**The Wage & Investment Division Is Tasked With Supporting Multiple Agency-Wide Operations, Impeding its Ability to Serve its Core Base of Individual Taxpayers Effectively**

**RESPONSIBLE OFFICIALS**

Douglas H. Shulman, Commissioner, Internal Revenue Service
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**DEFINITION OF PROBLEM**

The IRS Restructuring and Reform Act of 1998 (RRA 98) directed the agency to reorganize into units serving particular groups of taxpayers with similar needs.\(^1\) The legislation led to the creation of four operating divisions (ODs), each charged with full end-to-end responsibility for servicing a distinct set of taxpayers.\(^2\) The Wage and Investment (W&I) division is the largest OD, serving 123 million individual taxpayers with non-business income.\(^3\)

In practice, the IRS has deviated from the goal of providing end-to-end service by taxpayer type in an attempt to achieve efficiencies. Notably, it has charged W&I with performing key servicewide operations such as processing tax returns, staffing IRS telephone lines, managing taxpayer accounts, publishing all forms, instructions, and publications, and maintaining the IRS’s e-services. These IRS-wide responsibilities consume a significant majority of W&I’s budget and staffing. Because the IRS has limited resources and these servicewide functions must be performed (e.g., the IRS cannot fail to process tax returns), assigning these responsibilities to W&I may dilute W&I’s ability to adequately provide service to its “base” – all individual taxpayers with wage and investment income.

Particularly as the IRS gears up to administer health care reform, W&I’s ability to focus on its core mission of serving individual taxpayers must be strengthened. Additionally, the structure of the budget devoted to IRS-wide services masks the relatively small amount spent on taxpayer service. The percentage of the IRS budget for Pre-filing Taxpayer Assistance and Education – which is what most people think of as pure taxpayer service – stood at only 5.5 percent in fiscal year (FY) 2010.\(^4\)

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2 Id.
4 Overall, the IRS budget is approximately $12.5 billion. Of that amount, $2.3 billion is allocated to the “Taxpayer Services” account. However, most “Taxpayer Services” funding goes toward “Filing and Account Services,” which largely covers the costs of processing tax returns. The amount allocated for “Pre-filing Taxpayer Assistance and Education” – which is what most people think of as pure taxpayer service – is only $685 million. See Department of the Treasury, FY 2011 Budget in Brief at 1.
ANALYSIS OF PROBLEM

Background

The Creation of the IRS

When the IRS was established in 1952, it was built around a system of 17 regions and 64 districts, consolidating over the years until 1995 when there were 33 districts and ten service centers, each reporting to a director charged with administering the entire tax code for every taxpayer within its jurisdiction. The districts and service centers were geographically based and functionally separate, with multiple layers of management. While four regional offices and a national office conducted oversight of the districts, separate functions within each district carried out day-to-day work.

The IRS Restructuring and Reform Act of 1998

While the private sector evolved and redefined its business model, the IRS’s structure and organization remained stagnant. As former IRS Commissioner Charles Rossotti noted:

In the years since 1952 most successful businesses had changed their organizational models, reorganizing into more decentralized business units with authority to meet the needs of specific groups of customers, cut out layers of middle management and used technology to link and control the business.

In 1996, Congress established the National Commission on Restructuring the IRS to review IRS practices and make recommendations for modernizing and improving its efficiency and taxpayer services. By 1997, the IRS’s failure to adapt to the changing business landscape left the agency with the largest number of customers and the lowest approval rating of any measured institution in America.

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5 Commissioner Doug Shulman, Prepared Remarks Before Tax Analysts Conference on RRA ’98, IR-2008-90 (July 18, 2008). District offices conducted the examination, collection, criminal investigation, and customer assistance functions of the IRS within established geographic areas. Service centers processed paper and electronic submissions, corrected errors, and forwarded data to the computing centers for analysis and posting to the taxpayer accounts. Internal Revenue Manual (IRM) 1.1.2.4 (Feb. 26, 1999).

6 Commissioner Doug Shulman, Prepared Remarks Before Tax Analysts Conference on RRA ’98, IR-2008-90 (July 18, 2008). For example, each district had its own examination and collection functions that were responsible only for taxpayers within that district.


8 The Treasury Postal Service and General Government Appropriations Act of 1996, 109 Stat. 509, established The National Commission on Restructuring the Internal Revenue Service. The 18-member panel was comprised of members of Congress, administration officials, representatives from various private sector firms, taxpayer organizations, the National Treasury Employees Union, a former IRS Commissioner, and a state tax administrator. The Commission held 12 days of public hearings, three field hearings, and numerous private sessions with public and private sector experts, academics and citizens’ groups to examine IRS operations and services. It also reviewed thousands of reports on IRS operations, management, governance, and oversight. The Commission’s report contained recommendations relating to congressional oversight and executive branch governance, IRS management and budget, IRS workforce and culture, IRS customer service and compliance; technology modernization; electronic filing; tax law simplification; taxpayer rights; and financial accountability. National Commission on Restructuring the Internal Revenue Service: A Vision for a New IRS (June 25, 1997); The Committee on Ways and Means, Subcommittee on Oversight, Johnson Announces Hearing on the Report of the National Commission on Restructuring the Internal Revenue Service (July 15, 1997).

9 The American Customer Satisfaction Index, a quality index sponsored by the American Society for Quality Control (ASQC), and the University of Michigan Business School’s Customer Satisfaction Index show that taxpayers gave the IRS lower customer satisfaction ratings than any of the other 200 companies and government agencies measured in the index. Why Was the Commission Created? at http://www.house.gov/natcommirs/create.htm (last visited June 23, 2010).
After a series of hearings before the Senate Committee on Finance and the House Committee on Ways and Means revealed poor service, alleged mistreatment of taxpayers, and agency mismanagement, Congress enacted RRA 98 on July 22, 1998.\(^{10}\) RRA 98 served as the impetus for the most significant IRS reorganization in IRS history and required the IRS to reorganize its structure and restate its mission to place a greater emphasis on serving taxpayers’ needs.\(^{11}\)

**The Footprint for Redesign**

After the passage of RRA 98, the IRS abandoned its existing geographic structure and realigned into four major operating divisions based on specific groups of taxpayers:

- **Wage and Investment (W&I)** – serving individual taxpayers with only wage and investment income;
- **Small Business/Self-Employed (SB/SE)** – serving small businesses and fully or partially self-employed individuals;
- **Large and Mid-Size Business (LMSB)** – serving corporations and partnerships with assets of more than $10 million;\(^{12}\) and
- **Tax Exempt and Government Entities (TE/GE)** – serving a wide range of customers including small community organizations, major nonprofit entities such as universities and hospitals, pension funds, state governments, and Indian tribal governments.

