



National Association
of Tax Professionals

IRS Oversight Board 2014 Public Meeting

Panel 2: Pivoting Away From Paper

NATP's Commentary Regarding:

The use of technology to increase customer service for
taxpayers and tax preparers

May 13, 2014

Presented by: Larry L. Gray, CPA
National Association of Tax Professionals
Government Relations Liaison
natp@natptax.com
920.968.7127
natptax.com

BACKGROUND

The National Association of Tax Professionals (NATP) is honored to submit this paper to the IRS Oversight Board. NATP appreciates the opportunity to comment on the future of the tax administration system and how it may dramatically improve its efficiency for the sake of government, tax professionals and taxpayers alike through the effective use of technology.

NATP is a grassroots organization that was formed in 1979 by tax professionals for tax professionals. Its founders envisioned a support organization that could provide education on the complex tax code, its regulations and other pronouncements in laymen's language. Currently NATP has over 23,000 members and 39 state Chapters. We are the largest association formed to support all tax professionals.

NATP provides its members with the necessary resources that enable them to properly advise their clients in tax matters and prepare accurate returns. NATP provides as its core benefits to members federal tax research and continuing education. With these tools, tax practitioners are better equipped to effectively resolve taxpayer issues while ensuring tax compliance.

OVERVIEW

This Oversight Board has asked stakeholders for insights and recommendations on how the IRS can effectively use technology to improve customer service to taxpayers and tax professionals. To the IRS' credit, much improvement has been made in this regard. The new Get Transcript tool and "Where's My Refund" are just two examples of how the use of technology is enabling communication with the IRS to operate more efficiently. Yet much more work is needed.

The IRS must have a clear vision of how it will use technology effectively and efficiently. If the goal is to become more paperless, they must define what they mean by "paper." There are numerous ways to communicate, obtain information and conduct business electronically with the IRS using electronic applications that are currently in place. Examples include e-services, online tools to renew PTINs and enrolled agent status and various electronic payment options for paying federal taxes and user fees. All these things can be done without paper filing. Another triumph is the online FAFSA application that connects seamlessly with IRS computers, automatically populating the form with the already filed tax return. Assuming the tax return was accurate, the FAFSA application is too. Less time wasted. Far fewer errors.

THE FUTURE IS NOW

The millennials are coming, in fact they are already here – almost 80 million of them. This is the generation of tech-savvy up and comers who are taking over the workforce and dictating how business is conducted. They're armed with every gadget imaginable. They multitask, talk, walk, listen, type and text. And their priorities are simple, they want more, better, faster and they come first. It's no longer business as usual.¹

¹ Morley Safer On The New Generation Of American Workers, CBS News, Nov. 8, 2007

The IRS needs to recognize that as the younger generation establishes itself in the workplace, they will become less patient with the old ways of conducting business. This will not only encompass taxpayers but tax professionals as well. Millennials are generally better educated, often with advanced degrees and are commanding efficiencies that older generations only imagined. They won't tolerate antiquated means of communication such as faxing documents when the technology already exists to conduct just about any form of business electronically. They are using apps that log all their credit card transactions and categorize them for easy retrieval. There are mobile apps and web-based services for small business owners. For example, American Express card users have access to an app that directly links expenses to QuickBooks. Tools such as these are not only efficient and cost effective, they're more reliable and accurate.

The gender gap can't be ignored. The IRS must retool its processes to accommodate technology-literate customers. They will demand it. To achieve this goal, money, capital and well trained human resources must be allocated to improving the IRS infrastructure and streamlining all processes across every operating division. Because IRS resources are limited, the IRS must prioritize once the vision is created. Congress must be on board.

PIVOTING FROM PAPER

In 1980, the Congress enacted *The Paperwork Reduction Act* with the intention to reduce the total amount of paperwork burden the federal government imposes on private businesses and citizens. It seems as though the IRS has lost sight of that vision over the past three decades.

