



This report is dedicated

to

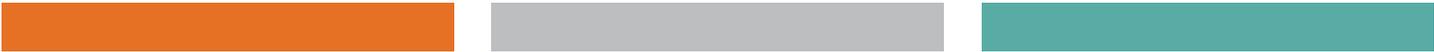
Tom Beers

TAS research advisor

*from whom I have learned so much,
and without whom this Report
would not be what it is today.*

*I am grateful for his friendship, his
sage advice, and his refreshing honesty.*

We all wish him well in retirement.



SUMMARY (TABLE OF CONTENTS)

VOLUME ONE

Preface	vii
Special Focus	1
Taxpayer Rights Assessment	42
The Most Serious Problems Encountered By Taxpayers	48
Legislative Recommendations	277
Most Litigated Issues	410
TAS Case Advocacy	516
Appendices	548

VOLUME TWO

TAS Research and Related Studies

VOLUME THREE

Literature Reviews

VOLUME 1 (TABLE OF CONTENTS)

PREFACE: Introductory Remarks by the National Taxpayer Advocate	vii
--	-----

SPECIAL FOCUS

IRS FUTURE STATE: The National Taxpayer Advocate’s Vision for a Taxpayer-Centric 21st Century Tax Administration	1
---	---

TAXPAYER RIGHTS ASSESSMENT: IRS Performance Measures and Data Relating to Taxpayer Rights	42
--	----

THE MOST SERIOUS PROBLEMS ENCOUNTERED BY TAXPAYERS

Introduction	48
--------------------	----

Necessary Elements of the Future State

1. VOLUNTARY COMPLIANCE: The IRS Is Overly Focused on So-Called “Enforcement” Revenue and Productivity, and Does Not Make Sufficient Use of Behavioral Research Insights to Increase Voluntary Tax Compliance	50
2. WORLDWIDE TAXPAYER SERVICE: The IRS Has Not Adopted “Best-in-Class” Taxpayer Service Despite Facing Many of the Same Challenges As Other Tax Administrations . . .	64
3. IRS STRUCTURE: The IRS’s Functional Structure Is Not Well-Suited for Identifying and Addressing What Different Types of Taxpayers Need to Comply	72
4. GEOGRAPHIC FOCUS: The IRS Lacks an Adequate Local Presence in Communities, Thereby Limiting Its Ability to Meet the Needs of Specific Taxpayer Populations and Improve Voluntary Compliance	86
5. TAXPAYER BILL OF RIGHTS (TBOR): The IRS Must Do More to Incorporate the Taxpayer Bill of Rights into Its Operations	98

Necessary Tools for Achieving the Future State

6. ENTERPRISE CASE MANAGEMENT (ECM): The IRS’s ECM Project Lacks Strategic Planning and Has Overlooked the Largely Completed Taxpayer Advocate Service Integrated System (TASIS) As a Quick Deliverable and Building Block for the Larger ECM Project	109
7. ONLINE ACCOUNTS: Research Into Taxpayer and Practitioner Needs and Preferences Is Critical As the IRS Develops an Online Taxpayer Account System	121
8. EARNED INCOME TAX CREDIT (EITC): The Future State’s Reliance on Online Tools Will Harm EITC Taxpayers	138
9. FRAUD DETECTION: The IRS’s Failure to Establish Goals to Reduce High False Positive Rates for Its Fraud Detection Programs Increases Taxpayer Burden and Compromises Taxpayer Rights	151
10. TIMING OF REFUNDS: The Speedy Issuance of Tax Refunds Drives Refund Fraud and Identity Theft, As More Research Is Needed on the Costs and Benefits of Holding Refunds Until the End of the Filing Season	161

- 11. PAYMENT CARDS: Payment Cards Are Viable Options for Refund Delivery to the Unbanked and Underbanked, But Security Concerns Need to Be Addressed 166

Taxpayer Rights and Issue Resolution in the Future State

- 12. PRIVATE DEBT COLLECTION (PDC): The IRS Is Implementing a PDC Program in a Manner That Is Arguably Inconsistent With the Law and That Unnecessarily Burdens Taxpayers, Especially Those Experiencing Economic Hardship 172
- 13. ALLOWABLE LIVING EXPENSE (ALE) STANDARDS: The IRS’s Development and Use of ALEs Does Not Adequately Ensure Taxpayers Can Maintain a Basic Standard of Living for the Health and Welfare of Their Households While Complying With Their Tax Obligations 192
- 14. APPEALS: The Office of Appeals’ Approach to Case Resolution Is Neither Collaborative Nor Taxpayer Friendly and Its “Future Vision” Should Incorporate Those Values 203
- 15. ALTERNATIVE DISPUTE RESOLUTION (ADR): The IRS Is Failing to Effectively Use ADR As a Means of Achieving Mutually Beneficial Outcomes for Taxpayers and the Government 211
- 16. FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA): The IRS’s Approach to International Tax Administration Unnecessarily Burdens Impacted Parties, Wastes Resources, and Fails to Protect Taxpayer Rights. 220
- 17. INSTALLMENT AGREEMENTS (IAs): The IRS Is Failing to Properly Evaluate Taxpayers’ Living Expenses and Is Placing Taxpayers in IAs They Cannot Afford 230
- 18. INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINs): IRS Processes for ITIN Applications, Deactivations, and Renewals Unduly Burden and Harm Taxpayers. 239
- 19. FORM 1023EZ: The IRS’s Reliance on Form 1023-EZ Causes It to Erroneously Grant Internal Revenue Code (IRC) § 501(c)(3) Status to Unqualified Organizations 253
- 20. AFFORDABLE CARE ACT (ACA): The IRS Has Made Progress in Implementing the Individual and Employer Provisions of the ACA But Challenges Remain 266

