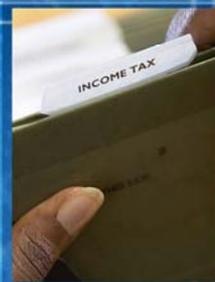
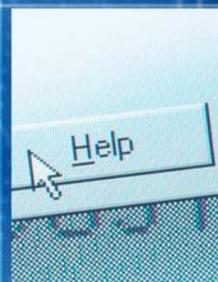
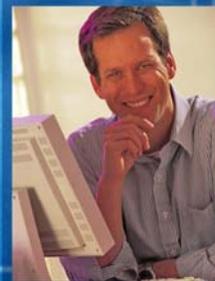


# The 2006 Taxpayer Assistance Blueprint

PHASE I

April 24, 2006



*"Building on a Solid Foundation"*



## Taxpayer Assistance Blueprint Prologue

The Taxpayer Assistance Blueprint (TAB) initiative builds on several years of both planned and actual operational improvements. It also addresses Congress's report language requesting that the Internal Revenue Service (IRS) conduct a comprehensive review of its current portfolio of services and develop a five-year plan for taxpayer services. The Congressional language stated the plan should be developed in collaboration with the IRS Oversight Board and the National Taxpayer Advocate (NTA) and should include long-term goals that are strategic and quantitative, and balance enforcement and service.<sup>1</sup>

To satisfy the report submission date of April 14, 2006, as defined in the Congressional language,<sup>2</sup> the TAB initiative is designed as a two-phased process. TAB Phase 1 identifies strategic improvement themes by researching IRS service relative to taxpayers' needs and preferences. TAB Phase 2 validates those themes through further research of taxpayers' service preferences and develops the five-year plan for service delivery.

This report presents the strategic improvement themes developed in TAB Phase 1. They are based upon:

- Current baseline of taxpayer services
- Preliminary understanding of taxpayer needs and preferences based on primary research that was completed to better understand the needs of the taxpayer collected through surveys; focus groups; interviews with stakeholders, employees, and partners; and secondary research gathered through studies, research reports, and literature reviews
- Targeted research and analysis of customer insights from external organizations, including customer service leading practices and impact on business results.

Phase 2 builds on the strategic improvement themes and will produce a five-year plan for preferred service delivery to individual taxpayers within available resources. This plan will include:

- Additional voice of the taxpayer (VOT) research collected through taxpayer survey data, particularly as it relates to service channel preferences
- A process for assessing taxpayer needs and preferences that is integrated with IRS annual budgeting and business and strategic planning processes, including long-term improvement goals
- Customer-centric measures that enable the IRS to deliver taxpayer services efficiently and effectively
- A qualitative approach to establish an inferential link between service and compliance
- Operational recommendations for taxpayer service improvements for the next five years
- Continued stakeholder, partner, and employee engagement.

<sup>1</sup> United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/109hr3058jes.pdf>.

<sup>2</sup> United States Congress, Conference Report PL109-115: H.R.3058 – 43. *Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006*, 30 November 2005. (Enrolled as Agreed to or Passed by Both House and Senate), and United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/>.



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## Executive Summary

The Internal Revenue Service (IRS) is an organization of significant size and scope. It administers America's tax laws, and in fiscal year (FY) 2004 collected in excess of \$2 trillion in revenue<sup>3</sup> to fund most government operations and public services. Each year the IRS receives more than 133 million<sup>4</sup> individual income tax returns<sup>5</sup> and issues 100 million plus refunds totaling more than \$200 billion.<sup>6</sup> Unlike private industry, which can select the customers it will serve, the IRS Mission is to provide service to a constituency of more than 177 million<sup>7</sup> individual filers.<sup>8</sup> Providing quality taxpayer services and continuing to improve those services is a strategic priority for the IRS.<sup>9</sup> In meeting this priority, the IRS must allocate resources to specific services and delivery channels to ensure taxpayers understand their obligations and benefits and participate in the tax system. Assisting the public to achieve this understanding is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system.

Since the enactment of the IRS Restructuring and Reform Act of 1998 (RRA '98) and the Modernization of the IRS between 1998 and 2001, the IRS has made significant progress in improving customer service.

- There has been a 26 percent increase in the overall American Customer Satisfaction Index (ACSI) score<sup>10</sup> for all individual tax filers over a 6-year period, increasing from 51 in 1999 to 64 in 2005. This is the largest favorable gain of all federal agencies surveyed by the ACSI during this period.<sup>11</sup>
- Toll-free level of service, tax law accuracy, and customer satisfaction rates have remained high or noticeably improved in recent years.
  - In FY 2005, the IRS achieved an 83 percent toll-free level of service, showing significant improvement over the 62 percent level achieved in FY 2001.<sup>12</sup>
  - In FY 2005, the IRS achieved an 89 percent toll-free tax law accuracy rate,<sup>13</sup> well above the 80 percent level achieved in FY 2001.<sup>14</sup>
  - In FY 2005, customer satisfaction with the IRS toll-free service reached 95 percent.<sup>15</sup>

<sup>3</sup> Internal Revenue Service, Statistics of Income (SOI), *IRS Data Book 2004, Table 1-Summary of Internal Revenue Collections and Refunds*, 2005.

<sup>4</sup> Internal Revenue Service, SOI, *Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending December 30, 2005.

<sup>5</sup> Approximately 133 million individual (1040 family) tax returns are filed. Because some individual taxpayers are married and file jointly, this number translates into the returns from roughly 177 million taxpayers.

<sup>6</sup> Internal Revenue Service, *Commissioner Everson Calls for Improvements to Refund Fraud Program*, <http://www.irs.gov/newsroom/article/0,,id=153813,00.html>.

<sup>7</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>, and Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), 2003 Return Information, 2003.

<sup>8</sup> The 2000 Census reported 281 million individuals live in the United States and IRS records show that 63 percent are currently federal income filers that the IRS actively works to support.

<sup>9</sup> Internal Revenue Service, *Strategic Plan Fiscal Year 2000-2005*, July 15, 2004, page 12.

<sup>10</sup> The American Customer Satisfaction Index (ACSI), which began in 1994, is a measure of customer satisfaction that covers 7 economic sectors, 40 industries, more than 200 private sector companies, and many governmental agencies. Scores are reported on a 0 to 100 scale based on survey data from consumer households across the nation. The ACSI is produced by the Stephen M. Ross Business School of the University of Michigan, in partnership with the American Society for Quality (ASQ) and the International Consulting Firm, CFI Group.

<sup>11</sup> Internal Revenue Service, *Written Testimony of Mark W. Everson, Commissioner of the Internal Revenue Service Before The Joint Congressional Review*, May 19, 2005.

<sup>12</sup> Internal Revenue Service, Statement by IRS Commissioner Mark W. Everson, *IRS Improves Enforcement and Services in 2005*, November 3, 2005, <http://www.irs.gov/newsroom/article/0,,id=150358,00.html>.

<sup>13</sup> In FY 2003, accuracy measures for the toll-free telephone changed from a pass/fail methodology to a defect per opportunity (DPO) methodology. Despite changes in methodology, continued improvements are noted.

<sup>14</sup> Internal Revenue Service, Statement by IRS Commissioner Mark W. Everson, *IRS Improves Enforcement and Services in 2005*, November 3, 2005, <http://www.irs.gov/newsroom/article/0,,id=150358,00.html>.

- IRS.gov is one of the most heavily visited sites on the Internet, with more than 176 million visits and 1.3 billion page views in FY 2005. IRS.gov visits<sup>16</sup> and page views<sup>17</sup> have increased 72 percent and 84 percent respectively, between FY 2003 and FY 2005.<sup>18</sup>
- In 2005, more than half of all individual taxpayer returns (68 million) were filed electronically—a 30 percent increase from FY 2003, and more than 5 million taxpayers filed for free through the Free File Alliance—an 84 percent increase from FY 2003.<sup>19</sup>
- In 2002, the Practitioner Priority Service (PPS)<sup>20</sup> was expanded to provide nationwide toll-free phone access solely for practitioners. In FY 2004, practitioner account services were expanded to IRS.gov with the release of Electronic Account Resolution (EAR)<sup>21</sup> for qualifying practitioners.<sup>22</sup>
- IRS Stakeholder Partnerships, Education and Communication (SPEC) developed a community-based partnership model that links education and outreach with free return preparation for low-income populations and supports these partnerships through programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). The number of these community partnerships increased from 6 in FY 2000<sup>23</sup> to 290 in FY 2005.<sup>24</sup>
- Low Income Taxpayer Clinics (LITC), established in 1998, provide free or nominal charge representation for low-income taxpayers in federal tax disputes and tax education and outreach for taxpayers who speak English as a second language.<sup>25</sup>
- The Taxpayer Advocacy Panel (TAP) was created in 2002, expanding the former Citizen Advocacy Panel (CAP) first established in 1998. The mission of TAP is to help the IRS identify ways to improve customer service and satisfaction.

The increased breadth and quality of services offered through the Internet, telephone, and partnerships, in combination, have enabled the IRS to reach a larger audience in a more efficient and effective manner for both the IRS and the taxpaying public. Taxpayer satisfaction has increased over the past five years; and today, taxpayers are better positioned to understand their tax obligations and benefits and participate in the tax system. While these accomplishments are impressive, there is still a need for greater efficiency and effectiveness in service delivery based on taxpayer needs and preferences. The

<sup>15</sup> Internal Revenue Service, Statement by IRS Commissioner Mark W. Everson, *IRS Improves Enforcement and Services in 2005*, November 3, 2005, <http://www.irs.gov/newsroom/article/0,,id=150358,00.html>.

<sup>16</sup> A visit is defined as a series of actions that begins when a visitor views his/her first page from the server and ends when the visitor leaves the site (or remains idle beyond the idle-time limit of 30 minutes). It should be noted that any given Web page may be accessed (i.e., viewed) multiple times during a single visit to IRS.gov. This causes the number of page views for any given Web page to be significantly higher than the number of visits recorded for the same page.

<sup>17</sup> Page views is a measurement of the number of times that a Web page is viewed from a Web server. This is a much better metric for measuring Web traffic than hits. Unlike the situation with hits, whenever any given Web page is accessed by a visitor to IRS.gov, it is counted as just one page view.

<sup>18</sup> Internal Revenue Service, WebTrends Database, *Site Traffic*, 2003-2005.

<sup>19</sup> United States Office of Management and Budget, *E-Gov Presidential Initiatives: IRS Free File*, <http://www.whitehouse.gov/omb/egov/c-1-3-IRS.html>. and United States Office of Management and Budget, *Report to Congress on the Benefits of the President's E-Government Initiatives*, January 6, 2006, [http://www.whitehouse.gov/omb/inforg/e-gov/e-gov\\_benefits\\_report\\_2006.pdf](http://www.whitehouse.gov/omb/inforg/e-gov/e-gov_benefits_report_2006.pdf).

<sup>20</sup> Practitioner Priority Service is a toll-free, accounts-related service for all tax practitioners nationwide. It is a practitioner's first point of contact for assistance regarding taxpayers' account-related issues.

<sup>21</sup> Electronic Account Resolution allows tax professionals to expedite closure on clients' account problems by electronically sending/receiving account-related inquiries. Tax professionals may inquire about individual or business account problems, refunds, installment agreements, missing payments, or notices. Tax professionals must have a power of attorney on file before accessing a client's account. The IRS response is delivered to an electronic secure mailbox within three business days (Internal Revenue Service, *New e-Services Tools Expected to Increase e-filing, Improve Customer Service*, IR-2004-89, July 6, 2004, <http://www.irs.gov/newsroom/article/0,,id=124940,00.html>).

<sup>22</sup> Internal Revenue Service, *New e-Services Tools Expected to Increase e-filing, Improve Customer Service*, IR-2004-89, July 6, 2004, <http://www.irs.gov/newsroom/article/0,,id=124940,00.html>.

<sup>23</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, *The Power of Partnerships*, September 2003, page 3.

<sup>24</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, *SPEC Business Model*, November 2005, page 6.

<sup>25</sup> Internal Revenue Code, Section 7526, *Low-Income Taxpayer Clinics*.

Taxpayer Assistance Blueprint (TAB) represents a cohesive, integrated strategy for providing taxpayer service over multiple channels and will provide the foundation for the next stage in the evolution of taxpayer services.

## Taxpayer Assistance Blueprint Overview

In July 2005, the Senate Committee on Appropriations issued report language requesting that the IRS conduct a comprehensive review of its current portfolio of services and develop a five-year plan for taxpayer services. The plan is to outline which services the IRS should provide and how it will improve services for taxpayers.<sup>26</sup> Congress asked the IRS, the IRS Oversight Board, and the National Taxpayer Advocate (NTA) to collaboratively develop a plan and deliver it by April 14, 2006.<sup>27</sup> All involved parties recognize this as an opportunity to directly influence and shape the design, delivery, and future direction of taxpayer services for years to come.

<b>IRS</b>
<i>"At the IRS, we are committed to providing a balanced program of quality service and equitable enforcement of the law. We strive to provide the most efficient and effective taxpayer services possible while staying within our budget. This Blueprint will provide a solid foundation on which to base decisions about our taxpayer services portfolio."</i>
<b>Mark Everson, Commissioner Internal Revenue Service</b>
<b>IRS Oversight Board</b>
<i>"It is understandable in light of budget reductions that the IRS is looking to funnel taxpayers to the channels that are the least expensive for the IRS to operate. However, taxpayer needs and preferences must also be taken into account. ...The IRS should perform more research to evaluate these issues and develop a strategy that manages its entire portfolio of service channels into the optimum configuration that meets both IRS and taxpayer needs. The resulting research could help the IRS decide which functions were most effectively performed by each service channel—telephone, Internet, e-mail, and in-person—and how to influence taxpayers to use the most appropriate channel for each circumstance."</i> <sup>28</sup>
<b>Ray Wagner, Chairman IRS Oversight Board</b>
<b>National Taxpayer Advocate</b>
<i>"The IRS delivers a variety of services through various channels to a diverse group of taxpayers. Although the Service has conducted significant research in this area, additional research is needed to enable the IRS to determine which channels are most effective in delivering each type of service to each segment of the diverse taxpayer population."</i> <sup>29</sup>
<b>Nina Olson, National Taxpayer Advocate</b>

The IRS, IRS Oversight Board, and the NTA have worked in partnership to develop this report and will continue to provide experience, knowledge, resources, and the perspective of taxpayers to help establish the key imperatives for taxpayer services in the future. The final product has been cleared through Treasury and the Office of Management and Budget.

The TAB initiative will address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayer and partner expectations. The focus of the initiative is on services that support the needs of the individual filer, taxpayers who file or should file Form 1040 series tax returns

<sup>26</sup> United States Congress, Senate Report 109-109. *Transportation, Treasury, The Judiciary, Housing and Urban Development, and Related Agencies Appropriations Bill, 2006: Internal Revenue Service, Processing, Assistance and Management, Committee Recommendation*, July 26, 2005, [http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1\(sr109\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1(sr109)).

<sup>27</sup> United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/109hr3058jes.pdf>.

<sup>28</sup> Internal Revenue Service Oversight Board, *IRS Oversight Board Annual Report 2005*, page 22.

<sup>29</sup> National Taxpayer Advocate, *National Taxpayer Advocate's FY 2006 Objectives Report to Congress*, June 30, 2005, page 15.

using their Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN).<sup>30</sup> The TAB scope includes taxpayers with a business income that is directly reported on a Form 1040 series tax return such as self-employed individuals filing Form 1040 - Schedule C and partners whose income passes directly through the partnership entity to Form 1040. Consequently, the TAB scope does not include services that support business filers who file other types of tax returns, such as Form 1120 series corporate returns and Forms 940/941 business series employment tax returns filed using an Employer Identification Number (EIN). Although recognizing that most taxpayers interact with the IRS once a year when submitting their returns and in many cases receive a refund, the TAB scope does not include return processing. Forms and publications content and the development and clarity of notices to taxpayers are also critical elements of taxpayer services and are being addressed by separate improvement programs. TAB Phase 2 will link customer service improvements with these other efforts and with burden reduction initiatives.

To address Congressional, IRS, and stakeholder interests, the TAB initiative was designed to achieve the following objectives:

- Establish a credible taxpayer/partner baseline of needs, preferences and behaviors
- Implement a transparent process for making service-related resource and operational decisions
- Develop a framework for institutionalizing key research, operational, and assessment activities to holistically manage service delivery
- Utilize both short-term performance and long-term business outcome goals and metrics to assess service value.

To comply with the milestone date defined by Congressional language, the TAB initiative was designed as a two-phased process. This report presents the strategic improvement themes developed in TAB Phase 1. They are based upon:

- Current baseline of taxpayer services
- Preliminary understanding of taxpayer needs and preferences based on primary voice of the taxpayer (VOT) research collected through surveys; focus groups; interviews with stakeholders, employees, and partners; and secondary research gathered through studies, research reports, and literature reviews
- Targeted research and analysis of customer insights from external organizations, including customer service leading practices and impact business results.

Phase 2 builds on the strategic improvement themes and will produce a five-year plan for preferred service delivery to individual taxpayers within available resources. This plan will include:

- Additional primary VOT research collected through taxpayer survey data, particularly as it relates to service channel preferences
- A process for assessing taxpayer needs and preferences that is integrated with IRS annual budgeting and business and strategic planning processes, including short-term performance and long-term business outcome goals and metrics

<sup>30</sup> Form 1040 series tax returns include any IRS tax forms that begin with “1040” such as Form 1040, Form 1040-A, Form 1040-EZ, etc.

- Customer-centric performance measures that focus on effective and efficient service delivery
- A qualitative approach to establish an inferential link between service and compliance
- Operational recommendations for taxpayer service improvements for the next five years
- Continued stakeholder, partner, and employee engagement.

## Current Taxpayer Services

Taxpayer services are offered by a broad community of providers, including the IRS and private and community-based partners. Each taxpayer service provider offers a wide range of services through a mix of self-assisted and assisted delivery channels.

IRS services are evaluated against a set of balanced measures. While all IRS service channels evaluate performance against the balanced measures categories,<sup>31</sup> the definition of similar performance metrics such as accuracy differ across channels, as do the availability, collection processes, and quality of the data, which all limit cross-channel comparative analysis. Additionally, there is no specific set of data or a methodology to measure the long-term business outcomes of effective service delivery as it relates to the accomplishment of the IRS's Mission, the impact of a specific event across all channels, or the ultimate impact of service on compliance. While establishing a credible quantifiable link between service and compliance may be unattainable, developing a body of reasonable proxy measures based on reasonable causal inferences is not. Such metrics should reinforce the long-term outcome of supporting compliant taxpayers to remain compliant and provide the means for non-compliant taxpayers to fulfill their tax obligations. In addition, the IRS lacks good information on the cost of providing its various services to taxpayers; prior to FY 2005, it did not have a cost accounting system to accumulate and report the reliable cost information that managers needed to make informed decisions. In FY 2005, the IRS implemented a cost accounting system as part of the first release of its Integrated Financial System (IFS) that will serve as a major building block to help it make informed resource allocation decisions.<sup>32</sup>

In addition to performance metrics, volume is often considered when assessing service delivery. While it is recognized that the volume of services delivered by channel does not necessarily reflect a taxpayer's preferred method of communicating with the IRS or the actual demand for services, volume can be indicative of fundamental changes in taxpayer behaviors and in selections and use of specific channels to complete service tasks.

Volume trends indicate that a majority of taxpayers rely on IRS partners to provide filing assistance. Additionally, more people are using electronic means as a way to interact with the IRS. Recent volume trends indicate that use of electronic self-assisted channels is increasing, while that of telephone and in-person channels is declining. It is important to note that access to computers and Internet technology does not necessarily indicate a propensity to use them for certain service tasks; however, market trends indicate more consumers are going online to manage their personal finances.

These trends are similar to those in other government and commercial organizations. Advances in technology, especially the use of the Internet, have allowed many organizations to use standard, self-

<sup>31</sup> Balanced measures categories include employee satisfaction, customer satisfaction, and business results.

<sup>32</sup> Internal Revenue Service, *IRS Exit Fact Sheet on IRS's 2007 Budget Request for the Senate Appropriations Hearing*, March 9, 2006, page 2.

assisted technology solutions to deliver consistent service especially targeted at informational and basic transactional needs. As a result, these organizations have effectively and efficiently delivered service to a large portion of their customer base. Increasing access to service offerings through technology enhancements and adjustments to meet customer demand and expectations are activities that the IRS must continually perform as a service organization.

## Taxpayer Understanding

The taxpaying population is broad and constantly changing. The population is growing, the average age of taxpayers is increasing, the population is becoming more ethnically diverse, and the use of technology is increasing. The IRS and its partners have the unique and challenging task of addressing the tax responsibilities of each taxpayer in this diverse and rapidly changing taxpayer base.

Analysis by customer segment (e.g., income, age) provides critical insights into taxpayer filing behaviors. In general, filing behaviors and characteristics are highly dependent on income and generation. Higher income filers and those within older generations are more likely to use a paid preparer and file complex returns and less likely to use electronic filing and receive a refund. Low income and younger generation filers account for the majority of tax filers and are more likely to electronically file a less complex return and receive a refund.

Analysis of taxpayers' expectations for service indicates that there is a basic set of expectations required by all taxpayers—education and awareness, access to service, and quality of experience. Needs and preferences for access to service vary across a set of factors, including the nature of the information or transaction required, the amount of time and likelihood of resolving an issue, permanent or temporary access disadvantages, and special needs of certain taxpayer segments. From the IRS's perspective, some of these factors (e.g., lack of computer skills, natural disasters) are inherently uncontrollable; others, such as the quality of the service experience provided to a taxpayer, can be controlled.

Preliminary findings from both the 2005 Oversight Board Survey and Pacific Consulting Group (PCG) Conjoint Analysis indicate taxpayers as a whole prefer the telephone and Web when making a choice between service channels. The research also found that more than 80 percent of taxpayers indicated that IRS representatives, IRS printed publications, the IRS Web site, and paid tax professionals are valuable sources for receiving tax advice and information.<sup>33</sup> When taxpayers are asked to provide their preference for service, a majority indicates that the telephone, Web, face-to-face, and community-based channels<sup>34</sup> are very or somewhat important when no qualifying criteria are applied.<sup>35</sup> As qualifying criteria or service attributes, such as distance, wait and response time, or resolution percentage, are introduced into the decision process, the likelihood of use changes significantly.

These findings will help shape how the IRS will interact with taxpayers in the future to support their tax needs. Taxpayer service needs, preferences, and expectations will continue to change. In the future, individuals are expected to continue using the delivery channels they adopted at a younger age while expecting the Government to continually improve and expand current service and delivery options.<sup>36</sup>

<sup>33</sup> Internal Revenue Service, *IRS Oversight Board, 2005 Taxpayer Attitude Survey*, 2005.

<sup>34</sup> Computer terminals and tax assistance vans were found to have a lower importance rating.

<sup>35</sup> Internal Revenue Service, *IRS Oversight Board, 2005 Taxpayer Attitude Survey*, 2005.

<sup>36</sup> MITRE Corporation, *Citizens' Service-Levels Expectations Final Report Version 1.1*, November 8, 2005.

The challenge for the IRS is to continually identify the service factors most critical to taxpayers, adjust resources and infrastructure to meet those needs, and develop mitigation strategies.

## Leading Practices

Leading practices research offered the IRS insight on how top organizations provide, manage, and measure their portfolios of customer services. The analysis resulted in seven implications pertinent to the IRS.

- Expand current services through existing channels, striving for the appropriate alignment between taxpayer expectations and available organizational capacity
- Document and automate services where appropriate
- Incorporate taxpayer preferences into the annual planning process
- Migrate taxpayers to optimal channels considering their needs and preferences
- Increase service accuracy through better access to information and rigorous execution of procedures
- Customize services selectively
- Set service level targets for each channel to support an integrated channel strategy

Further research of external organizations revealed that many find it inherently difficult to establish a relationship between customer service and business results and measure it quantitatively. Similarly, the IRS has not yet developed a quantitative-based methodology to measure the impact of customer service on its business results. The type of data needed to make such a link may not exist.<sup>37</sup> Lacking such quantitative data, the IRS must find measures that can act as useful proxies for outcomes where a strong argument can be made for establishing a reasonable causal link between services measured and increasing compliance. It is important that the IRS link short-term performance, service cost, and long-term measures to improve service effectiveness and efficiency.

Looking externally to other organizations and understanding proven methods for delivery will help the IRS provide services more efficiently and effectively and will positively affect taxpayers' experiences when interacting with the IRS.

## Strategic Improvement Themes

A review of current trends in taxpayers' services and leading practice observations, in combination with the analysis of a substantial amount of primary and secondary research, resulted in five strategic improvement themes. Primary research comprised taxpayer, employee, and stakeholder surveys; focus groups; interviews; conjoint analysis; taxpayer comment text mining; and review of NTA reports. Secondary research included the review of reports, audits, and studies from the Government Accountability Office (GAO), Treasury Inspector General for Tax Administration (TIGTA), Pew Research Center, Brookings Institute, and the General Services Administration (GSA). A full listing of research sources can be found in the Appendix – TAB Phase 1 Research Overview. These themes will set the strategic direction for Phase 2, during which theme-related questions will be addressed by

<sup>37</sup> Internal Revenue Service, *IRS Exit Fact Sheet on IRS's 2007 Budget Request for the Senate Appropriations Hearing*, March 9, 2006, pages 2-3.

planned research and the themes will be refined and validated accordingly. The five strategic improvement themes are:

## 1 Improve and expand education and awareness activities

Education is a critical component for making taxpayers and practitioners aware of IRS service offerings and delivery channels and ensuring taxpayers are aware of their tax obligations and benefits. Since Modernization, significant efforts have been made to provide more outreach and education to taxpayers, leveraging partners to support these efforts; however, some taxpayer segments may not be receiving sufficient levels of communication about IRS services and channels or about their tax obligations and benefits. Looking forward, efforts to provide more targeted education through communication channels that align with taxpayer preferences need to be expanded. The recent increase in computer and Internet use allows many taxpayers to benefit by receiving service and tax information through established channels, such as tax preparation software and the IRS.gov Web site. Despite increased computer and Internet use, the level of computer and functional literacy can impact taxpayers' ability to access these services successfully; therefore, alternative channels need to be identified to serve them.<sup>38</sup> Additionally, established partnerships with commercial preparers, practitioners, and community-based organizations can be leveraged to ensure the appropriate levels of education and outreach are being provided to the taxpaying population. Phase 2 research considerations will include questions such as:

- Do IRS communications or marketing initiatives reach intended target audiences? (Benchmark Survey, Forrester Mail Survey)
- What is taxpayer awareness of IRS services or key messages? (Russell Survey, Forrester Online Omnibus, Benchmark Survey, Customer Segment Survey)
- What is the role of communication in guiding selection of service delivery channel? (Conjoint Analysis II)
- What is the impact of intermediary or partner interaction on message delivery accuracy and consistency? (Empirical Data – Error Codes)
- At what life stage might taxpayers most benefit from specific taxpayer education? (Empirical Data, Forrester Online Omnibus, Customer Satisfaction Surveys, Benchmark Survey)

## 2 Optimize the use of partner services

IRS partners will continue to play an increasingly critical role in the delivery of taxpayer services. This provides a significant opportunity to improve the level of support and direction provided to these partners, to ensure that they consistently and accurately apply and administer the tax law. To effectively position them to do so, reliable support and information processes need to be developed so that information can be easily customized to their target audience. The IRS should test what information and services can be accurately provided by partners without creating negative downstream consequences and rework for the taxpayer and the IRS. Phase 2 research considerations will include questions such as:

<sup>38</sup> Spragens, Janet and Abramowitz, Nancy. "Low-Income Taxpayers and the Modernized IRS: A View from the Trenches," *1407 Tax Notes*, June 13, 2005, pages 1407-1408.

- Why do taxpayers choose to use partners for service delivery? (Benchmark, Conjoint Analysis I&II, Oversight Board Service Channels Survey)
- What mutual benefits bring the IRS and its partners together? (Partner Survey/Poll)
- How are the roles and responsibilities of the IRS and its partners defined, especially around accountability and quality control? (Partner Survey/Poll)
- What is the impact of effective or ineffective partner service delivery on downstream workload and compliance? (Empirical Data – Error Codes, National Research Project)
- How can the IRS best manage the relationship between service and stakeholder capacity? (TBD)

### 3 Elevate self-service options to meet taxpayer expectations

A continual challenge is to provide consistent service in a manner that meets the needs of a diverse population. Given the inherent complexity of tax law, efforts to simplify and standardize assistance can serve to enhance many taxpayers' ability to accurately comprehend their tax obligations. Providing clear, standard, easily customized, and automated content allows the IRS and its partners to deliver accurate, consistent, and understandable service, which can be aligned to the needs of specific population segments. Great strides have been made in the last several years to expand automated services, but the IRS has the opportunity to continue the process of simplifying, standardizing, and automating services, particularly those focused on delivering information and basic transactions. Phase 2 research considerations will include questions such as:

- What are the key drivers for taxpayer preference for self-assisted versus assisted channels? (Conjoint Analysis I&II, Benchmark Survey, Oversight Board Service Channels Survey)
- Are there certain taxpayer segments that cannot or will not use self-assisted channels? (Russell Survey, Conjoint I&II, Forrester Online Omnibus, Benchmark, Text Mining of Comment Cards, Oversight Board Service Channels Survey)
- Which factors enhance or inhibit taxpayer migration to self-assisted channels? (Russell Survey, Conjoint I&II, Forrester Online Omnibus, Benchmark, Text Mining of Comment Cards, Oversight Board Service Channels Survey)
- What are taxpayers' expectations for effective self-service? (Conjoint I&II, Forrester Online Omnibus, Forrester Mail Survey, Benchmark Survey, Oversight Board Service Channels Survey)

### 4 Improve and expand training and support tools to enhance assisted services

Taxpayers expect accurate assistance from the IRS, preferably on their first contact.<sup>39</sup> However, taxpayers rarely find out about assistance inaccuracies in a timely manner because many errors do not

<sup>39</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint (TAB) Conjoint Study Phase I*, March 2006, page 27.

become apparent until a later date—if at all. Therefore, the IRS needs to be responsible for ensuring that taxpayers get accurate information through whichever channel they use. While automation helps to ensure the accuracy of information through electronic channels, improved accuracy in assisted service is still needed. Preliminary observations indicate that taxpayers may receive inaccurate information through certain assisted channels more than others, especially across the various IRS and partner in-person channels. Ensuring the accuracy of information across all channels can be accomplished by improving and expanding training, technology infrastructure, and support tools for employees, partners, and taxpayers. This may require the update, standardization, and alignment of new or existing information management systems. Phase 2 research considerations will include questions such as:

- How do employees, partners, and taxpayers define support requirements? (Partner Survey/Poll, Empirical Data – Employee Surveys and Focus Groups, Oversight Board Service Channels Survey, TBD)
- Where are the critical gaps and improvement opportunities? (Partner Survey/Poll, Empirical Data – Employee Engagement Surveys and Focus Groups, TBD)
- What is the level of interest for online training and decision tools? (Partner Survey/Poll, Empirical Data – Employee Surveys and Focus Groups, Oversight Board Service Channels Survey, TBD)
- What information tracking systems are required to determine drivers of service demand? How might this information be related to proactive education and awareness strategies? (TBD)

## 5 Develop short-term performance and long-term outcome goals and metrics

The service environment is constantly changing, and recent trends indicate the increased use of alternative channels (e.g., Internet) for receiving service. The ability to quickly assess and respond to a changing environment necessitates the development of a comprehensive set of short-term performance metrics to evaluate how well the business is meeting taxpayer expectations (education and awareness, access to service, and quality of experience) and how efficiently it is delivering those services (cost and productivity). It is essential to improve the quality and consistency of existing customer-focused and efficiency metrics across all channels and services. The IRS must pursue a greater understanding of the long-term impact of taxpayer service on downstream business<sup>40</sup> and taxpayer outcomes. It is difficult to establish quantifiable links between service and business impacts;<sup>41</sup> therefore, the IRS must adopt proxy measures where a reasonable causal link can be made with the desired outcome. As a result, operational data, surveys, focus groups, and customer interaction data should be used to develop customer-based outcome measures, creating a reasonable inferential link to business results. Through these improvements, the IRS will be better positioned to manage service delivery more holistically, which will support better alignment of taxpayer services to maximize effectiveness and efficiency of service delivery. Phase 2 research considerations will include questions such as:

- What combination of filing, performance, satisfaction, and efficiency data will serve as effective proxy measures (i.e., establish a causal link between service and compliance)? (TBD)

<sup>40</sup> “Downstream business” refers to the cost of additional work that the IRS or taxpayers must perform to correct problems or mistakes that result from an IRS action or failure to take an action.