Each division was given end-to-end responsibility for serving a particular group of taxpayers with similar needs, without regard to where the taxpayers resided.

**The Design of W&I**

W&I is made up of four operating units:\(^{13}\)

- **Communications, Assistance, Research and Education (CARE)** – responsible for pre-filing activities, including taxpayer education, taxpayer service, and tax forms and publications for both individuals and businesses;
- **Customer Account Services (CAS)** – responsible for filing activities for individuals and businesses, including processing returns, validating that the proper amounts have been paid, and responding to telephone, written, and electronic account and other inquiries;

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12. LMSB has recently reorganized into the Large Business and International (LB&I) division, which will continue to serve corporations and partnerships with assets greater than $10 million. *IRS Realigns and Renames Large Business Division, Enhances Focus on International Tax Administration (Aug. 4, 2010)* at [http://www.irs.gov/newsroom/article/0,,id=226284,00.html](http://www.irs.gov/newsroom/article/0,,id=226284,00.html) (last visited Sept. 13, 2010).

The Wage & Investment Division is tasked with supporting multiple agency-wide operations, impeding its ability to serve its core base of individual taxpayers effectively.

- **Compliance** – responsible for post-filing activities such as audits for individuals and addressing delinquent accounts; and

- **Electronic Tax Administration and Refundable Credits (ETARC)** – responsible for overseeing the exchange of electronic information between the IRS, individual taxpayers, businesses, and practitioners and encouraging eligible individual taxpayers to claim the Earned Income Tax Credit (EITC) and Health Coverage Tax Credit (HCTC).

**Servicewide Responsibilities Cause Competition for Resources**

*W&I Provides the Lion’s Share of Filing and Account Services and Relieves Other Operating Divisions of Their Responsibilities*

Today, the Wage and Investment division is the largest OD, with nearly 47,000 employees, or over 43 percent of all IRS employees. While W&I serves the largest group of taxpayers within the IRS (i.e., individual taxpayers with wage and investment income), it is also responsible for a number of servicewide operations. Table 1.4.1 illustrates the major duties and responsibilities of the W&I organization. Only one function within W&I – Compliance – is dedicated solely to individual taxpayers.

### TABLE 1.4.1, W&I Division Structure and Operations

<table>
<thead>
<tr>
<th>Organization/Operating Unit</th>
<th>Responsible Functions</th>
<th>Taxpayers Served</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Assistance, Relationships and Education (CARE)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Field Assistance (FA)</td>
<td>Return preparation, tax questions, and account and notice inquiries.</td>
<td>W&amp;I SB/SE</td>
</tr>
<tr>
<td>Media and Publications (M&amp;P)</td>
<td>Tax product development (e.g., forms, publications, and notices), publishing, and distribution.</td>
<td>W&amp;I SB/SE LMSB TE/GE</td>
</tr>
<tr>
<td>Stakeholder Partnerships, Education and Communication (SPEC)</td>
<td>Outreach and education for the public.</td>
<td>W&amp;I</td>
</tr>
<tr>
<td><strong>Customer Account Services (CAS)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submission Processing (SP)</td>
<td>Processes tax returns and payments, issues refunds, and post transactions to taxpayer accounts.</td>
<td>W&amp;I SB/SE LMSB TE/GE</td>
</tr>
<tr>
<td>Accounts Management (AM)</td>
<td>Responds to taxpayer account inquiries; adjusts taxpayer accounts.</td>
<td>W&amp;I SB/SE LMSB TE/GE</td>
</tr>
</tbody>
</table>

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15 IRS Staffing by Business Unit (as of Aug. 28, 2010). W&I has 41,300 campus (processing center) and 5,580 non-campus employees. The IRS has a total of 107,435 employees.
The Wage & Investment Division is tasked with supporting multiple agency-wide operations, impeding its ability to serve its core base of individual taxpayers effectively.

### Most Serious Problems

#### Legislative Recommendations

MSP #4

#### Appendixes

Case Advocacy

Most Litigated Issues

Legislative Recommendations

Most Serious Problems

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<table>
<thead>
<tr>
<th>Organization/Operating Unit</th>
<th>Responsible Functions</th>
<th>Taxpayers Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Operations Center (JOC)</td>
<td>Plans, routes, and monitors toll-free telephone call traffic.</td>
<td>W&amp;I SB/SE LMSB TE/GE</td>
</tr>
<tr>
<td>Electronic Products and Services Support</td>
<td>Supports electronic products and services for centralized operations, including e-help and Information Returns Branch help desk.</td>
<td>W&amp;I SB/SE LMSB TE/GE</td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examination</td>
<td>Audits returns by correspondence.</td>
<td>W&amp;I</td>
</tr>
<tr>
<td>Automated Underreporter (AUR)</td>
<td>Matches taxpayer income and deduction documents submitted by third parties such as banks, brokerage firms, and other payers on information returns.</td>
<td>W&amp;I</td>
</tr>
<tr>
<td>Collection</td>
<td>Collects delinquent tax liabilities and returns.</td>
<td>W&amp;I</td>
</tr>
<tr>
<td>Additional Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC) Office</td>
<td>Leads and manages an integrated program that works with internal and external stakeholders to deliver established program objectives for the EITC and Pre-Refund programs.</td>
<td>W&amp;I SB/SE</td>
</tr>
<tr>
<td>Pre-Refund Program</td>
<td>Provides strategic and operational direction that supports compliance and outreach activities designed to prevent fraud, protect revenue, and ensure taxpayer rights.</td>
<td>W&amp;I SB/SE</td>
</tr>
<tr>
<td>Health Coverage Tax Credit (HCTC) program</td>
<td>Informs potentially eligible taxpayers about the credit, enrolls eligible applicants in the program, and makes payments to health plans.</td>
<td>W&amp;I</td>
</tr>
</tbody>
</table>

As a result of its extensive responsibilities, W&I owns and is responsible for maintaining sections in over 50 Internal Revenue Manuals (IRMs) – ranging from servicewide policies and procedures to refund inquiries, Notice of Levy, and mail and transport management – all of which also involve policies or procedures for other operating divisions. Almost all of these IRMs contain technical guidance, forms, and procedures applicable to other ODS. For example, IRM 1.2 Servicewide Policies and Authorities is intended for all divisions and functions.

