FINDING #3
The Assistant Commissioner (Forms and Submission Processing) should improve future tax form redesign efforts by addressing known tax form preparation errors during the redesign process.

ASSESSMENT OF CAUSE(S)
The TIGTA identified two instances where they felt the forms redesign process did not adequately address areas with a high rate of taxpayer errors:

- The placement of qualifying information used by taxpayers to claim the child tax credit, and
- The absence of information on the form about the need to provide last name and social security numbers (SSN) for dependents that are consistent with the information reported to the Social Security Administration (SSA).

Although we do not believe these two instances are indicative of a problem, we would like to provide a brief summary of each:

- When it became apparent the child tax credit error rate was high during the first year the credit was available, representatives from the Tax Forms and Publications Division visited a service center to see if the design of the forms might be contributing to the high error rate. During this visit, it was suggested we move the child tax credit qualifying information to page 2 of the tax return. This recommendation was considered but was not viable for a variety of reasons.

- We recognize there are many math errors stemming from the SSN requirement for dependents. To help taxpayers correctly complete this information the dependent instructions for Form 1040 and 1040A were revised to state "If you do not enter the correct SSN, at the time we process your return, we may disallow the exemption claimed...." A similar caution about entering the dependent's correct name and SSN was added to the "How to Avoid Common Mistakes" section of the instructions. The suggestion to explicitly state the taxpayer should ensure the SSN and last name "match the social security card" was received late in the development cycle and was placed as an action item for the following year.

CORRECTIVE ACTIONS
We agree we should continue to take known tax preparation errors into account during the tax forms development process. Our specific actions are shown below:

- We have completely redesigned the tax year 1999 child tax credit materials to address our concerns about the high error rate. This effort made extensive use of taxpayer error and compliance research data to address known areas of concern.
- We will add the suggested text about SSNs to the tax year 2000 instructions.

IMPLEMENTATION DATE:
Child Tax Credit Change: Completed: November 1, 1999
SSN Related Change: Proposed: November 1, 2000

RESPONSIBLE OFFICIAL
Director, Communications, Assistance, Research and Education

IDENTITY OF RECOMMENDATION/FINDING #4
The Assistant Commissioner (Forms and Submission Processing) and the Chief Communications and Liaison should develop and implement a strategy to review the tax law to propose legislative changes that could result in the simplification of tax forms.

ASSESSMENT OF CAUSE(S)
The IRS does not have an ongoing strategy to identify and recommend legislative proposals that could simplify tax forms. Although advocating and setting tax policy is customarily under the purview of the Department of Treasury and the Congress, we believe our future organizational structure (i.e., being organized around specific types of taxpayers) will allow us to better understand and address issues affecting the different customer segments.

We actively work with members of the Congress and their staffs during the legislative process to assure that tax law complexity and administration issues are raised and addressed. An example of this was the extensive work we did to help make the Capital Gains tax rate computation less burdensome.

We will have additional opportunities to raise such issues in the annual complexity report mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98). RRA 98 also requires us to prepare a complexity analysis of new legislation to assure that its provisions do not unduly burden taxpayers.

CORRECTIVE ACTIONS
We do not agree we should take additional steps to identify areas that could be simplified at this time. We do, however, anticipate that the Simplifying Filing Research Strategy mentioned above and our future organizational structure will help identify areas that could be improved through legislative changes.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIALS
Assistant Commissioner (Forms and Submission Processing)
Chief Communications and Liaison

IDENTITY OF RECOMMENDATION/FINDING #5
The Chief Information Officer and the Chief Operations Officer should ensure that adequate resources are available to implement tax form improvement suggestions and legislatively required changes that can reduce complexity and taxpayer burden.

ASSESSMENT OF CAUSE(S)
The TIGTA found instances where tax form improvements could not be implemented because of limited programming resources.

The simplification changes cited by TIGTA (e.g., revising Schedule EIC) were proposed late in the preparation process for a filing season in which we were implementing extensive legislative changes and preparing for Y2K. Late changes, whether to forms or systems, increase risk because there is insufficient time to adequately plan, develop, and test their impact. The decision to pursue changes must be balanced against the risks.

Our Request for Information Services (RIS) prioritization process, which we used when preparing for the 2000 filing season, help us to determine the best use of our resources.