LEGISLATIVE RECOMMENDATIONS

- Introduction 277
- National Taxpayer Advocate Legislative Recommendations With Congressional Action 282
 - 1. TAX REFORM: Simplify the Internal Revenue Code Now 305
 - 2. TAX REFORM: Restructure the Earned Income Tax Credit and Related Family Status Provisions to Improve Compliance and Minimize Taxpayer Burden 325
 - 3. OUTSIDE RESEARCH: Expand Opportunities for the IRS to Collaborate With Outside Researchers 358
 - 4. COLLECTION DUE PROCESS (CDP): Amend Internal Revenue Code § 6330 to Provide That the Standard and Scope of Tax Court Review in CDP Cases Is *De Novo* Regardless of Whether the Underlying Liability Is at Issue 364
 - 5. COLLECTION DUE PROCESS (CDP): Amend Internal Revenue Code § 6330 to Require Appeals Officers, in Considering Collection Alternatives, to Suspend CDP Hearings Pending Resolution of Challenged Non-CDP Liabilities or Precluded CDP Liabilities. 376

6. NOTICES OF FEDERAL TAX LIENS (NFTL): Amend the Internal Revenue Code to Require a Good Faith Effort to Make Live Contact With Taxpayers Prior to the Filing of the NFTL	386
7. INTERNATIONAL DUE DATES: Amend Internal Revenue Code § 6213(b)(2)(A) To Provide Additional Time To Request Abatement of a Mathematical or Clerical Error Assessment to Taxpayers Living Abroad Similar to the Timeframe Afforded to Taxpayers to Respond to a Notice of Deficiency	393
8. INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS (ITINs): Amend the Protecting Americans from Tax Hikes (PATH) Act of 2015 to Revise the Expiration Schedule for ITINs	398
9. CERTIFIED ACCEPTANCE AGENTS (CAAs): Amend the PATH Act to Authorize CAAs to Certify Individual Taxpayer Identification Number Applications for Taxpayers Residing Abroad	403
10. STREAMLINE RELIGIOUS EXEMPTIONS: Streamline the Religious Exemption Process for the Individual Shared Responsibility Payment (ISRP)	407

MOST LITIGATED ISSUES

Introduction	410
Significant Cases	415
1. Accuracy-Related Penalty Under IRC § 6662(b)(1) and (2)	428
2. Appeals from Collection Due Process (CDP) Hearings Under IRC §§ 6320 and 6330	438
3. Summons Enforcement Under IRC §§ 7602, 7604, and 7609	455
4. Gross Income Under IRC § 61 and Related Sections	465
5. Trade or Business Expenses Under IRC § 162 and Related Sections	474
6. Failure to File Penalty Under IRC § 6651(a)(1), Failure to Pay an Amount Shown As Tax on Return Penalty Under IRC § 6651(a)(2), and Failure to Pay Estimated Tax Penalty Under IRC § 6654	482
7. Civil Actions to Enforce Federal Tax Liens or to Subject Property to Payment of Tax Under IRC § 7403	491
8. Charitable Deductions Under IRC § 170	497
9. Frivolous Issues Penalty Under IRC § 6673 and Related Appellate-Level Sanctions	503
10. Trust Fund Recovery Penalty (TFRP) Under IRC § 6672	507

TAS CASE ADVOCACY	516
------------------------------------	-----

APPENDICES	548
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VOLUME 2: TAS Research and Related Studies (TABLE OF CONTENTS)

1. Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups	1
2. Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate	31
3. The Importance of Financial Analysis in Installment Agreements (IAs) in Minimizing Defaults and Preventing Future Payment Noncompliance	53
4. IRS Should Use Its Internal Data to Determine If Taxpayers Can Afford to Pay Their Tax Delinquencies.	67
5. Collecting Business Debts: Issues for the IRS and Taxpayers	81

VOLUME 3: Literature Reviews (TABLE OF CONTENTS)

1. Introductioniii
2. Taxpayer Service in Other Countries.	2
3. Incorporating Taxpayer Rights into Tax Administration	27
4. Behavioral Science Lessons for Taxpayer Compliance	44
5. Geographic Considerations for Tax Administration.	102
6. Customer Considerations for Online Accounts	123
7. Options for Alternative Dispute Resolution (ADR)	144
8. Reducing "False Positive" Determinations in Fraud Detection	153

PREFACE: Introductory Remarks by the National Taxpayer Advocate

HONORABLE MEMBERS OF CONGRESS:

I respectfully submit for your consideration the National Taxpayer Advocate's 2016 Annual Report to Congress. Section 7803(c)(2)(B)(ii) of the Internal Revenue Code requires the National Taxpayer Advocate to submit this report each year and in it, among other things, to identify at least 20 of the most serious problems encountered by taxpayers and to make administrative and legislative recommendations to mitigate those problems.