Table 1.4.2 lists the IRMs containing sections that W&I owns. The highlighted IRMs are sections that W&I owns but contain technical guidance, forms, and procedures relevant to other ODS.

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**TABLE 1.4.2, Wage and Investment Division IRM Sections**

<table>
<thead>
<tr>
<th>IRM Section Number</th>
<th>IRM Name</th>
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<tbody>
<tr>
<td>1.1</td>
<td>Organization and Staffing</td>
</tr>
<tr>
<td>1.2</td>
<td>Servicewide Policies and Procedures</td>
</tr>
<tr>
<td>1.4</td>
<td>Resource Guide for Managers</td>
</tr>
<tr>
<td>1.11</td>
<td>Internal Management Documents System</td>
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<td>1.17</td>
<td>M&amp;P Publishing</td>
</tr>
<tr>
<td>1.18</td>
<td>M&amp;P Distribution</td>
</tr>
<tr>
<td>1.22</td>
<td>Mail and Transportation Management</td>
</tr>
<tr>
<td>1.55</td>
<td>Wage and Investment</td>
</tr>
<tr>
<td>2.25</td>
<td>Web Services</td>
</tr>
<tr>
<td>3.0</td>
<td>General</td>
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<tr>
<td>3.5</td>
<td>Accounts Services</td>
</tr>
<tr>
<td>3.8</td>
<td>Deposit Activity</td>
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<tr>
<td>3.10</td>
<td>Campus Mail and Work Control</td>
</tr>
<tr>
<td>3.11</td>
<td>Returns and Document Analysis</td>
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<tr>
<td>3.12</td>
<td>Error Resolution</td>
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<tr>
<td>3.13</td>
<td>Campus Document Services</td>
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<tr>
<td>3.14</td>
<td>Notice Review</td>
</tr>
<tr>
<td>3.17</td>
<td>Accounting and Data Control</td>
</tr>
<tr>
<td>3.21</td>
<td>International Returns and Document Analysis</td>
</tr>
<tr>
<td>3.22</td>
<td>International SC Error Resolution</td>
</tr>
<tr>
<td>3.24</td>
<td>ISRP System</td>
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<tr>
<td>3.28</td>
<td>Special Processing Procedures</td>
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<tr>
<td>3.30</td>
<td>Work Planning and Control</td>
</tr>
<tr>
<td>3.37</td>
<td>International ISRP</td>
</tr>
<tr>
<td>3.38</td>
<td>International Tax Returns and Documents</td>
</tr>
<tr>
<td>3.40</td>
<td>Block Out of Balance Resolution</td>
</tr>
<tr>
<td>3.41</td>
<td>OCR Scanning Operations</td>
</tr>
<tr>
<td>3.42</td>
<td>Electronic Tax Administration</td>
</tr>
<tr>
<td>3.43</td>
<td>Integrated Management System</td>
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<tr>
<td>4.19</td>
<td>Liability Determination</td>
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<tr>
<td>5.11</td>
<td>Notice of Levy</td>
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<tr>
<td>5.19</td>
<td>Liability Collection</td>
</tr>
<tr>
<td>11.55</td>
<td>Wage and Investment</td>
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<tr>
<td>21.1</td>
<td>Accounts Management and Compliance Services Operations</td>
</tr>
<tr>
<td>21.2</td>
<td>Systems and Research Programs</td>
</tr>
<tr>
<td>21.3</td>
<td>Taxpayer Contacts</td>
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<tr>
<td>21.4</td>
<td>Refund Inquiries</td>
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<tr>
<td>21.5</td>
<td>Account Resolution</td>
</tr>
<tr>
<td>21.6</td>
<td>Individual Tax Returns</td>
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</tbody>
</table>
Because a wide range of W&I responsibilities impact taxpayers beyond the W&I population, W&I is setting policies for all IRS functions and as a result, is relieving the other operating divisions of their responsibility to provide full service to their target taxpayer groups. The question is whether its additional responsibilities limit W&I’s ability to meet its core mission – serving individual taxpayers with wage and investment income.

**Competition for Resources – A Losing Game for Taxpayers**

In FY 2010, W&I served more than two-thirds of all taxpayers, yet its budget amounted to approximately 18 percent of the overall IRS operating budget.\(^7\) Of that amount, more than 75 percent went to activities that serve all IRS (not only W&I) taxpayers.\(^8\) Moreover, very little of this money is spent on taxpayer service. A review of the IRS budget shows that the percentage of the FY 2010 IRS budget devoted to Pre-filing Taxpayer Assistance and Education – which is what most people think of as pure taxpayer service – stood at only 5.5 percent in FY 2010.\(^9\) W&I taxpayers are being forced to compete with service-wide priorities, and, as the budget numbers demonstrate, W&I taxpayers are losing out.

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\(^8\) W&I’s total expenditures for FY 2010 were almost $2 billion. The amount of the W&I budget devoted to CAS, Media and Publications, and Field Assistance was over $1.5 billion in FY 2010. This includes amounts allocated to the National Distribution Center and Filing and Account Services Management. W&I response to TAS research request (Nov. 5, 2010).

\(^9\) Overall, the IRS budget is approximately $12.5 billion. Of that amount, $2.3 billion is allocated to the “Taxpayer Services” account. However, the majority of the “Taxpayer Services” funding goes toward “Filing and Account Services,” which largely covers the costs of processing tax returns. The amount allocated for “Pre-filing Taxpayer Assistance and Education” – which is what most people think of as pure taxpayer service – is only $685 million. See Department of the Treasury, FY 2011 Budget in Brief at 65.
One of the results of this competition for resources is that taxpayer service suffers. Each year, tens of millions of taxpayers call the IRS seeking help with a wide variety of issues, including account questions and tax-filing questions. Yet the IRS is unable to answer a large percentage of these phone calls. The CAS Customer Service Representative Level of Service, or “LOS,” generally measures the percentage of calls that get through to a representative among all callers seeking to do so. In FY 2004, the IRS answered 87 percent of its calls.\(^{20}\) Since that time, the LOS has declined, plummeting to a low of 53 percent in FY 2008.\(^{21}\) In other words, IRS telephone assistors in FY 2008 were unable to answer nearly half the calls they received.\(^{22}\)