<sup>41</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research*, January 2006, page 27.

- What programs and processes should be implemented to systematically capture and regularly analyze the voice of the taxpayers and partners? (Customer Satisfaction Comment Text Mining, Market Segment Survey)
- What are service performance preferences by taxpayer segment and service task? (Conjoint I&II, Oversight Board Service Channels Survey)
- What performance measures effectively address taxpayers' and partners' needs for awareness/education, access to service, and quality of experience? (TBD)
- What is the cost of service delivery by taxpayer segment and channel? (PCG Model)
- What is the relationship between service cost by channel and service performance by channel? (TBD)

As the TAB initiative moves into Phase 2, the strategic improvement themes, coupled with an improved understanding of taxpayer needs, preferences, and expectations through primary research of taxpayer survey data, will be used to develop a comprehensive road map for improving the delivery of taxpayer services. During Phase 2, a mix of analytics, including follow-on conjoint analysis,<sup>42</sup> focus groups, and data modeling, will be used to refine the strategic themes.

The primary research will provide additional information to refine and translate the strategic improvement themes into actionable and operational improvement initiatives. Examples of the operational improvement initiatives that may be explored in Phase 2 are:

- Enhanced education and outreach consistent with the taxpayer life cycle
- Taxpayer Assistance Centers (TAC) services, locations, and alternatives for face-to-face service
- Account-related services on the IRS Web site for individual taxpayers
- Range of telephone services and tax law assistance offered.

Additionally, the team will focus on developing a process of continually assessing taxpayers' needs, preferences, and expectations that will be integrated into the annual planning process. Specifically, Phase 2 will:

- Refine the IRS's understanding of taxpayer needs, preferences, and expectations
- Identify and prioritize taxpayer services improvement recommendations
- Develop customer-centric and efficiency service metrics
- Establish an ongoing process to assess customer needs and correlate that assessment with compliance findings from the National Research Program
- Address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayers' and partners' expectations.

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<sup>42</sup> TAB conjoint analysis involves respondents being asked to choose between various service scenarios. These scenarios describe the cost or limits attending a variety of service situations by depicting ranges of service attributes. Selections between various constellations of service tasks and attributes show what factors most influence choices about service seeking. For example, someone with a strong preference for face-to-face communication might choose a TAC regardless of travel time to the service site whereas someone who prefers TACs when they are close by, might, for the same task, choose to call when they are 30 minutes travel from a TAC.

As the IRS better understands taxpayers' and partners' needs, preferences, and expectations through Phase 1 and 2 research and institutes a process to continually assess those interests, it will be better positioned to make informed decisions on service delivery within available resources.

This section highlights the evolution of taxpayer services since Modernization and provides an overview of the two-phase approach and outcomes for the Taxpayer Assistance Blueprint (TAB) initiative—TAB Phase 1 and TAB Phase 2. An overview of the TAB Phase 1 Report structure summarizes the focus for each section.

## 1.1 IRS Service Evolution

The Internal Revenue Service (IRS) is an organization of significant size and scope. It administers America's tax laws and in fiscal year (FY) 2004 collected in excess of \$2 trillion in revenue<sup>43</sup> to fund most government operations and public services. Each year the IRS receives more than 133 million<sup>44</sup> individual income tax returns<sup>45</sup> and issues 100 million plus refunds totaling more than \$200 billion.<sup>46</sup> Unlike private industry, which can select the customers it will serve, the IRS Mission is to provide service to a constituency of more than 177 million<sup>47</sup> individual filers.<sup>48</sup> Providing quality taxpayer services and continuing to improve those services is a strategic priority for the IRS.<sup>49</sup> In meeting it, the IRS must allocate resources to specific services and delivery channels to ensure taxpayers understand their obligations and benefits, facilitate their participation in the tax system, and enforce the laws so taxpayers are confident that when they pay their fair share, others are doing the same.

The IRS has seen much change in taxpayer services over the past decade. A key point in its evolution occurred between 1998 and 2001, when it underwent its largest reorganization in 50 years—an initiative referred to as Modernization. Prior to Modernization, the IRS faced a number of challenges that were widely publicized in a series of U.S. Senate Finance Committee hearings in 1997. Hearing findings included:

- Inadequate service to customers
- Uneven compliance pattern heavily focused on enforcement
- Layered, hierarchical, bureaucratic organization.

According to a 1997 Roper<sup>50</sup> research organization study, only 34 percent of the public gave a positive rating to the IRS. This was the lowest rating ever given to an institution, public or private, in the previous 15 years, and 10 percentage points lower than the next lowest organization rated.<sup>51</sup> At

*“The IRS organizational structure no longer enables its managers to be knowledgeable about and take action on major problems affecting taxpayers nor is it capable of modernizing the business practices and technology needed to achieve our goals.”*

Commissioner Charles O. Rossotti Testimony, 1998

<sup>43</sup> Internal Revenue Service, Statistics of Income (SOI), *IRS Data Book 2004, Table 1-Summary of Internal Revenue Collections and Refunds*, 2005.

<sup>44</sup> Internal Revenue Service, *SOI, Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending December 30, 2005.

<sup>45</sup> Approximately 133 million individual (1040 family) tax returns are filed. Because some individual taxpayers are married yet file jointly, this number translates into the returns from roughly 177 million taxpayers.

<sup>46</sup> Internal Revenue Service, *Commissioner Everson Calls for Improvements to Refund Fraud Program*, <http://www.irs.gov/newsroom/article/0,,id=153813,00.html>.

<sup>47</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>. and Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), 2003 Return Information, 2003.

<sup>48</sup> The 2000 Census reported that 281 million individuals live in the United States and IRS records show that 63 percent are currently federal income filers that the IRS actively works to support.

<sup>49</sup> Internal Revenue Service, *Strategic Plan Fiscal Year 2000-2005*, July 15, 2004, page 12.

<sup>50</sup> Roper Consumer Trends Syndicated Research, from GfK NOP, provides intelligence on consumers' lifestyles, values, attitudes and behaviors to help companies discover new opportunities and create winning strategies.

<sup>51</sup> Rossotti, Charles O. “Many Unhappy Returns,” *Harvard Business School Press*, 2005, page 21.

the time, the IRS had a complex organizational structure with 43 heads of office (33 district offices and 10 service centers) reporting through regional or intermediary offices and an operations unit in headquarters that had 9 assistant commissioners responsible for specific functional areas such as examination or collection.<sup>52</sup> The organization came together only at the very top—at the Commissioner/Deputy Commissioner level. This complex geographic management structure led to disparities in the nature and effectiveness of the delivery of services.

In June 1997, the National Commission on Restructuring the Internal Revenue Service released a report describing the issues facing the IRS. The Commission focused on identifying ways to create a more efficient system and structure easing the burden of compliance, protecting basic taxpayer rights, and ensuring that the IRS collected the proper amount of taxes. Consequently, the report described a series of problems, including low public confidence in the IRS, an outdated management and governance structure, lack of responsiveness to taxpayer needs, and failure to modernize.<sup>53</sup>

The Commission's June 1997 report led directly to the passage of the IRS Restructuring and Reform Act of 1998 (RRA '98), which paved the way for a comprehensive transformation—the IRS Modernization. The new Mission outlined for the IRS emphasized providing top-quality services to taxpayers by helping them understand and meet their tax responsibilities.<sup>54</sup> The new organization was modeled after modern financial organizations. Four operating divisions were created and structured around groups of taxpayers with similar needs.<sup>55</sup> The IRS adopted a customer-centric delivery model that provided mass standardization of service, centralization of shared services, and an emphasis on improving access and quality. The objective was a greater focus on a larger portion of the taxpayer base through investments in technology and realignment of the workload. The restructuring clarified accountability and responsibilities for improving taxpayer service and strengthened enforcement initiatives. The three goals of Modernization—Service to Each Taxpayer, Service to All, and Productivity Through a Quality Work Environment—emphasized this philosophical shift in the way the IRS interacts with the public.<sup>56</sup>

Since the enactment of RRA '98, the IRS has made significant progress by building on existing strengths and improving customer service. Assisting the public in understanding and meeting their tax reporting and payment obligations is the cornerstone of taxpayer compliance and is vital for maintaining public confidence in the tax system. The IRS continues to meet this challenge by improving the quality of responses and expanding taxpayer service through increased electronic self-service transactions. The following information highlights some of the IRS's taxpayer service achievements:<sup>57</sup>

- There has been a 26 percent increase in the overall American Customer Satisfaction Index (ACSI) score<sup>58</sup> for all individual tax filers over a 6-year period, increasing from 51 in 1999 to 64 in 2005.

<sup>52</sup> Internal Revenue Service, *Modernizing America's Tax Agency*, <http://www.irs.gov/irs/article/0,,id=98170,00.html>.

<sup>53</sup> National Commission on Restructuring the Internal Revenue Service, *Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997.

<sup>54</sup> Internal Revenue Service, *The Agency, its Mission and Statutory Authority*, <http://www.irs.gov/irs/article/0,,id=98141,00.html>.

<sup>55</sup> Internal Revenue Service, *Modernizing America's Tax Agency*, <http://www.irs.gov/irs/article/0,,id=98170,00.html>.

<sup>56</sup> Internal Revenue Service, *A Concept of Modernizing the IRS, Excerpts from Commissioner Rossotti's Testimony Before the Senate Finance Committee*, January 28, 1998, <http://www.irs.gov/irs/article/0,,id=98144,00.html>.

<sup>57</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 60.

<sup>58</sup> The American Customer Satisfaction Index (ACSI), which began in 1994, is a measure of customer satisfaction that covers 7 economic sectors, 40 industries, more than 200 private sector companies, and many governmental agencies. Scores are reported on a 0 to 100 scale based on survey data from consumer households across the nation. The ACSI is produced by the Stephen M. Ross Business School of the University of Michigan, in partnership with the American Society for Quality (ASQ) and the International Consulting Firm, CFI Group.

This is the largest favorable gain of all the federal agencies surveyed by the ACSI during this period.<sup>59</sup>

- The IRS achieved a 35 percent increase in the annual Roper score from 37 in 1999 to 50 in 2005.<sup>60</sup>
- Survey results from the 2005 IRS Oversight Board Taxpayer Attitude Survey revealed that 78 percent of the taxpayers surveyed were satisfied with the levels of service they receive over the telephone.<sup>61</sup>
- Toll-free level of service, tax law accuracy, and customer satisfaction rates have remained high or noticeably improved in recent years.
  - In FY 2005, the IRS achieved an 83 percent toll-free level of service, showing significant improvement over the 62 percent level achieved in FY 2001.<sup>62</sup>
  - In FY 2005, the IRS achieved an 89 percent toll-free tax law accuracy rate,<sup>63</sup> well above the 80 percent level achieved in FY 2001.<sup>64</sup>
  - In FY 2005, customer satisfaction with the IRS toll-free service reached 95 percent.<sup>65</sup>
- The newly redesigned IRS Web site, IRS.gov, provides 24-hour assistance, 7 days a week, with improved site navigation and an enhanced search engine that has increased search result accuracy and usability. New and improved Web site features include 1040 Central, Free File, Alternative Minimum Tax (AMT) Calculator, Earned Income Tax Credit (EITC) Assistant, the “Where’s My Refund?” feature, and electronic application and receipt of Employer Identification Numbers (EIN).<sup>66</sup>
  - IRS.gov is one of the most heavily visited sites on the Internet, with over 176 million visits and 1.3 billion page views in FY 2005. IRS.gov visits<sup>67</sup> and page views<sup>68</sup> have increased 72 percent and 84 percent respectively, between FY 2003 and FY 2005.<sup>69</sup>
  - Customer satisfaction results from the ACSI for IRS.gov have increased each quarter since FY 2005 and reached an all-time high of 73.4 in January 2006.<sup>70</sup>
  - The Web site has earned widespread acclaim, including winning the e-Gov “Pioneer Award” (one of 20 awards recognizing Web sites for innovative approaches to improving core products

<sup>59</sup> Internal Revenue Service, *Written Testimony of Mark W. Everson, Commissioner of the Internal Revenue Service Before The Joint Congressional Review*, May 19, 2005.

<sup>60</sup> GfK NOP, *Roper Reports 05-3*, August 2005.

<sup>61</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 60.

<sup>62</sup> Internal Revenue Service, Statement by IRS Commissioner Mark W. Everson, *IRS Improves Enforcement and Services in 2005*, November 3, 2005, <http://www.irs.gov/newsroom/article/0,,id=150358,00.html>.

<sup>63</sup> In FY 2003, accuracy measures for the toll-free telephone changed from a pass/fail methodology to a defect per opportunity (DPO) methodology. Despite changes in methodology, continued improvements are noted.

<sup>64</sup> Internal Revenue Service, Statement by IRS Commissioner Mark W. Everson, *IRS Improves Enforcement and Services in 2005*, November 3, 2005, <http://www.irs.gov/newsroom/article/0,,id=150358,00.html>.

<sup>65</sup> *Ibid.*

<sup>66</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 60.

<sup>67</sup> A visit is defined as a series of actions that begins when a visitor views his/her first page from the server and ends when the visitor leaves the site (or remains idle beyond the idle-time limit of 30 minutes). It should be noted that any given Web page may be accessed (i.e., viewed) multiple times during a single visit to IRS.gov. This causes the number of page views for any given Web page to be significantly higher than the number of visits recorded for the same page.

<sup>68</sup> Page views is a measurement of the number of times that a Web page is viewed from a Web server. This is a much better metric for measuring Web traffic than hits. Unlike the situation with hits, whenever any given Web page is accessed by a visitor to IRS.gov, it is counted as just one page view.

<sup>69</sup> Internal Revenue Service, WebTrends Database, *Site Traffic*, 2003-2005.

<sup>70</sup> Internal Revenue Service, ForeSee Results Online American Customer Satisfaction Index (ACSI), 2004-2005.

and services)<sup>71</sup> and being named one of the “Top 25” Excellence.Gov Award Finalists for 2005.<sup>72</sup>

- The IRS has become flexible in its ability to serve victims of disasters and other unforeseen circumstances. After the September 11, 2001, terrorist attacks, it set up a September 11th Disaster Relief Frequently Asked Questions Web site and established a toll-free number for those affected by the terrorist attacks.<sup>73</sup> In 2005, the IRS provided and staffed toll-free phone assistance lines for hurricane victims. It also implemented numerous tax law changes to help the victims of Hurricanes Katrina and Rita, businesses located in the disaster areas, and individuals donating to charities to support the victims.<sup>74</sup>
- In 2005, more than half of all individual taxpayer returns (68 million) were filed electronically—a 30 percent increase from FY 2003, and more than 5 million taxpayers filed for free through the Free File Alliance—an 84 percent increase from FY 2003.<sup>75</sup> Electronic filing processes refunds more quickly and eliminates most common filing errors such as math and number transposition.<sup>76</sup>
- The IRS has taken several actions to improve the standardization, accuracy, and quality of services provided at Taxpayer Assistance Centers (TAC).
  - In FY 2002, Field Assistance Operating Procedures (FAOPS) moved Field Assistance toward its new Concept of Operations (CONOPS) and its core business activity of providing “face-to-face tax solutions, everyday, for taxpayers with account and other tax problems.” These new operating procedures emphasized standardization of services while increasing flexibility to balance resources with customers’ needs.<sup>77</sup>
  - In FY 2004, the Field Assistance Office began implementing the Embedded Quality System<sup>78</sup> that focused on collecting quality data through TAC managers’ observations of assistor contacts with taxpayers.<sup>79</sup>
- In 2002, the Practitioner Priority Service<sup>80</sup> (PPS) was expanded to provide nationwide toll-free phone access solely for practitioners. In FY 2004, practitioner account services were expanded to IRS.gov with the release of Electronic Account Resolution<sup>81</sup> (EAR) for qualifying practitioners. This tool permits practitioners to resolve their clients’ account issues over the Internet.<sup>82</sup>

<sup>71</sup> InfoZine, *IRS.gov Cited As Most Reliable Government Website*, <http://www.infozine.com/news/stories/op/storiesView/sid/4062>, October 27, 2004.

<sup>72</sup> American Council for Technology, Industry Advisory Council, *IAC Selects “Top 25” Excellence.Gov Award Finalists For 2005*, January 25, 2005, <http://www.actgov.org/actiac/documents/whatsnew/2005ExcellenceGovTop25.doc>.

<sup>73</sup> Internal Revenue Service, *September 11th Disaster Relief Frequently Asked Questions*, <http://www.irs.gov/newsroom/page/0,,id=50207,00.html>.

<sup>74</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 60.

<sup>75</sup> United States Office of Management and Budget, *E-Gov Presidential Initiatives: IRS Free File*, <http://www.whitehouse.gov/omb/egov/c-1-3-IRS.html>. and United States Office of Management and Budget, *Report to Congress on the Benefits of the President’s E-Government Initiatives*, January 6, 2006, [http://www.whitehouse.gov/omb/inforeg/e-gov/e-gov\\_benefits\\_report\\_2006.pdf](http://www.whitehouse.gov/omb/inforeg/e-gov/e-gov_benefits_report_2006.pdf).

<sup>76</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 61.

<sup>77</sup> Heschel, Jerald H., Director, Field Assistance, *MEMORANDUM FOR ALL FIELD ASSISTANCE EXECUTIVES, MANAGERS AND EMPLOYEES, SUBJECT: Fiscal Year 2002 Field Assistance Operating Procedures*, December 21, 2001.

<sup>78</sup> Embedded Quality ties employee performance in the TACs directly to the operational performance of the TACs.

<sup>79</sup> United States Department of Treasury, Treasury Inspector General for Tax Administration, *Taxpayer Service is Improving, but Challenges Continue in Meeting Expectations*, TIGTA: 2006-40-052, February 2006.

<sup>80</sup> Practitioner Priority Service is a toll-free, accounts-related service for all tax practitioners nationwide. It is the practitioner’s first point of contact for assistance regarding taxpayers’ account-related issues.

<sup>81</sup> Electronic Account Resolution allows tax professionals to expedite closure on clients’ account problems by electronically sending/receiving account-related inquiries. Tax professionals may inquire about individual or business account problems, refunds, installment agreements, missing payments or notices. Tax professionals must have a power of attorney on file before accessing a client’s account. The IRS response is delivered to an electronic secure mailbox within three business days (Internal Revenue Service, *New e-Services Tools Expected to Increase e-filing, Improve Customer Service*, IR-2004-89, July 6, 2004, <http://www.irs.gov/newsroom/article/0,,id=124940,00.html>).

<sup>82</sup> Internal Revenue Service, *New e-Services Tools Expected to Increase e-filing, Improve Customer Service*, IR-2004-89, July 6, 2004, <http://www.irs.gov/newsroom/article/0,,id=124940,00.html>.

- In 2005, Low Income Taxpayer Clinics (LITC) expanded to 152 sites and now exist in every state, the District of Columbia, and Puerto Rico.
- The Taxpayer Advocacy Panel (TAP) expanded nationwide in 2002 to provide ethnic diversity and representation from each state. TAP has forwarded more than 100 service recommendations to the IRS, of which several have been implemented.<sup>83</sup>
- IRS Stakeholder Partnerships, Education and Communication (SPEC) developed a community-based partnership model that links education and outreach with free return preparation for low-income populations and supports these partnerships through programs such as Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE). The number of these community partnerships increased from 6 in FY 2000<sup>84</sup> to 290 in FY 2005.<sup>85</sup>
  - In FY 2005, 62,000+ trained volunteers at 14,000 locations across the country prepared more than 2.1 million tax returns—an 80 percent increase from FY 2001. In that same year, VITA and TCE volunteers e-filed more than 77 percent of these returns (approximately 1.6 million e-filed returns<sup>86</sup>)—an increase in volume of 130 percent over FY 2001 (700,000 e-filed return<sup>87</sup>).<sup>88</sup>
  - The EITC Awareness Campaign resulted in an increase of EITC outreach contacts<sup>89</sup> from 194,299 in FY 2001<sup>90</sup> to 108,148,798 in FY 2005.<sup>91</sup>
  - IRS SPEC was named Partner of the Year in 2005 by Connect America, an initiative of the Points of Light Foundation. This was the first time a federal agency was presented with this prestigious award.<sup>92</sup> The award acknowledged SPEC’s efforts in developing a community-based partnership model linking EITC outreach and free tax preparation for low-income families.

The IRS has experienced progress in its evolution of taxpayer services since Modernization. The increased breadth and quality of service offered through the Internet, telephone, and partnerships, in combination, have enabled the IRS to reach a larger audience with improved services in a more efficient manner with consistent messaging. As a result, overall taxpayer satisfaction with the IRS has increased over the past five years. Based on improved access and satisfaction and increased content, taxpayers are better positioned to understand their tax obligations and benefits and to participate in the tax system. Although these accomplishments to improve and expand taxpayer services have been impressive, greater efficiency and effectiveness in service delivery based on taxpayer needs and preferences is still needed. The TAB initiative represents a cohesive, integrated strategy towards providing taxpayer service over multiple channels and will provide the foundation for the next stage in the evolution for taxpayer services.

<sup>83</sup> Internal Revenue Service, Taxpayer Advocacy Panel, *2004 Annual Report*, December 31, 2004.

<sup>84</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, *The Power of Partnerships*, September 2003, page 3.

<sup>85</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, *SPEC Business Model*, November 2005, page 6.

<sup>86</sup> Internal Revenue Service, *FY 2001 – FY 2005 Full Year Performance Activity*, Commissioner’s Monthly Report, January 2006.

<sup>87</sup> Internal Revenue Service, Electronic Tax Administration, ETA Database (E-Filed Returns) and Individual Masterfile database (Paper Returns), 2005.

<sup>88</sup> United States Department of Treasury, *Budget in Brief FY 2007*, February 6, 2006, page 61.

<sup>89</sup> Outreach contacts noted are specifically for EITC information and not the entire universe of SPEC outreach contacts. Contacts (as defined by IRS-SPEC) are defined as either media or non media done directly by SPEC employees or indirectly through partners. Media contacts include radio, television, and newspapers messages and are counted by the number of EITC eligible taxpayers in the audience of the channel. Non media could be face-to-face (one or hundreds), product mailings, newsletters, or e-mails.

<sup>90</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, QIER Database, 2001.

<sup>91</sup> Internal Revenue Service, Stakeholder Partnerships, Education and Communication, STARS Database, 2005.

<sup>92</sup> Internal Revenue Service, Media Relations Office, *IRS News Release*, IR-2005-78, August 5, 2005.

## 1.2 TAB Overview and Approach

The three goals outlined in the current IRS Strategic Plan 2005-2009 support the customer-centric focus of the IRS adopted through Modernization and serve as a guide for future direction.

- Improve taxpayer service
- Enhance enforcement of the tax law
- Modernize the IRS through its people, processes, and technology<sup>93</sup>

The first goal focuses on improving taxpayer service options for the taxpaying public, facilitating participation in the tax system by all sectors of the public, and simplifying the tax process. The IRS maintains its customer focus by routinely soliciting information about the needs and characteristics of taxpayers and implementing programs based on that information.<sup>94</sup>

In his testimony to Congress in May 2005, Commissioner Mark Everson reported a shift in the way that taxpayers interact with the IRS. Paper filing and visits to walk-in centers have decreased while the use of IRS.gov and e-filing has increased. Commissioner Everson testified that this change in customer interaction presents an opportunity for the IRS to adjust the way taxpayers are served and to focus on the most efficient services.<sup>95</sup>

The Government Accountability Office (GAO) reinforced the Commissioner's comments when it issued a report in May 2005 citing the need for the IRS to develop long-term goals to help identify priorities within the taxpayer service functions.<sup>96</sup> The National Taxpayer Advocate (NTA) provided further insights to the need for improvements in taxpayer services in her 2005 Annual Report to Congress. The NTA report raised concerns regarding the decreasing level of resources dedicated to taxpayer services and cited recent changes in IRS operations associated with serving taxpayers.<sup>97</sup>

In July 2005, the Senate Committee on Appropriations issued report language requesting that the IRS conduct a comprehensive review of its current portfolio of services and develop a five-year plan for taxpayer services. The plan is to outline which services the IRS should provide and how it will improve services for taxpayers.<sup>98</sup> Congress asked the IRS, the IRS Oversight Board, and the NTA to collaboratively develop a plan and deliver it by April 14, 2006.<sup>99</sup>

In addition to addressing Congress's report language, the TAB initiative provides an opportunity for the IRS to leverage and refine its proactive efforts over the past several years to improve operational efficiency and effectiveness of taxpayer services. A primary outcome of the initiative will be a five-year plan that guides the IRS efforts to improve customer service offerings for individual taxpayers and the

<sup>93</sup> Internal Revenue Service, *Strategic Plan Fiscal Year 2000-2005*, July 15, 2004, page 5.

<sup>94</sup> *Ibid.*, page 12.

<sup>95</sup> Internal Revenue Service, *Written Testimony of Mark W. Everson Commissioner of the Internal Revenue Service Before The Joint Congressional Review*, May 19, 2005.

<sup>96</sup> Government Accountability Office, *IRS Modernization: Continued Progress Requires Addressing Resource Management Challenge*, GAO-05-707T, May 19, 2005, pages 14-16.

<sup>97</sup> National Taxpayer Advocate, *National Taxpayer Advocate 2005 Annual Report to Congress*, December 31, 2005.

<sup>98</sup> United States Congress, Senate Report 109-109. *Transportation, Treasury, The Judiciary, Housing and Urban Development, and Related Agencies Appropriations Bill, 2006: Internal Revenue Service, Processing, Assistance and Management, Committee Recommendation*, July 26, 2005, [http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1\(sr109\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1(sr109)).

<sup>99</sup> United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/109hr3058jes.pdf>.

providers who serve them.<sup>100</sup> This plan will describe the evolution of taxpayer services over the next five years, with specific and measurable operational goals (e.g., expand account assistance services offered over the Internet, expand services provided through community-based partnerships, improve phone assistance, and identify options for face-to-face assistance).

The TAB initiative will address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayer and partner expectations. The focus of the initiative is on services that support the needs of the individual filer, taxpayers who file or should file Form 1040 series tax returns using their Social Security Number (SSN) or Individual Taxpayer Identification number (ITIN).<sup>101</sup> The TAB scope includes taxpayers with a business income that is directly reported on a Form 1040 series tax return, such as self-employed individuals filing Form 1040 – Schedule C and partners whose income passes directly through the partnership entity to Form 1040. Consequently, the TAB scope does not include services that support business filers who file other types of tax returns, such as Form 1120 series corporate returns and Forms 940/941 business series employment tax returns filed using an EIN. Although recognizing that most taxpayers interact with the IRS once a year when submitting their returns and in many cases receive a refund, the TAB scope does not include return processing. Forms and publications content and the development and clarity of notices to taxpayers are also critical elements of taxpayer services and are being addressed by separate improvement programs. TAB Phase 2 will link customer service improvements with those efforts and burden reduction initiatives.

To address Congressional, IRS, and stakeholder interests, the TAB initiative was designed to achieve the following objectives:

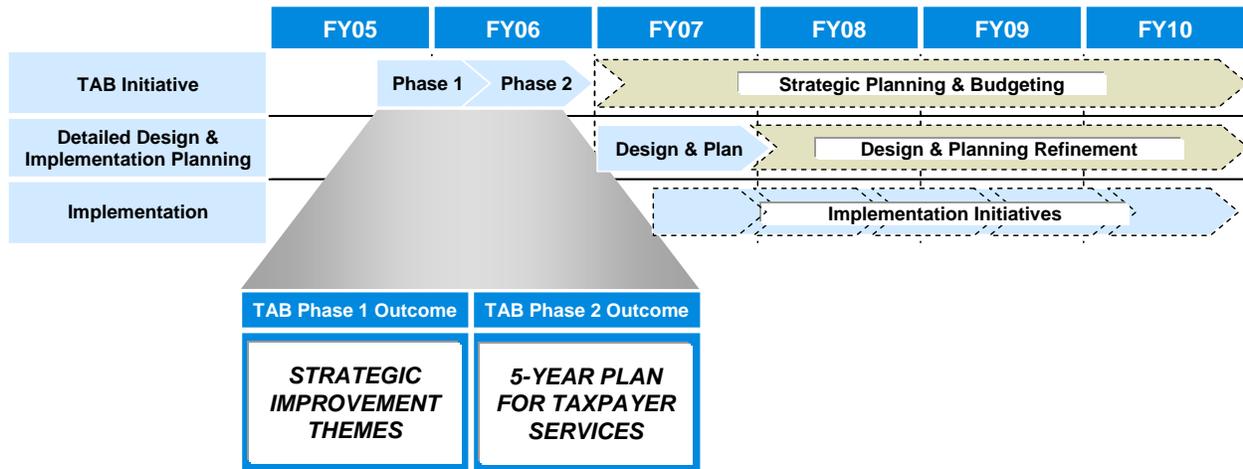
- Establish a credible taxpayer/partner baseline of needs, preferences, and behaviors
- Implement a transparent process for making service-related resource and operational decisions
- Develop a framework for institutionalizing key research, operational, and assessment activities to holistically manage service delivery
- Utilize both short-term performance and long-term business outcome goals and metrics to assess service value.

To comply with the milestone date defined by Congressional language, the TAB initiative was designed as a two-phase process, as depicted in **Figure 1-1**. It is important to emphasize that development and execution of the IRS service strategy are iterative processes incorporating experience, lessons learned, and operational refinements.

<sup>100</sup> United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/109hr3058jes.pdf>.

<sup>101</sup> Form 1040 series tax returns include any IRS tax forms that begin with “1040” such as Form 1040, Form 1040-A, Form 1040-EZ, etc.

**Figure 1-1. TAB Phase 1 and 2 Timeline and Outcomes**



This report presents the strategic improvement themes developed in TAB Phase 1. They are based upon:

- Current baseline of taxpayer services
- Preliminary understanding of taxpayer needs and preferences based on primary research that was completed to better understand the needs of the taxpayer collected through surveys; focus groups; interviews with stakeholders, employees, and partners; and secondary research gathered through studies, research reports, and literature reviews
- Targeted research and analysis of customer insights from external organizations, including customer service leading practices and impact on business results.

Phase 2 builds on the TAB Phase 1 strategic improvement themes and will produce a five-year plan for preferred service delivery to individual taxpayers within available resources. This plan will include:

- Additional voice of the taxpayer (VOT) research collected through taxpayer survey data, particularly as it relates to service channel preferences
- A process for assessing taxpayer needs and preferences that is integrated with IRS annual budgeting and business and strategic planning processes, including long-term improvement goals
- Customer-centric measures that enable the IRS to deliver taxpayer services efficiently and effectively
- A qualitative approach to establish an inferential link between service and compliance
- Operational recommendations for taxpayer service improvements for the next five years
- Continued stakeholder, partner, and employee engagement.

### 1.3 Taxpayer Assistance Blueprint Phase 1 Report Structure

The remaining four sections of this report follow the TAB Phase 1 Report development process shown in **Figure 1-2**.

**Figure 1-2. TAB Phase 1 Approach**



**Section Two** – Current Taxpayer Services provides an overview of taxpayer services and a snapshot of current volume patterns.

**Section Three** – Taxpayer Understanding provides insights into IRS customers’ expectations for service.

**Section Four** – Leading Practices focuses on customer service leading practices from other government and private sector organizations that are relevant to the IRS. In addition, key findings are presented from a study conducted by the Office of Program Evaluation and Risk Analysis (OPERA) to gain insights on how other organizations determine and assess the impact of customer service on business results.

**Section Five** – Improving Taxpayer Services identifies strategic themes for IRS taxpayer services.



This section provides an overview of the current taxpayer services and a snapshot of volume patterns of key service delivery channels. Volume trends may provide insights into the needs and preferences of taxpayers.