During 2016, I and the Taxpayer Advocate Service embarked on an extraordinary endeavor of actively engaging with the taxpayers we serve. As I announced in last year's Annual Report, where we analyzed the IRS's vision for its Future State, I traveled the country and held 12 Public Forums on Taxpayer Needs and Preferences.¹ Together with Members of Congress, I heard directly from taxpayers and their representatives about the challenges they face complying with the tax laws and dealing with the IRS.² TAS also held "Future State" Focus Groups with tax preparers and practitioners at the IRS's Nationwide Tax Forums.³ And we engaged every single TAS office in meetings about the Future State, asking our employees what they thought taxpayers needed now and in the future.⁴ Finally, we conducted a nationwide survey of U.S. taxpayers to learn what they need in the way of taxpayer service.⁵

All of this has been a very humbling and moving experience — to see so many people caring so much about improving tax administration, taking the time to attend the Public Forums, sharing their ideas, and expressing their concerns, including the universal acknowledgement that the IRS needs more funding to do its job. For me, it was a transformative experience. More specifically, it has motivated me to lay out my vision and recommendations for what the IRS needs to be a world-class 21st century tax administration, based on all of the information people have shared with me this year. This vision is set forth in the first section of the Report, titled "Special Focus," and it is arguably the most important piece I have written about the IRS in my 15 years serving as National Taxpayer Advocate.

In addition to the Special Focus section, we have included a third volume of the Report (after our usual Volume Two containing TAS research studies). At the beginning of 2016, I charged my immediate staff with identifying significant research into topics that have relevance for tax administration, including approaches to voluntary compliance, worldwide taxpayer service, alternative dispute resolution, taxpayer

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- 1 National Taxpayer Advocate Public Forums were held in the following locations: San Antonio, TX (Aug. 30, 2016); Los Angeles, CA (Aug. 22, 2016); Portland, OR (Aug. 18, 2016); Parma, OH (Aug. 16, 2016); Washington, DC (May 17, 2016); Baltimore, MD (May 13, 2016); Red Oak, IA (May 5, 2016); Harrisburg, PA (Apr. 8, 2016); Hendersonville, NC (Apr. 4, 2016); Bronx, NY (Mar. 18, 2016); Chicago, IL (Mar. 9, 2016); and Washington, DC (Feb. 23, 2016).
 - 2 For information about and full transcripts from the National Taxpayer Advocate Public Forums, see <https://taxpayeradvocate.irs.gov/public-forums> (last visited Dec. 31, 2016).
 - 3 TAS Communications and Liaison, *2016 IRS Nationwide Tax Forums TAS Focus Group Report: Preparers' Thoughts About IRS's Proposed Future State* (Oct. 2016).
 - 4 For the results of the discussions with TAS employees, see <https://taxpayeradvocate.irs.gov/public-forums> (last visited Dec. 31, 2016).
 - 5 See Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*, vol. 2, *infra*.

rights, fraud detection, online accounts appearance, and geographic focus.⁶ I asked that they not limit their review to tax literature, but to look at psychology, organizational theory, network theory, marketing, and other disciplines. As a result, Volume 3 contains comprehensive Literature Reviews on several tax administration topics. We used this research as groundwork for many of the Most Serious Problems herein; we wanted to look at the IRS in a broader context, and the Literature Reviews have enabled us to bring insights from other disciplines and other countries and apply them to IRS problems and challenges.

In light of the arrival in January 2017 of a new Administration and a new Congress, our first two Legislative Recommendations include recommendations pertaining to tax reform — the first identifying the burdens the current tax code places on taxpayers and the IRS alike, and suggesting that Congress undertake comprehensive tax simplification; the second proposing a comprehensive revamp of the tax code’s “family status” provisions to reduce taxpayer burden and combat improper payments. Simply put, the IRS cannot achieve a transition to a 21st century tax administration if it is encumbered by a 20th century tax code. Thus, we hope this Report, and the analysis and recommendations it contains, will prove helpful to the Administration and to Members of Congress this year and your consideration of tax and IRS reform. As always, I stand ready to assist in any way that I can.

Respectfully submitted,



Nina E. Olson
National Taxpayer Advocate
31 December 2016

6 See Literature Reviews: *Taxpayer Service in Other Countries*; *Incorporating Taxpayer Rights into Tax Administration*; *Behavioral Science Lessons for Taxpayer Compliance*; *Geographic Considerations for Tax Administration*; *Customer Considerations for Online Accounts*; *Options for Alternative Dispute Resolution (ADR)*; and *Reducing “False Positive” Determinations in Fraud Detection*, vol. 3, *infra*.