In FY 2010, the LOS rebounded somewhat to about 74 percent, and the IRS’s target for the current fiscal year (2011) is 75 percent.\(^{23}\) While answering 75 percent of calls would be a vast improvement over recent years, it still means one out of every four calls seeking assistance will not get through. Of equal concern is the IRS projection that among calls that do get answered, the average wait time in FY 2011 will be almost ten minutes, up from about four and one-half minutes in FY 2007.\(^{24}\)

The IRS is also having difficulty keeping up with taxpayer correspondence. Accounts Management (AM) employees who answer the toll-free phone lines also handle paper correspondence (including processing amended returns).\(^{25}\) One way the IRS adjusts for fluctuating call volume is by moving AM staff from correspondence to the phones (and vice versa).\(^{26}\) As call volumes have increased and AM employees have been moved to answer phone calls, paper correspondence inventories have substantially increased as well. The correspondence inventory rose from approximately 480,000 at the end of FY 2007 to over 628,000 at the end of FY 2010 – an increase of nearly 30 percent.\(^{27}\)

While taxpayer service is suffering, the current structure of the IRS budget masks the amount of money the IRS actually dedicates to core taxpayer services. The full cost of processing tax returns – over $600 million in FY 2010 – is included in the Taxpayer Services account, even though return processing is a business requirement that can no more be considered a taxpayer service than an enforcement function.\(^{28}\) The IRS uses returns

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22 However, this is likely due to the volume of calls related to the Economic Stimulus Act of 2008. On an enterprise-wide basis, the IRS received 166.6 million calls in FY 2008, more than twice the 82.8 million calls it received in FY 2007. IRS, Joint Operations Center, Snapshot Reports: Enterprise Snapshot: Enterprise Total (weeks ending Sept. 30, 2007 and Sept. 30, 2008).
24 Id.
25 IRM 1.4.16.2 (Jan. 1, 2009).
26 IRM 1.4.16.2.2 (3) and (4) (Jan. 1, 2009). See also National Taxpayer Advocate’s 2009 Annual Report to Congress, 6 (Most Serious Problem: IRS Toll-Free Telephone Service is Declining as Taxpayer Demand for Telephone Service is Increasing).
28 W&I response to TAS research request (Nov. 5, 2010). In FY 2006, the IRS restructured its budget into separate “Taxpayer Services” and “Enforcement” categories.
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Most Serious Problem

Most Serious Problem

processing as much to collect taxes due from persons who have underpaid as to issue refunds to those who have overpaid, and the data captured through returns processing are used in IRS enforcement actions. Additionally, the full cost of the Field Assistance budget is included in the Taxpayer Services account, though over half of Field Assistance’s work in FY 2010 is attributable to account and notice work.\(^9\) The IRS’s account and notice work serves to aid the IRS in collection activities as much as, if not more than, it serves taxpayers looking to resolve account issues. Because W&I manages all tax processing and face-to-face assistance for all individual and business taxpayers, it is difficult for Congress and taxpayers to determine the adequacy of resources allocated to W&I taxpayer service and compliance.

The New W&I – No Longer the IRS’s Operations Support Division

W&I’s role of providing IRS-wide services consumes a significant majority of its budget and staffing. As a result, W&I has little time or money left to focus on the needs of individual taxpayers. For example, W&I is consumed for much of the year with filing season activities or preparing for the filing season, and is therefore limited in its ability to address other issues related to its taxpayer base. One of the goals of RRA 98 was to organize the IRS to serve “particular groups of taxpayers with similar needs.”\(^{30}\) To meet that objective, the IRS should reevaluate the W&I organization.

The National Taxpayer Advocate recommends that the IRS create a new division – Servicewide Customer Account Service – under the Deputy Commissioner for Services and Enforcement. This new division would contain CAS (Submission Processing, Accounts Management, the Joint Operations Center, Electronic Products and Services Support) and Media and Publications.

As currently structured, CAS is the largest single entity within the IRS and is responsible for filing, accounts management, and telephone services for the entire IRS. In addition, the Media and Publications unit of W&I is responsible for all IRS forms, publications, and other documents for taxpayer use. To focus attention on the resources required specifically to meet the needs of individual taxpayers, CAS and Media and Publications should move out of W&I.

There is precedent for this type of shift. In 2004, the IRS studied options for consolidating W&I and SB/SE CAS headquarters with the goal of eliminating duplicate functions and to “increase efficiency while maintaining the same level of effectiveness.”\(^{31}\) Prior to 2004, both W&I and SB/SE had functions dedicated to processing tax returns, adjusting accounts, and handling taxpayer telephone calls. The IRS consolidated the duplicate functions to eliminate redundancy and placed the consolidated functions under W&I. As a result, W&I inherited responsibility for more than just its own taxpayers, while SB/SE was relieved of

\(^{29}\) W&I response to TAS research request (Nov. 5, 2010).


\(^{31}\) CAS Headquarters Consolidation Business Case Support, slide 4 (Oct. 9, 2004).
service-related tasks and could focus mainly on enforcement. Moving these shared services out of W&I would allow W&I to focus more clearly on its core taxpayer base instead of being distracted by its servicewide responsibilities.

Additionally, the IRS should propose a change to how funding is categorized to increase transparency of how much money the IRS actually spends on core taxpayer service. The entire budget for Submission Processing is allocated to Taxpayer Service. However, we do not believe it is accurate to classify processing tax returns as taxpayer service.\(^3^2\)

Other IRS services – such as Field Assistance – are now categorized entirely as Taxpayer Service, when in fact more than half of their work is account-related. Accounts Management is also categorized as Taxpayer Service when the vast majority of its work stems from account and notice issues.\(^3^3\) The IRS’s practice of categorizing various functions as Taxpayer Service or Enforcement wholesale, without looking deeper into the different types of services these functions perform, hides the true breakdown of the IRS budget.