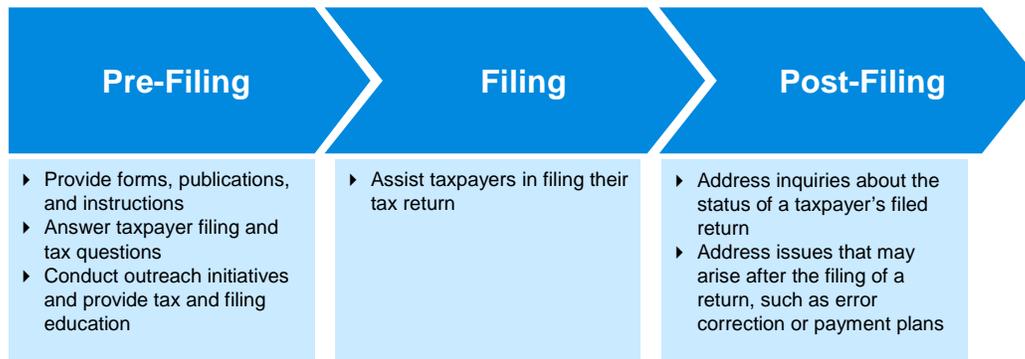


This baseline of current taxpayer service offerings and volume trend information, coupled with an understanding of taxpayer expectations (Section Three), will better prepare the IRS to provide the right service through the right channel—now and in the future.

## 2.1 Individual Taxpayer Service Process

The tax code is complex, and even knowledgeable taxpayers can easily make honest mistakes. The IRS has an obligation to assist taxpayers in both understanding the tax law and remitting the proper amount of tax.<sup>102</sup> To assist taxpayers in understanding and meeting their obligations and understanding their benefits, taxpayer services are aligned to the three key stages of the tax administration process—pre-filing, filing, and post-filing, as illustrated in **Figure 2-1**.

**Figure 2-1. Taxpayer Services Aligned to the Tax Administration Process**



Pre-filing service activities focus on preparing taxpayers to file their return and usually occur during the later part of the calendar year and run through the beginning of the following calendar year. Activities focus on providing:

- The necessary tax forms, publications, and instructions to complete a return
- Support on how to complete a return or on the application of certain tax laws
- Support to address procedural issues associated with preparing to file a return
- Assistance to resolve any account-related issues before the filing process begins, such as changing the address on an account.

<sup>102</sup> Internal Revenue Service, *Written Testimony of Commissioner of Internal Revenue, Mark Everson, before the Senate Committee on the Budget on the Tax Gap and How to Solve It*, February 15, 2006.

Filing service activities focus on facilitating the filing process and usually occur between January and April. Activities focus on providing:

- Direct support on completing a tax return
- Support for filing or submitting a tax return to the IRS
- Support for the payment or refund associated with filing a tax return.

Post-filing service activities usually occur after April and address those needs that may be required after filing a tax return. Activities focus on providing:

- Support for inquiries on the status of a refund or payment
- Support to resolve payment or refund issues
- Assistance in setting up tax payment arrangements (sometimes over time)
- Support and answers to inquiries on documents received about the filing of a tax return
- Copies and transcripts of returns.

## 2.2 Individual Taxpayer Service Categories

Each activity within taxpayer services falls into five main service categories—Outreach and Education, Tax Forms and Publications, Tax Law Assistance, Return Preparation Assistance, and Account Assistance. **Figure 2-2** illustrates the five service categories that align to each stage of the tax administration process. Although the service categories are provided throughout the taxpayer services process, each service category predominately targets particular pre-filing, filing, and post-filing activities.

**Figure 2-2. Taxpayer Service Categories**

Stage of the Tax Administration Process	Service Categories	Service Category Definition
Pre-Filing	<b>Outreach and Education</b>	Outreach and education are provided to inform taxpayers on the products and services offered. The information is typically documented and is distributed in manuals, handouts, brochures, Web sites, etc.
	<b>Tax Forms and Publications</b>	Tax forms, publications, and instructions are provided to guide taxpayers through the preparation and filing of their return. Specific publications provide information on filing procedures and tax credits, deductions, and obligations.
	<b>Tax Law Assistance</b>	Tax law assistance is provided to taxpayers as guidance on how to properly apply the tax law to complete their return. Guidance is provided on a wide range of credits, deductions, and obligations.
Filing	<b>Return Preparation Assistance</b>	Return preparation assistance is provided as personalized education on completing a tax return and often includes completion and submission of the tax return.
Post-Filing	<b>Account Assistance</b>	Account assistance is provided to address inquiries about taxpayers' account status, resolve issues with their account, update personal account information such as a change of address and account balances, make payment arrangements, or obtain transcripts.

## 2.3 Service Providers

Taxpayer services are offered by a broad community of providers, including the IRS and private and community-based partners. A mix of the service categories is offered through each service provider. Typically, service providers align their mix of service offerings to target specific taxpayer segments or service types.

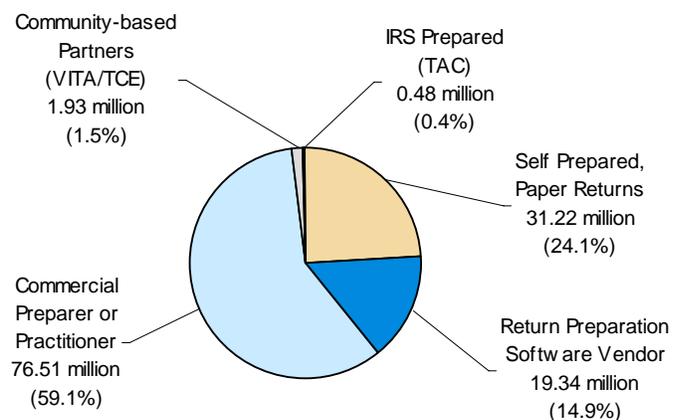
In addition to the IRS, service providers include the following:

- **Practitioners** prepare tax returns for monetary compensation, are governed by the requirements outlined in Circular 230,<sup>103</sup> and are authorized to represent taxpayers legally before the IRS. Practitioners include attorneys, certified public accountants, enrolled agents, and enrolled actuaries.
- **Commercial Preparers** provide tax return preparation assistance for monetary compensation. They may be corporations, partnerships, or self-employed individuals and include electronic return originators (ERO). Commercial providers are not regulated by the IRS or governed by Circular 230.
- **Return Preparation Software Vendors** offer return preparation assistance through self-assisted software products. Software vendors also supply commercial preparers with electronic filing software. Software vendors often provide a portion of their services to certain taxpayer segments for little to no cost.
- **Community-based Partners** provide free service to taxpayers at designated support locations. These partners work with IRS sponsored programs such as VITA, TCE, Tax Forms and Outlet Program (TFOP), and LITC.<sup>104</sup>

A majority of tax returns—76 percent—are filed through practitioners, commercial preparers, return preparation software vendors, or community-based partners.<sup>105</sup> **Figure 2-3** details the relative volume of tax filing support provided by each type of provider.

IRS partners will continue to play an increasingly critical role in the delivery of taxpayer services. As they assume a more prominent role, it is critical for the IRS to understand which and how well service is provided through its partners and how to best provide support to facilitate the successful delivery of these services. This involves complex relationship management issues, such as quality control and appropriate IRS oversight. This

**Figure 2-3. Tax Year (TY) 2003  
Tax Returns Filed by Provider**



<sup>103</sup> Circular 230 prescribes the duties and restrictions relating to practice before the IRS, which includes preparing and filing documents, corresponding and communicating with IRS representing clients at conferences, hearings, and meetings. (United States Department of Treasury, Circular 230, *Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries and Appraisers before the Internal Revenue Service*, June 20, 2005.)

<sup>104</sup> LITC provide low-income taxpayers with representation in federal tax disputes for free or a nominal charge, and tax education and outreach for taxpayers who speak English as a second language.

<sup>105</sup> Internal Revenue Service, Electronic Tax Administration, Electronic Tax Administration Database, February 2006.

aspect of delivery and the IRS’s plan to address these challenges going forward is discussed in Section Five.

## 2.4 Individual Taxpayer Service Delivery Channels

The IRS and the individual service providers offer their services through four main delivery channels—telephone, in-person, electronic, and correspondence. Multiple channels are provided with assisted and self-assisted options. For example, taxpayers can receive information on the status of their tax refund through self-assisted telephone and Internet menus or speak directly to a customer service representative. **Figure 2-4** defines each delivery channel.

**Figure 2-4. Delivery Channel Overview**

Delivery Channel	Delivery Channel Examples	
<b>Telephone</b>	Assisted	Live contact with a customer service representative
	Self-assisted	Automated menu options that provide account and tax law information
<b>In-Person</b>	Assisted	TACs and other IRS offices, partner sites, or other physical locations such as a mall or post office
	Self-assisted	Walk-in centers (TAC and partner sites) that provide self-assisted tax products and information (e.g., forms and publications)
<b>Electronic</b>	Assisted	Information and guidance delivered through e-mail
	Self-assisted	IRS.gov designed to provide tax products and information or a kiosk
<b>Correspondence</b>	Assisted	Information provided from the service providers through the postal service or by fax

Each taxpayer service provider offers a broad range of services through a mix of self-assisted and assisted delivery channels.

- **IRS** provides access to all service categories. Most are offered through self-assisted and assisted options; however, some are provided on a limited basis through certain delivery channels. For example, account assistance is offered primarily through assisted channels, such as telephone, correspondence, and in-person, with limited access to account information via the self-assisted electronic channel.
- **Practitioners** primarily provide assisted return preparation support, tax law guidance and assistance, and account assistance. Most of their efforts are conducted in-person or over the telephone. Because practitioners can act on behalf of a taxpayer, they can serve as a conduit to the IRS on all account matters.
- **Commercial Preparers** primarily provide assisted return preparation support. They also provide limited outreach and education through taxpayer training classes; forms; publications; instructions distribution; assisted tax law advice and assistance in completing a return; and limited account assistance. Most of their efforts are conducted in-person or over the telephone.

- **Return Preparation Software Vendors** primarily provide self-assisted electronic return preparation support and tax law assistance. In addition, some software vendors provide self-assisted electronic access to forms, publications, and instructions.
- **Community-based Partners** primarily provide assisted return preparation support and conduct outreach and education efforts. They also provide limited access to forms, publications, instructions, tax law assistance, and account assistance.

In addition to these service providers, the Taxpayer Advocate Service (TAS) resolves those issues that are not addressed through the IRS channels. TAS directly assists taxpayers with account and tax issues, primarily by phone but occasionally in-person. The goals of the TAS are to protect individual and business taxpayers' rights and to reduce taxpayer burden.

The IRS and the service providers offer a range of each of the five main service categories through a mix of assisted and self-assisted delivery channels. Service providers and technology play a significant role in the tax administration process, helping to shape taxpayer behavior. The challenge for the IRS is supporting each taxpayer directly or indirectly through a service provider and measuring the effectiveness of the resulting contacts.

## 2.5 IRS Service Measures

The IRS has a wide variety of service performance measures, such as timeliness and quality of response, the number of TAC contacts, telephone access and wait times, returns prepared by SPEC volunteers, and the number of paper and electronic returns processed. In addition to transactional metrics, the IRS has several formal means to collect information regarding taxpayer and partner satisfaction with service delivery. Since 2000, the mix of quantitative and qualitative measures has been reported as balanced measures categorized under the headings of employee satisfaction, customer satisfaction, and business results. While all IRS service channels evaluate performance against the balanced measures categories, the definition of similar performance metrics, such as accuracy, differ across channels, as do the availability, collection processes, and quality of the data. For example, customer satisfaction surveys are administered across all service channels, but inconsistent research instruments limit cross-channel comparative analysis. Phase 2 will address metric gaps and data gathering standardization. Despite the fact that the IRS compiles and analyzes a large volume of performance information, there is no specific set of data or a methodology to measure the long-term business outcomes of effective service delivery as it relates to the accomplishment of the IRS Mission, the impact of a specific event across all channels, or the ultimate impact of service on compliance.

Section Four highlights leading practices research and the difficulty most organizations have in quantifying the impact of service delivery on business results. Although establishing a credible quantifiable link between service and compliance may be unattainable, developing a body of reasonable proxy measures based on reasonable causal inferences is not. Such metrics should reinforce the long-term outcome of supporting compliant taxpayers to remain compliant and provide the means for non-compliant taxpayers to fulfill their tax obligations. Service delivery should support the long-term IRS goal to improve voluntary compliance from 83 percent to 85 percent by 2009.<sup>106</sup> The TAB Phase 2 Report will include

<sup>106</sup> Internal Revenue Service, *IRS Exit Fact Sheet on IRS's 2007 Budget Request for the Senate Appropriations Hearing*, March 9, 2006, page 2.

recommendations for integrating short-term quantifiable service performance and long-term business outcome metrics.

Further, the IRS lacks good information on the cost of providing its various services to taxpayers because prior to FY 2005, it did not have a cost accounting system to accumulate and report the reliable cost information that managers needed to make informed decisions. For example, accurate and timely cost information may help when considering changes in the menu of taxpayers' services, by identifying and assessing relative costs, benefits, and risks of specific projects. In FY 2005, the IRS implemented a cost accounting system as part of the first release of its IFS; nonetheless, it will take several years for the IRS to have reliable cost data. Collection of this cost information is a major building block to help the IRS make informed resource allocation decisions.

The relative volume of key IRS service categories and how each service fits into the overall taxpayer service process is discussed in the next portion of this section. Not all delivery channels are included, nor are the volumes for each channel reported. It is recognized that the volume of services delivered by channel does not necessarily reflect a taxpayer's preferred method of communicating with the IRS or the actual demand for services. Trends in IRS channel use can, however, be informative when viewed within the context of broader marketplace trends, such as the financial services and online industries. Over time, such data may indicate fundamental changes in taxpayer or consumer behaviors in the selection and use of specific channels to complete certain service tasks.

## 2.6 IRS Taxpayer Service Volume Trends<sup>107</sup>

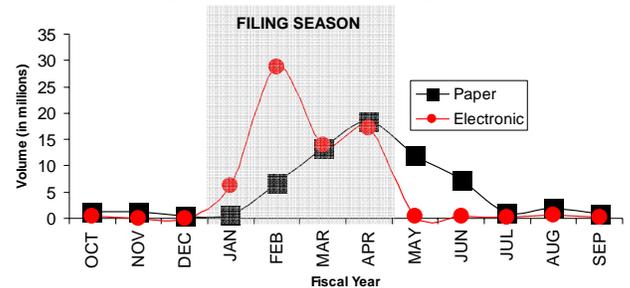
The tax-filing process follows a predictable annual cycle. Each year millions of taxpayers file their returns through the network of providers. Filings begin soon after the beginning of the calendar year as taxpayers receive tax information. (See **Figure 2-5.**) Electronic filings peak in February and rise again as the April 15 filing deadline approaches. Paper returns peak later, closer to the April 15 filing deadline. Filing volumes taper off after April and then pick up as taxpayers with extensions file to meet the August 15 deadline. Filings during the last six months of the calendar year account for marginal volumes.

The taxpayer services that support the filing of a return follow similar cycles. Pre-filing services, forms, and publications distribution<sup>108</sup> (See **Figure 2-6**) and tax law assistance (See **Figure 2-7**), begin to increase in volume during the beginning of the calendar year. As taxpayers file their returns throughout the filing season, these services experience high volumes; once the filing season ends, the volume drops off considerably.

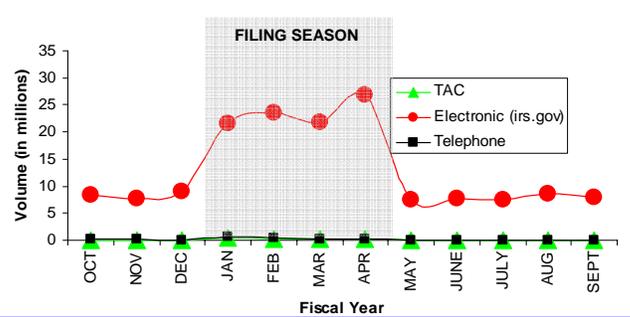
Account assistance activities also peak during the filing season as taxpayers call and use IRS.gov to inquire about the status of their account or their refund. As the filing season ends, taxpayers use account assistance to resolve issues that arise during the filing process, such as math errors, or to make payment arrangements. (See **Figure 2-8.**)

During all stages of the filing process, tax forms and publications and account assistance are the top volume service categories; and telephone and electronic channels are the top volume delivery channels. The IRS has seen a significant increase in volume through the electronic channels, especially to download forms and check refund status.

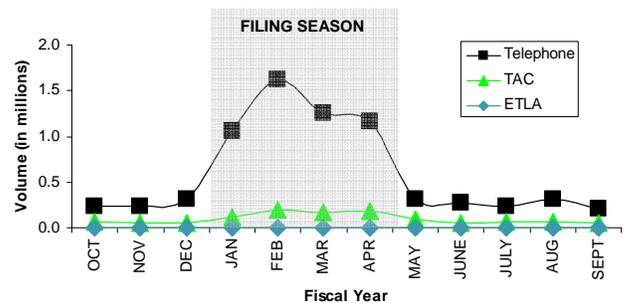
**Figure 2-5. FY 2005 Tax Return Filing Volumes**



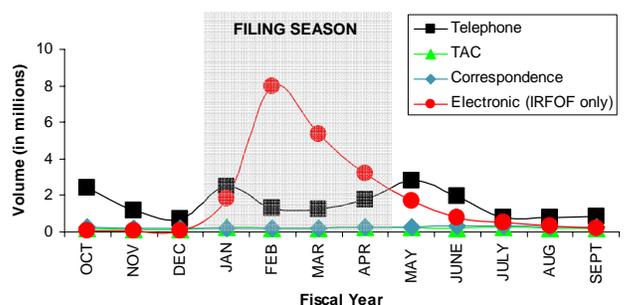
**Figure 2-6. FY 2005 Form/Publication Volumes**



**Figure 2-7. FY 2005 Tax Law Volumes**



**Figure 2-8. FY 2005 Account Volumes**



<sup>107</sup> Full reference sources for each graph listed in the Appendix – Service Channel Volumes, Table A-5 and A-6 – Service Category Volume Data for FY 2003 through FY 2005. In the appendix, volume data is only presented annually by fiscal year and has been broken down by month for each of the above figures, however all sources are the same.

<sup>108</sup> In addition to distribution through TACs, IRS.gov, and the telephone, more than 550 million forms, publications, and instructions are distributed to libraries, banks, post offices, community-based partners, etc. for distribution to the general public. In Figure 2-6, TAC volumes are very small in comparison to the electronic channel and appear very close to the x-axis of the graph.

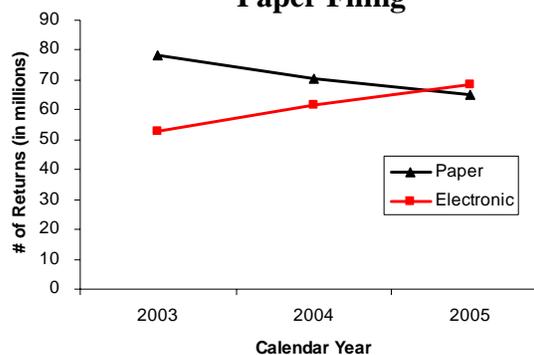
A closer examination of selected service offerings and delivery channels over the past three fiscal years provides insights into service and channel volume trends. It illustrates a general increase in the volume of self-assisted electronic channels and services and a decrease in the volumes for in-person and telephone channels.

### Electronic filing has increased by nearly 30 percent within the past three years, while paper filing has steadily declined

The electronic filing of tax returns is becoming an increasingly more common practice among the taxpaying community. In 2005, more than 68 million tax returns were filed electronically (51 percent), up from 53 million (40 percent) in 2003. From 2003 to 2005, the volume of returns filed electronically increased by nearly 30 percent.<sup>109</sup>

Tax returns filed electronically benefit from the use of software that performs validation checks. As a result, there are fewer processing problems<sup>110</sup> associated with them and less downstream work (e.g., responding to math error notices). In FY 2005, the processing problem rate for e-filed returns was 1.7 percent, while the processing problem rate for paper returns was 23.3 percent.<sup>111</sup>

**Figure 2-9. Annual Electronic Versus Paper Filing**

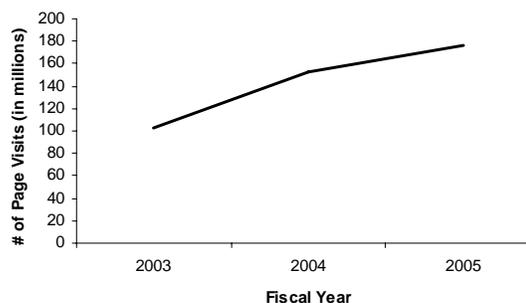


### The number of IRS.gov visits<sup>112</sup> has increased by 72 percent over the past 3 years

Since FY 2003, the number of visits to IRS.gov has increased by more than 73 million, or 72 percent.<sup>113</sup> (See **Figure 2-10**.)

During FY 2003, the IRS introduced a new service that allowed taxpayers to check the status of their refund—“Where’s My Refund?” (Internet Refund and Fact of Filing [IRFOF]). During FY 2005, more than 22 million taxpayers used the “Where’s My Refund?” feature on the IRS Web site.<sup>114</sup>

**Figure 2-10. IRS.gov Visits**



<sup>109</sup> Full reference sources listed in the Appendix – Service Channel Volumes, Figure A-5 and A-6. Service Category Volume Data for FY 2003 through FY 2005.

<sup>110</sup> Processing problems or Error Resolution System (ERS) fall out are defined as transactions that fail the Generalized Mainline Framework (GMF) math error, consistency, and validity checks and are generated for correction to ERS.

<sup>111</sup> Internal Revenue Service, Submission Processing, *ERS Reports, Campus PCD-0120 & PCD-0344 Reports*, February 9, 2006.

<sup>112</sup> A visit is a series of actions that begins when a visitor views his/her first page from the server and ends when the visitor leaves the site (or remains idle beyond the idle-time limit of 30 minutes). It should be noted that any given Web page may be accessed (i.e., viewed) multiple times during a single visit to IRS.gov. This causes the number of page views for any given Web page to be significantly higher than the number of visits recorded for the same page.

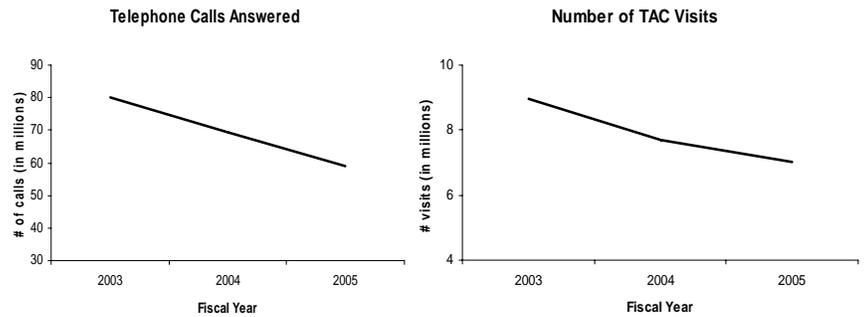
<sup>113</sup> Internal Revenue Service, WebTrends Database, *Site Traffic*, 2003-2005.

<sup>114</sup> Internal Revenue Service, Joint Operations Center (JOC), *IRFOF Monthly and PP Cum Counts*, FY 2005.

## The volume of telephone calls answered and TAC visits has decreased over the past three years

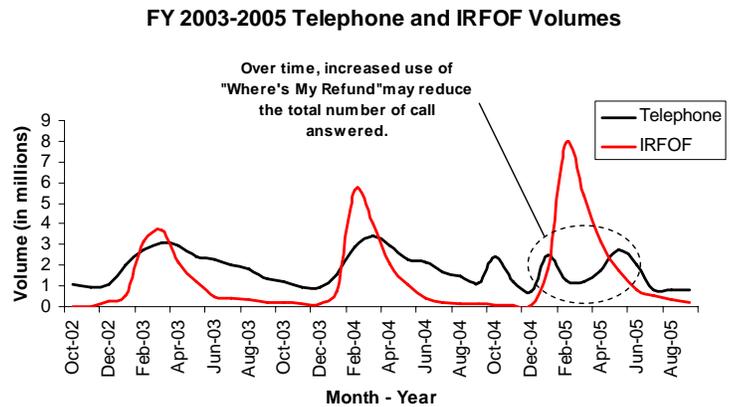
Since FY 2003, the number of telephone calls answered has decreased by more than 18 million calls (19 percent) and TAC volumes have decreased by almost 300 thousand visits (9 percent).<sup>115</sup> (See **Figure 2-11.**)

**Figure 2-11. Volume of TAC Visits and Calls Answered**



The decrease in telephone activity and TAC visits may be attributed to a number of factors. During FY 2003, the IRS introduced a new service—“Where’s My Refund?”—on its Web site, which allowed taxpayers to check the status of their refund electronically. By end of FY 2005, more than 22 million taxpayers were using this feature. Trend data implies that as taxpayers became more familiar with and began using “Where’s My Refund,” the volume of this feature increased. (See **Figure 2-12.**) In addition to new features on IRS.gov, the IRS has expanded access through its partner network by providing filing and tax assistance. Since Modernization, however, the IRS has modified or limited access to some services, which also may have contributed to a reduction in volumes. TAB Phase 2 will further investigate the impact of these changes and other possible contributing factors on taxpayers.

**Figure 2-12. Volumes of Telephone Calls and “Where’s My Refund” Inquiries**



## 2.7 The Service Environment

Because of the large customer base that the IRS serves (Section Three, Taxpayer Understanding), the dynamic and complex environment of tax law, and the constrained and variable fiscal resources available for taxpayer services, there is a continual need for the IRS to evaluate which services are provided and how those services will be delivered.

The frequency and timing of changes in tax legislation add a level of complexity in administering the tax code and serving the IRS’s large customer base effectively. As taxpayers seek to understand and comply with new legislation, changes in demand for services may occur.

<sup>115</sup> Full reference sources listed in the Appendix – Service Channel Volumes, Figure A-5 and A-6. Service Channel Contact Volume for FY 2003 through FY 2005.

Moreover, service funding is subject to evolving tax administration requirements as well as executive and legislative priorities. The goals of “Service to Each Taxpayer” and “Service to All” inherently challenging to fulfill when there is variability in service-related budgets. As a result, the IRS must continually assess its resources against the current portfolio of services and ensure there is a proper alignment between current services and taxpayer/partner needs and preferences. This is not a static equation and will require a set of short-term performance and long-term outcome measures that guide future taxpayer services decisions.

## 2.8 Conclusion

Taxpayer services are offered by a broad community of providers, including the IRS and private and community-based partners. Each taxpayer service provider offers a wide range of services through a mix of self-assisted and assisted delivery channels. The challenge for the IRS is supporting each taxpayer directly or indirectly through each service provider and measuring the effectiveness of the resulting contacts.

IRS services are evaluated against a set of balanced measures. While all IRS service channels evaluate performance against the balanced measures categories, the definition of similar performance metrics, such as accuracy, differ across channels, as do the availability, collection processes, and quality of the data, which limits cross-channel comparative analysis. Additionally, there is no specific set of data or methodology to measure the long-term business outcomes of effective service delivery as it relates to the accomplishment of the IRS Mission, the impact of a specific event across all channels, or the ultimate impact of service on compliance. While establishing a credible quantifiable link between service and compliance may be unattainable, developing a body of reasonable proxy measures based on reasonable causal inferences is not. Such metrics should reinforce the long-term outcome of supporting compliant taxpayers to remain compliant and the means for non-compliant taxpayers to fulfill their tax obligations. In addition, the IRS lacks good information on the cost of providing its various services to taxpayers because prior to FY 2005, it did not have a cost accounting system to accumulate and report the reliable cost information that managers needed to make informed decisions. In FY 2005, the IRS implemented a cost accounting system as part of the first release of its Integrated Financial System (IFS) that will serve as a major building block to help it make informed resource allocation decisions.

In addition to performance metrics, volume is often considered when assessing service delivery. While it is recognized that the volume of services delivered by channel does not necessarily reflect a taxpayer’s preferred method of communicating with the IRS or the actual demand for services, volume can be indicative of fundamental changes in taxpayer behaviors, selections, and use of specific channels to complete certain service tasks.

Volume trends indicate that a majority of taxpayers rely on IRS partners to provide filing assistance. Additionally, more people are using electronic means as a way to interact with the IRS. Historically, the IRS has offered a wide variety of services to taxpayers through delivery channels that require significant infrastructure and resources. In recent years, however, automation has allowed the IRS to offer expanded services through channels that require fewer resources to operate, yet are capable of reaching a larger audience (e.g., the IRS.gov Web site). Recent volume trends indicate more taxpayers are using electronic self-assisted channels, while the volumes for telephone and in-person channels are declining. It is important to note, however, that access to computer and Internet technology does not necessarily result in their use for certain service tasks.

These trends are similar to those in other government and commercial organizations. Advances in technology, especially the use of the Internet, have allowed many organizations to use standard, self-assisted technology solutions to deliver consistent service, especially targeted at informational and basic transactional needs. As a result, these organizations have effectively and efficiently delivered service to a large portion of their customer base. For example, a leading financial institution was able to provide online, self-assisted transactional services (e.g., online bill pay, basic account changes, fund transfers) for its customer base. These services accounted for 36 percent of total transactional business but only 5 percent of total transactional cost.<sup>116</sup> These trends in outside organizations may shape the expectations of taxpayers for service delivery from the IRS and its partners.

Increasing access to service offerings through technology enhancements and adjusting to meet customer demand and expectations are activities that the IRS must continually perform as a service organization. Due to the large and diverse taxpaying population, the IRS must also offer selectively customized solutions that most effectively meet taxpayers' expectations. The dynamic and complex environment of tax law and the constrained and variable resources available for taxpayer services require the IRS to continually evaluate which services are provided and how those services will be delivered. While volume is often indicative of successful access to service, it does not necessarily reflect taxpayer needs and preferences. Section Three, Taxpayer Understanding provides additional information on taxpayers' needs, preferences, and expectations for service.

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<sup>116</sup> Graeber, Catherine, with Bill Doyle, Jeremy Sweeney. "Want To Get More Online Bill Payers?" *WholeView, The TechStrategy Report, Forrester*, January 2003, page 7.



This section provides a comprehensive overview of the IRS customers' expectations for service. During Phase 1, primary research was used to begin defining taxpayers' needs, preferences, behaviors, and expectations. This research included data from new and existing survey instruments, organizations that represent taxpayers, and IRS employees who interact with taxpayers during service delivery. Secondary research was also used to begin defining taxpayers' and the general public's needs, etc., when interacting with the IRS and other organizations. During Phase 2, additional primary research will be used to further validate and refine the IRS's understanding.

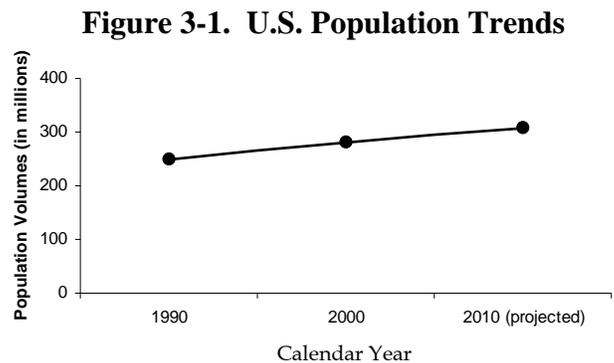


### 3.1 The Landscape of the Taxpaying Population

All current or potential customers of the IRS must be considered when examining taxpayer services and planning for the future. Approximately 281 million individuals live in the United States, and 63 percent (177 million) of them are current federal income filers that the IRS actively supports.<sup>117</sup> The taxpaying population filed more than 133 million individual tax returns in 2005,<sup>118</sup> and that number is expected to increase to 143 million in 2012.<sup>119</sup> Through August 2005, 51 percent filed electronically—a record number for the IRS—and approximately 60 percent used practitioners or commercial preparers.<sup>120</sup> Because the act of filing a return is the focal point for service delivery, it is instructive to evaluate how certain environmental trends impact taxpayers' preferences and behaviors.