As stated earlier, the IRS must have a clear vision and a strategic plan for reaching their goal – whatever that's determined to be. The question really is, what are we pivoting *to*? Paper *reduction* or *paperless*? There are numerous options available for submitting documentation and information to the IRS electronically. After electronic submission, if the end result is hitting the print key and creating a paper document, the IRS has essentially defeated the efficiencies of electronic submission and document management. Once the IRS has established a method for receiving documents and other correspondence electronically, it must remain electronic. Printing electronically submitted documents opens the door for error, misplacement, security breaches, added costs, delays and inefficiencies.

Before any new process is created, the infrastructure of the IRS must be updated. A recent report by the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS is not adequately performing mainframe software license management. The inadequate software license management has resulted in an estimated waste of \$11.6 million and overutilization of \$1.5 million in license and software subscription support fees.² Problems such as this need correcting and proper management before any process for maintaining secure data storage, use and retrieval is implemented. TIGTA Inspector General J. Russell George was quoted as saying, "efficient and cost-effective management of the IRS's software assets is crucial to

² The Internal Revenue Service Should Improve Mainframe Software Asset Management and Reduce Costs, February 20, 2014, Reference Number: 2014-20-002

ensuring that information technology services continue to support the IRS's business operations and help it to provide efficient services to taxpayers."

According to the TIGTA report, the IRS runs approximately 200 different software products on its mainframe computer systems. To ensure seamless customer service within all divisions of the IRS, its computer systems must have the ability to speak to each other.

When tax professionals were told by the IRS that Disclosure Authorizations (DA) were being discontinued as an option through e-services, we were ensured that once a Power of Attorney (POA) was submitted via fax (electronically through the web before that) to the IRS, it was logged into the CAF system and easily accessible by any agent or officer working the case regardless in what campus they were located. We found this not to be an accurate statement. In fact often a POA had to be re-faxed several times before simple issues were resolved. This is not an example of pivoting from paper or reducing taxpayer burden.

The IRS needs to continuously focus on moving forward, not backward. For example, there was a time when a tax practitioner could call the IRS to resolve issues regarding Form 1040-NR. Now the IRS asks that any correspondence be faxed to them. Again, this is an example of moving from a paperless procedure back to paper.

The procedure for obtaining an employer identification number (EIN), which should be a simple electronic process malfunctioned and caused several of our members to have a bad experience. The objective was to allow requests for EINs to be made only online. The system failed so the IRS created a phone line where taxpayers could phone in their request for an EIN. That failed too because callers generally received a busy signal and they were unable to obtain the EIN. A third option required faxing the completed SS-4 to the IRS. That failed because the fax line was always busy. The fourth and unfortunately the only remaining option, was to attach the completed Form SS-4 to the tax return and **mail** it to the IRS. This is not a paperless process under any definition. These are the processes that the IRS must make a concerted effort to fix so electronic submissions remain electronic.

Under the leadership of Commissioner Doug Shulman, the IRS began investigating a real-time tax system. The idea was to spot potential errors on tax returns before the tax return was even filed based on the information the IRS already possessed electronically. Preventing errors before they are created results in fewer notices (paper) and more cost savings to the government. The same model can be used in the exam process by developing a platform where taxpayers can submit requested documentation to the auditor instead of arriving at the exam with bags of paper receipts. Also, as we move from paper receipts to electronic receipts, what will that look like in exam, collection and how does it impact responding to notices? Now, it's the IRS's turn to go from paper to electronic communication in notices, collections and exam to complete the cycle. We believe the two panels today are the beginning steps towards a real-time tax system.

STAKEHOLDER INVOLVEMENT

The IRS needs to continue to partner with and rely on input provided by its stakeholders to ensure smooth transitions to new processes. Stakeholders have the ability to offer advice on the feasibility of changes to systems and procedures prior to implementation and can better troubleshoot failures before they become an administrative burden. Case in point is the pulling of the Electronic Account Resolution (EAR) and the Disclosure Authorization (DA) from e-services. Stakeholders were informed that the IRS was planning to do this less than a month before it happened. Apparently those in IT at the IRS knew at least two years in advance. Had stakeholders been involved in the communications from the onset, as this decision had a direct impact on taxpayer assistance and compliance, the IRS may have reconsidered its decision and at a minimum offered a more efficient alternative than resorting to paper submissions.