**CONCLUSION**

When RRA 98 was voted out of the Senate Finance Committee, the committee noted:

[A] key reason for taxpayer frustration with the IRS is the lack of appropriate attention to taxpayer needs. At a minimum, taxpayers should be able to receive from the IRS the same level of service expected from the private sector. For example, taxpayer inquiries should be answered promptly and accurately; taxpayers should be able to obtain timely resolutions of problems and information regarding activity on their accounts; and taxpayers should be treated fairly and courteously at all times.\(^3^4\)

The Committee believed the proposed reorganization would “enable IRS personnel to understand the needs and problems affecting particular groups of taxpayers, and better address those issues.”\(^3^5\) However, as currently organized, most of W&I’s staff and resources serve the entire IRS, instead of focusing on the needs of the division’s own taxpayers. Because of the special needs of the W&I population, the current approach is not achieving the goals Congress intended when it enacted the IRS Restructuring and Reform Act of 1998.

In conclusion, the National Taxpayer Advocate offers the following preliminary recommendations:

1. Create a new division under the Deputy Commissioner for Services and Enforcement – Servicewide Customer Account Service. This new division would contain Media and Publications, and CAS.

\(^3^2\) W&I response to TAS research request (Nov. 5, 2010).
\(^3^3\) *Id.*
\(^3^4\) National Commission on Restructuring the Internal Revenue Service: A Vision for a New IRS (June 25, 1997).
\(^3^5\) *Id.*
2. Recommend removing funding for Submission Processing from the Taxpayer Services budget and placing it in the Operations Support account.

3. Recommend dividing the budget for Field Assistance and other similar organizations that perform both service and compliance activities on the basis of the percentage of their activities that are true taxpayer service as opposed to enforcement or operations support. This will provide a more accurate breakdown of the IRS’s budget.

**IRS COMMENTS**

**Background**

The delivery of a successful filing season is the single most important aspect of the W&I mission. For most filers with returns reflecting only wage and investment income, their primary (and often only) relationship with IRS is their annual tax filing and payment requirement. These taxpayers expect and are entitled to an efficient, accurate, and courteous filing season experience. In this regard, W&I had another outstanding year. Key accomplishments include:

- Successfully implementing significant and sometimes extremely late tax law changes, including the American Reinvestment and Recovery Act of 2009 (Recovery Act) and the Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA).
- Processing over 137 million individual income tax returns and timely issuing over 107 million refunds, totaling approximately $312 billion.
- Correcting taxpayer errors to ensure receipt of the Making Work Pay Credit by over 4.6 million taxpayers who otherwise would not have received it.
- Increasing electronic filing by three percent over last year with over 96.8 million individual taxpayers (70.4 percent) filing electronically, including over 2.9 million filers who took advantage of the free online filing services offered by the Free File Alliance available through IRS.gov.
- Expanding the functionality of the Customer Account Data Engine (CADE), the modernized system that will eventually replace the IRS Masterfile of taxpayer accounts, providing faster refunds and more up-to-date information to respond to taxpayer account inquiries.
- Creating both telephone and web self-service applications to provide automated responses to 14 million taxpayers seeking prior year Adjusted Gross Income information needed to electronically sign their e-filed tax returns.
- Assisting more than 41.4 million taxpayers during the core filing season (January 1 to April 15), including 26.1 million taxpayers assisted through automated telephone applications, and 15.3 million taxpayers served by IRS assistors.
- Providing face-to-face walk-in services to almost three million customers (through May) at 401 Taxpayer Assistance Centers (TACs).
Conducting special events to assist customers, including special EITC Saturdays and special Open House events to help taxpayers with account and other unresolved tax issues.

Increasing state tax return preparation at the TACs from 20 to 27 states and increased its presence in the communities by locating TAC employees at 27 Volunteer Income Tax Assistance (VITA) sites, up from nine sites in 2009.

Supporting the preparation of nearly 3.1 million federal tax returns and more than 2.2 million state tax returns for free at over 12,000 VITA and Tax Counseling for the Elderly (TCE) sites nationwide.

Maintaining IRS.gov, which is consistently one of the most heavily used government websites, with more than 284 million visits and 190 million downloads of forms, publications, instructions, and other documents.

Providing 95.3 percent of the individual critical filing season tax products (tax forms and publications) to the public by the first week of January 2010, despite the tax law changes noted above.

With respect to the National Taxpayer Advocate’s report, the IRS appreciates its comments and recommendations regarding the IRS-wide responsibilities of the W&I Division. The IRS takes seriously the National Taxpayer Advocate’s concerns regarding the level of funding available each year for pre-filing assistance and education services. However, we do not agree that the recommendations and approach suggested in this report will help mitigate those concerns. The IRS also disagrees with certain points of view expressed by the National Taxpayer Advocate, particularly dealing with the extent to which the IRS fulfills its responsibilities to W&I taxpayers, the organizational placement of responsibility for delivery of IRS-wide services, and the nature of taxpayer service.

**Congressional Appropriations for the Internal Revenue Service**

The National Taxpayer Advocate’s report states that, “The IRS’s practice of categorizing various functions as Taxpayer Service or Enforcement wholesale without looking deeper into the different types of services these functions perform hides the true breakdown of the IRS budget.” This statement ignores the fact that Congress defines Taxpayer Service and Enforcement activities, and implies that there is some undefined, “true” breakdown of the IRS budget other than that recognized by the IRS and Congress. Each congressional appropriation defines specific tax administration activities and responsibilities to be accomplished with the appropriated funds. Briefly stated, the appropriations are:

- **Taxpayer Service** – “to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and other services …”

37 Id. at 11.
The Wage & Investment Division is tasked with supporting multiple agency-wide operations, impeding its ability to serve its core base of individual taxpayers effectively.

**Enforcement** – “to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes...”

**Operations Support** – “to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security;...”

**Business Systems Modernization** – “for the capital asset acquisition of information technology systems, including management and related contractual costs of said acquisitions, including related Internal Revenue Service labor costs, and contractual costs associated with operations;”

**Health Insurance Tax Credit Administration** – “For expenses necessary to implement the health insurance tax credit included in the Trade Act of 2002 (Public Law 107-210).”

**Nature of Taxpayer Service**

The National Taxpayer Advocate contends that pre-filing taxpayer assistance and education “is what most people think of as pure taxpayer service,” and remarks that this component of the IRS budget represented “only” 5.5 percent of funds allocated to the IRS for FY 2010. As the appropriation definitions cited above reflect, Congress apparently views the nature of taxpayer service somewhat differently. The nature of taxpayer service, as defined by Congress, includes not only pre-filing assistance and education, but also filing services, account services, and taxpayer advocacy services. Indeed, the Senate Finance Committee report on RRA 98 states that, “...taxpayers should be able to receive the same level of service expected from the private sector. For example, taxpayer inquiries should be answered promptly and accurately; taxpayers should be able to obtain timely resolution of problems and information regarding activity on their accounts; and taxpayers should be treated fairly and courteously at all times” (emphasis added).