#### The Total U.S. Population Has Grown Over 13 Percent Since 1990

The 2000 Census recorded a 13 percent increase in population between 1990 and 2000.<sup>121</sup> In 2000, the total U.S. population was approximately 281 million; by 2010, the population is projected to be in excess of 308 million, a 10 percent increase, as shown in **Figure 3-1**.<sup>122</sup> This population increase will have an effect on taxpayer service offerings as demand increases. Specifically, the number of new filers is expected to increase by more than 10 million (7.5 percent) over the next 6 years.<sup>123</sup>



<sup>117</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>. and Internal Revenue Service and Electronic Tax Administration Marketing Database (ETA MDB), 2003 Return Information, 2003.

<sup>118</sup> Internal Revenue Service, SOI, *Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending December 30, 2005.

<sup>119</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005, page iv. (Note: Figure includes the 1040 family individual returns both from W&I and SB/SE [Schedule C, E, F & 2106].)

<sup>120</sup> Internal Revenue Service, SOI, *Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending August 26, 2005, <http://www.irs.gov/taxstats/article/0,,id=96629,00.html>.

<sup>121</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>.

<sup>122</sup> *Ibid.*

<sup>123</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005, page iv. (Note: Figure includes the 1040 family individual returns both from W&I and SB/SE [Schedule C, E, F & 2106].)

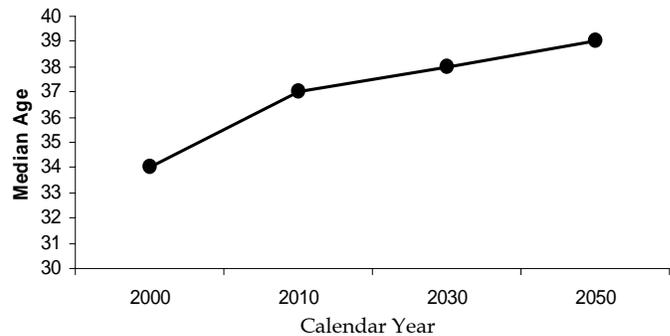
## The Taxpaying Population is Aging

The Senior and Baby Boomer generations—taxpayers born before 1966—comprise approximately 60 percent of the U.S. population.<sup>124</sup> With healthier lifestyles and medical advances, people are expected to live longer and delay retirement. In turn, the median age will increase as the taxpaying population grows in magnitude and the subsequent generations enter the workforce.<sup>125</sup>

**Figure 3-2** provides a projection<sup>126</sup> of this increase over the next 50 years. The projections indicate the median age will increase from approximately 34 in 2000 to 39 in 2050,<sup>127</sup> which

may have a significant impact on the types of services taxpayers will need. For example, older taxpayers will likely require service support on topics such as retirement and Social Security benefits.

**Figure 3-2. Projected Median Age of U.S. Population**



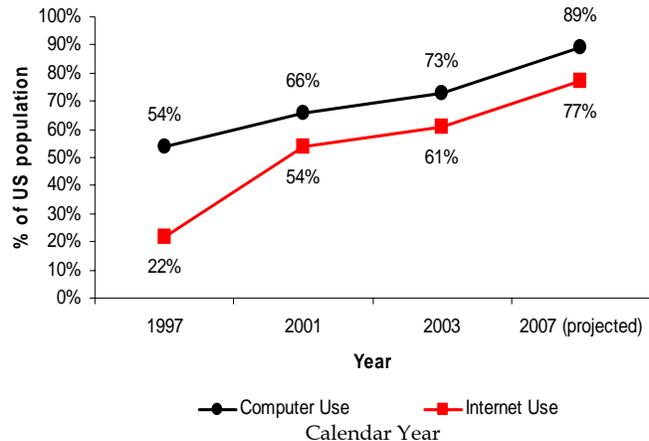
## Computer and Internet Use is Growing

Computer and Internet use have transformed the way Americans interact with the Government.<sup>128</sup>

From 1997 to 2001, the percentage of Americans who used a computer increased from 54 percent to 73 percent, while those who accessed the Internet increased from 22 percent to 61 percent, as shown in **Figure 3-3**.<sup>129</sup> In 2002, however, only 18 percent of households with incomes below \$30,000 used the Internet; and by 2005, that proportion increased to 48 percent.<sup>130</sup> Personal computer usage rates are expected to continue to grow over the next

several years due in part to the increasing variety of services offered over the Internet, such as banking, online bill payment, and shopping.<sup>131</sup> It is important to note that access to computer and Internet technology does not necessarily indicate a propensity to use them for certain service tasks, but market trends do indicate that more consumers are going online to manage their personal finances. The

**Figure 3-3. Computer and Internet Use**



<sup>124</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>.

<sup>125</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, June 2003, page 9.

<sup>126</sup> For the median age projection, it was assumed that ages are distributed evenly within the 20-44 age range.

<sup>127</sup> U.S. Census Bureau Web Site. <http://www.census.gov/ipc/www/usinterimproj/>, Table 2a. Projected Population of the United States, by Age and Sex: 2000 to 2050, File Name: natprojtab02a.xls.

<sup>128</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005.

<sup>129</sup> *Ibid.*, page 11.

<sup>130</sup> *Ibid.*, page 28.

<sup>131</sup> *Ibid.*, page 11-12.

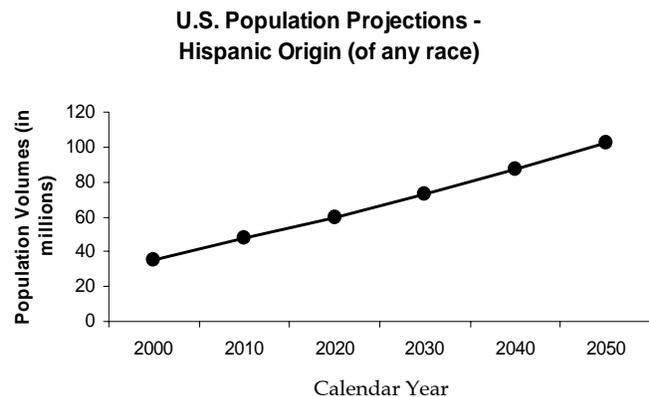
Consumer Internet Barometer,<sup>132</sup> a quarterly industry measure of applications on the Internet, found that the trend in Internet usage for financial transactions is on the rise. According to its 2003 research, nearly half of all Internet users conduct financial business online, up from 39 percent in 2001.<sup>133</sup> The study also found that usage frequency is increasing as more than two-thirds of Internet users log on daily to conduct financial business. This trend is also reflected for the IRS's services; since 2003, the number of visits to IRS.gov has increased by more than 73 million, or 72 percent.<sup>134</sup>

## The Immigrant Population is Growing

Between 1990 and 2000, the foreign-born population increased by more than 57 percent. By 2004, 34.2 million foreign-born persons were living in the United States.<sup>135</sup> Among those, 54 percent were born in Latin America and only 50 percent of them graduated from high school.<sup>136</sup> This growing population segment may drive the service need for additional language assistance; non-traditional and non-English means of obtaining information; and focused marketing, communications, education, and outreach.

**Figure 3-4** illustrates the projected increase in the U.S. Hispanic population between 2000 and 2050.<sup>137</sup>

**Figure 3-4. Projected U.S. Hispanic Population**



The taxpaying population changes constantly. The population is growing, the average age of taxpayers is increasing, the population is becoming more ethnically diverse, and the use of technology is increasing. The IRS has the unique and challenging task of addressing the responsibilities of each taxpayer in this broad, growing, and rapidly changing base.

## 3.2 Taxpayer Segmentation

To better understand the expectations of such a broad taxpayer base, the population was segmented by two main differentiating factors—income and generation.

Similar to the process used by leading financial organizations,<sup>138</sup> segmenting by income affords important insights into commonalities and differences across income groupings. Research indicates that generational segmentation also offers important insights into taxpayer behaviors, specifically in four areas relevant to the

<sup>132</sup> The Consumer Internet Barometer is produced by NFO WorldGroup, Forrester Research and The Conference Board. The Consumer Internet Barometer is based on a quarterly survey of 10,000 households. A unique sample is surveyed each quarter. Return rates average 70 percent, which ensures highly representative data. Data is weighted as well to reflect the latest U.S. household demographic information.

<sup>133</sup> The Conference Board, *More Consumers Using Internet to Buy Stocks, Do Personal Banking and Other Financial Transactions*, October 6, 2003, [http://www.conference-board.org/UTILITIES/pressDetail.cfm?press\\_ID=2237](http://www.conference-board.org/UTILITIES/pressDetail.cfm?press_ID=2237).

<sup>134</sup> Internal Revenue Service, WebTrends Database, *Site Traffic*, 2003-2005.

<sup>135</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005, page 14.

<sup>136</sup> *Ibid.*

<sup>137</sup> U.S. Census Bureau Web Site. <http://www.census.gov/ipc/www/usinterimproj/>, Projected Population of the United States, by Race and Hispanic Origin: 2000 to 2050, File Name: natprojtab01a.xls.

<sup>138</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research*, January 2006.

IRS<sup>139</sup> that remain relatively stable across a lifetime—communications preference; information seeking behavior; attitudes toward government, commerce, and finance; and technology base.<sup>140</sup>

Research also points out that life events clustered into Adult Life Stages<sup>141</sup> drive many tax-related needs. Although the median age of Life Stage populations may change over time and vary within subcultures, the events themselves are relatively stable over decades. For example, as young adults transition to their working lives (approximate age 27-31), they encounter many of the same tax-related issues, such as relocation (appropriate taxation and deductions, new state taxation), immigration (new tax culture, compliance), advanced education (appropriate tax handling of fellowships, etc.), and marriage<sup>142</sup> (mid-year tax transitions, filing status choices). If the IRS can anticipate the changes in the taxpaying population and the respective taxpayer needs that accompany them, it can position its services to meet the specific needs of those populations.

The income and generational segmentation approach enables the matching of existing filing characteristics with secondary data on common behaviors seen in income and generational segments, especially around expectations for service and use and adoptability of technology. The segmentation framework<sup>143</sup> includes four income groups and four generational segments as illustrated in **Figure 3-5**.

**Figure 3-5. Taxpayer Segmentation Framework**

Income Segments	Generational Segments <sup>144</sup>
<b>Low Income</b> AGI < \$36K	<b>Millennials</b> Coming of age 1995 and beyond: Ages 0 to 29
<b>Moderate Income</b> \$36K ≤ AGI < \$62.5K	<b>Generation X</b> Coming of age 1984 – 1994: Ages 30 to 40
<b>Moderately High Income</b> \$62.5K ≤ AGI < \$100K	<b>Baby Boomers</b> Coming of age 1963 – 1983: Ages 41 to 60
<b>High Income</b> AGI ≥ \$100K	<b>Seniors</b> Coming of age 1908 – 1962: Ages 61 to 116

Two additional population segments were considered that span all generations and income levels—limited English proficiency (LEP)<sup>145</sup> and disabled taxpayers.<sup>146</sup> They are addressed in Sections 3.5 and 3.6.

<sup>139</sup> Internal Revenue Service, Wage and Investment, Strategic Forecasting and Analysis, *Cohort Marketing May Assist W&I in Understanding and Catering to Taxpayers in the Future*, May 2002.

<sup>140</sup> Meredith, Geoffrey E., Charles D. Schewe, Ph.D., and Janice Karlovich, *Defining Markets, Defining Moments; America's 7 Generational Cohorts, Their Shared Experiences, and Why Businesses Should Care*, Hungry Minds Press, 2002.

<sup>141</sup> Weiler, Nicholas W., in collaboration with Schoonover, Stephen C., MD, "Your Soul at Work," *Paulist Press*, 2001.

<sup>142</sup> Johnson, Tallese and Jane Dye, "Indicators of Marriage and Fertility in the United States from the American Community," Survey: 2000 to 2003, Population Division, U.S. Census Bureau, Washington, DC 20233, May 2005.

<sup>143</sup> Generations are typically broken down into seven segments—Traditionalists (ages 79-116), Post War (ages 61-78), Leading Edge Baby Boomers (52-60), Trailing Edge Baby Boomers (ages 41-51), Generation X (ages 30-40), Generation Y (14-29), and Generation Z (ages 0-13). Due to the relative lack of difference between a number of the segments with respect to expectation, need, and preference for service, the seven segments were re-organized into four generational segments—Seniors (ages 61-116), Baby Boomers (ages 41-60), Generation X (ages 30-40), and Millennials (ages 0-29).

<sup>144</sup> Generational cohort theory asserts that values, attitudes, aspirations, expectations, and motivations are established when a person comes of age (17-23 years old), are strongly influenced by the prevailing social era, and will be widely shared by others coming of age in the same era.

<sup>145</sup> Limited English proficiency taxpayers are persons identified as speaking English "not well" or "not at all" by the U.S. Census Bureau. United States Department of Commerce, U.S. Census Bureau, *Summary File 3, 2000 Census of Population and Housing, Technical Documentation*, March 2005, page B-32.

<sup>146</sup> Disabilities include: difficulty working, mobility limitation, personal care limitation, physical difficulty, difficulty remembering, and vision or hearing difficulty.

### 3.3 Filing Characteristics By Income and Generational Segment

The segmentation framework highlights the similarities and differences in certain filing characteristics across income and generational segments. **Figure 3-6** illustrates the five filing characteristics considered across each segment, their definitions, and the potential indications regarding current and future taxpayer behaviors, preferences, and needs.

**Figure 3-6. Filing Characteristics Descriptions and Potential Indications**

Filing Characteristics	Definition	Potential Indications
<b># of Returns (in 1000s)</b>	The total number of tax returns filed	The number of returns filed serves as a potential indicator of current and future demand
<b>% Electronically Filed</b>	The percentage of returns filed electronically	Electronic filing serves as a potential indicator of taxpayers' comfort and propensity to use technology
<b>% Paid Preparer</b>	The percentage of returns prepared using a paid preparer or practitioner	Use of paid preparers serves as a potential indicator of taxpayers' need or desire to use external service providers to obtain tax and filing assistance
<b>% Refund Returns</b>	The percentage of returns that have a refund associated with them	The percentage of refunds serves as a potential indicator of how and when taxpayers will file, as well as the potential use of related services frequently involved with taxpayers who owe additional monies when filing
<b>% Simple Returns<sup>147</sup></b>	Percentage of returns that are simple (1040EZ, Telefile return, 1040A with no schedules, can have EITC if no form attached, 1040 with no schedules)	The percentage of simple returns serves as a potential indicator of the types of services frequently used for various types of returns and the segment that may be using them

Filing data from tax year (TY) 2003 (calendar year [CY] 2004) was used during the analysis across each income and generational segment, as it was the latest full set of data currently available. For some elements, such as the percentage of returns electronically filed, more current data exists and is reflected as such in the rest of the document. For the purpose of this analysis, the available data will provide an accurate reflection of trends and taxpayer behaviors. Moving forward, similar analysis will be performed to better understand the changes in filing behaviors and trends over time. Additionally, several meaningful sub-segments exist within the *AGI < \$36K* income segment, including EITC eligible taxpayers, taxpayers under the poverty level as defined by the census bureau, and many first-time filers. Phase 2 will explore the specific needs and preferences of these sub-segments in greater detail.

<sup>147</sup> Simple returns are defined as 1040EZ, Telefile, 1040A with no schedules, EITC if no form attached, 1040 with no schedules. Intermediate returns are defined as 1040A with Schedule 1, Schedule A/B, Child Care Credit, and EITC with form attached. Complex returns are defined as 1040 with Schedule C, E, F, other schedules, 1040NR, 1040SS, and 1040PR.

The overall filing characteristics for all income and generational segments are illustrated in **Figure 3-7**.<sup>148</sup> The entire data set for each individual income/generation segment is available in the Appendix – Customer Segments, **Figure A-10**.

**Figure 3-7. Overall TY 2003 Filing Characteristics<sup>149</sup>**

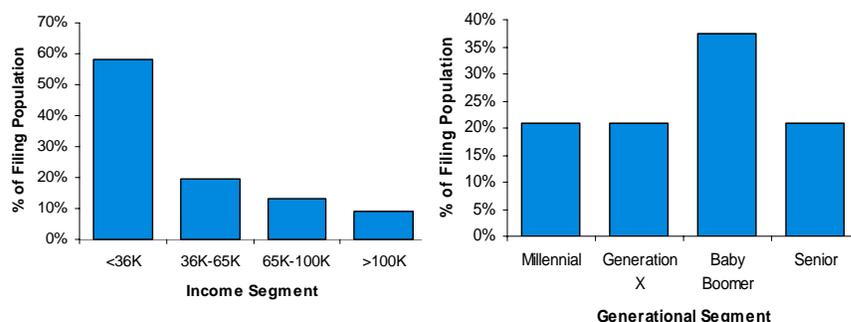
Filing Characteristics	TY 2003 Data
# of Returns (in 1000s)	127,084
% Electronically Filed	45%
% Paid Preparer	60%
% Refund Returns	81%
% Simple Returns	33%

Taxpayer filing data<sup>150</sup> provided the following insights into the general behaviors of taxpayer interactions with the IRS.

**The majority of the tax filing population fits into the low-income segment, and Baby Boomers account for nearly 40 percent of all filers**

Analysis indicates the majority of the filing population fits into the low-income segment, with each income segment representing a smaller portion of the filing population as income increases. Furthermore, 3 generational segments have nearly equal filing population sizes, except for the Baby Boomers, who account for nearly 40 percent of the population or double the size of the other 3 individually. (See **Figure 3-8**.)

**Figure 3-8. TY 2003 Filing Population by Income and Generation**



As the large Baby Boomer segment grows older, the types of services they require will change. The IRS can position its education and services to meet this anticipated growth in demand for the types of services required during older life stages (e.g., retirement benefits, Social Security tax). The implication of a large, low-income population is discussed later in conjunction with other key filing characteristics.

<sup>148</sup> For the purpose of this analysis, unless otherwise indicated, income is represented as AGI.

<sup>149</sup> Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), *Individual Filer Table for 2003*, 2003. 2003 is the source for all ensuing data in Section 3.3, unless otherwise noted.

<sup>150</sup> *Ibid.*

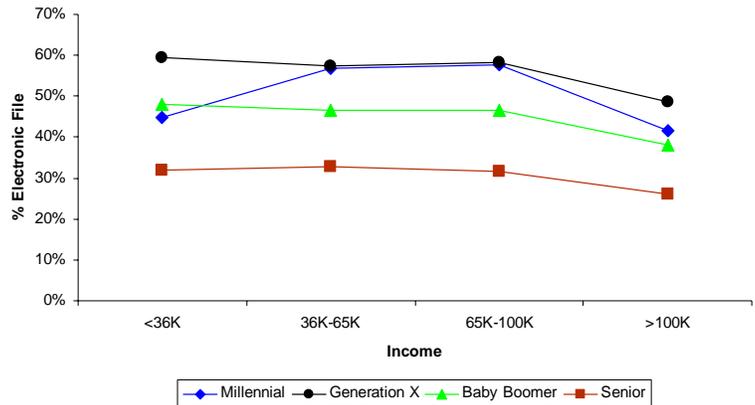
**Electronic filing accounts for nearly half the returns filed; however, as income increases and within older generations, electronic filing tends to decrease**

Nearly half of the tax-paying population files returns electronically. Electronic filing tends to decrease, however, as income increases and within older generations. The low-income Millennials (approximately 19 percent of the tax filing population), who use electronic filing slightly less than adjacent income and generational segments, are an exception.

These trends provide important insight into how the IRS can position its services to best meet each segment’s inherent behavior. For example, providing support for retirement-related tax questions through electronic filing software will reach some filers, but a majority will be missed, because most of the older generation (e.g., Senior)

filers do not use electronic software. Instead, the IRS can position services that are tailored towards filers in older life stages through non-electronic channels, such as paid preparers. As generations familiar with electronic channels become older (e.g., Baby Boomers, Millennials), the IRS can anticipate that they will continue using the delivery channels they adopted at a younger age.<sup>151</sup>

**Figure 3-9. TY 2003 Percentage of Electronic Filing**

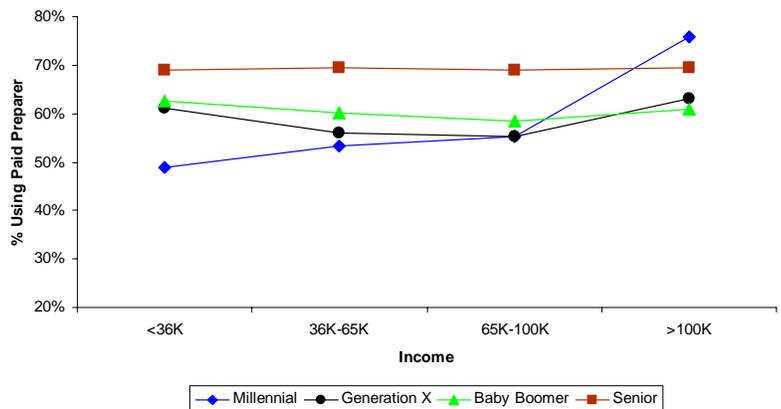


**Although nearly all segments use paid preparers a majority of the time, high-income and Senior taxpayers use paid preparers more frequently**

All segments, with the exception of low-income Millennials (49 percent), use paid preparers a majority of the time (60 percent). Within older generations and as income increases, the percentage of taxpayers using paid preparers and practitioners tends to rise, as shown in **Figure 3-10**.

Since these trends indicate that the Senior generation and higher income filers rely more heavily on tax practitioners and commercial preparers, the best way to reach them may be through providers. Additionally, recent trends in low-income filers, especially in those claiming the EITC, indicate an increase in paid preparer use.<sup>152</sup> The number of taxpayers receiving

**Figure 3-10. TY 2003 Percentage of Paid Preparer Usage**



<sup>151</sup> MITRE Corporation, *Citizens’ Service-Levels Expectations Final Report Version 1.1*, November 8, 2005.

<sup>152</sup> Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), *Individual Filer Table for 2003*, 2003.

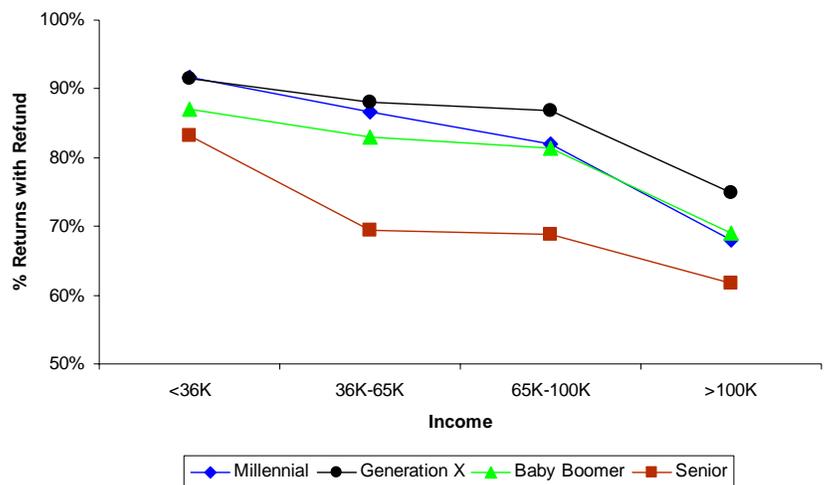
the EITC rose to 21.4 million in 2003—up 14 percent from 2000.<sup>153</sup> The proportion of EITC recipients who filed their returns through paid preparers increased from 65 percent in 2000 to 71 percent in 2003.<sup>154</sup> Although complexity of tax law, such as EITC, leads taxpayers to paid preparers, it is not the only reason they seek professional assistance. Some do so to obtain refund dollars faster, via electronic filing and associated financial products, such as Refund Anticipation Loans (RAL).<sup>155</sup>

**Eighty-one percent of filers receive refunds; however, the percentage of refunds decreases with income and in older generations**

A large percentage of filers receive refunds across all segments. The percentage of taxpayers receiving refunds decreases, however, as age and income rise, as shown in **Figure 3-11**.

Approximately 89 percent of taxpayers filing electronically received a refund. Of those, most were younger generation, low-income filers.<sup>156</sup> Within the segments that receive fewer refunds (higher income and older generation filers), services can be positioned to accommodate the needs commonly associated with filers that owe monies, such as payment acceptance, payment planning, and other account assistance support. Furthermore, as these groups also have a higher propensity to use paid preparers, access to these services may be best directed toward the commercial preparer and practitioner community.

**Figure 3-11. TY 2003 Percentage of Returns with Refunds**



<sup>153</sup> Berube, Alan. “The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s.” Metropolitan Policy Program, The Brookings Institution, February 2006.  
<sup>154</sup> *Ibid.*  
<sup>155</sup> Berube, Alan. “¿Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities.” Metropolitan Policy Program, The Brookings Institution, April 2005.  
<sup>156</sup> Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), *Individual Filer Table for 2003*, 2003.

## Lower income and younger generation filers tend to have less complex returns, and complexity increases at a greater rate with income

The data reflects that a large percentage of low-income, younger generation filers have simple tax returns.<sup>157</sup> Although complexity increases with older generations and income, it increases at a greater rate with income, as shown in **Figure 3-12**.

Filing data by income and generational segments provides critical insights into taxpayer filing behaviors and characteristics. Within older generations and as income increases, filers are more likely to use a paid preparer, less likely to use electronic filing, less likely to receive a refund, and generally file more complex returns.

Additionally, low-income and younger generation filers account for the majority of tax filers and are more likely to file electronically, more likely to receive a refund, and generally file less complex returns.

This information provides important insight into the types of services taxpayers may require by income and generational segment, as well as how they currently receive service. For instance, because a large majority of high-income taxpayers receive services through paid preparers, the IRS could tailor these services so that providers can better serve the target population.

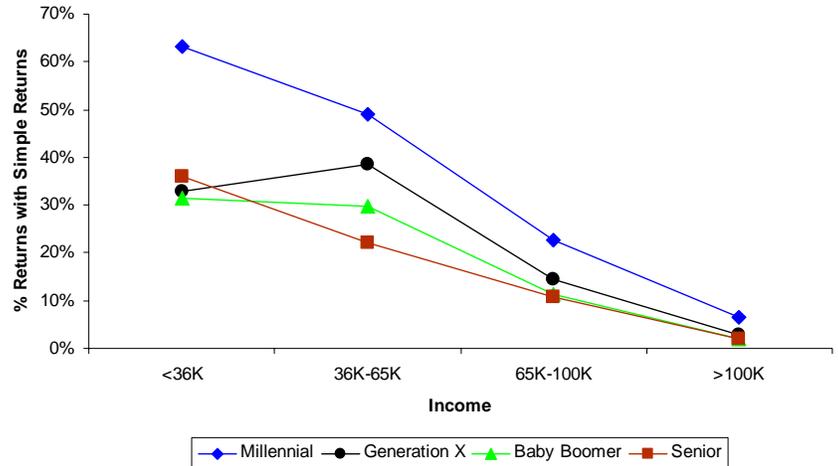
The breakdown of filing data may suggest that the target audience for IRS-provided taxpayer services is predominantly low-income, younger generation filers, whereas older generation and higher income taxpayers rely more heavily on paid preparers. Despite these tendencies, all taxpayer segments may require IRS services. Taxpayers' filing characteristics vary across the segments; however, all taxpayers have a similar set of expectations for service provided by the IRS.

### 3.4 Taxpayer Needs, Preferences, and Expectations Research

During Phase 1, primary and secondary research across taxpayer segments was analyzed to identify customer needs and preferences for delivery of service. Phase 1 primary research included:

- **Wage and Investment (W&I) Market Segment Survey** – Research and data on taxpayer preferences for services and delivery channels across various taxpayer segments
- **PCG Customer Satisfaction Survey** – Data on customer satisfaction and insight into customer needs and expectations

**Figure 3-12. TY 2003 Percentage of Filers with Simple Returns**



<sup>157</sup> Simple returns are defined as 1040EZ, Telefile, 1040A with no schedules, EITC if no form attached, 1040 with no schedules. Intermediate returns are defined as 1040A with Schedule 1, Schedule A/B, Child Care Credit, and EITC with form attached. Complex returns are defined as 1040 with Schedule C, E, F, other schedules, 1040NR, 1040SS, and 1040PR.

- **Preliminary PCG Conjoint Analysis**<sup>158</sup> – Survey administered to analyze taxpayer trade-offs to find relative importance of different service attributes
- **2005 IRS Oversight Board Taxpayer Attitude Survey** – Survey data on taxpayer behaviors, needs, preferences, likelihood of using certain services and channels, and taxpayers’ perspective on the importance of certain service, channels, and information sources
- **National Taxpayer Advocate Annual Report to Congress** – Research on taxpayer behaviors, needs, preferences, and expectations for service
- **Focus Groups and Interviews** – Thirty-three employee focus group with a total of 241 employees to capture the voice of the employee on customer expectations and potential improvement opportunities (Interviews were conducted with IRS partners, including the American Association of Retired Persons [AARP], the National Community Tax Coalition [NCTC], and Electronic Tax Administration [ETA] National Accounts members. Four of seven planned TAP Town Hall meetings and an IRS Oversight Board public meeting were attended for additional taxpayer information.)
- **Employee Survey** – Survey of almost 2,000 employees and more than 160 partner survey responses on their perspective of taxpayers’ needs, preferences, and expectations
- **Russell Marketing Research** – Online survey of taxpayers’ needs and preferences.

Secondary research provided information on segments of the general population and consisted of multiple data sources such as:

- **Pew Research and American Life Project** – Data on more than 3,000 individuals over the age of 18 on their preferences for contacting the Government<sup>159</sup>
- **The General Services Administration (GSA) Citizens’ Service-level Expectations Final Report** – Research on expectations of the public who contact government agencies today, as well as their expectations for contacting the Government in the future<sup>160</sup>
- **Forrester Research** – Research on trends in technology and Internet use.

A complete listing of TAB Phase 1 research is included in Appendix – TAB Phase 1 Research Overview.

In Phase 2, additional primary research will be conducted to further enhance and refine understanding of the taxpaying population.

<sup>158</sup> In conjoint analysis, respondents are asked to choose between service scenarios. These scenarios describe the cost or limits attending a variety of service situations by depicting ranges of service attributes. Selections between various constellations of service tasks and attributes show what factors most influence choices about service seeking. For example, someone with a strong preference for face-to-face communication might choose a TAC regardless of travel time to the service site, whereas someone who prefers TACs when they are close by, might, for the same task, chose to call when they are thirty minutes travel time from a TAC.

<sup>159</sup> Horrigan, John B. Pew Internet and American Life Project, *How Americans Get in Touch with Government*, May 24, 2004.

<sup>160</sup> This research involved two main sources of data—a literature review of citizen’s service level expectations of the Government, and focus groups to collect qualitative data on service expectations and service level expectations from citizens who contact the Government. The literature review resulted in the accumulation of large amounts of information on citizens’ general expectations and specific expectations related to contacts. Additionally, research was performed to investigate some trends in the U.S. population, consumer communication technologies, and contact service technologies. Based on this research, information on population and technology trends, the service level literature review, and general assumptions about citizen expectations for the future, focus groups were designed to gather qualitative information about the service level expectations of people who contact government agencies and to identify the channels they use to make contact. The 22 focus groups included individuals from 18 to 65 years of age, with incomes between \$30,000 and \$100,000, with a high school education (or higher), who use the Internet at least once a week, are not employed by the Government, and have contacted the Government at least once in the past 2 years by Web site, e-mail, telephone, in-person visit, or postal mail. This research was not specific to tax administration, but provides some insight into taxpayer expectations of government service and how they contact the Government.

Research indicates that while taxpayers’ preferences, needs, and behaviors vary across segments, all taxpayers have a similar set of expectations for service provided by the IRS. **Figure 3-13** outlines the three key taxpayer expectation themes.