CORRECTIVE ACTIONS
While we are committed to doing everything we can to make filing as simple as possible, we must prioritize our work. Although Y2K is successfully behind us, we are still facing extensive changes related to our organizational and technical modernization efforts. Given sufficient lead-time for analysis, design, programming, and testing we will continue to devote resources to implement tax form improvements and legislative changes that can reduce complexity and taxpayer burden.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIALS
Chief Operations Officer
Chief Information Officer

IDENTITY OF RECOMMENDATION/FINDING #6
The Chief Information Officer and the Chief Operations Officer should provide adequate resources to ensure that internal controls provide reasonable assurance relative to the efficiency and effectiveness of its tax forms development process.

ASSESSMENT OF CAUSE(S)
Some taxpayer comments and suggestions were not recorded in the Forms and Publications Division control systems. In some cases technical personnel, whose primary responsibility is to ensure that accurate tax forms are delivered on time, were recording comments and suggestions because of a severe shortage of clerical staff.

Although TIGTA found no instances where action items were not incorporated into the tax forms and instructions, we agree our internal control systems could be tightened. We have already begun to record comments received via e-mail by entering them into our control system. In addition, we have documented the procedures to be followed for processing and controlling comments and suggestions.

CORRECTIVE ACTIONS
We will devote the necessary resources to ensure that internal controls are used to ensure efficiency and effectiveness in the tax forms development process. This includes providing programming support when it is needed and requested within the established RIS framework.

IMPLEMENTATION DATE:
Completed: January 1, 2000

RESPONSIBLE OFFICIALS
Chief Operations Officer
Chief Information Officer

IDENTITY OF RECOMMENDATION/FINDING #7
The Assistant Commissioner (Forms and Submission Processing) and the Chief Communications and Liaison should, through training and employee memoranda, increase Divisional Familiarity with the requirements relating to the *Standard For Internal Controls In The Federal Government* to ensure IRS compliance with these standards.

ASSESSMENT OF CAUSE(S)
Personnel in both Tax Forms and Publications and Legislative Affairs Divisions were not familiar with the Government Accounting Office's (GAO) *Standard For Internal Controls In The Federal Government.*

CORRECTIVE ACTIONS
GAO's *Standard For Internal Controls In The Federal Government* will be distributed to managers in both offices.

IMPLEMENTATION DATE:
Proposed: August 1, 2000

RESPONSIBLE OFFICIALS
Assistant Commissioner (Forms and Submission Processing)
Chief Communications and Liaison

IDENTITY OF RECOMMENDATION/FINDING #8
The Assistant Commissioner (Forms and Submission Processing) should ensure that procedures are developed and adhered to for the processing of tax forms comments received from the *Digital Daily*.

ASSESSMENT OF CAUSE(S)
The report states the Multimedia Production Division, which is part of Forms and Submission Processing, does not document procedures for handling comments from the *Digital Daily*.

CORRECTIVE ACTIONS
We agree and have taken the following actions:

- We recently implemented improvements from a reengineering of the "comments" capability on the *Digital Daily*.
- We developed new correspondence procedures.
- We are developing formal training for sorting and distributing comments.
- We have contracted with a qualified vendor to help us develop a strategic plan and perform workflow analysis.

We expect to fully implement the results of these efforts by November 2000.

IMPLEMENTATION DATE:
Proposed: November 1, 2000

RESPONSIBLE OFFICIAL
Director, Communications, Assistance, Research and Education

IDENTITY OF RECOMMENDATION/FINDING #9
The Chief Communications and Liaison should permanently implement controls similar to those used to monitor the implementation of the IRS RRA 98. Specifically, permanent implementation should include the use of the consolidated Intranet site to monitor plans and the assigning of action items to executives, allowing for cross-functional oversight of the implementation of these action items.

ASSESSMENT OF CAUSE(S)
To facilitate the successful implementation of the RRA 98, the IRS developed a list of provisions, monitored progress, and discussed any concerns at Executive Steering Committee meetings. An IRS executive "owned" each provision and was responsible for its implementation. The implementation plan was automated and regularly updated.

CORRECTIVE ACTIONS
The newly established Office of Tax Administration Coordination will oversee implementation of newly enacted legislation. As the successor to the Taxpayer Treatment and Service Improvement Office (TTSI), they will continue to use and improve upon the implementation methodology used by TTSI used to monitor the IRS RRA 98.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
Director, Office of Tax Administration Coordination

If you have any questions, please call Sheldon D. Schwartz, Acting Assistant Commissioner (Forms and Submission Processing), at (202) 622-2875.