The IRS strongly agrees with this broader view of taxpayer service. Telephone, face-to-face, correspondence, and electronic services provided by the IRS cover an enormous range of issues and activities, including helping taxpayers, practitioner and tax professionals track the status of refunds, resolve account issues, and correct taxpayer errors. Funds appropriated for taxpayer service also enable taxpayers to obtain assistance from TAS in resolving these same issues. None of these services (refund tracking, account/error resolution) are normally considered to be pre-filing assistance and education.

39 Id. at 12.
40 Id. at 13.
41 Id. at 14.
We also disagree with the National Taxpayer Advocate’s assertion that return processing “can no more be considered a taxpayer service than an enforcement function.” The millions of taxpayers who each year voluntarily file and pay their taxes likely would not view the processing of their returns and issuing of their refunds as anything other than a service activity.

**Delivery of IRS-Wide Services**

Since the creation of the current IRS organizational structure more than a decade ago, the IRS has managed the delivery of certain IRS-wide services from one operating division, W&I. As the National Taxpayer Advocate points out, today these W&I-provided, IRS-wide services include return processing, account services, and the publishing of tax forms and publications, among others.

The National Taxpayer Advocate contends that assigning such IRS-wide functions to W&I “may dilute W&I’s ability to adequately provide service to its ‘base’ – all individual taxpayers with wage and investment income.” The IRS does not share this view. We believe our current approach to providing IRS-wide services benefits all taxpayers, including the 123 million individual taxpayers with non-business income (i.e., wage and investment taxpayers). Not only is this approach the most efficient, thus benefiting all taxpayers through reduced cost of tax administration, it also allows for the greatest consistency and quality of service delivery.

The National Taxpayer Advocate further states that, “W&I’s role of providing IRS-wide services consumes a significant majority of its budget and staffing. As a result, W&I has little time or money left to focus on the needs of individual taxpayers.” This statement overlooks two important considerations. First, the majority of taxpayers served via these IRS-wide services are, in fact, individual (wage and investment) taxpayers. Second, the level of funding required for returns processing, account services, tax forms and publications and other IRS-wide services would not change if the organizational management of these services was realigned.

The goal of providing additional resources for pre-filing and education services is admirable, but it is unlikely that realigning responsibility for the delivery of filing, account, or forms and publications services will help achieve it. In fact, because providing these services in a less efficient manner would be more expensive, realigning these functions would quite likely create a situation where less funding is available for pre-filing assistance and education services.

**Serving Small Business and Self-Employed Taxpayers, Large Business and International Taxpayers, and Tax Exempt and Government Entities**

As the National Taxpayer Advocate correctly points out, the IRS has three operating divisions in addition to the W&I division, each of which serves a largely unique taxpayer
The Wage & Investment Division is tasked with supporting multiple agency-wide operations, impeding its ability to serve its core base of individual taxpayers effectively.

**MSP #4**

**Legislative Recommendations**

The national taxpayer advocate contends that because W&I provides certain services, such as return processing, to all taxpayers, it is "relieving the other operating divisions of their responsibility to provide full service to their target taxpayer groups." This suggests that these operating divisions would be doing a better job of fulfilling their respective responsibilities, and their target taxpayer groups would be correspondingly better served, if each division had its own toll-free telephone operation, forms publishing operation, etc.

The IRS disagrees with the characterization that each of these divisions is not meeting its responsibilities to taxpayers. The design and development of IRS-wide services are, in fact, collaborative efforts involving all operating divisions. Whether it is developing procedures to process returns for tax-exempt organizations, developing phone assistant training for self-employed taxpayer issues, or designing a corporate tax form, the other operating divisions are full partners with W&I in each undertaking. The fact that certain services can be most effectively and efficiently delivered to all taxpayers by managing their delivery from one operating division, enhances, rather than diminishes the collective fulfillment of the responsibilities of all IRS operating divisions.

**Comments on Preliminary Recommendations**

1. Create a new division under the Deputy Commissioner for Services and Enforcement – Servicewide Customer Account Service. This new division would contain Media and Publications, and CAS.

   The IRS does not agree with this recommendation. We see no compelling evidence that creating a fifth operating division would either enable the IRS to better assist individual taxpayers or aid in providing more resources to pre-filing and education activities. In fact, creating an additional operating division could have the opposite effect. In the short-term, a reorganization of this magnitude would be expensive and disruptive, while in the longer-term, a more complicated organizational structure, with higher overhead and administrative costs, could actually diminish funding available for pre-filing assistance and education.

2. Recommend removing funding for Submission Processing from the Taxpayer Services budget and placing in the Operations Support account.

   The IRS does not agree with this recommendation. The congressional definition of Taxpayer Service includes funding for "filing services." For the majority of taxpayers, filing their return is their only contact with the IRS, and they define effective service as timely, accurate processing of their return and, for most taxpayers, delivery of their refund. Conversely, the activities funded by the Operations Support appropriation do not include the outward taxpayer service responsibilities of the IRS. Funding the
Submission Processing function from the Operations Support appropriation appears to be contrary to the fundamental purpose and intent of this congressional appropriation.

Moreover, we do not believe that moving Submission Processing to another appropriation would materially affect the funding for any other IRS activity, including pre-filing assistance and education. Transferring Submission Processing to another congressional appropriation would not provide any additional resources or funding flexibility for the other activities remaining in the Taxpayer Service Appropriation.

3. Recommend dividing the budget for Field Assistance and other similar organizations that perform both service and compliance activities on the basis of the percentage of their activities that are true taxpayer service as opposed to enforcement or operations support. This will provide a more accurate breakdown of the IRS’s budget.