**Figure 3-13. Taxpayer Expectation Themes**

Taxpayer Expectation Themes	Description
<b>Education/Awareness</b>	Taxpayers expect the IRS to effectively communicate the availability of existing taxpayer services, the availability of contact channels, and an overall awareness of their tax obligations and benefits
<b>Access to Service</b>	Taxpayers expect to have convenient access to information to assist them in meeting their tax obligations and resolving issues that may arise
<b>Quality of Experience</b>	Taxpayers expect a quality experience from the IRS

Each expectation is discussed, and insights are provided into the variation across the taxpayer segments in Sections 3.5, 3.6, and 3.7.

### 3.5 Taxpayer Expectation – Education/Awareness

Analysis indicates that taxpayers expect to be made aware of, and educated on, their filing and entitlement benefits and the IRS services and delivery channels.<sup>161</sup>

- Taxpayers expect that the IRS will inform them of the various communication channels available and which services can be accessed through each channel. IRS employees indicated that taxpayers are often unaware of other, possibly more convenient, channels they could have used to resolve their issue. As a result, taxpayers may make unnecessary trips to a walk-in site or stay on hold to talk to a customer service representative (CSR), resulting in longer wait times and a delay in resolution. As one employee stated, “the customer perception of the IRS is phones and correspondence.”<sup>162</sup>

*“Most taxpayers are not aware of alternate ways to receive services.”*

IRS Employee TAB Focus Group, November/December 2005

*Partners and outside stakeholders indicated the immigrant population needs outreach and tax education and it may not be adequately provided.*

TAB Partner and Stakeholder Survey

- Because of inherent limitations or cultural norms, certain segments of the population, such as LEP and immigrants, benefit most by communicating with the IRS through certain channels and are often not aware of some IRS services.<sup>163</sup> Most immigrants seek help from community centers, churches, and other trusted sources for tax information.<sup>164</sup> Many foreign-born taxpayers experience significant barriers to learning about the IRS and its services due to the beliefs

<sup>161</sup> The Gallup Organization, *W&I Market Segment Survey National Report: Internal Revenue Service Customer Satisfaction Survey*, December 2003, slide 14.

<sup>162</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Employee Focus Groups*, November-December 2005. See Appendix – Stakeholder Engagement Figure A-2.

<sup>163</sup> Internal Revenue Service, Cultural Access Group, *Hispanic LEP Taxpayer Research Quantitative Report*, June 2003.

<sup>164</sup> Internal Revenue Service, Multilingual Initiative, *Strategic Plan 2007*, Revised December 16, 2005, page 6.

surrounding taxes and tax administration in their native countries. IRS-associated anxiety may lead foreign-born taxpayers to seek alternative channels to learn about their tax obligations—including friends, neighbors, and peers.<sup>165</sup> Furthermore, a June 2003 study on Hispanic LEP taxpayers revealed that only 44 percent of the respondents cited unaided awareness of IRS services, and only 9 percent indicated that they were aware of an IRS public service announcement.<sup>166</sup>

In general, taxpayers expect the Government to provide a general awareness of the services, delivery channels, and tax obligations and benefits, and to do it in an effective and efficient manner that will reach them.

### 3.6 Taxpayer Expectation – Access to Service

Taxpayers expect access to information to assist them in meeting their tax obligations and to resolve issues that may arise during the process.<sup>167</sup> Access to service involves the source of the information or support, and the channel by which the information is received and/or transaction is conducted.

Data from the 2005 IRS Oversight Board Taxpayer Attitude Survey showed that more than 80 percent of taxpayers indicate IRS representatives, IRS printed publications, the IRS Web site, and paid tax professionals are valuable sources for receiving tax advice or information.<sup>168</sup> While IRS supported community-based organizations are also viewed as very important sources of service by more than half of those surveyed, alternative channels, such as kiosks and vans, received scores of less than 50 percent.<sup>169</sup>

Over the past four years, the telephone was perceived to be the most important means for taxpayers to contact the IRS.<sup>170</sup> Of all the available service channels, the Internet has demonstrated the greatest growth in perceived importance over the last four years.<sup>171</sup> A majority of taxpayers, however, indicate that the telephone, Web, face-to-face, and community-based channels are very or somewhat important when no qualifying criteria are applied.<sup>172</sup>

The introduction of qualifying criteria or service attributes, such as distance, wait and response time, or resolution percentage into a taxpayer's decision significantly changes the likelihood of use. To identify taxpayer values and preferences when confronted with varying performance characteristics, PCG was enlisted to perform conjoint analysis.

Conjoint analysis involves asking respondents to choose between service scenarios. These scenarios describe various service situations by depicting ranges of service qualifiers or attributes. Selections between various constellations of service tasks and attributes show what factors most influence taxpayers' choices about seeking service. Someone with a strong preference for face-to-face communication, for instance, might choose a TAC regardless of the travel time to the service site,

<sup>165</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Employee Focus Groups*, November-December 2005. See Appendix – Stakeholder Engagement, Figure A-2.

<sup>166</sup> Internal Revenue Service, Cultural Access Group, *Hispanic LEP Taxpayer Research Quantitative Report*, June 2003.

<sup>167</sup> Horrigan, John B, Pew Internet and American Life Project, *How Americans Get in Touch with Government*, May 24, 2004., page 6, and MITRE Corporation, *Citizens' Service-Levels Expectations Final Report Version 1.1*, November 8, 2005.

<sup>168</sup> IRS Oversight Board, *2005 Taxpayer Attitude Survey*, 2005.

<sup>169</sup> *Ibid.*

<sup>170</sup> *Ibid.*

<sup>171</sup> *Ibid.*

<sup>172</sup> *Ibid.*

whereas someone who prefers to use TACs when they are close by might choose to call if travel time to the TAC is 30 minutes.

In January 2006, PCG conducted a survey of 558 taxpayers, who provided a representative sample of the U.S. population relative to the demographic factors of age, income, Hispanic ethnicity, geographical region, employment status, education, and other demographic elements. Moreover, the sample included 143 taxpayers that had previously visited a TAC to obtain service in the past 2 years. With 558 respondents, the results of this study support 95 percent confidence that the margin of error is no greater than plus or minus 4 percent. The purpose of conjoint analysis was to apply the emerging data on taxpayer preferences to provide a more complete picture of taxpayers' service priorities. The conjoint analysis consisted of five service attributes—service channel (e.g., telephone, Web, TAC, and email), travel time, wait time, process time, and percent first contact resolution. Each service attribute was associated with four tax-related service needs—obtaining information about a tax form or publication, getting information about a notice, completing a line item on a tax form, or obtaining an answer to a tax law question.

Preliminary results from the conjoint analysis, provided insights into taxpayers' channel preferences.

- For taxpayers as a whole, the service channel has the highest importance among service attributes, followed by percent of first contact resolution; they prefer the telephone and Web as their first choices when selecting between service options; few choose either the TAC or the email option.<sup>173</sup>
- For all service needs tested, the Web and telephone are clearly the preferred channels (the Web somewhat more preferred than the telephone); however, taxpayers' preferences for TACs increase slightly when getting information about a notice or answers to a tax law question.<sup>174</sup>
- Taxpayers who have used the telephone and the Web tend to remain with the service channel they have experienced; this option shows very strongly for Web users.<sup>175</sup>
- Taxpayers who have used the TAC have a higher preference for TACs than non-TAC users, but still not as high as their preference for the Web or telephone.<sup>176</sup>

In addition to service attributes, research indicates that certain situations or conditions may influence a taxpayer's preference for service—a permanent or temporary access disadvantage or special needs of certain taxpayer segments.

***Permanent or Temporary Access Disadvantages*** – Changes in circumstances, such as recently acquired long-term impairment, loss of personal transportation, or recently acquired adaptive equipment, new transportation, or new computer access, may change communication preferences. Additional research over the next several years will be needed to understand channel-switching or multi-channel behavior. As a recent example, Hurricane Katrina left many taxpayers homeless and unable to reach the IRS through their accustomed channels. Temporary conditions caused many of the victims to change the nature of the types of service they required and their preference for receiving them.<sup>177</sup>

<sup>173</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint (TAB) Conjoint Study Phase I*, March 2006, page 12.

<sup>174</sup> *Ibid.*, page 13.

<sup>175</sup> *Ibid.*, page 13.

<sup>176</sup> *Ibid.*, page 14.

<sup>177</sup> Internal Revenue Service, Taxpayer Assistance Blueprint Interview with Jane Brough, Government Liaison, SB/SE Communications, Liaison and Disclosure, December 28, 2005.

**Special Needs of Certain Taxpayer Segments** – Certain taxpayer segments may need access to more traditional communication channels—correspondence, in-person, and telephone. These segments can be generally characterized by low income, over the age of 65, disabled, and LEP.<sup>178</sup> Research indicates that the top two preferences for contacting the Government for taxpayers over the age of 65 are phones and sending correspondence.<sup>179</sup> Additionally, PCG conjoint analysis indicates older taxpayers are more likely to choose TACs than younger taxpayers, but not more so than the telephone or the Web.<sup>180</sup> As a result, in-person assistance may be particularly helpful for older and lower income populations, who often do not have readily available access or the requisite skills to use computers and the Internet, and require more one-on-one personal assistance.<sup>181</sup> Therefore, taxpayers with higher incomes are less likely to choose TACs and more likely to choose the Web for service. Finally, LEP individuals often face language barriers when attempting to contact the IRS, and therefore may resort to channels with more personal contact to resolve their issues.<sup>182</sup> In the previously cited 2003 study, Hispanic LEP taxpayers rely heavily on paid preparers to help them complete and file their tax returns. Furthermore, 81 percent of these taxpayers indicated they had used a tax professional, and 76 percent reported using one almost every year. Only 12 percent of the studies' respondents said they prepare their own tax return almost every year.<sup>183</sup>

*Multi-lingual taxpayers that do have access to the Internet, still prefer talking to a person in their native tongue.*

IRS Employee TAB Focus Group,  
November/December 2005

Each special condition plays an important role in taxpayers' preferences for access to service. From the IRS's perspective, some of these factors are inherently uncontrollable (e.g., lack of computer skills, natural disasters), but many other service factors can be controlled, such as the quality of the service experience provided to a taxpayer.

### 3.7 Taxpayer Expectation – Quality of Experience

Taxpayers value a quality experience when interacting with the IRS. A quality experience is defined as receiving an accurate answer, information, and/or resolution to an issue; receiving a timely response and/or access to information; and receiving the service professionally.

Each quality of experience service attribute is a critical component that influences taxpayers' preferences and behaviors for seeking service.

- **Accurate Service** – Taxpayers expect to receive understandable and technically accurate information or resolution to an issue. Furthermore, they expect to receive consistent information regardless of the channel they use. PCG conjoint analysis found that taxpayers place a much higher importance on the likelihood of receiving accurate resolution to their issue than any other service attribute. As the chance of resolving an issue increases, the preference for using that channel also increases.<sup>184</sup> For example, when taxpayers were presented with the option of a low likelihood of resolution over the Web, they indicated their preference for service would be the telephone.<sup>185</sup> The

<sup>178</sup> National Taxpayer Advocate, *National Taxpayer Advocate 2004 Annual Report to Congress*, December 31, 2004.

<sup>179</sup> Horrigan, John B, Pew Internet and American Life Project, *How Americans Get in Touch with Government*, May 24, 2004.

<sup>180</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006.

<sup>181</sup> Internal Revenue Service Oversight Board, *IRS Oversight Board Annual Report*, 2005.

<sup>182</sup> Internal Revenue Service, *Multilingual Initiative 2005 Limited English Proficient Needs Assessment*, December 8, 2004 – April 30, 2005.

<sup>183</sup> Internal Revenue Service, Cultural Access Group, *Hispanic LEP Taxpayer Research Quantitative Report*, June 2003.

<sup>184</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006.

<sup>185</sup> *Ibid.*

likelihood of resolution of an issue strongly influences taxpayers' preferences for service, and the effect of an inaccurate resolution has a strong impact on their future behaviors and preferences for service.<sup>186</sup>

- **Timely** – Timeliness is considered one of the top expectations of taxpayers and includes the length of time a taxpayer waits and the length of response time when receiving information or resolution to an issue.<sup>187</sup> As the length of time to reach resolution within a channel increases, taxpayer preferences for that channel will often decrease.<sup>188</sup> Data from the 2005 IRS Oversight Board Taxpayer Attitude Survey indicates that when taxpayers are presented with the option of using an IRS office that required 30 minutes of travel time or an IRS office that required 30 to 60 minutes of travel time, taxpayers' likelihood to use a TAC decreased dramatically as the travel time to an IRS office increased.<sup>189</sup> This conclusion is further validated in the PCG conjoint analysis, which indicated taxpayers are less likely to choose a TAC to resolve their issue as the travel time increases.<sup>190</sup> In addition, taxpayers' expectations for timeliness vary by the channel because they are often willing to wait longer for service using certain channels. On average, they are willing to wait 11 minutes to receive service over the phone, but 30 minutes for the same service at a TAC.<sup>191</sup> While timeliness is an important factor that influences taxpayers' channel preference, they place a much higher importance on the accurate first-time resolution of their issue.<sup>192</sup>
- **Professional and Fair Treatment** – Taxpayers expect to be treated courteously and to receive the same level of service as others. Professionalism includes courteousness and the general attitude of the IRS employee.<sup>193</sup> Emphasis on service since Modernization has resulted in increased customer satisfaction scores.<sup>194</sup> Further research is needed to adequately understand the relative impacts of professionalism service attributes on taxpayers' channel preferences.

### 3.8 Conclusion

The taxpaying population is broad and constantly changing. The population is growing, the average age of taxpayers is increasing, the population is becoming more ethnically diverse, and the use of technology is increasing. The IRS and its partners have the unique and challenging task of addressing the responsibilities of each taxpayer in this diverse and rapidly changing base.

Analysis by customer segment (e.g., income, age) provides critical insights into taxpayer filing behaviors. In general, filing behaviors and characteristics are highly dependent upon income and generation. As income increases and within older generations, filers are more likely to use a paid preparer and file complex returns and less likely to use electronic filing and receive a refund. Additionally, low-income and younger generation filers account for the majority and are more likely to electronically file a less complex return and receive a refund. This analysis provides important insight

<sup>186</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006.

<sup>187</sup> *Ibid.*

<sup>188</sup> *Ibid.*

<sup>189</sup> IRS Oversight Board, *2005 Taxpayer Attitude Survey*, 2005.

<sup>190</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006.

<sup>191</sup> IRS Oversight Board, *IRS Oversight Board Annual Report*, 2005.

<sup>192</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006.

<sup>193</sup> United States Department of Treasury, Treasury Inspector General for Tax Administration, *Toll-Free Account Assistance to Taxpayers is Professional and Timely, but Improvement Is Needed in the Information Provided*, TIGTA: 2004-40-057, February 27, 2004.

<sup>194</sup> The American Customer Satisfaction Index (ACSI), which began in 1994, is a measure of customer satisfaction that covers 7 economic sectors, 40 industries, more than 200 private sector companies, and many governmental agencies. Scores are reported on a 0 to 100 scale based on survey data from consumer households across the nation. The ACSI is produced by the Stephen M. Ross Business School of the University of Michigan, in partnership with the American Society for Quality (ASQ) and the International Consulting Firm, CFI Group.

into filing behaviors and potential types of services that taxpayers may require by income and generational segment, as well as how they would most likely prefer to receive service.

Taxpayers have a basic set of expectations for service—education and awareness, access to service, and quality of experience. Needs and preferences for access to service vary across a set of factors, including the nature of the information or transaction required, the amount of time and likelihood of resolving an issue, permanent or temporary access disadvantages, and special needs of certain taxpayer segments. Each factor plays an important role in taxpayers' preferences. From the IRS perspective, some of these factors are inherently uncontrollable (e.g., lack of computer skills, natural disasters), but many others can be controlled by the IRS, such as the quality of the service experience provided to a taxpayer.

Preliminary findings from both the 2005 Oversight Board Survey and PCG Conjoint Analysis indicate taxpayers as a whole prefer the telephone and Web when making a choice between service channels. The research also found that more than 80 percent of taxpayers indicated that IRS representatives, IRS printed publications, the IRS Web site, and paid tax professionals are valuable sources for receiving tax advice and information.<sup>195</sup> When taxpayers are asked to provide their preference for service, a majority indicates that the telephone, Web, face-to-face, and community-based channels are very or somewhat important when no qualifying criteria are applied.<sup>196</sup> The introduction of qualifying criteria or service attributes, such as distance, wait and response time, or resolution percentage into a taxpayer's decision for service channel significantly changes the likelihood of use.

These findings will help shape the future of how the IRS will interact with taxpayers to support their tax needs. Taxpayer service needs, preferences, and expectations will continue to change over time. In the future, individuals are expected to continue using the delivery channels they adopted at a younger age, while expecting the Government to continually improve and expand current service and delivery options.<sup>197</sup> The challenge for the IRS is to identify the service attributes most critical to taxpayers and adjust resources and infrastructure to meet those needs on a continual basis.

During Phase 2, the IRS will expand its understanding of the taxpaying population. It will use primary research to stratify the population so that it can target specific service expectations across taxpayer segments.

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<sup>195</sup> IRS Oversight Board, *2005 Taxpayer Attitude Survey*, 2005.

<sup>196</sup> *Ibid.*

<sup>197</sup> MITRE Corporation, *Citizens' Service-Levels Expectations Final Report Version 1.1*, November 8, 2005.

This section presents customer service leading practices gathered through research and analysis of government agencies (including state and international tax organizations), non-profit organizations, and private sector companies. The research was qualitative in nature and focused on customer service leading practices and how organizations establish the relationship between customer service and business results. The data was gathered directly through interviews with members of selected organizations, as well as indirectly through literature and Web-based searches. Specifically, the research was designed to address two key questions:



1. **Customer Service Leading Practices** – Which leading practices used in other organizations are applicable to improving and/or expanding taxpayer service in the IRS?
2. **Customer Service Impacts on Business Results** – How do other organizations determine the impact of customer service on business results, and to what extent are they able to assess the value of their investments in customer service?

#### 4.1 Customer Service Leading Practices

Research on customer service leading practices was conducted to understand how top government agencies and private sector organizations deliver customer services. The research approach focused on how organizations understand their customers' needs and preferences around services provided, service delivery, and service level management.

The nine-week study provided insights regarding potential improvements and/or enhancements to IRS taxpayer services. The research was based on qualitative data gathered through a set of interviews with members of selected organizations and/or through Web-based research and literature reviews.<sup>198</sup> The 25 organizations selected comprised government agencies (including tax administration agencies—state and international) and private sector organizations representing financial services institutions, e-commerce, and telecommunications industries. A total of 18 interviews with 30 key decision makers were conducted with 16 of the 25 identified leading practice organizations. The remaining organizations were researched from publicly available sources.

The results of the interviews, research, and analysis identified 12 leading practice observations, which were grouped by services provided, service delivery, and service level management. These observations were then analyzed and distilled into the seven implications for IRS taxpayer services listed in **Figure 4-1**. The leading practice observations are not specific to either government agencies or private sector organizations, but represent leading customer service practices across all sectors and organizations reviewed. The IRS implications will be used to help define the strategic improvement themes in Section Five, Improving Taxpayer Services.

<sup>198</sup> The scope of the study did not include a quantitative benchmark comparative analysis.

**Figure 4-1. Leading Practice Observations and IRS Implications<sup>199</sup>**

Focus Areas	Leading Practice Observations	IRS Implications
<b>Services Provided</b>	<p>1. Provide customer services in five fundamental categories across four delivery channels:</p> <p><u>Services Categories:</u></p> <ul style="list-style-type: none"> <li>a. <i>Customer Information</i> – Informing customers on the products or services offered (e.g., manuals, handouts, brochures, Web sites, etc.)</li> <li>b. <i>Account Inquiry</i> – Providing account status information and resolving individual account issues</li> <li>c. <i>Account Update</i> – Updating customer account information including account balances</li> <li>d. <i>Customer Guidance</i> – Counseling customers based on their specific needs, preferences, and constraints</li> <li>e. <i>Customer Demonstration</i> – Educating customers on the product/service to enable its use</li> </ul> <p><u>Channels:</u> Telephone, In-person, Electronic, Correspondence</p>	<p>1. <b>Expand current services through existing channels, striving for the appropriate alignment between taxpayer expectations and available organizational capacity</b></p>
	2. Strive to provide any service through any channel	
	3. Optimize the trade-off between effectively serving customer needs and efficiently delivering services	
	4. Document and automate transactional services (e.g., customer information, account inquiry, account update) and focus staff on services requiring expertise, judgment, and empathy (e.g., customer guidance, customer demonstration, and complex account inquiry and update)	2. <b>Document and automate services where appropriate</b>
	5. Use customer needs to define how extensively each of the five services are provided	3. <b>Incorporate taxpayer preferences into the annual planning process</b>
	6. Have a formal process to build and improve customer understanding and use it to alter services provided	
<b>Service Delivery</b>	7. Migrate customers to optimal channels through education, marketing, incentives, and penalties	4. <b>Migrate taxpayers to optimal channels considering their needs and preferences</b>
	8. Provide accurate and consistent information to customers through all channels	5. <b>Increase service accuracy through better access to information and rigorous execution of procedures</b>
	9. Align organization (i.e., structure, decision rights, performance measures, and information) with service objectives to execute service delivery	6. <b>Customize services selectively</b>
<b>Service Level Measurement</b>	10. Understand the service level customers require and manage costs to achieve that desired service level across all channels	7. <b>Set service level targets for each channel to support an integrated channel strategy</b>
	11. Set service level by customer value (for private industry organizations) or by customer demand (for government agencies)	
	12. Use the same types of service level performance measures across all organizations but set different targets for each metric	

<sup>199</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research*, January 2006.

## **1. Expand current services through existing channels, striving for the appropriate alignment between taxpayer expectations and available organizational capacity**

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The IRS offers the same basic service categories and delivery channels provided by leading organizations. Therefore, major omissions in IRS service categories or delivery channels do not exist. Building on the current set of service categories and delivery channels, the IRS has the opportunity to introduce new services and expand current services through existing channels. The latter begins by first developing a thorough understanding of taxpayer expectations, and then evaluating how well the IRS is performing against them. Through direct taxpayer research, for instance, the IRS may find that taxpayers expect it to provide tools similar to those found in the online banking environment to perform personal tax administration activities. While the IRS offers account inquiry and account update services via the telephone and in-person channels, these services are not currently provided to the same extent over the Internet. Through an improved understanding of taxpayer service preferences, the IRS can more effectively and efficiently add and expand services to better align available organizational resources to meet those expectations. Leading organizations strive to create the appropriate alignment between taxpayer expectations for services and available organizational capacity.

## **2. Document and automate services where appropriate**

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Leading organizations recognize the importance and value of using technology to document and automate services. Services (simple or complex) that can be documented and delivered through self-assist channels improve access to services and quality of experience for customers. For example, continued automation of tax administration information for taxpayers, employees, and partners through self-service applications and interactive decision support tools enables accurate, consistent, and timely responses to taxpayer questions. IRS resources can then be deployed to services that do not lend themselves to automation such as complex collection or account issues. As the IRS considers automation of its services, two factors are critical: (1) documenting services is a dynamic process due to frequent product/service changes, such as tax law changes; and (2) there is a potential impact on staffing, including a need to deliver more expertise-based services by higher skilled employees.

## **3. Incorporate taxpayer preferences into the annual planning process**

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Leading organizations establish processes to collect and analyze customer preference and behavioral data to continually improve the delivery of customer services. They also integrate this process and information into the annual budgeting and business and strategic planning processes. The IRS conducts extensive research and analysis on operational performance and customer satisfaction, but its current efforts do not provide enough insight into taxpayer preferences. Through more robust research methods and analysis techniques, the IRS can focus on understanding taxpayer preferences and the choices they are willing to make regarding services and channels. This will help the organization better align taxpayer expectations with organizational capacity. Formalizing the use of taxpayer preferences and behavior data into the annual budgeting, business, and strategic planning processes helps ensure that the IRS maintains its customer-centric focus when making business decisions about taxpayer services.

#### 4. Migrate taxpayers to optimal channels considering their needs and preferences

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Leading practice organizations use a combination of education, marketing, and incentives to migrate customers to lower cost channels. These organizations also recognize migration is a journey and that not all customers will migrate from higher cost channels. Therefore, it is important to understand what service attributes (e.g., accuracy, timeliness, professionalism, real-time communication, etc.) create a perceived value for customers and influence them to migrate between channels. Leading practice organizations ask four key questions to help determine an appropriate migration method and the estimated time required for customers to migrate between channels. These questions are as follows:

1. Why does a customer prefer a higher cost channel?
2. What inhibits a customer from migrating to lower cost channels?
3. How can customer preferences and inhibitors be addressed?
4. Can the lower cost channels meet customer expectations?

Understanding taxpayer service expectations and their general awareness of current service options is important when formulating channel migration strategies for taxpayers. Through more robust research and the use of analytical techniques to understand taxpayer service expectations, the IRS will be able to better understand the potential for migrating taxpayers from one channel to another for specific taxpayer segments and for different service delivery channels. It will also know which service attributes have the greatest potential for influencing channel-switching behavior for specific taxpayer segments and for specific delivery channels.<sup>200</sup>

#### 5. Increase service accuracy through better access to information and rigorous execution of procedures

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Leading organizations with a broad set of customers seek to centralize and automate information, thereby ensuring employees and customers have the ability to access the same information through common decision support tools. Another critical success factor for process improvement and sustained accuracy is ongoing training of staff that emphasizes rigorous compliance with established procedures and use of common information repositories. Given the scale and broad geographic dispersion of the taxpayer base, the IRS continuously strives to provide the right information at the right time through all channels to all taxpayers. Providing clear, standard, easily customized and automated content will allow the IRS and its partners to deliver accurate, consistent, and understandable information, which can be aligned to meet the needs of specific segments of the population. While the IRS has made improvements in standardizing procedures since Modernization, much of the effort has been confined within the delivery channels. The IRS has the opportunity to apply these standard procedures across the entire portfolio of services and channels.

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<sup>200</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint (TAB) Phase 2 Conjoint Analysis Framework and Preliminary Phase 1 Findings*, February 28, 2006, page 5.

## 6. Customize services selectively

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A basic challenge for all service organizations is creating the right balance between “one size fits all” and an “everything for everyone” approach to customer service. Leading practice organizations apply principles of selective customization to help determine the right mix of services. Specifically, they seek to accomplish the following:

1. Understand the basic services and channels that should be provided to a majority of customers
2. Understand where services and channels need to be customized for specific customer segments
3. Determine the cost of providing this level of variety
4. Evaluate whether benefits of customization outweigh the costs.

Creation of a modular product/service architecture is a leading practice used by organizations to help strike the balance between providing service to mass customers and developing customized products/services for a few. To accomplish this, products/services are developed in simple modules that combined build up into complex services. Standard components of products/services can easily and quickly be mixed and matched allowing for lower-cost selective customization. This approach allows an organization to broaden its portfolio of products and services. For example, major automakers produce many variants of their products from only a small number of components (e.g., engine, gearbox, etc.). Similarly, financial service organizations have many loan types that are developed from only a few basic options (e.g., fixed or adjustable terms, up-front costs, etc.).

The IRS, must create the appropriate mix of service and delivery options to support “service to each taxpayer” and “service to all.” The IRS should have a thorough understanding of the tax administration needs and preferences of the majority of taxpayers, while recognizing the unique needs and preferences of smaller taxpayer segments. It can leverage this understanding to provide a set of standardized services to a vast majority of taxpayers and customize services and channels for a few select, smaller taxpayer segments. To the extent possible, the IRS might consider how current and future services could be modularized into simple options. This would allow similar, flexible service configurations that meet specific customer needs and preferences, as seen in leading practice organizations.

## 7. Set service level targets for each channel to support an integrated channel strategy

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Leading practice organizations establish service level targets using a holistic approach because performance in a particular channel often affects the performance of other channels. This is an important consideration for the IRS as it seeks to establish a more integrated system of services and channels that support organizational priorities. Applying a holistic approach to establishing service level targets across channels will support the IRS’s move towards a more integrated channel strategy. For example, service levels may be intentionally lower for a specific service/channel combination if the IRS wishes to migrate taxpayers away from a certain channel. Moreover, service level targets must be high enough to migrate taxpayers to the preferred channel of delivery. The key to success is ensuring that taxpayers’ expectations are met the first time they use a channel. This provides them with a high enough level of perceived value to return to that same channel in the future.

## 4.2 Customer Service Impacts on Business Results<sup>201</sup>

To support the IRS's long-term service delivery plan, the IRS OPERA conducted a study to gain insights on how other organizations determine the impact of customer service on business results. An objective of this qualitative study was to determine whether organizations have been able to assess the value of their investments in customer service. The interim report, issued on December 19, 2005, focused on ascertaining how organizations make similar choices regarding customer service provision and how they evaluate their choices.<sup>202</sup> The organizations interviewed were not intended to be a statistically valid representation of all government, non-profit, or private sector organizations engaged in customer service efforts.

Most of the organizations indicated they had some type of strategic framework for approaching service delivery with a dual goal of both reducing service cost and improving service quality.<sup>203</sup> They also acknowledged the inherent challenge with quantitatively linking customer services to business results and indicated that current metrics used to measure business impact from customer services are predominantly qualitative or quantitative proxies.

### Approach and Organization Selection

OPERA selected an interview-based methodology to conduct its research. Fourteen organizations were identified and interviewed across sectors (8 public sector and non-profit organizations, 6 private sector organizations). The organizations selected were well-positioned to provide valuable insight into how they assess the impact of customer service on their business results. The research explored how organizations provide, assess, and manage their customer service activities. The primary focus was on assessing the value of customer service activities against organizational business objectives.<sup>204</sup>

OPERA used the 4 criteria listed in **Figure 4-2** to select the 14 organizations used in the study. Every organization was not required to meet each of the four selection criteria.

**Figure 4-2. Organization Selection Criteria<sup>205</sup>**

Selection Criteria for Organizations in the Study
1. Breadth of customer base
2. Importance of service and assistance in achieving business objectives
3. Similarity of business objectives, including customer compliance with prescribed requirements
4. Ability to contact subject matter experts and complete interviews within the defined timeframe

<sup>201</sup> The study conducted by OPERA was developed at the request of the TAB Team in support of developing the TAB Phase 1 Report.

<sup>202</sup> Internal Revenue Service, Office of Program Evaluation and Risk Analysis, *Organizational Experiences Valuing Service and Assistance Interim Results*, December 19, 2005, page 2.

<sup>203</sup> *Ibid.*, page 8.

<sup>204</sup> *Ibid.*, page 2.

<sup>205</sup> *Ibid.*, page 3.

## Insights Gained

OPERA learned that most organizations expressed difficulty in accurately measuring the impact of customer service on their ability to achieve business results.<sup>206</sup> Those interviewed mentioned that the characteristics of the business (e.g., mission, government versus private, methods of interaction) are key drivers for the complexity associated with linking service to business results. The study revealed six preliminary insights that helped to shape the strategic improvement themes discussed in Section Five, Improving Taxpayer Services.

- 1. *Knowing the Customer*** – All organizations interviewed segment customers according to a set of common attributes, such as type of business relationship, geographic location, and customer value, to provide more personalized and targeted services. The extent to which these organizations use data from customer interactions varies, but all of the organizations use a customer database to track interaction. The organizations said they also relied on census and geographic trend data to anticipate customer service needs and opportunities, as well as to learn about future customers and related trends.<sup>207</sup>
- 2. *Defining and Achieving Business Results*** – The interview data revealed that customer services for public sector and non-profit organizations are derived from a set of core functions that support a mission, whereas in the private sector, customer services are used in support of generating value such as market share or other bottom-line factors. An important similarity between the organizations was their focus on service-based objectives that measured service delivery rather than overall business results. The transactional nature of services may suggest that service delivery measures are less challenging for organizations to measure on a regular basis. Two of the organizations interviewed indicated progress in their ability to measure the impact of customer service on business objectives. Only one of the organizations noted that it had a methodology for quantifying services' contribution to business results. This organization utilizes an extensive collection of survey data, operational data, and process measures to statistically quantify impact. Specifically, it uses 20 to 30 customer satisfaction surveys—each linked to the other for consistency of language and scales—to measure satisfaction among various business lines. Because these surveys are samples with inherent margins of error, the organization supplements the survey data with operational data and process measures that have been statistically correlated with customer satisfaction. Using binary logistic regression, it has been able to determine drivers of customer satisfaction or dissatisfaction, with up to 60 percent of the variation in customer satisfaction explained by operational data. Using these techniques, this organization has also been able to quantify long-term estimates of customer service's bottom-line impact by estimating what customer satisfaction contributes to attrition, referrals, and cross-sales of products. However, customer satisfaction impacts are not fully evident in the organization's quarterly profit and loss reports because many of the impacts are long-term. The organization is currently undertaking a longitudinal study to track customers over time, leading to a more direct measure of how customer service affects customer behavior.<sup>208</sup>

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<sup>206</sup> Internal Revenue Service, Office of Program Evaluation and Risk Analysis, *Organizational Experiences Valuing Service and Assistance Interim Results*, December 19, 2005, page 4.

