

## THE END OF IRS SUPPORT?

### *Effects of Shrinking Resources on Low-Income Taxpayers*

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### NATIONAL TAXPAYER ADVOCATE'S PUBLIC FORUM ON THE IRS FUTURE STATE VISION

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The current iteration of the IRS *Future State* masks the real problems facing taxpayers and the IRS. For several years running, the National Taxpayer Advocate's (NTA) *Annual Reports to Congress* have drawn a close and inescapable correlation between the most serious problems facing taxpayers and the inadequate funding of the IRS.

The future state of the IRS begins with adequate funding to fulfill its core functions around taxpayer service.

While there is much to be said for long-range planning and the incorporation of technological advances into the future IRS, we are deeply disturbed by Commissioner Koskinen's *either/or* approach to his vision of taxpayer communication with the IRS. Implicit in the *Future State* he has advanced is an IRS which engages in little or no person-to-person interaction with taxpayers. A future in which Taxpayer Assistance Centers and access to telephone customer service representatives are either greatly reduced or non-existent.

It is beyond ironic that the IRS response to the declining quality of taxpayer service highlighted as among the most serious problems facing American taxpayers in the NTA's 2014 *Annual Report to Congress* is to further reduce – if not eliminate – the resources devoted to taxpayer service. At the Center for Economic Progress (CEP), we believe this *either/or* approach is a mistake. The future state of the IRS ought, instead, to adopt a *both/and* approach to taxpayer communication and service – one which enhances and maintains a robust program of telephone and face-to-face communication with and assistance to taxpayers even as it greatly expands and improves its electronic communication technology.

The reality of present-day America is that a large segment of the taxpaying public is excluded from the sophisticated world of interactive technology endemic to the banking and financial industries. This remains true despite the fact that a large and growing population of taxpayers have fully crossed the digital divide into that realm. The future state of the IRS must be one which offers the highest quality service to both populations of taxpayers – as both have the right to expect quality service from the IRS.

We know, for example, that millions of taxpayers lack traditional bank accounts or insurance policies. We know that these taxpayers are not requesting the IRS to implement interactive technologies. Not surprisingly, these taxpayers attempt to communicate with the IRS by telephone or by visiting a Taxpayer Assistance Center (TAC) in person.

The annual reports of the NTA have mentioned, in almost every report since 2001, that for a substantial portion of low-income taxpayers, telephone and personal contact are the most effective methods for communication, taxpayer education, and IRS efforts to insure taxpayer compliance. Millions of well-intentioned taxpayers comprise this population, and it appears that future modernization of IRS communication systems as envisioned by Commissioner Koskinen will leave these taxpayers without any accessible means of communication with the IRS. Neither will these taxpayers suddenly acquire the economic means to employ tax professionals to fill the gap left by the closing of Taxpayer Assistance Centers or the curtailment of IRS telephone customer service representatives.

Our experience at CEP during 2014, 2015, and 2016 is illustrative of what happens when hours and services at TACs are reduced and the IRS stops answering its phones.

Prior to 2013, our Tax Services and Tax Clinic programs have received an aggregate number of 2000 to 2500 calls annually. Beginning in 2014, a year which the NTA described as one of the worst on record in terms taxpayer interaction with the IRS, the number of incoming calls to these two programs shot through the proverbial roof.

In 2014, for example, these two programs received as many incoming phone calls from taxpayers between January and April as we had received in the entire previous year. The identical pattern has been replicated in 2015 and 2016. In fact, in 2016, there has been a 47.4% increase in calls received in January and February over the same period last year. Anecdotal reports from other VITA/TCE programs through the Taxpayer Opportunity Network reflect similar trends across the nation.

If we compare the anecdotal experience of tax clinics and VITA programs with the data collected by the NTA, one fact becomes clear. The segment of taxpayers who depend on the telephone and face-to-face interaction as their primary means of communication with the IRS does not diminish simply because the IRS lacks employees to answer the phone or staff TACs. On the contrary, they continue to call in increasing numbers and they direct their inquiries to other sources of assistance.

What we know from this data is that the segment of taxpayers who rely on telephone and face-to-face interaction as their primary means of communication will not suddenly swap their telephone for tablets and laptops. We know that their first impulse is to call the IRS, and, then, they'll call or contact someone else when the IRS doesn't answer.

The lucky ones will call a nearby LITC or VITA program. A few will have the means to call a CPA, enrolled agent, or attorney and get advice from competent, reliable tax professionals. Most will not be so lucky, and they will get advice from the largely unregulated tax preparation industry. For example, try searching for "tax help" on the internet. If you search on "tax help Chicago," the first four websites returned will be for commercial, for-profit *tax preparation services*. Center for Economic Progress will come up fifth or sixth on the list. Few low-income taxpayers can afford to pay for tax advice, and, given the largely unregulated state of commercial tax preparation, tax preparers are not necessarily *tax experts* and may or may not be qualified to give advice to taxpayers who contact them. A future state which drives taxpayers toward for-profit businesses which may or may not employ enrolled agents, CPAs, or attorneys who

actually have the necessary requirements to give tax advice does not serve the interests of the taxpayers. It puts them at risk of bad advice or expensive mistakes on their tax returns.

We also know that there is a very ordinary and low-tech means available to meeting the service needs of the more than 100 million taxpayers who call the IRS each year. The answer: having a qualified and competent IRS employee pick up the phone.

This particular response confronts the genuine problem the IRS faces. It is inadequately funded to do the jobs Congress has assigned to it.

Worse, the current iteration of the IRS *Future State* appears to accept inadequate funding as a permanent and immutable state.

It is not immutable.

The future state of the IRS must be one in which the IRS advocates for the approach to funding recommended by the NTA in her 2011 and 2014 Reports. The IRS must be able to provide quality service to every segment of the taxpaying public.

In order to accomplish this goal, the IRS will require resources as suggested by the NTA in her recommendations regarding the IRS. In order to accomplish this goal, the IRS must address the needs of the low-income taxpayers by increasing its commitment to VITA programs.

Specifically, the IRS must recognize that the inability of taxpayers to find the service they need from the IRS itself, drives those frustrated taxpayers to make greater demands on the non-profit agencies which sponsor VITA and LITC programs.

The future state of the IRS must:

1. Include sufficient funding to insure quality service for all taxpayers, including the maintenance and enhancement of a robust and efficient program of telephone assistance to taxpayers.
2. Increase VITA funding to maximize the overall resources (federal and matching funds) available for free tax preparation assistance.
3. Remove VITA and TCE program grant restrictions for specific tax forms, schedules, and issues, including Schedules C, D, and F, and ITINs.
4. Allow grant funding for quality review, CAAs, and year-round services at select sites.
5. Require volunteers who are authorized under Circular 230 to practice before the IRS (*i.e.*, attorneys, CPAs, and Enrolled Agents) to annually recertify only on new provisions and changes in tax law.
6. Provide free tax preparation assistance at TACs in areas with limited access to VITA or TCE volunteers, along with proper staffing and hours to handle taxpayer traffic.
7. Allow VITA programs a degree of flexibility regarding income maximums similar to that afforded LITCs under the so-called 90/250 rule. This would enable VITA programs to make exceptions for taxpayers whose income for the preceding year may exceed the VITA maximum, but who have lost their jobs and become disabled or otherwise unemployed during the filing season for that year.