The IRS does not agree with this recommendation. Field Assistance work is primarily in two areas, pre-filing assistance and account services. The IRS views each of these activities as taxpayer service, and the congressional appropriations for the IRS define each as such. Prorating budget allocations and expenditures for Field Assistance or other “similar” organizations among congressional appropriations would be an extremely costly effort that offers no significant benefit.
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MSP #4

Taxpayer Advocate Service Comments

The first line of the IRS’s comments demonstrates exactly why the existing IRS structure is a most serious problem: “The delivery of a successful filing season is the single most important aspect of the W&I mission.” The National Taxpayer Advocate commends W&I for another successful filing season and does not intend to diminish its accomplishments. However, W&I’s overriding focus on the filing season raises continuing concerns. It is true, as the IRS response states, that the only contact with the IRS for many taxpayers is filing their annual tax returns. However, this statement glosses over the tens of millions of taxpayers who have other contacts with the IRS, including tax law questions, audits, and collection activities. It is with respect to these contacts – and pre- and post-filing education and outreach – that the particular knowledge base of the operating divisions about their respective taxpayer populations is most important. In W&I, unlike in any of the other operating divisions, these taxpayer service activities are eclipsed by “the single most important aspect of W&I’s work” – i.e., the filing season.

As a threshold matter, it is helpful to clarify just what we mean when we talk about taxpayer service. We admit that the term’s ubiquitous usage can lead to confusion. The IRS should, of course, provide excellent service to taxpayers in servicewide functions by processing returns timely and issuing refunds promptly. In this sense, “service” means “customer service.” In fact, the IRS should provide good customer service within its enforcement activities as well – by processing mail and responding to taxpayer contacts promptly, listening to taxpayer concerns, and taking into consideration the taxpayer’s facts and circumstances.42

In this most serious problem discussion, however, we use the term “taxpayer service” to refer to those activities that actually assist the taxpayer with understanding their rights and obligations under the tax laws. Thus, IRS outreach and education activities clearly fall within this definition, regardless of whether these activities occur in a pre-filing or post-filing environment and whether they are performed by SPEC personnel or IRS enforcement personnel or TAS personnel. Similarly, when a Customer Service Representative in Accounts Management responds to a taxpayer’s call about a specific notice, this may constitute education about his or her tax obligations and be classified as taxpayer service. On the other hand, when that CSR places a taxpayer into an installment agreement, that action is not typically considered taxpayer service, although it may be a “service” to the taxpayer.

A central part of the National Taxpayer Advocate’s disagreement with the IRS appears to center on whether activities like the processing of tax returns are more accurately viewed as a taxpayer service or an overhead function. The IRS response states: “The millions

42 This latter component – taking into consideration the taxpayer’s facts and circumstances – is not only good customer service but also a statutory requirement and a taxpayer right. See, e.g., IRC § 7122(d)(2)(B), National Taxpayer Advocate 2007 Annual Report to Congress 478-489 (Key Legislative Recommendation: Taxpayer Bill of Rights and De Minimus “Apology” Payments).
of taxpayers who each year voluntarily file and pay their taxes likely would not view the processing of their refunds as anything other than a service activity.”

The IRS provides no justification to support this statement, and we believe most taxpayers would take a very different view. In processing returns (which generally are compelled by law), the IRS is seeking to ensure that taxpayers have fulfilled their reporting and payment obligations.

Moreover, while it is true (as the IRS points out) that refunds are issued to many taxpayers in the course of return processing, it is also true that the IRS uses processing to collect payments from taxpayers who file balance-due returns and to compute risk scores for each return to help determine which ones to audit.

If collecting tax payments and facilitating audit selection are the types of “services” the IRS provides, the National Taxpayer Advocate believes most taxpayers would take a pass. Simply put, most taxpayers would vigorously disagree with the IRS’s view that returns processing is a “taxpayer service.” Rather, it is a function that is a necessary prerequisite for all tax administration.

**The Treatment of Taxpayer Service in the IRS Budget, Which Was Originally Proposed by the IRS, Masks the Low Level of Funding for Taxpayer Service Activities and Distorts Return on Investment Calculations.**

Sound accounting principles generally require that revenues be matched with the expenses that generate them. If the IRS enforcement functions propose and collect additional tax amounts, any costs associated with this collection should be treated as part of the costs of enforcement. If the IRS treats revenue as resulting from an enforcement action but apportions the associated costs of working with taxpayers to the Taxpayer Services account, the net amount of IRS Enforcement revenue will be overstated, perhaps considerably so.

The IRS’s discussion of congressional support for its current budget structure also warrants a response. In arguing that returns processing is a “taxpayer service,” the IRS response cites congressional appropriations language to support its view. In one statement, the IRS notes that, “Congress defines Taxpayer Service and Enforcement activities.” In another section, the IRS response says our proposal for “[f]unding the Submission Processing function from the Operations Support Appropriation appears to be contrary to the fundamental purpose and intent of this Congressional appropriation.”

The IRS is correct that recent appropriations bills fund filing and account activities as a subset of the Taxpayer Services account. However, Congress did not adopt this approach on its own. To the contrary, the IRS pressed Congress hard to abandon its previous, long-standing budget structure and substitute the current one. Through FY 2005, the IRS was funded primarily under three accounts titled “Processing, Assistance, and Management,”
“Tax Law Enforcement,” and “Information Systems.” Submission processing and related servicewide functions were included in the Processing, Assistance, and Management account. In our view, that was a logical fit.

Beginning in 2003, the IRS adopted a “working equation” of “Service + Enforcement = Compliance.” That phrase was placed on every page of the IRS strategic plan, and the Commissioner sought to restructure the IRS budget to reflect a clear division between service and enforcement activities—a black-and-white view of tax administration that acknowledged no overlap between service and enforcement, and few activities that fell in between. Under that black-and-white view, return processing was not an “enforcement” activity, so it almost necessarily had to be classified as a “service.”

When the IRS budget for FY 2006 was submitted to Congress, the Administration asked Congress to consolidate its Processing, Assistance, and Management account, its Tax Law Enforcement account, and its Information Systems account into a single category that would fund all taxpayer service and enforcement activities and be subdivided into Taxpayer Service and Enforcement categories. Congress flatly rejected the request. The House Appropriations Committee report stated plainly: “The Committee denies this request and retains the existing, discrete account structure.” Similarly, the Senate Appropriations report stated:

The bill includes a new provision requiring the IRS to submit its fiscal year 2007 budget justification in the same format provided under this Act [i.e., rejecting the IRS’s proposed budget categories and retaining the previous ones]. While the Committee appreciates the IRS’s effort to align and integrate performance goals and measures with budget resources, the proposed budget structure under the request is overly simplistic and reduces the Committee’s ability to ensure accountability on the expenditure of appropriated funds.