<sup>207</sup> *Ibid.*

<sup>208</sup> *Ibid.*

3. **Measuring Customer Service Impact** – Organizations interviewed mentioned the inherent difficulty in establishing a relationship between customer service and business results. Operational data, surveys, focus groups, and customer interaction data are therefore used to develop customer-based outcome measures that are substitutes for measuring the impact of business results.<sup>209</sup> Even in the private sector, where the bottom-line is measured regularly, establishing the causal link between customer service provision and business results is difficult because the effects of customer service are often realized over a long period of time.
4. **Service Channel Selection and Utilization** – All of the organizations interviewed provide multiple service channels, most notably telephone, Internet, e-mail, and correspondence. Many also offer walk-in service and forms and publications, while others offer workshops and kiosks. All organizations indicated that they prefer customers to use automated services and that automated channels offer a lower cost alternative and lead to more accurate exchanges of information with the customer. Some organizations discussed attempts to guide their customers toward specific channels with little success. They found that customers will use the channel of preference regardless of the efforts to divert them to another channel. Delivery trends toward more widespread use of technology have developed as automation becomes more prevalent and organizations take the opportunity to educate their customers and create awareness of the personal benefits associated with the use of technology. The organizations acknowledged the requirement to understand the preferences of customers and provide a mix of channels that meet their expectations.<sup>210</sup>
5. **Service as an Investment** – In the public sector, service investments are based upon mission requirements and customer demand, whereas services are used as a point of competitive advantage for private sector organizations. Most of the organizations interviewed have not developed explicit return on investment (ROI) calculations for services. Instead, they use unit cost methods to help determine the best mix of services. Because ROI is not calculated, the organizations do not know whether the most cost-effective investments are also the most beneficial investments.<sup>211</sup>
6. **Drivers Affecting Customer Service's Business Impact** – Factors such as human resources functions, technology, and budgets are big drivers that affect the impact of customer service on business. The organization type—government, non-profit, private sector—appeared to influence the level of impact that each driver had with respect to achieving the organization's business objectives.<sup>212</sup>

OPERA indicated there may be greater insights to be gained through additional research because some of the organizations interviewed have initiated strategies to measure the impact of customer service provision on business objectives and results.

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<sup>209</sup> Internal Revenue Service, Office of Program Evaluation and Risk Analysis, *Organizational Experiences Valuing Service and Assistance Interim Results*, December 19, 2005, page 4.

<sup>210</sup> *Ibid.*, page 6.

<sup>211</sup> *Ibid.*, page 7.

<sup>212</sup> *Ibid.*, page 8.

## 4.3 Conclusion

Leading practices research offered the IRS insights into how leading organizations deliver and manage their portfolios of customer services. Looking externally to other organizations and leveraging proven methods for delivering customer services more efficiently and effectively will positively affect taxpayers' experiences when interacting with the IRS. In a more immediate and tangible way, taxpayer preferences and behaviors are shaped by similar service transactions. As this discipline evolves, the IRS has the opportunity to respond by taking advantage of accepted practices for conducting personal business transactions.

The IRS, like many other organizations, has not developed a quantitative-based methodology to measure the impact of customer service on business results. The type of data needed to make such a link may not exist, and may not be easy to collect.<sup>213</sup> Lacking such quantitative data, the IRS must use proxy measures where a reasonable causal link between services and increasing compliance. It is important that the IRS link short-term performance, service cost, and long-term measures to improve service effectiveness and efficiency.

Linking successful accomplishments by other customer service organizations with the baseline of current taxpayer services usage (Section Two) and an understanding of taxpayers' expectations (Section Three) provide the analytical input to form the strategic improvement themes presented in Section Five.

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<sup>213</sup> Internal Revenue Service, *IRS Exit Fact Sheet on IRS's 2007 Budget Request for the Senate Appropriations Hearing*, March 9, 2006, pages 2-3.



The IRS has steadily improved taxpayer services over the past five years.<sup>214</sup> This report represents the IRS's continuing effort to serve its customers in the manner that



delivers the most value to the greatest number of taxpayers at the lowest cost to all taxpayers. While the IRS has realized significant advances in serving taxpayers, there are clear opportunities to improve the effectiveness and efficiency of service delivery. Continued improvement will require evolving the manner in which the IRS defines, allocates resources to, and manages its service delivery capabilities. As the IRS's understanding of taxpayers' needs and preferences deepens and evolves, necessary changes in metrics, decision data, business processes, and organizational factors will be necessary. This section provides insights into the strategic direction for IRS taxpayer services. These strategic priorities will represent the foundation for Phase 2 taxpayer research and the operational plans.

## 5.1 Strategic Improvement Themes

A review of current trends in taxpayers' services and leading practice observations, in combination with the analysis of a substantial amount of primary and secondary research, resulted in the development of five strategic improvement themes. Primary research included taxpayer, employee, and stakeholder surveys; focus groups; interviews; conjoint analysis; and taxpayer comment text mining. Secondary research included the review of reports, audits, and studies from the GAO, Treasury Inspector General for Tax Administration (TIGTA), Pew Research Center, Brookings Institute, and the GSA. A full listing of research sources can be found in the Appendix – TAB Phase 1 Research Overview. These themes will set the strategic direction for Phase 2, during which theme-related questions will be addressed by planned research and the themes will be refined and validated accordingly. The five themes are listed in **Figure 5-1**.

**Figure 5-1. Strategic Improvement Themes for Improving Taxpayer Service**

Strategic Improvement Themes
1. Improve and expand education and awareness activities
2. Optimize the use of partner <sup>215</sup> services
3. Elevate self-service options to meet taxpayer expectations
4. Improve and expand training and support tools to enhance assisted services
5. Develop short-term performance and long-term outcome goals and metrics

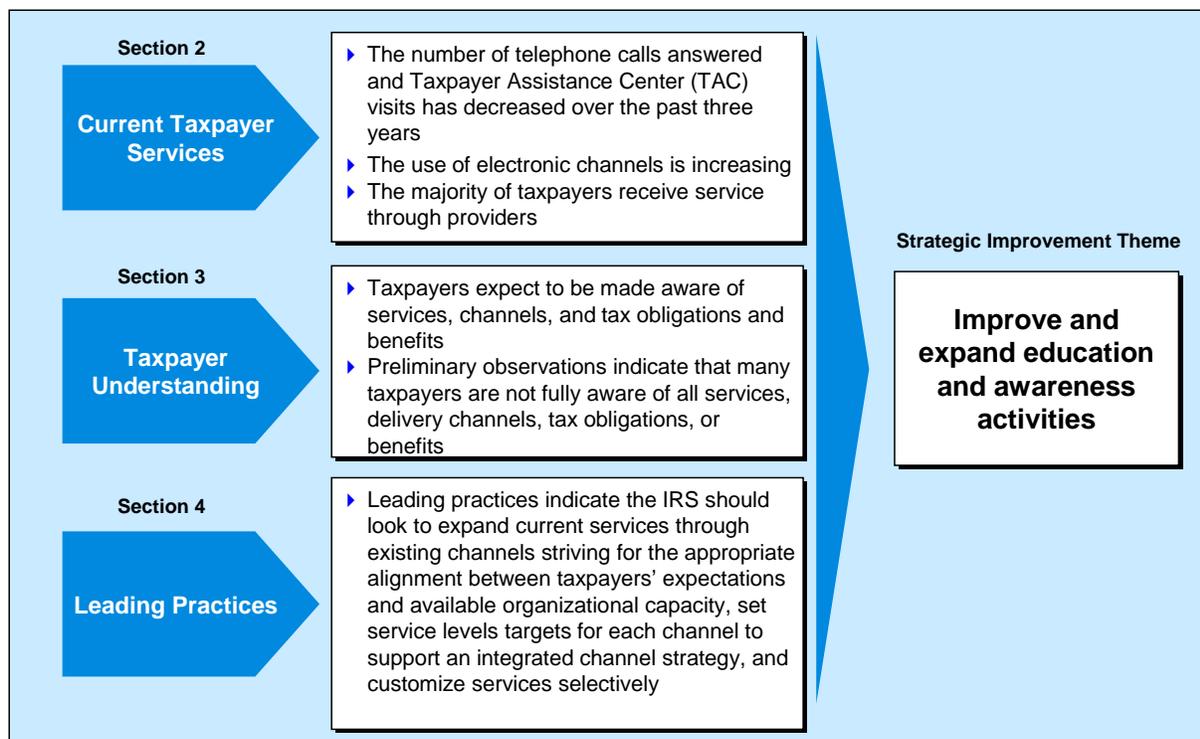
<sup>214</sup> See list of IRS improvements in Section One – Overview and Approach, page 9.

<sup>215</sup> Partners encompass all service providers including community-based partners, practitioners, commercial preparers, and software vendors.

Each strategic improvement theme is discussed in detail below and includes a set of questions that will be used to frame the potential research in Phase 2. In addition, preliminary examples of operational improvements and anticipated benefits will be provided to begin shaping the options and possibilities for the TAB Phase 2 Report.

## 1 Improve and expand education and awareness activities

**Figure 5-2. Process for Strategic Improvement Theme 1 Development**



Education is a critical component for making taxpayers and practitioners aware of IRS service offerings and delivery channels and ensuring taxpayers are aware of their tax obligations and benefits. Since Modernization, significant efforts have been made to provide more outreach and education to taxpayers, leveraging partners to support these efforts; nonetheless, some taxpayer segments may not be receiving sufficient levels of communication about IRS services and channels or about their tax obligations and benefits. Looking forward, efforts to provide more targeted education through communication channels that align with taxpayers' preferences for receiving information need to be expanded. With recent increases in computer and Internet use, many taxpayers can benefit by receiving service and tax information through established channels, such as tax preparation software and the IRS.gov Web site. Despite increased computer and Internet use, the level of computer and functional literacy can impact taxpayers' ability to access these services; therefore, alternative channels need to be identified to serve these taxpayers.<sup>216</sup> Additionally, established partnerships with commercial preparers, practitioners, and community-based organizations can be leveraged to ensure the appropriate levels of education and outreach are being provided to the taxpaying population. (See **Figure 5-2.**)

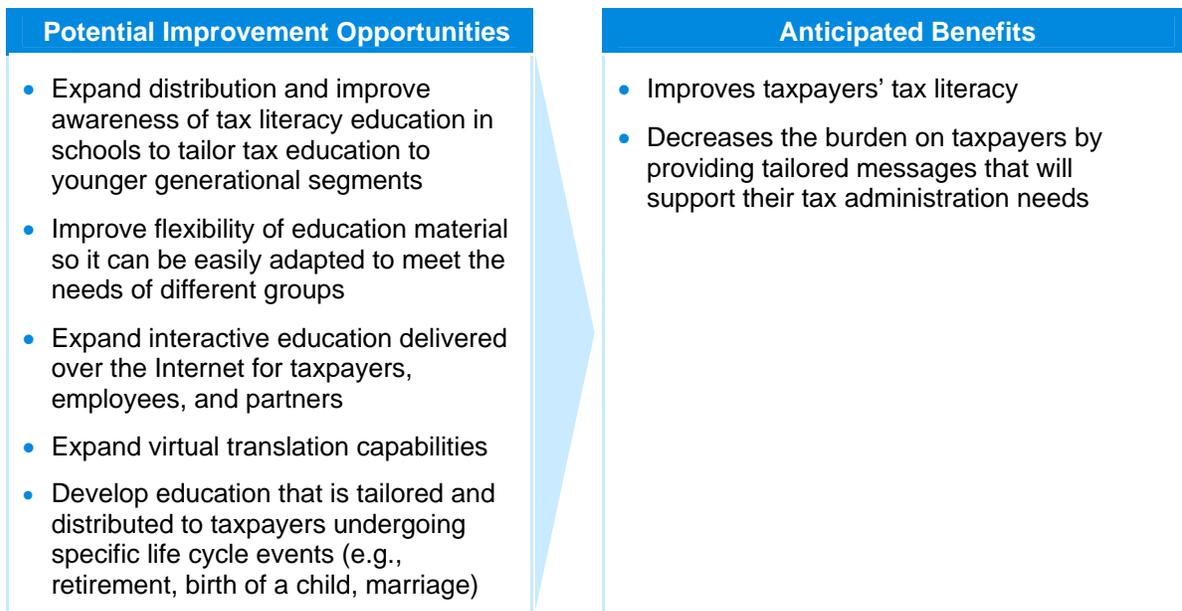
<sup>216</sup> Spragens, Janet and Abramowitz, Nancy. "Low-Income Taxpayers and the Modernized IRS: A View from the Trenches," *1407 Tax Notes*, June 13, 2005, pages 1407-1408.

Phase 2 research considerations will include questions such as:

- Do IRS communications or marketing initiatives reach intended target audiences? (Benchmark Survey, Forrester Mail Survey)
- What is taxpayer awareness of IRS services or key messages? (Russell Survey, Forrester Online Omnibus, Benchmark Survey, Customer Segment Survey)
- What is the role of communication in guiding selection of service delivery channel? (Conjoint Analysis II)
- What is the impact of intermediary or partner interaction on message delivery accuracy and consistency? (Empirical Data – Error Codes)
- At what life stage might taxpayers most benefit from specific taxpayer education? (Empirical Data, Forrester Online Omnibus, Customer Satisfaction Surveys, Benchmark Survey)

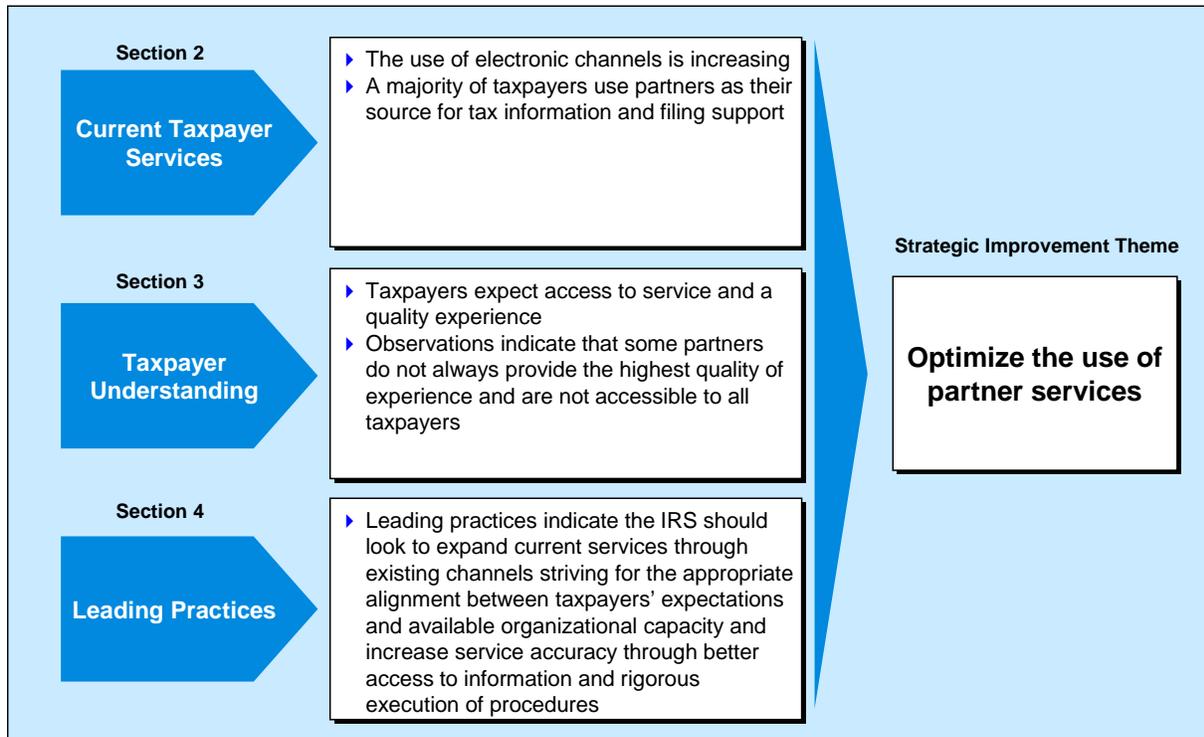
Preliminary examples of operational improvements and anticipated benefits are provided in **Figure 5-3**.

**Figure 5-3. Theme 1, Potential Improvement Opportunities and Anticipated Benefits**



**2 Optimize the use of partner services**

**Figure 5-4. Process for Strategic Improvement Theme 2 Development**



IRS partners will continue to play an increasingly critical role in the delivery of taxpayer services. Research suggests that partners have key attributes that differentiate them from the IRS.<sup>217</sup> For example, unlike the IRS, which often has only one contact per year with a taxpayer, partners sometimes have multiple touch points with taxpayers throughout the year. From the taxpayers' perspective, partners offer an objective and credible point of view and often provide enhanced access to service for certain taxpayers' segments because of established communication channels. Partners continue to provide increased return preparation assistance and electronic filing support.<sup>218</sup> This in turn leads to a more prominent role in other areas of tax administration, such as tax law application and account activity, which then shapes and influences taxpayer behavior. This expanded role brings significant opportunity to improve the level of support and direction provided to these partners, to ensure they consistently and accurately apply and administer the tax law.

In addition, the IRS's SPEC, Stakeholder Liaison (SL), and National Public Liaison (NPL) organizations play a key role in reaching the IRS's entire taxpayer base by coordinating outreach and education efforts through national and community-based partnerships. Affinity-based partners serve an especially valuable role in accessing and serving special needs taxpayers.

<sup>217</sup> Internal Revenue Service, Taxpayer Assistance Blueprint Interview with Bob Weinberger, H&R Block, January 13, 2006.

<sup>218</sup> Internal Revenue Service, SOI, *Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending December 30, 2005.

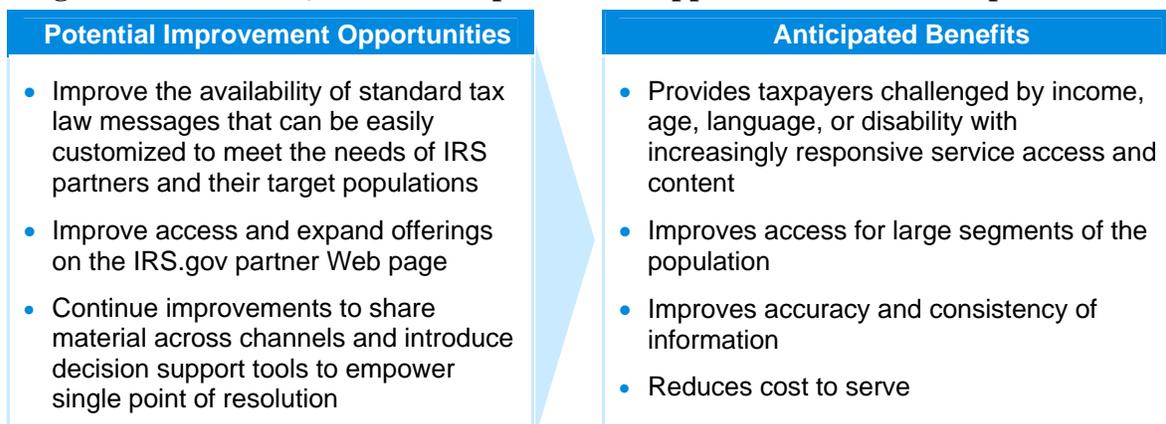
As partners assume a more prominent role in the application of the tax code and general education and awareness of tax administration, the messages and guidance that shape taxpayers’ behavior must be accurately and effectively delivered. To effectively position the partners to provide accurate and consistent information, reliable support and information processes need to be developed so that information can be easily customized to the partner’s target audience. The IRS should test which information and services can be accurately provided by partners, without creating negative downstream consequences and rework for the taxpayer and IRS. (See **Figure 5-4.**)

Phase 2 research considerations will include questions such as:

- Why do taxpayers choose to use partners for service delivery? (Benchmark, Conjoint Analysis I&II, Oversight Board Service Channels Survey)
- What mutual benefits bring the IRS and its partners together? (Partner Survey/Poll)
- How are the roles and responsibilities of the IRS and its partners defined, especially around accountability and quality control? (Partner Survey/Poll)
- What is the impact of effective or ineffective partner service delivery on downstream workload and compliance? (Empirical Data – Error Codes, National Research Project)
- How can the IRS best manage the relationship between service and stakeholder capacity? (TBD)

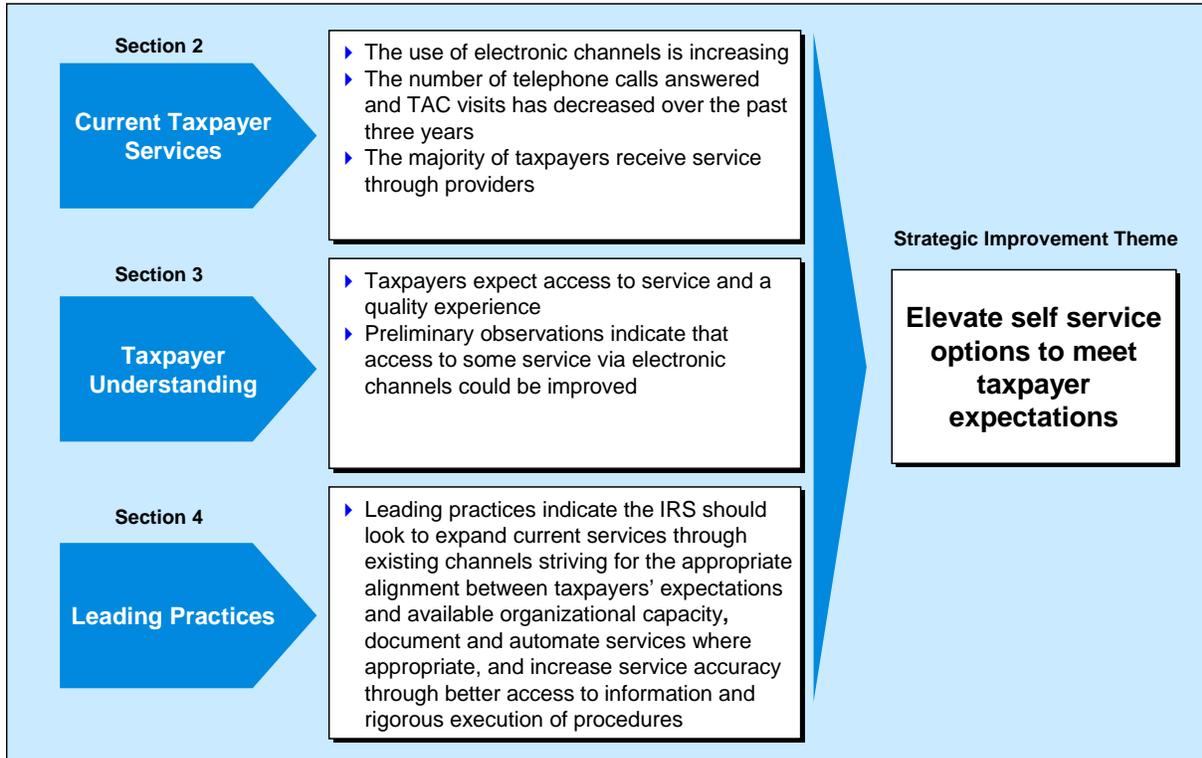
Preliminary examples of operational improvements and anticipated benefits are provided in **Figure 5-5.**

**Figure 5-5. Theme 2, Potential Improvement Opportunities and Anticipated Benefits**



**3 Elevate self-service options to meet taxpayer expectations**

**Figure 5-6. Process for Strategic Improvement Theme 3 Development**



Taxpayers expect to receive access to quality services that provide:

- Information and guidance that can be easily and correctly applied to meet their tax obligations and receive their tax benefits
- Timely transactional support to address issues related to tax administration.

A continual challenge is to provide consistent service in a manner that meets the needs of a diverse population. Given the inherent complexity of tax law, efforts to simplify and standardize assistance can serve to enhance many taxpayers' ability to accurately comprehend their tax obligations. Providing clear, standard, easily customized, and automated content allows the IRS and its partners to deliver accurate, consistent, and understandable service, which can be aligned to meet the needs of specific segments of the population.

Recent advances in technology, especially the use of the Internet, have allowed many organizations to use standard, self-assisted technology solutions to deliver uniform service, especially targeted at informational and basic transactional needs. As a result, these organizations have effectively and efficiently delivered service to a large portion of their customer base. For example, a leading financial institution was able to provide online, self-assisted transactional services (e.g., online bill pay, basic

account changes, fund transfers) for its customer base. These services accounted for 36 percent of total transactional business but only represented 5 percent of total transactional cost.<sup>219</sup>

The IRS is expanding its automated capabilities through programs such as the Free-File Alliance, the “Where’s My Refund?” feature, and the Transcript Delivery System (TDS). By providing these self-assisted services to a large portion of the taxpayer base, the IRS has increased taxpayer value by improving education and awareness, access to service, and quality of experience, while increasing operational efficiencies.

Great strides have been made in the last several years to expand automated services, but the IRS has the opportunity to continue the process of simplifying, standardizing, and automating services, particularly those focused on delivering information and basic transactions. (See **Figure 5-6.**)

Phase 2 research considerations will include questions such as:

- What are the key drivers for taxpayer preference for self-assisted versus assisted channels? (Conjoint Analysis I&II, Benchmark Survey, Oversight Board Service Channels Survey)
- Are there certain taxpayer segments that cannot or will not use self-assisted channels? (Russell Survey, Conjoint I&II, Forrester Online Omnibus, Benchmark, Text Mining of Comment Cards, Oversight Board Service Channels Survey)
- Which factors enhance or inhibit taxpayer migration to self-assisted channels? (Russell Survey, Conjoint I&II, Forrester Online Omnibus, Benchmark, Text Mining of Comment Cards, Oversight Board Service Channels Survey)
- What are taxpayers’ expectations for effective self-service? (Conjoint I&II, Forrester Online Omnibus, Forrester Mail Survey, Benchmark Survey, Oversight Board Service Channels Survey)

Preliminary examples of operational improvements and anticipated benefits are provided in **Figure 5-7.**

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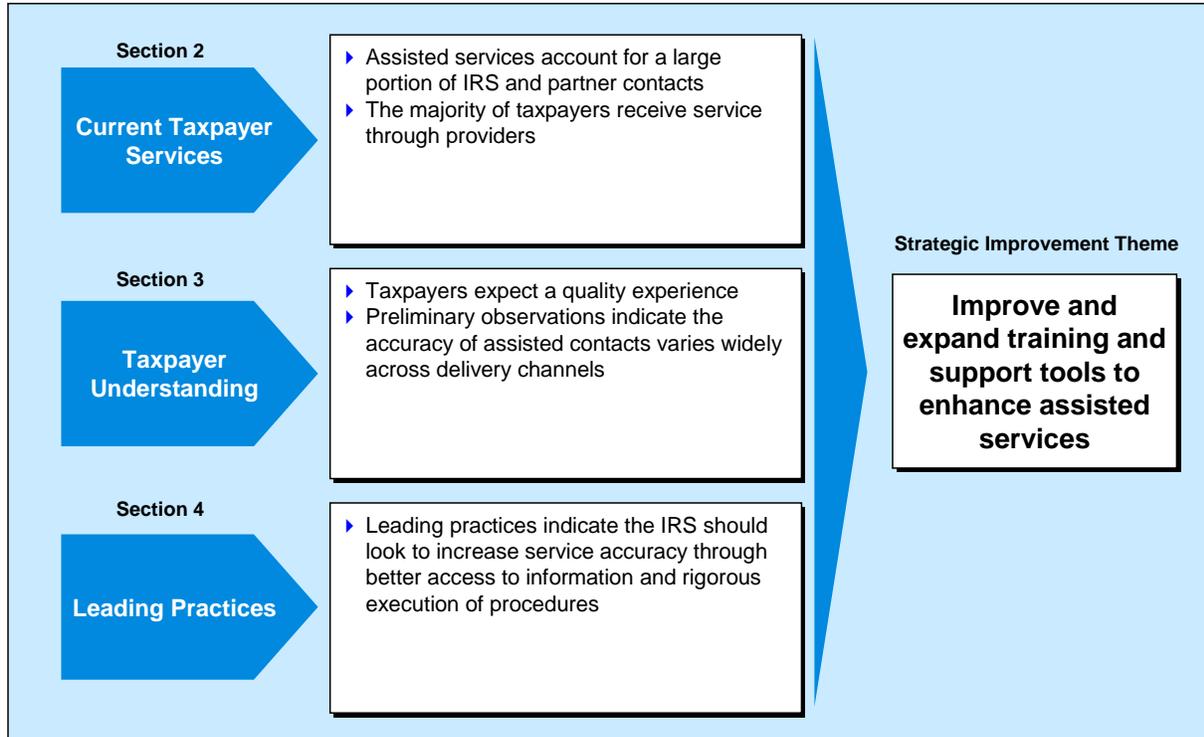
<sup>219</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research Online Migration Impact*, January 2006.

**Figure 5-7. Theme 3, Potential Improvement Opportunities and Anticipated Benefits**

Potential Improvement Opportunities	Anticipated Benefits
<ul style="list-style-type: none"> <li>• Simplify and improve the usability of the IRS.gov Web site—make notices available online; allow taxpayers and partners to check the status of IRS accounts and resolve basic account issues (make payments, print transcripts) online</li> <li>• Expand tax law services to the Web to include self-assisted, interactive decision support tools, similar to the Alternative Minimum Tax (AMT) calculator and EITC Assistant</li> <li>• Simplify and improve the self-assisted phone scripts and expand phone services to include phone payments and more self-assistance for informational needs</li> <li>• Expand interactive, self-assisted options in the TACs to include forms distribution, payment options, return preparation, account access, and tax law support</li> <li>• Provide more online services to taxpayers who are already interacting with IRS through this channel by e-filing</li> <li>• Target complex account-related issues, urgent transactional needs, and special taxpayer segments in the TACs, providing specific services and delivery techniques that best meet their needs</li> </ul>	<ul style="list-style-type: none"> <li>• Improves access for a large segment of the population</li> <li>• Improves quality and consistency of information provided, resulting in an improvement in reporting compliance</li> <li>• Reduces phone volumes for informational calls, allowing the IRS to focus its resources on complex issue types that require more real-time communication</li> <li>• Improves time to serve</li> <li>• Reduces cost to serve</li> </ul>

4 Improve and expand training and support tools to enhance assisted services

Figure 5-8. Process for Strategic Improvement Theme 4 Development



Taxpayers expect accurate assistance from the IRS, preferably on their first contact.<sup>220</sup> However, taxpayers rarely find out about assistance inaccuracies in a timely manner because many errors do not become apparent until a later date – if at all. Therefore, the IRS needs to be responsible for ensuring that taxpayers get accurate information through whichever channel they use. While automation helps to ensure taxpayers receive accurate information through electronic channels, improved accuracy in assisted service is still needed. Preliminary observations indicate that taxpayers may receive inaccurate information through certain assisted channels more than others, especially across the various IRS and partner in-person channels. Continuing efforts to ensure information is accurate across channels is necessary and can be accomplished by improving and expanding training, technology infrastructure, and support tools for employees, partners, and taxpayers across all channels. This may require the update, standardization, and alignment of new or existing information management systems. (See **Figure 5-8.**)

Phase 2 research considerations will include questions such as:

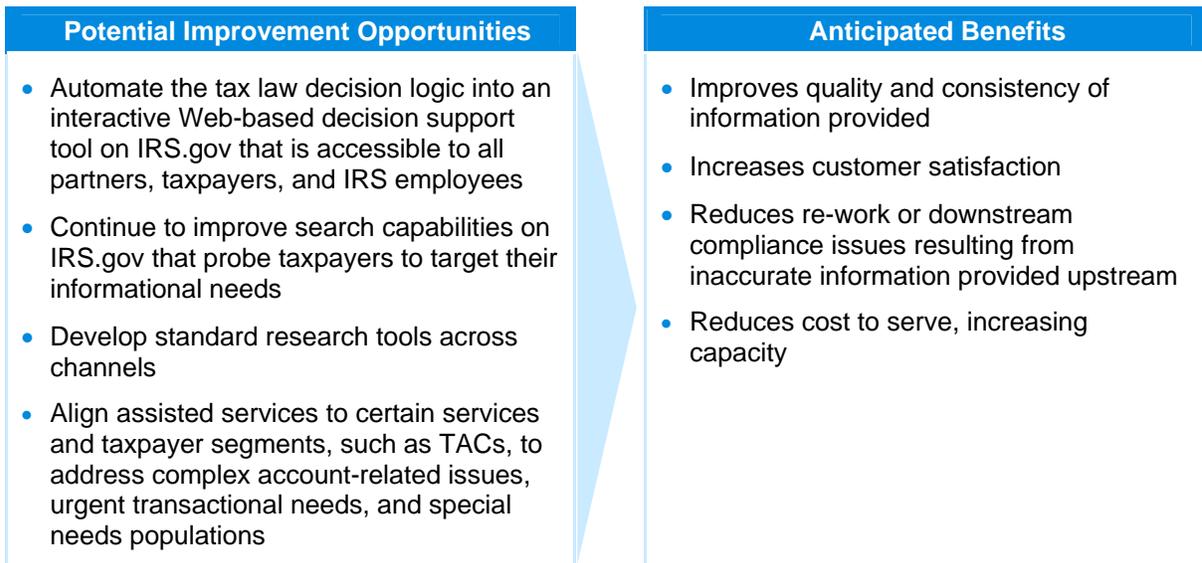
- How do employees, partners, and taxpayers define support requirements? (Partner Survey/Poll, Empirical Data – Employee Surveys and Focus Groups, Oversight Board Service Channels Survey, TBD)

<sup>220</sup> Pacific Consulting Group, *Taxpayer Assistance Blueprint (TAB) Conjoint Study Phase I*, March 2006, page 27.

