

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

-
- 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*.