In connection with the FY 2007 budget proposal, the IRS launched a full-court press to persuade the Appropriations Committees to restructure the IRS budget accounts to align between Taxpayer Service and Enforcement, and the Appropriations Committees eventually acceded to the IRS request after requiring certain changes. While it is therefore accurate for the IRS to say the Appropriations bills currently treat certain servicewide functions such as returns processing as a taxpayer service, any implication that the Appropriations Committees are strong and long-time proponents of this structure would...

45 Department of the Treasury, Budget in Brief FY 2006: Internal Revenue Service 1.
be misleading. The record suggests the Appropriations Committees much preferred the budget structure in which returns processing was treated as part of "Processing, Assistance, and Management."

Looking forward, the question that needs to be addressed is whether the current budget structure makes sense. For two reasons, we suggest that it does not. First, the IRS will necessarily (and appropriately) prioritize its “must do” work over its “should do” work. If important “should do” work is contained within the same account as “must do” work, the “should do” work will suffer when resources are constrained. The IRS must process tax returns, and if doing so requires more resources than anticipated, any other programs in the same budget account will unavoidably be cut. As a consequence of placing “must do” service-wide functions within the Taxpayer Services account, the IRS has been performing less taxpayer outreach and education than it should. For reasons we have detailed elsewhere, scrimping on outreach and education not only makes for poor taxpayer service but it has a compliance impact as well.

The other drawback to including filing and account activities within the Taxpayer Services account is that it paints an extremely distorted picture of how much taxpayer service the IRS performs. Since the IRS adopted the “Service + Enforcement = Compliance” formula, it has sought to portray its activities as providing some sense of balance and equivalence between “service” and “enforcement” – even placing service first in the equation. Of the total amount appropriated for the Taxpayer Services and Enforcement accounts in FY 2010 ($7.783 billion), the current budget methodology makes it appear that 29 percent is spent for Taxpayer Services. That is considerably less than the 71 percent for Enforcement, but it does suggest a sense of balance. If filing activities are removed from Taxpayer Services and placed into the Operations Support account, Taxpayer Services spending as a percentage of combined Taxpayer Services and Enforcement spending would fall to approximately 21 percent. And if the budget of the Accounts Management function, which performs both service and compliance functions, is appropriately bifurcated between the Taxpayer Services and Enforcement accounts, it would become clear that the percentage of the IRS budget spent on taxpayer service is even lower.

For these reasons, the National Taxpayer Advocate remains concerned that the IRS’s current budget structure does not reflect truth in packaging. Responding to criticism from Congress and others in the 1990s that taxpayer service was being neglected in favor of enforcement, the IRS adopted its current mission statement, which begins by saying that the

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50 Percentage calculated by subtracting actual FY 2010 Submission Processing spending from FY 2010 Taxpayer Service account allocation. W&I response to TAS research request (Nov. 5, 2010).
51 Account services should be allocated between Taxpayer Service and Enforcement. For example in FY 2009, about 40 percent of the installment agreements accepted by the IRS (1,270,239/3,197,862) originated from Toll-Free Accounts Management rather than collection. IRS, Collection Activity Report (CAR) NO-5000-6 (May 25, 2010).
goal of the agency is to “[p]rovide America’s taxpayers top quality service.”\textsuperscript{52} As the budget numbers make clear, however, the IRS is currently executing its role as the tax collector by devoting a great deal of resources to enforcement, a great deal of resources to basic over-head functions like the processing of tax returns, and comparatively limited resources to core taxpayer service. The current budget structure masks this reality. (In another section of this report, we recommend that the IRS revise its mission statement to reflect its increasing role as a benefits administrator as well as tax administrator. We offer that recommendation in part to encourage the IRS to become more service-oriented with respect to social benefits programs, particularly as it gears up to administer the new health care law.)

The recommendation to move Submission Processing out of the Taxpayer Service account and allocate other functions between Taxpayer Service and Enforcement accounts does not assume that doing so will automatically result in additional funding for taxpayer service activities. However, it will improve understanding of how much of the IRS’s budget is spent on true taxpayer service activities and make clearer to Congress where the IRS’s needs lie, increasing the likelihood that those needs will be met.

**Creating a New Division to Handle Servicewide Functions Like Submission Processing Will Enable W&I to Focus Exclusively on the Needs of its Taxpayer Population.**

Finally, the IRS seems to be missing the point of the National Taxpayer Advocate’s recommendation to create a new division including Media and Publications and CAS. The IRS states that, “certain services can be most effectively and efficiently delivered to all taxpayers by managing their delivery in one operating division…” TAS does not disagree. However, the IRS has not made clear why that one operating division should be W&I. Without the burden of managing or participating heavily in the design and development of all IRS-wide services – such as the design of a corporate tax form to cite an example from the IRS – W&I would be better able to focus on its core taxpayer base. A successful filing season would no longer have to be “the single most important aspect” of W&I’s activities. Instead, it would be one aspect of a larger mission of providing top quality taxpayer service to individual taxpayers – both during and outside of the filing season.

The IRS itself notes “[t]he design and development of IRS-wide services are, in fact, collaborative efforts involving all operating divisions ... The other operating divisions are full partners with W&I in each undertaking.” If the operating divisions all collaborate now on these service-wide initiatives, there is no reason why they cannot collaborate with a new separate function charged with administering these activities. In this way, W&I can give its full attention to both identifying and addressing the service and compliance needs of its specific taxpayer base, just as the other operating divisions do.

The purpose of raising these concerns is to start a discussion over whether the IRS’s current structure best serves taxpayers and the IRS. The National Taxpayer Advocate

\textsuperscript{52} RRA 98, Pub. L. No. 105-206, §1002, 112 Stat. 685, 690.
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commends W&I on the work it performs for individual taxpayers and for all taxpayers. However, we remain concerned that the IRS’s response reflects a reflexive commitment to maintaining the status quo and an unwillingness to consider whether taxpayer service could be improved by changing the existing organizational structure or budget structure.

**Recommendations**

In consideration of the IRS’s response, the National Taxpayer Advocate makes the following recommendations:

1. Create a new division under the Deputy Commissioner for Services and Enforcement – Servicewide Customer Account Service. This new division would contain Media and Publications, and CAS.

2. Remove funding for Submission Processing from the Taxpayer Services budget and place it in the Operations Support account.

3. Divide the budget for Field Assistance and other similar organizations that perform both service and compliance activities on the basis of the percentage of their activities that are assistance, outreach, and education as opposed to enforcement or operations support. This will provide a more accurate breakdown of the IRS’s budget.