- Where are the critical gaps and improvement opportunities? (Partner Survey/Poll, Empirical Data – Employee Engagement Surveys and Focus Groups, TBD)
- What is the level of interest for online training and decision tools? (Partner Survey/Poll, Empirical Data – Employee Surveys and Focus Groups, Oversight Board Service Channels Survey, TBD)
- What information tracking systems are required to determine drivers of service demand? How might this information be related to proactive education and awareness strategies? (TBD)

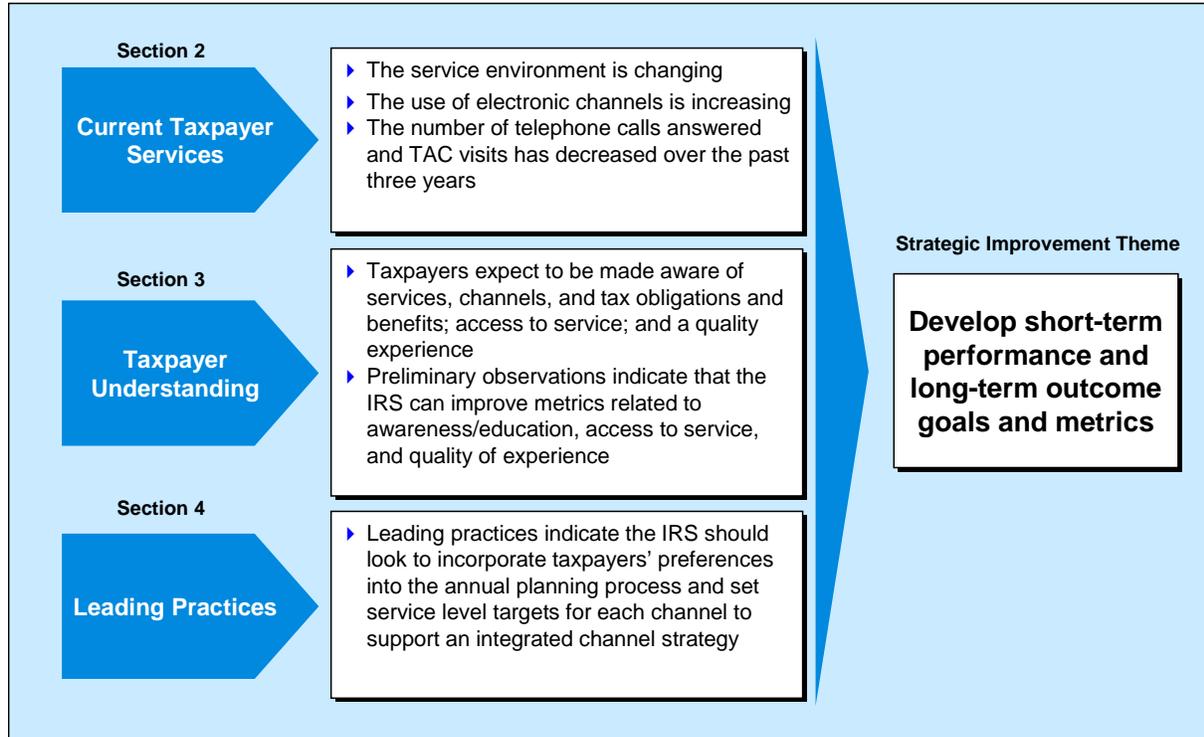
Preliminary examples of operational improvements and anticipated benefits are provided in **Figure 5-9**.

**Figure 5-9. Theme 4, Potential Improvement Opportunities and Anticipated Benefits**



**5** Develop short-term performance and long-term outcome goals and metrics

**Figure 5-10. Process for Strategic Improvement Theme 5 Development**



The service environment is constantly changing, and recent trends indicate the increased use of alternative channels (e.g., Internet) for receiving service. The ability to quickly assess and respond to a changing environment necessitates the development of a comprehensive set of short-term performance metrics to evaluate how well the business is meeting taxpayers' expectations (education and awareness, access to service, and quality of experience) and how efficiently the business is delivering those services (cost and productivity). An understanding of the relative impact of business decisions on these metrics will enable the IRS to appropriately align resources to maximize taxpayers' expectations.

Furthermore, it is necessary for the IRS to pursue a greater understanding of the long-term impact of taxpayer service on downstream business and taxpayer outcomes. For example, how does a change in the mix of services provided or the improvement in the content of a tax form, publication, or instruction impact taxpayers' behavior? It is difficult to establish quantifiable links between service and business impacts;<sup>221</sup> therefore, the IRS must use proxy measures. As a result, operational data, surveys, focus groups, and customer interaction data should be used to develop customer-based outcome measures, creating a reasonable inferential link to business results.<sup>222</sup>

<sup>221</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research*, January 2006.

<sup>222</sup> Internal Revenue Service, Office of Program Evaluation and Risk Analysis, *Organizational Experiences Valuing Service and Assistance Interim Results*, December 19, 2005, page 4.

Although strides have been made in developing customer-centric metrics, especially with respect to quality of experience,<sup>223</sup> several gaps remain. Most metric gaps are around taxpayer awareness and access. Additionally, existing measurement systems are often inconsistent across delivery channels. For instance, taxpayer contacts at TACs and on the telephone are measured differently, hampering cross-channel comparisons and corporate management.

Short-term performance metrics need to be developed to include customer-centric service objectives aligned around education and awareness, access to service, and quality of experience. It is essential to improve the quality and consistency of existing customer-centric and efficiency metrics across all channels and services. With the recent introduction of the Integrated Financial System (IFS), the IRS will be able to collect reliable service cost data. Having such cost information is a major building block to help the IRS make informal resource allocation decisions.

Through these improvements, the IRS will be better positioned to manage service delivery more holistically, which will support better alignment of taxpayer services to maximize effectiveness and efficiency of service delivery. (See **Figure 5-10.**)

Phase 2 research considerations will include questions such as:

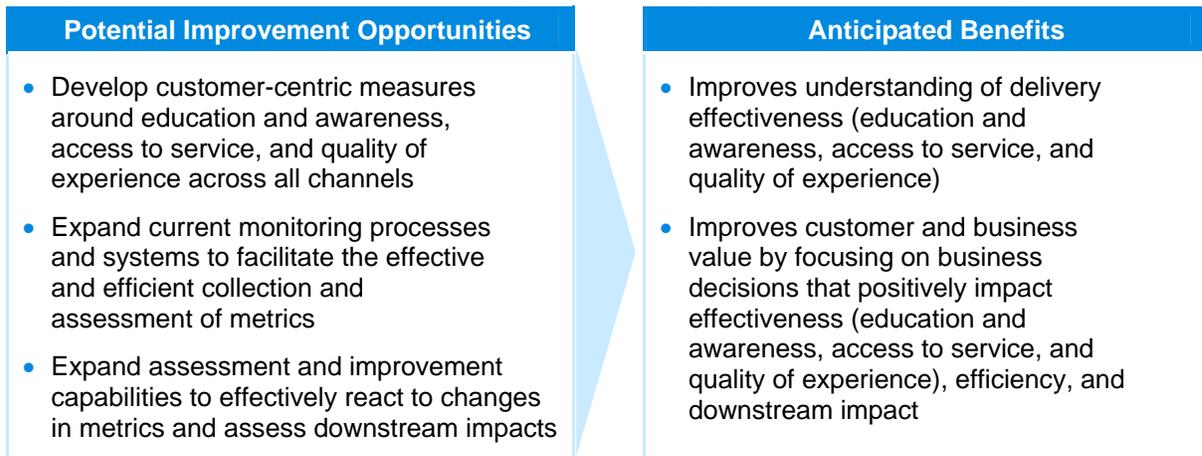
- What combination of filing, performance, satisfaction, and efficiency data will establish a link between service and compliance? (TBD)
- Which programs and processes should be implemented to systematically capture and regularly analyze the voice of the taxpayers and partners? (Customer Satisfaction Comment Text Mining, Market Segment Survey)
- What are service performance preferences by taxpayer segment and service task? (Conjoint I&II, Oversight Board Service Channels Survey)
- Which performance measures effectively address taxpayers' and partners' needs for awareness/education, access to service, and quality of experience? (TBD)
- What is the cost of service delivery by taxpayer segment and channel? (PCG Model)
- What is the relationship between service cost by channel and service performance by channel? (TBD)

Preliminary examples of operational improvements and anticipated benefits are provided in **Figure 5-11.**

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<sup>223</sup> Embedded Quality, a standard quality measurement system, was implemented across a number of delivery channels (telephones, correspondence, and Taxpayer Assistance Centers) in order to assess quality of experience.

**Figure 5-11. Theme 5, Potential Improvement Opportunities and Anticipated Benefits**



## 5.2 Next Steps

The strategic themes developed in Phase 1 will provide direction for the TAB initiative as it moves into Phase 2. Preliminary improvement opportunities focus on increasing awareness and access to service for all taxpayers, while ensuring that the quality of experience is maintained regardless of how the information is delivered. Measuring and managing services more holistically are critical components in maximizing the effectiveness and efficiency of service delivery. A holistic management approach allows the IRS to clearly understand the value provided to taxpayers across all delivery channels, which in turn allows it to better align resources to maximize the value provided.

As the TAB initiative moves into Phase 2, the strategic improvement themes, coupled with an improved understanding of taxpayer needs, preferences, and expectations through primary research of taxpayer survey data, will be used to develop a comprehensive road map for improving the delivery of taxpayer services. During Phase 2, a mix of analytics, including follow-on conjoint analysis,<sup>224</sup> focus groups, and data modeling, will be used to refine the strategic themes. Specifically, Phase 2 primary research will include:

- **Conjoint Analysis** – A choice-based conjoint measurement approach will result in the ability to assess taxpayers’ affinity and priority for common service attributes (e.g., wait time, likelihood of resolution) delivered through distinct channels. Likely arrays of service attributes will be tested using a variety of service tasks common to taxpayer experience such as getting forms, publications, and instructions; asking tax law questions; and requesting help with tax forms. The resulting choice-based conjoint instrument will be used to understand the taxpayers’ preferences for individual attribute levels, decompose alternatives into a common set of service attributes, understand the relative importance taxpayers place on specific service attributes when evaluating service alternatives, and rate both currently available and hypothetical service offerings at individual and aggregate levels. (Results available 3<sup>rd</sup> Quarter FY 2006)

<sup>224</sup> TAB conjoint analysis involves respondents being asked to choose between various service scenarios. These scenarios describe the cost or limits attending a variety of service situations by depicting ranges of service attributes. Selections between various constellations of service tasks and attributes show what factors most influence choices about service seeking. For example, someone with a strong preference for face-to-face communication might choose a TAC regardless of travel time to the service site whereas someone who prefers TACs when they are close by, might, for the same task, choose to call when they are thirty minutes travel time from a TAC.

- **Benchmark Survey of Taxpayers** – The IRS will survey 40,000 taxpayers to develop their stated needs, expectations, and preferences for receiving tax-related information and service. This survey will assist in developing a baseline against which to measure future needs and preferences. The large sample will allow for the development of a baseline of taxpayers who have contacted the IRS and those who have not. This will provide the IRS with the needs and preferences of current and potential taxpayer services users. (Results available July 2006)
- **Customer Satisfaction Survey Analysis** – During Phase 1, W&I realigned the customer satisfaction surveys administered by PCG, to allow for better cross-channel comparisons. Data will be collected over the first two quarters of FY 2006 and the results analyzed during Phase 2. (Results available third quarter FY 2006)
- **Comment Text Mining of Customer Satisfaction Surveys** – The customer satisfaction surveys have open-ended questions that allow taxpayers to provide input to their service experience. Phase 1 text mined these responses and developed an initial understanding of the voice of the taxpayer. Phase 2 will continue text mining these responses to validate or disprove the initial premises. (Results available third quarter FY 2006)
- **Market Segment Survey Analysis** – A survey of 3,000 taxpayers will be conducted in June 2006 to assist in developing the preferences, expectations, and needs of taxpayer segments. W&I will analyze the results within the scope of the TAB. (Results available November 2006)
- **Forrester Mail Survey Analysis** – This mail-administered survey examines the consumption habits, lifestyle priorities, financial habits, communication capacity, reported financial literacy, and economic habits of taxpayers. Additional questions added by W&I Research will examine tax experiences and tax service expectations. (Results available March 2006)
- **Forrester Marketing Research Online Omnibus** – The questions added to the survey will also be added to a larger survey that analyzes demographic and behavioral categories to computer mediated communication habits. The questions consider reported preference by problem type and reported preference by experience. (Results available June 2006)
- **Paid Preparer Survey** – W&I will engage in a systematic data collection effort to define how to better meet the needs of intermediaries within the tax process. To determine how to best help intermediaries serve taxpayers, W&I will solicit strategic and tactical recommendations from organizations of paid preparers, accountants, and bookkeepers and test these findings against results from its benchmark survey. (Results available third quarter FY 2006)
- **Oversight Board Service Channels Survey** – This random phone-administered survey of 1,000 taxpayers, sampled to reflect the diverse national population, will develop a better understanding of service needs and service channel choices by demographic factors such as income level, geographic location, and language abilities. (Results available May 2006)

*“Taxpayers need the attention of a customer service representative who will...ensure that taxpayers’ problems are fully resolved upon initial contact.”*

TAP comments to Oversight Board public meeting, February 8, 2006

*“Increase taxpayer education by offering online workshops or educational sessions.”*

TAB Partner Stakeholder Surveys, November-December 2005

*“I think if the IRS is asking for voluntary compliance in an age where tax law is as complex as it is, it has an obligation to provide the public with answers to their questions.”*

TAB Employee Focus Groups, November-December 2005

The primary research will provide additional information to refine and translate the strategic improvement themes into actionable and operational improvement initiatives. Examples of the operational improvement initiatives that may be explored in Phase 2 are:

- Enhanced education and outreach consistent with the taxpayer life cycle
- TAC services, locations, and alternatives for face-to-face service
- Account-related services on the IRS Web site for individual taxpayers
- Range of telephone services and tax law assistance offered.

Additionally, the team will focus on developing a process of continually assessing taxpayers' needs, preferences, and expectations that will be integrated into the annual planning process. Specifically, Phase 2 will:

- Refine the IRS's understanding of taxpayer needs, preferences, and expectations
- Identify and prioritize taxpayer services improvement recommendations
- Develop customer-centric and efficiency service metrics
- Establish an ongoing process to assess customer needs and correlate that assessment with compliance findings from the National Research Program
- Address the challenges of effectively and efficiently aligning service content, delivery, and resources with taxpayers' and partners' expectations.

As the IRS better understands taxpayers' and partners' needs, preferences, and expectations through Phase 1 and 2 research, and institutes a process to continually assess those interests, it will be better positioned to make informed decisions on service delivery within available resources.



# Appendices



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## Acknowledgements

**TAB Core Team**

**Mark Pursley**, *Director of Wage & Investment (W&I) Customer Assistance, Relationships, and Education (CARE), Taxpayer Assistance Blueprint (TAB) Executive Owner*

**Margaret Connell**, *Field Director Accounts Management, Andover, W&I, Executive TAB Team Leader*

**Jane Brough**, *Governmental Liaison, Small Business/Self-Employed (SB/SE) Communications, Liaison and Disclosure*

**James Clifford**, *Territory Manager, W&I Field Assistance*

**Jonathan Edelson**, *Supervisory Management & Program Analyst, Office of Program Evaluation and Risk Analysis (OPERA)*

**Liz Evans**, *Chief, Communication and Liaison, W&I*

**Elizabeth Fuchs**, *Territory Manager, W&I Stakeholder Partnerships, Education and Communication (SPEC)*

**Larry Jacobs**, *Operations Research Analyst, W&I Research*

**Charles Lacijan**, *Staff Director, IRS Oversight Board*

**Teresa LeSage**, *Chief Compliance, Customer Relationship Management (CRM), W&I Strategy and Finance/Business System Planning*

**Tracy Miller**, *Senior Operations Research Analyst, W&I Research*

**Jeptha Nafziger**, *White House Fellow, OPERA*

**Marcy Nelson**, *Communications Analyst, Communication and Liaison, W&I*

**Mark Pope**, *Supervisory Social Scientist, W&I Research*

**Melissa Reynard**, *Department Manager, W&I Accounts Management*

**Darlene Rhodes**, *Senior Tax Analyst, W&I Customer Account Services (CAS)*

**Nancy Richman**, *Territory Manager, W&I SPEC*

**Ben Shackleford**, *Social Scientist, W&I Research*

**Cathy Van Horn**, *Local Taxpayer Advocate, Taxpayer Advocate Service (TAS)*

**Deleal Williams**, *Supervisory Program Analyst, W&I CARE*

**TAB Executive Steering Committee (ESC)**

**Rich Morgante**, *Commissioner, W&I Division, TAB Executive Steering Committee Chair*

**Kevin Brown**, *Commissioner, SB/SE*

**John Dalrymple**, *Deputy Commissioner, Operations Support*

**Todd Grams**, *Chief Information Officer*

**Mark Matthews**, *Deputy Commissioner, Services & Enforcement*

**Dave Medeck**, *Director, W&I CAS*

**Nina Olson**, *National Taxpayer Advocate (NTA)*

**Mark Pursley**, *Director of W&I CARE,  
TAB Executive Owner*

**Ray Wagner**, *Chair, IRS Oversight Board*

**Pamela Watson**, *Deputy Commissioner, W&I  
Division*

**Floyd Williams**, *National Director, Legislative  
Affairs*

## Internal Sources

**Robert Bedoya**, *Business Strategist & Business  
Archives, W&I CAS*

**Thomas Beers**, *Research Advisor to the NTA*

**Cecil Bowman**, *Supervisory Tax Analyst, W&I  
CAS*

**Susan Carroll**, *Deputy Director, W&I Accounts  
Management*

**Ciyata Coleman**, *Economist, W&I Research*

**Marcia Corcoran**, *Analyst, W&I SPEC*

**Bernard Coston**, *Director, Taxpayer Advisory  
Panel (TAP)*

**Bert DuMars**, *Director, Electronic Tax  
Administration*

**Patricia Evans**, *Supervisory Tax Analyst,  
W&I CAS*

**Joel Friedman**, *Supervisory Social Scientist,  
W&I Research*

**Mark Gillen**, *Director, OPERA*

**Caryl Grant**, *Program Manager, Information  
Reporting Program Advisory Committee  
(IRPAC), National Public Liaison (NPL)*

**Terry Green**, *Supervisory Program Analyst,  
W&I CAS*

**Elizabeth Kelley**, *Management and Program  
Analyst, Electronic Tax Administration (ETA),  
Modernization and Information Technology  
Services (MITS)*

**Karen Kiekenapp**, *Program Evaluation and Risk  
Analyst, W&I CAS*

**Betsy Kinter**, *Director, W&I Accounts  
Management*

**Patricia LaPosta**, *Senior Policy Analyst, W&I  
CAS*

**Mark Mazur**, *Director, Research, Analysis &  
Statistics*

**Sean McLaughlin**, *White House Fellow, Office  
of the Commissioner*

**Howard McMillan**, *Director, W&I Research*

**Sandy McQuin**, *Supervisory Program Analyst  
TAP/NTA*

**Terry Midby**, *Supply Management Specialist,  
W&I Media and Publications*

**Kevin Murray**, *Program Manager, National  
Public Liaison, Stakeholder Liaison*

**Leonard Oursler**, *Chief, Congressional Affairs*

**Thomas Petska**, *Director, Statistics of Income  
(SOI)*

**Dennis Renyi**, *TAB Contracting Officer's  
Technical Representative, (COTR), W&I CAS  
Finance*

**Ron Smith**, *Supervisory Financial Manager,  
W&I SPEC*

**Peter Stipek**, *Director, Joint Operations Center, W&I CAS*

**James Southwell**, *Chief Tactical Implementation Branch, Communications and Liaison, W&I*

**Sharese Stevens**, *Policy Analyst, W&I Multilingual Initiative*

**Randy Swartz**, *Director Low Income Taxpayer Clinic (LITC)*

**Elizabeth Tucker**, *Director, Communications, Liaison & Disclosure, SB/SE*

**Dorene Viglione**, *Management and Program Analyst, W&I*

**Lorenza Wilds**, *Program Manager, Internal Revenue Service Advisory Council (IRSAC), NPL*

**David Williams**, *Director, Earned Income and Health Coverage Tax Credits*

**David Yeskoo**, *Area Manager, South Atlanta, SB/SE*

## Partners/Key Stakeholders

**Gwen Handleman**, *Chair, TAP*

**Colleen Kelley**, *President, National Treasury Employees Union (NTEU)*

## Government Agencies

*Department of Health and Human Services (HHS)-Centers for Disease Control and Prevention (CDC)*

*HHS-Centers for Medicare and Medicaid (CMS)  
HHS-National Institutes of Health (NIH)  
Department of Homeland Security (DHS)-  
Citizenship and Immigrations Services  
Department of Labor (DOL)*

*Environmental Protection Agency (EPA)*

*Federal Aviation Administration (FAA)*

*Federal Deposit Insurance Corporation (FDIC)*

*Federal Trade Commission (FTC)*

*Securities and Exchange Commission (SEC)*

*Social Security Administration (SSA)*

## International Agencies

*Australian Taxation Office*

*Canadian Revenue Service*

*Her Majesty's Revenue & Customs*

*Mexican Tax Service*

*New Zealand Inland Revenue Department*

## Private Sector Organizations

*American Association of Retired Persons (AARP)*

*Capital One*

*Dell*

*National Community Tax Coalition (NCTC)*

*Neighborhood Works*

*T. Rowe Price*

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*California Franchise Tax Board*

*Georgia Department of Revenue*

*Minnesota Department of Revenue*

## Acronyms / Abbreviations Glossary

<b>AARP</b>	American Association of Retired Persons
<b>ACSI</b>	American Customer Satisfaction Index
<b>AGI</b>	Adjusted Gross Income
<b>AM</b>	Accounts Management
<b>AMIR</b>	Accounts Management Information Report
<b>AMT</b>	Alternative Minimum Tax
<b>ASQ</b>	American Society for Quality
<b>BU</b>	Bargaining Unit
<b>CAP</b>	Citizen Advisory Panel
<b>CARE</b>	Customer Assistance, Relationships and Education
<b>CAS</b>	Customer Accounts Services
<b>CDC</b>	Center for Disease Control and Prevention
<b>CLD</b>	Communication, Liaison, and Disclosure
<b>CMS</b>	Centers for Medicare and Medicaid Services
<b>CONOPS</b>	Concept of Operations
<b>COTR</b>	Contracting Officer's Technical Representative
<b>CQRS</b>	Centralized Quality Review System
<b>CRM</b>	Customer Relationship Management
<b>CSR</b>	Customer Service Representative
<b>DOL</b>	Department of Labor
<b>DPO</b>	Defects Per Opportunity
<b>EAR</b>	Electronic Account Resolution
<b>e-File</b>	Electronic Filing
<b>EFTPS</b>	Electronic Federal Tax Payment System
<b>EIN</b>	Employer Identification Number
<b>EITC</b>	Earned Income Tax Credit
<b>EPA</b>	Environmental Protection Agency
<b>ERO</b>	Electronic Return Originators
<b>ERS</b>	Error Resolution System
<b>ESC</b>	Executive Steering Committee
<b>ETA</b>	Electronic Tax Administration
<b>ETAAC</b>	Electronic Tax Administration Advisory Council
<b>ETA MDB</b>	Electronic Tax Administration Marketing Database
<b>ETD</b>	Enterprise Telephone Database
<b>ETLA</b>	Electronic Tax Law Assistance
<b>FA</b>	Field Assistance
<b>FAA</b>	Federal Aviation Administration
<b>FAOP</b>	Field Assistance Operating Procedures
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>FTC</b>	Federal Trade Commission
<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>GLD</b>	Government Liaison & Disclosure
<b>GSA</b>	General Services Administration
<b>GMF</b>	Generalized Mainline Framework
<b>HHS</b>	Department of Health and Human Services
<b>IPUMS</b>	Integrated Public Use Microdata Series
<b>IRFOF</b>	Internet Refund Fact of Filing

**Acronyms / Abbreviations Glossary (cont'd.)**

<b>IRPAC</b>	Information Reporting Program Advisory Committee
<b>IRS</b>	Internal Revenue Service
<b>IRSAC</b>	Internal Revenue Service Advisory Council
<b>ITIN</b>	Individual Taxpayer Identification Number
<b>JOC</b>	Joint Operations Center
<b>LEP</b>	Limited English Proficiency
<b>LITC</b>	Low Income Taxpayer Clinic
<b>LMSB</b>	Large and Mid-Size Businesses
<b>MITI</b>	Modernization and Information Technology Services
<b>MLI</b>	Multi-Lingual Initiative
<b>NCTC</b>	National Community Tax Coalition
<b>NIH</b>	National Institutes of Health
<b>NPL</b>	National Public Liaison
<b>NTA</b>	National Taxpayer Advocate
<b>NTEU</b>	National Treasury Employees Union
<b>OPERA</b>	Office of Program Evaluation and Risk Analysis
<b>P&amp;PD</b>	Product and Partnership Development
<b>PAC</b>	Program Activity Code
<b>PCG</b>	Pacific Consulting Group
<b>PP</b>	Planning Period
<b>PPS</b>	Practitioner Priority Service
<b>QIER</b>	Quality Information and Education Reports System
<b>RAL</b>	Refund Anticipation Loan
<b>ROI</b>	Return on Investment
<b>RRA '98</b>	IRS Restructuring and Reform Act of 1998
<b>SB/SE</b>	Small Business/Self Employed Operating Division
<b>SEC</b>	Securities and Exchange Commission
<b>SL</b>	Stakeholder Liaison
<b>SOI</b>	Statistics of Income
<b>SPEC</b>	Stakeholder Partnerships, Education and Communication
<b>SSA</b>	Social Security Administration
<b>SSN</b>	Social Security Number
<b>STARS</b>	SPEC Taxpayer Assistance Reporting System
<b>TAB</b>	Taxpayer Assistance Blueprint
<b>TAC</b>	Taxpayer Assistance Center
<b>TAP</b>	Taxpayer Advisory Panel
<b>TAS</b>	Taxpayer Advocate Service
<b>TCE</b>	Tax Counseling for the Elderly
<b>TDD/TTY</b>	Telecommunications Device for the Deaf/Teletypewriter
<b>TDS</b>	Transcript Delivery System
<b>TEC</b>	Taxpayer Education and Communication
<b>TFOP</b>	Tax Forms Outlet Program
<b>TIGTA</b>	Treasury Inspector General for Tax Administration
<b>TY</b>	Tax Year
<b>VITA</b>	Volunteer Income Tax Assistance
<b>VOT</b>	Voice of the Taxpayer
<b>W&amp;I</b>	Wage & Investment Operating Division

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## Congressional Language

A primary objective of the Taxpayer Assistance Blueprint (TAB) initiative was to address the Congressional report language (number 2 listed in Figure A-1) requesting that the IRS conduct a comprehensive review of its current portfolio of services and develop a five-year plan for individual taxpayer services. In developing the Blueprint, the TAB team considered all of the applicable language presented by the House and Senate Appropriations Committees, the Committee of Conference, and ultimately, the Public Law (See **Figure A-1**).

**Figure A-1. Congressional Language**

Congressional Language of Interest to TAB	
1.	Public Law 109-115
2.	Conference Report 109-307 (Joint Explanatory Statement of the Committee of Conference)
3.	Senate Committee Report 109-109
4.	House Committee Report 109-153

### Public Law 109-115<sup>225</sup>

SEC. 205. None of the funds appropriated or otherwise made available in this or any other Act or source to the Internal Revenue Service may be used to reduce taxpayer services as proposed in fiscal year 2006 until the Treasury Inspector General for Tax Administration completes a study detailing the impact of such proposed reductions on taxpayer compliance and taxpayer services, and the Internal Revenue Service's plans for providing adequate alternative services, and submits such study and plans to the Committees on Appropriations of the House of Representatives and the Senate for approval: *Provided*, That no funds shall be obligated by the Internal Revenue Service for such purposes for 60 days after receipt of such study: *Provided further*, That the Internal Revenue Service shall consult with stakeholder organizations, including but not limited to, the National Taxpayer Advocate, the Internal Revenue Service Oversight Board, the Treasury Inspector General for Tax Administration, and Internal Revenue Service employees with respect to any proposed or planned efforts by the Internal Revenue Service to terminate or reduce significantly any taxpayer service activity.

### Conference Report 109-307 (Joint Explanatory Statement of the Committee of Conference)<sup>226</sup>

The conferees direct the IRS, the IRS Oversight Board and the National Taxpayer Advocate to develop a five-year plan for taxpayer service activities and report to the House and Senate Committees on Appropriations by April 14, 2006, as outlined in the Senate report. The plan should include long-term goals that are strategic and quantitative and that balance enforcement and service.

<sup>225</sup> United States Congress, Conference Report PL109-115: H.R.3058 – 43. *Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006*, 30 November 2005. (Enrolled as Agreed to or Passed by Both House and Senate) (Including Rescission of Funds, <http://thomas.loc.gov/cgi-bin/query/F?c109:1:./temp/~c10952qzGp:e128266>).

<sup>226</sup> United States Congress, Conference Report 109-307. *Joint Explanatory Statement of the Committee of Conference: Internal Revenue Service, Processing Assistance, and Management (Including Rescission of Funds)*, <http://www.rules.house.gov/109/text/hr3058cr/109hr3058jes.pdf>.

## Senate Committee Report 109-109<sup>227</sup>

*Taxpayer Services* – The Committee is concerned about the proposed taxpayer service reductions due to the IRS’s inability to explain the potential impact of these changes on taxpayers. Reducing taxpayer services, especially for the Nation’s most vulnerable and needy populations, is puzzling, especially given the trends in the Nation’s demographics, which indicate a growing elderly population and immigrant population. Yet, instead of increasing and improving taxpayer services for these populations, the IRS’s budget proposes to cut services that these populations rely upon.