A positive outcome to front-end stakeholder involvement is the process taken with improving notice clarity. The goal was to rewrite all IRS notices in plain language making it easier for taxpayers to understand what was required and enabling them to respond in a timely manner. The IRS effectively defined its purpose, sought stakeholder input and buy-in, detailed the priorities and carried out its plan. The result was a better outcome through increased compliance, easier implementation and far fewer administrative and taxpayer burdens. Now at least 80% of all notices are written in plain, easy to understand language. The IRS should consider using this same approach for developing a process to pivot from paper in any area where it's practical to do so and then keep the process paperless.

ENSURING SECURITY

With any electronic data submission or storage comes concerns regarding security. While the IRS continues to make progress in addressing information security control weaknesses and improving its internal control over financial reporting, weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data. Specifically, the agency had not always installed appropriate patches on all databases and servers to protect against known vulnerabilities, sufficiently monitored database and mainframe controls, or appropriately restricted access to its mainframe environment.³

According to the GAO report, an underlying reason for these weaknesses is that the IRS has not effectively implemented portions of its information security program. The report went on to say that until the IRS takes additional steps to more effectively implement its testing and monitoring capabilities, ensure that policies and procedures are updated, and address unresolved and newly identified control deficiencies, its financial and taxpayer data will remain vulnerable to inappropriate and undetected use, modification or disclosure.⁴

Taxpayers need assurance that any electronic submission to the IRS will remain secure. While it's evident in today's world that any computer system is vulnerable to attack by sophisticated hackers, tighter security measures must be put into place and monitored regularly. Along with

³ GAO Report 14-405; Information Security - IRS Needs to Address Control Weaknesses That Place Financial and Taxpayer Data at Risk; April 2014

⁴ *Ibid.*

procedures to ensure data remains secure comes educating taxpayers on how to properly utilize shared secrets and other out-of-wallet information to accurately and efficiently verify their identity when dealing with the IRS using electronic methods.

CONCLUSION

IRS e-file has accomplished many goals, including reducing the amount of paper the government must process. This reduction of paper processing allows the agency to be more efficient and use valuable resources to address other critical work. In an April 3, 2014 press release, the IRS stated that as of March 28, 2014, 91% of the individual tax returns (82 million) were filed electronically.⁵ This is a huge increase from 2013 when the electronic filing rate for individual income tax returns was approximately 83%.⁶ It should be noted that the *Restructuring and Reform Act of 1998* implemented a goal to reach an 80% e-file rate for individual returns by 2007. This is an example where the IRS had a mission and a vision. It took a little longer but the vision was still achieved.

The rapid rise in e-filing is just one example of how the use of technology and electronic commerce is being driven by the consumer. There are apps for everything imaginable. It is becoming more common for retailers to ask consumers if they want the receipt for a purchase emailed to them instead of printing it in a small piece of (misplaceable) paper. Software programs can easily take those electronic receipts and categorize them into folders for later retrieval. Simple, cost effective and efficient. This is the model of the future only the future is here now.

When defining a clear vision, weight must be given to developing effective processes that result in time and cost savings. Any process can only be successful if it is given careful thought and then carried out across all segments of the IRS. A silo approach to implementing any new process will fail. The IRS needs to define its goal, set its priorities, communicate the process and train its personnel so every frontline employee is applying the process the same so all customers have the same experience.

Current technology is forcing a paperless environment and the IRS needs to catch up. To accomplish this, the IRS must determine a vision a systems approach plan of action that will address current issues, as well as other issues yet unforeseen and incorporate them into a definition of paperless, set a goal based on the end result they want and then create a process for pivoting from paper with sound procedures for implementation. Lastly, the IRS needs to involve stakeholders at the beginning of the process, get their buy-in and work in partnership to achieve its goal or the process will be out of date before it's put into operation.

NATP applauds the timing of this panel. The timing is right for creating a paperless environment that will impact a direction towards real-time tax administration.

⁵ IR-2014-44, April 3, 2014

⁶ IRS Oversight Board Electronic Filing 2013 Annual Report to Congress