The Committee also is concerned that the proposed service cuts lack specificity and the IRS has not developed concrete plans to provide adequate alternative services that would replace the proposed service cuts. The Government Accountability Office [GAO] noted in testimony on April 14, 2005 that IRS has not finalized the details on where reductions in taxpayer service would occur.

Clearly, the IRS can provide alternative services at a more cost-effective and efficient manner. Recent GAO testimony states that the IRS may be able to ‘maintain the overall level of assistance to taxpayers by changing the menu of services offered, offsetting reductions in some areas with new and improved services in other areas.’ Nevertheless, the IRS has failed to develop a comprehensive plan that would ensure adequate alternative and improved services to taxpayers. For example, the IRS is re-directing taxpayers from taxpayer assistance centers [TAC] to volunteer income tax assistance [VITA] sites. However, both the GAO and the Treasury Inspector General for Tax Administration [TIGTA] have identified significant problems with the accuracy of tax preparation services provided at VITA sites. Further, while the IRS is encouraging more taxpayers to use volunteer sites for return preparation, resources devoted to these activities are declining. Staffing for IRS’s Stakeholder Partnerships, Education and Communication [SPEC] office has declined by 63 FTEs over the past 2 years.

In addition, the IRS has justified some of its proposed cuts based on reduced usage of such services. However, some of the reduction in usage was caused by the IRS’s own internal policies. For example, beginning in fiscal year 2003, the IRS established guidelines to reduce tax return preparation in the taxpayer assistance centers [TAC] by 20 percent. This goal was reiterated in the fiscal year 2005-2006 Wage & Investment Strategy and Program Plan. By directing the reduction of such services, the reduction in demand and usage became a self-fulfilling prophecy and not one justified by reduced taxpayer needs or demands for such services.

The Committee also questions the IRS’s estimated cost savings from reducing some of their services. For example, the IRS announced on May 27, 2005 that it planned to close 68 TACs across the Nation. However, the Committee is highly skeptical of the projected savings from closing these walk-in centers since only three of the 68 TACs are stand-alone facilities while the remainder are co-located with other IRS offices.

Due to the Committee’s concerns, the Committee has included an administrative provision that prohibits the use of funds provided in this Act for purposes of reducing any taxpayer service function or program until

<sup>227</sup> United States Congress, Senate Report 109-109. *Transportation, Treasury, The Judiciary, Housing and Urban Development, and Related Agencies Appropriations Bill, 2006: Internal Revenue Service, Processing, Assistance and Management, Committee Recommendation*, July 26, 2005, [http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1\(sr109\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1(sr109)).

the Treasury Inspector General for Tax Administration [TIGTA] has completed a study detailing the impact of the IRS's plans to reduce services on taxpayer compliance and taxpayer assistance. The Committee also requests TIGTA to review the accuracy of the estimated cost-savings of the reduced services.

Further, the Committee directs the IRS to undertake a comprehensive review of its current portfolio of taxpayer services and develop a five-year plan that outlines the services it should provide to improve services for taxpayers. This plan should detail how it plans to meet the service needs on a geographic basis (by State and major metropolitan area), including any proposals to realign existing resources to improve taxpayer access to services, and address how the plan will improve taxpayer service based on reliable data on taxpayer service needs. As part of this review, the Committee strongly urges the IRS to use innovative approaches to taxpayer services, such as virtual technology and mobile units. The IRS also should expand efforts to partner with State and local governments and private entities to improve taxpayer services. For example, about three-fourths of the Nation's 100 largest cities have some coordinated effort around the Earned Income Tax Credit by providing outreach and free tax preparation services. This plan should be developed in consultation with the IRS Oversight Board and the National Taxpayer Advocate and submitted to the House and Senate Appropriations Committees by no later than March 1, 2006.

## House Committee Report 109-153<sup>228</sup>

*Taxpayer service* – The Committee is concerned that, with the increasing focus on enforcement, the IRS might exacerbate problems with compliance as a result of a lack of resources for taxpayer service. It is clear to the Committee that IRS has rushed to meet an arbitrary figure specified for cuts to service programs, so much so that clearly IRS has not had time to evaluate the impact its proposals would have on taxpayers, nor has it consulted with stakeholders. The Committee does not question the notion that some taxpayer assistance centers (TACs) should be closed or realigned with other IRS assets to achieve savings. However, the methodology used to develop the list of TACs to be closed leaves a great deal to be desired. Specifically, the Committee is disturbed that the National Taxpayer Advocate (NTA), the Treasury Inspector General for Tax Administration (TIGTA), the IRS Oversight Board, and other important stakeholder groups were not consulted during the development phase of the model that was used to identify which TACs should be closed. The Committee has included an administrative provision prohibiting the use of funds to close TACs for fiscal year 2006 until TIGTA has completed a thorough, scientific review of the impact this initiative would have on individual taxpayers. The Committee has included additional bill language that requires IRS to consult with NTA, TIGTA, the IRS Oversight Board, and other appropriate parties to receive feedback regarding data points that are incorporated in the model that determines which TACs should be closed and the weighting of those factors in the process.

<sup>228</sup> House Report 109-153, *Departments of Transportation, Treasury, and Housing and Urban Development, The Judiciary, District of Columbia, and Independent Agencies Appropriations Bill, 2006: Internal Revenue Service, Processing, Assistance and Management, Committee Recommendation*, [http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1\(hr153\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp109:FLD010:@1(hr153)).



## Taxpayer Services – Evolutionary Process: Key Milestones

**1965** – Internal Revenue Service (IRS) instituted its first toll-free telephone site. The IRS established a toll-free telephone service with customer service representatives (CSRs) ready to help taxpayers with their tax related questions. Since 1965, the IRS has offered this free telephone assistance to millions of taxpayers.<sup>229</sup>

**1969** – The Volunteer Income Tax Assistance (VITA) Program began.<sup>230</sup>

**1976** – The IRS was the first federal agency to establish a Telecommunications Device for the Deaf/Teletypewriter (TTY/TDD) operation.<sup>231</sup>

**1978** – Tax Counseling for the Elderly (TCE) began.<sup>232</sup>

**1986** – President Reagan signed the Tax Reform Act, the most significant piece of tax legislation in 30 years. It contained 300 provisions and took 3 years to implement. The Act codified the federal tax laws for the third time since the Revenue Act of 1918.<sup>233</sup>

Electronic Filing began in 1986 with the transmission of 25,000 refund-only individual income tax returns from 5 transmitters in 3 locations, Cincinnati, OH, Raleigh-Durham, NC, and Phoenix, AZ. These returns were transmitted to the Cincinnati Service Center via a modem and were processed using the existing ZILOG system.<sup>234</sup>

**1987** – The IRS began accepting certain business returns (Forms 1041, 1065, and 5500C/R) electronically. Technology upgrades and improvements increased capacity, enabled tax return receipt, and improved accessibility.<sup>235</sup>

**1988** – Sixteen districts were added to the list of electronic filing areas.<sup>236</sup>

**1989** – With more districts added to the IRS E-file program, a total of 48 out of 66 districts were participating.<sup>237</sup>

**1990** – Balance due returns were accepted for electronic processing.<sup>238</sup>

**1991** – The Federal/State electronic filing program began with the South Carolina State Tax Commission.<sup>239</sup>

<sup>229</sup> Internal Revenue Service, *Historical Highlights of the IRS*, <http://www.irs.gov/irs/article/0,,id=101101,00.html>.

<sup>230</sup> Internal Revenue Service, *VITA Celebrates Its Thirtieth Year of Service*, [http://win.web.irs.gov/specdocs/VITA\\_Turns\\_Thirty\\_Article.doc](http://win.web.irs.gov/specdocs/VITA_Turns_Thirty_Article.doc).

<sup>231</sup> Indianapolis Accounts Management TTY/TDD, Facsimile, January 27, 2006.

<sup>232</sup> Internal Revenue Service, *Overview of Tax Counseling for the Elderly (TCE) Program*, [http://win.web.irs.gov/specdocs/spec\\_TCE\\_Overview.doc](http://win.web.irs.gov/specdocs/spec_TCE_Overview.doc)

<sup>233</sup> Internal Revenue Service, *Historical Highlights of the IRS*, <http://www.irs.gov/irs/article/0,,id=101101,00.html>.

<sup>234</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>235</sup> *Ibid.*

<sup>236</sup> *Ibid.*

<sup>237</sup> *Ibid.*

<sup>238</sup> *Ibid.*

<sup>239</sup> *Ibid.*

**1992** – Filing from home began with the 1040 TeleFile research test which processed 125,983 TeleFile returns from the state of Ohio.<sup>240</sup> Taxpayers who owed money were allowed to file returns electronically.<sup>241</sup>

**1994** – Over 14 million individual and 1.7 million business returns were filed electronically from over 39,000 transmitters—15.7 million electronic returns in all.<sup>242</sup>

**1996** – The Electronic Federal Tax Payment System (EFTPS) was implemented, which allowed individual and certain business taxpayers to pay their federal taxes electronically.<sup>243</sup>

The IRS expanded its information services beyond the traditional telephone and walk-in assistance to include a Web site, TeleFax—offering forms and instructions by return fax, and a CD-ROM disk with forms and publications.<sup>244</sup>

The IRS Web Site was launched in 1996.<sup>245</sup> By 1999, it had already reached an annual threshold of one billion hits.<sup>246</sup> This was a powerful message that the Web was going to be an essential element of any e-strategy. The concepts for the first suite of e-services began to come together at that time.

**1996** – Electronic launch of Electronic Tax Law Assistance (ETLA) was established.<sup>247</sup>

**1997** – 941TeleFile for Employment Taxes became operational for eligible employers.<sup>248</sup> Additionally, the first Problem Solving Days were held.<sup>249</sup>

**1997** – After a year of intensive investigation into the issues facing the IRS, The National Commission on Restructuring the IRS issues a final report describing a vision of a new, customer-focused IRS for the next century. This vision embraced an efficient, service-oriented institution dedicated to collecting the proper amount of tax through the use of taxpayer education, modern customer service practices, and effective law enforcement techniques.<sup>250</sup>

**1998** – Congress passed the IRS Restructuring and Reform Act of 1998 (RRA 98) that expanded taxpayer rights and mandated the modernization and reorganization of the IRS into four operating divisions.<sup>251</sup>

**1998 - 2001** – The IRS enacted reforms that ended its geographic-based structure and instituted four major operating divisions: Wage and Investment (W&I), Small Business/Self-Employed (SB/SE), Large and Mid-Size Business (LMSB), and Tax Exempt and Government Entities (TE/GE).<sup>252</sup> The IRS established the Stakeholder Partnerships, Education and Communication (SPEC) organization within W&I and Taxpayer

<sup>240</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>241</sup> Internal Revenue Service, *Historical Highlights of the IRS*, <http://www.irs.gov/irs/article/0,,id=101101,00.html>.

<sup>242</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>243</sup> *Ibid.*

<sup>244</sup> Internal Revenue Service, *IRS Customer Service Improvements*, IRS Fact Sheet #FS-97-16, September 1, 1997, <http://www.unclefed.com/Tax-News/1997/Nrfs97-16.html>.

<sup>245</sup> *Ibid.*

<sup>246</sup> News Release IR-2000-16, *E-Filing, Web Site Usage Running At Record Pace*, March 17, 2000, <http://www.unclefed.com/Tax-News/2000/nr00-16.html>.

<sup>247</sup> Internal Revenue Service, *Analysis of Communication Channel Migration in Private Industry Report*, September 2004.

<sup>248</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>249</sup> News Release IR-97-47, *Taxpayers Give IRS Problem-Solving Day High Marks*, December 10, 1997, <http://www.unclefed.com/Tax-News/1997/Nr97-47.html>.

<sup>250</sup> National Commission on Restructuring the Internal Revenue Service, *Why was the Commission created?*, <http://www.house.gov/natcommirs/create.htm>.

<sup>251</sup> Internal Revenue Service, *Historical Highlights of the IRS*, <http://www.irs.gov/irs/article/0,,id=101101,00.html>.

<sup>252</sup> *Ibid.*

Education and Communication (TEC) organization within SB/SE.<sup>253</sup> These two organizations were created to focus on outreach and education by leveraging community groups and partners.

**1999** – In 1999, the Joint Operation Center (JOC) implemented national call routing.<sup>254</sup> The technology allowed the IRS to direct calls to any of the call sites nationwide regardless of the caller's or CSR's geographic location.

Telephone coverage was expanded to include the latest time zone for areas where states were grouped and previously only had 8:00 a.m.–4:30 p.m. service. 24-hour service was available in 2001. 7:00 a.m.–10:00 p.m. and 10:00 a.m.–3:00 p.m. on Saturdays was available in 2002. 7:00 a.m.–10:00 p.m. and 10:00 a.m.–3:00 p.m. on Saturdays during filing season was available 2003-2004. 15 hours/5 days a week with Saturday service was available 2005/2006.

**1999** – The electronic payment program was expanded and an electronic funds withdrawal (direct debit) payment option was included in tax software, which allowed individual taxpayers to electronically file balance due returns and pay at the same time. The credit card payment option was also introduced, which allowed individual taxpayers to either e-file balance due returns and pay by credit card at the same time or pay separately by phone or Internet.<sup>255</sup>

**2001** – The IRS introduced a new TeleFile feature that allowed taxpayers to request an automatic extension of time to file their individual tax return until August 15. In 2002, 636,215 taxpayers filed extensions over the telephone.<sup>256</sup>

**2001** – IRS was awarded Vice President Gore's National Partnership for Reinventing Government, Hammer Award for IRS Modernization.<sup>257</sup>

**2002** – Fed/State TeleFile - 296,692 taxpayers filed their state and federal tax returns with a single phone call. In 2003, eligible taxpayers in seven states could use the Fed/State TeleFile system.<sup>258</sup> All Practitioner Priority Service (PPS) was centralized into five call centers to improve access and quality.<sup>259</sup>

**2005** – Over 70 million individual taxpayers—51 percent—filed their returns electronically.<sup>260</sup>

<sup>253</sup> Internal Revenue Service, *SPEC Concept of Operations*, [http://win.web.irs.gov/specdocs/spec\\_conops.pdf](http://win.web.irs.gov/specdocs/spec_conops.pdf), page 2.

<sup>254</sup> Internal Revenue Service, Media Relations Office, *IRS News Release, IR-99-54, Watson to Head IRS Customer Service Field Operations*, June 9, 1999, <http://www.unclefed.com/Tax-News/1999/nr99-54.html>.

<sup>255</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>256</sup> *Ibid.*

<sup>257</sup> Morley Winograd Remarks at NPR Hammer Award Alumni Event, U.S. Mint Building, Washington, DC, January 11, 2001, <http://govinfo.library.unt.edu/npr/library/speeches/hammeralumnievent.html>.

<sup>258</sup> Internal Revenue Service, *History of e-File*, <http://www.irs.gov/efile/article/0,,id=120353,00.html>.

<sup>259</sup> Internal Revenue Service, *Practitioner Priority Service Fact Sheet*, <http://serp.enterprise.irs.gov/databases/who-where.dr/pps.dr/pps-facts.htm>.

<sup>260</sup> See Appendix – Service Offering and Delivery Channels.



## TAB Phase 1 Research Overview

A key goal in developing the TAB Phase 1 Report was to utilize a wide range of data sources and a comprehensive set of stakeholder inputs (See **Figure A-2**).<sup>261</sup> Sources included internal and external organizations through existing studies, focus groups, surveys, interviews, and literature reviews. Information was gathered regarding current and future customer expectations and behaviors, current business performance, leading practices, and insights on the impact of customer service on business results.

**Figure A-2. TAB Phase 1 Research Overview**<sup>262</sup>

Type of Research	Description
Primary Research	<p>In consultation with key subject matter experts, the TAB Team conducted research through two primary sources:</p> <ul style="list-style-type: none"> <li>• <b>Focus Groups and Interviews</b> – 33 employee focus groups were conducted with a total of 241 employees that captured the voice of the employee on customer expectations and potential improvement opportunities. Interviews were conducted with IRS partners, including the American Association of Retired Persons (AARP); the National Community Tax Coalition (NCTC); and Electronic Tax Administration (ETA) National Accounts member, H&amp;R Block. Additionally, two Taxpayer Advocacy Panel (TAP) Town Hall meetings were conducted.</li> <li>• <b>Surveys</b> – The TAB Team collected data on customer needs via text mining analysis of the TAB Customer Needs Survey and Russell Marketing Research. The TAB Team received 1,992 employee responses of 13,884 IRS employees surveyed for a 14 percent response rate. 161 survey responses were received from a Partner Survey distributed to 8 primary IRS partners and intermediaries. Examples of surveys include: <ul style="list-style-type: none"> <li>– ETA</li> <li>– GfK NOP (Roper)</li> <li>– Information Reporting Program Advisory Committee (IRPAC)</li> <li>– Internal Revenue Service Advisory Council (IRSAC)</li> <li>– IRS Oversight Board</li> <li>– Sampling of SPEC partners</li> <li>– Pacific Consulting Group (PCG)</li> <li>– Partners groups (AARP, NCTC, Annie E. Casey Foundation, United Way)</li> <li>– National Public Liaison (NPL) Stakeholder Liaison</li> <li>– National Taxpayer Advocate (NTA)</li> <li>– Oversight Board Service Channels Survey</li> <li>– TAP</li> <li>– Electronic Tax Administration Advisory Council (ETAAC)</li> <li>– SB/SE Partners (National Association for the Self-Employed, U.S. Chamber of Commerce, Small Business Legislative Council, and National Federation of Independent Businesses)</li> <li>– W&amp;I Research</li> </ul> </li> </ul>

<sup>261</sup> See Appendix – Congressional Language. The Appropriation Committee’s language laid the foundation and scope of the Blueprint.

<sup>262</sup> See Appendix – Stakeholder Engagement.

**Figure A-2. TAB Phase 1 Research Overview (Cont'd.)<sup>263</sup>**

Type of Research	Description
<b>Secondary Research</b>	<p>Information regarding current and future customer expectations and behaviors, current business performance, leading practices, and customer segments from internal and external organizations was gathered through existing studies, reports, and literature reviews, such as:</p> <ul style="list-style-type: none"> <li>• General Services Administration (GSA)</li> <li>• Government Accountability Office (GAO)</li> <li>• TIGTA</li> <li>• Pew Research Center</li> <li>• Brookings Institute</li> <li>• IRS's Office of Program Evaluation and Risk Analysis (OPERA)</li> <li>• Accenture</li> </ul>
<b>Leading Practices Research</b>	<p>Targeted research was conducted with government agencies and private sector organizations to:</p> <ul style="list-style-type: none"> <li>• Understand how organizations identify customers' needs and preferences for the types of services provided</li> <li>• Understand how organizations identify customers' needs and preferences for service delivery channels</li> <li>• Understand how organizations identify customers' needs and preferences for service levels</li> <li>• Ascertain how organizations determine and quantify the impact of customer service on business results</li> </ul>

In Phase 2 of the TAB initiative, which continues through 2006, the five-year plan for taxpayer services will be developed and will include operational improvement recommendations. During Phase 2, the IRS will conduct additional primary research and analysis to validate and refine taxpayer expectations, specifically focusing on the choices taxpayers are willing to make in terms of service trade-offs. This will provide a true voice of the taxpayer (VOT) by which the IRS will gain an even better understanding of customer expectations. In addition, the IRS will develop long-term metrics to measure and monitor the effectiveness of taxpayer assistance. The process used to collect and analyze taxpayer needs and preferences, as well as their expectations, will be integrated into the annual strategic planning process so that ongoing business decisions will consider the VOT.

<sup>263</sup> See Appendix – Stakeholder Engagement.

## Stakeholder Engagement

## Overview

Working closely with the Internal Revenue Service (IRS) Oversight Board and the NTA, the IRS sought the valuable insights of frontline employees who interface with taxpayers. As a result, the TAB Team implemented a robust stakeholder engagement strategy that included heavy engagement of employees and advisory stakeholders when developing the TAB Phase 1 Report. The TAB Engagement Strategy captured the VOT through employees and various key stakeholders. Through this approach, the TAB Team disseminated TAB messages; facilitated effective stakeholder communication; gathered stakeholder insights that informed customer expectations, preferences, and improvement opportunities; and gained approval of the integrity of the TAB initiative process.

The TAB was developed in consultation with the IRS Oversight Board and the NTA

Oversight Board members served in advisory roles on the Executive Steering Committee

A Taxpayer Advocate Service (TAS) representative was a full-time member of the initiative

## Engagement Strategies

Four stakeholder segments were identified in a Stakeholder Engagement Plan. In the plan, specific activities and outcomes were identified for the four stakeholder segments outlined in Figure A-3.

**Figure A-3. TAB Key Stakeholders**

Stakeholders	Activities	Desired Outcomes
<b>Customers</b>	<ul style="list-style-type: none"> <li>Collect input via customer satisfaction data</li> <li>Attend TAP Town Hall meetings</li> <li>Participate in TAP Town Hall focus groups</li> </ul>	<ul style="list-style-type: none"> <li>Obtain VOT on customer needs, preferences, and service improvement opportunities</li> <li>Gain insights from prior research to assess knowledge gaps and inform primary research efforts</li> </ul>
<b>Partners</b>	<ul style="list-style-type: none"> <li>Brief partners</li> <li>Provide tool kits</li> <li>Conduct partner surveys</li> <li>Establish intranet Web site</li> <li>Establish internal e-mail address</li> </ul>	<ul style="list-style-type: none"> <li>Obtain feedback on customer expectations</li> <li>Obtain VOT through existing data</li> <li>Obtain acceptance of the integrity of the TAB process</li> <li>Disseminate messages to customers</li> </ul>
<b>Internal Parties (e.g., IRS Employees)</b>	<ul style="list-style-type: none"> <li>Brief internal parties</li> <li>Conduct focus groups with employees and executives</li> <li>Conduct employee surveys</li> <li>Establish intranet Web site</li> <li>Establish external e-mail address</li> </ul>	<ul style="list-style-type: none"> <li>Obtain employee input on customer expectations and service improvement opportunities</li> <li>Engage employees through timely, two-way communication</li> <li>Obtain acceptance of the integrity of the TAB development process</li> </ul>
<b>Oversight Bodies (e.g., IRS Oversight Board)</b>	<ul style="list-style-type: none"> <li>Brief oversight bodies</li> <li>Provide communication tool kits</li> <li>Conduct TAB initiative and report reviews</li> <li>Engage congressional staffers through Legislative Affairs liaison</li> </ul>	<ul style="list-style-type: none"> <li>Gain insights regarding any changes in intent, upcoming reports</li> <li>Obtain direction and clarification</li> <li>Obtain acceptance of the integrity of the TAB development process</li> <li>Gain acceptance of TAB findings</li> </ul>

The TAB team gathered stakeholder feedback and shared information through a comprehensive series of engagement events including discussions, briefings, interviews, surveys, and focus groups (See **Figure A-4.**)

**Figure A-4. Stakeholder Engagement Events**

Stakeholder	Objective	Date
<b>Customers</b>		
TAP/TAB Planning Session	Discussion	10/27/05
TAP - Area 4 - Remaining Members	Briefing, Data Gathering	11/22/05
TAP Town Hall Area 2	Briefing, Data Gathering	12/7/05
TAP Committee Meeting	Briefing	1/11/06
TAP Taxpayer Assistance Center (TAC) Subcommittee	Briefing, Data Gathering	1/12/06
TAP Town Hall Area 7	Briefing, Data Gathering	2/1/06
TAP Town Hall Area 5	Briefing, Data Gathering	3/8/06
TAP Town Hall Area 3	Briefing, Data Gathering	3/23/06
TAP Town Hall Area 6	Briefing, Data Gathering	4/26/06
<b>Partners and Intermediaries</b>		
AARP Regional Meeting in Atlanta	Briefing, Data Gathering	10/18/05
NCTC (Steering Committee members)	Data Gathering	11/15/05
NPL Stakeholder Advisory Committee	Briefing	11/16/05
IRSAC Working Session & Public Meeting	Briefing	11/16/05
Product and Partnership Development (P&PD) National Partner (SPEC Employees)	Briefing	11/21/05
AARP National	Briefing, Data Gathering	11/30/05
Low Income Taxpayer Clinic (LITC) National Meeting Plenary Session	Briefing, Data Gathering	12/7/05
IRSAC Working Session & Public Meeting	Briefing	1/25/06
<b>Internal Parties</b>		
Modernization Vision & Strategy Task Force	Briefing	10/18/05
IRS Commissioner	Briefing	10/31/05
Communications Liaison Disclosure (CLD) – Beth Tucker	Briefing	11/8/05
National Treasury Employees Union (NTEU)	Briefing	11/8/05
IRS.gov Meeting	Briefing	11/9/05
Governmental Liaison & Disclosure (GLD) Area Members	Briefing	11/10/05
W&I Leadership (Rich Morgante, Pam Watson)	Briefing	11/14/05
Treasury Inspector General for Tax Administration (TIGTA)	Briefing	11/15/05
Media & Pubs – Directors	Briefing	11/16/05
IRS Oversight Board	Briefing	11/16/05
IRS Commissioner & Deputy Commissioners	Briefing	11/17/05
Field Assistance (FA) – Area Directors	Briefing	11/21/05
Accounts Management (AM) Executives	Briefing and Data Gathering	11/22/05

**Figure A-4. Stakeholder Engagement Events (Cont'd.)**

Stakeholder	Objective	Date
<b>Internal Parties (Cont'd.)</b>		
SPEC – Area Directors	Briefing	11/29/05
Employee Focus Groups – Dial In (Field Assistance [FA] – Territory Managers)	Data Gathering	11/30/05
Employee Focus Groups – Baltimore (AM, NTA Phones)	Data Gathering	12/6/05
Employee Focus Groups – Dallas (AM – Business Unit [BU] Employees, Managers)	Data Gathering	12/6/05
Employee Focus Groups – Dial In (FA – Area Directors)	Data Gathering	12/6/05
IRS Commissioner/OPERA	Briefing	12/6/05
Employee Focus Groups – Dallas (SPEC, TAS, AM – BU Employees)	Data Gathering	12/7/05
Employee Focus Groups – Dial In (FA – Area 2)	Data Gathering	12/7/05
Employee Focus Groups – Dial In (FA – Area 5)	Data Gathering	12/7/05
Employee Focus Groups – Dial In (FA – Group Managers)	Data Gathering	12/7/05
Employee Focus Groups – Philadelphia Employees	Data Gathering	12/8/05
Employee Focus Groups – Baltimore (SPEC, LTA)	Data Gathering	12/9/05
NTA (Topic: including SB/SE (sub S) in scope)	Discussion	12/9/05
TAS Executives – Interviews (Cheryl Gramalia, Chris Wagner)	Data Gathering	12/12/05
Employee Focus Groups – Dial In (FA – Area 4)	Data Gathering	12/13/05
Employee Focus Groups – Dial In (FA – Area 1)	Data Gathering	12/14/05
Employee Focus Groups – Dial In (FA – Area 3)	Data Gathering	12/13/05
Employee Focus Groups – Jacksonville	Data Gathering	12/14/05
TAB Executive Steering Committee (ESC)	Briefing	12/15/05
Employee Focus Groups – Cincinnati	Data Gathering	12/16/05
Employee Focus Groups – Philadelphia Centralized Quality Review System (CQRS)	Data Gathering	12/20/05
GAO	Briefing	1/10/06
TAB ESC	Briefing	1/20/06
IRS Oversight Board Public Meeting	Briefing	2/8/06
TAB Review Summit	Discussion	2/13-14/06
TAB ESC	Discussion	3/6/06



## Service Channel Volumes

**Figure A-5** and **Figure A-6** highlight the tax return and volume data for each channel for fiscal year (FY) 2003 through FY 2005. This information shows how the volumes for each channel have changed within the past three years. It is important to note that volumes may not be available for every channel because some channels do not provide certain services. *Note: Where possible, numbers reflect service volumes for individual taxpayers only, and do not include volumes related specifically to business taxpayers.*

**Figure A-5** shows the service channel volume data collected by the IRS between FY 2003 and FY 2005. The data depicted was used to evaluate the customer usage trends across the different channels and the three years.

**Figure A-5. Service Channel Contact Volume for FY 2003 through FY 2005**

Channels	FY 2003	FY 2004	FY 2005	Source
<b>Telephone Contacts</b>				
<b>Total Toll Free</b> <i>(includes PPS)</i>	35,095,600	35,679,058	33,380,782	Contact Type: <i>Assistor Calls Answered.</i> IRS. CAS Toll-Free Performance – Fiscal Year 2005, October 01, 2004 through September 30, 2005.
▶ Individual Toll Free	30,487,306	31,001,767	26,653,794	Contact Type: <i>Assistor Calls Answered.</i> IRS Enterprise Telephone Database. SQL Query of Calls Answered against all Customer Account Services Individual Master File applications (without regard to product line) for FY 2003, FY 2004, and FY 2005.
▶ Business Toll Free	4,608,294	4,677,291	6,726,988	Contact Type: <i>Assistor Calls Answered.</i> Business Calls Answered: Calculated difference between Total Calls Answered and Individual Calls Answered.
<b>Total PPS</b>	669,073	835,842	917,854	Contact Type: <i>Assistor Calls Answered.</i> IRS. Snapshot Report - Product Line Detail (Enterprise Performance), Week Ending: September 30, 2004, PPS 866-860-4259. FY 2003 data shown on this report.  IRS. Snapshot Report - Product Line Detail (Enterprise Performance), Week Ending: September 30, 2005, PPS 866-860-4259. FY 2004 and 2005 data shown on this report.
▶ Individual PPS	408,679	524,884	565,156	Contact Type: <i>Assistor Calls Answered.</i> IRS Enterprise Telephone Database. SQL Query of Individual Practitioner Priority Calls Answered for FY 2003, FY 2004, and FY 2005.
▶ Business PPS	260,394	310,958	352,698	Contact Type: <i>Assistor Calls Answered.</i> Business Calls Answered: Calculated difference between Total Practitioner Priority Service Calls Answered and Individual Calls Answered for FY 2003, FY 2004, and FY 2005.

Figure A-5. Service Channel Contact Volume for FY 2003 through FY 2005 (Cont'd.)

Channels	FY 2003	FY 2004	FY 2005	Source
<b>Telephone Contacts (Cont'd.)</b>				
<b>Total Automated Self Service Applications (ASSA)</b>	44,836,554	33,771,093	25,717,988	Contact Type: <i>Automated Calls Answered</i> . IRS. Customer Accounts Services (CAS) Toll-Free Performance – Fiscal Year 2005, October 01, 2004 through September 30, 2005 (shows comparative data). Measure: Automated Services Provided (excludes Internet Refund Fact of Filing [IRFOF]). Includes Telephone Routing Interactive System calls, Selected Expanded Access, Informational Messaging, and Tele-Tax.
<b>In Person Contacts</b>				
<b>TACs</b>	8,964,545	7,692,059	7,015,414	Contact Type: <i>Field Assistance Total Contacts</i> . IRS. Commissioner's Monthly Report for January 2006.
<b>Partners/Volunteers, (e.g., VITA, TCE (return preparation))</b>	1,606,739	1,934,661	2,111,344	Contact Type: <i>Returns Prepared</i> VITA/TCE returns prepared by partners, volunteers, IRS employees. IRS W&I SPEC FY 2001 - FY 2005 Full Year Performance Activity for Program Activity Code (PAC) 1C - SPEC.
<b>Electronic Contacts</b>				
<b>ETLA</b>	247,842	110,813	30,780	Contact Type: <i>Messages</i> IRS Mailman Version 6.0.
<b>Kiosks</b>	30,912	73,286	77,802	Contact Type: <i>Contacts</i> . IRS. Kiosk Database.
<b>Public Portal (IRS.gov)</b>	-	-	-	
▶ Individual Landing Page	20,929,000	19,729,474	28,258,610	Contact Type: <i>Page Views</i> IRS. WebTrends Reporting System, FY ending 09/30 of the respective fiscal year.
▶ IRFOF	12,366,159	14,865,966	22,095,575	Contact Type: <i>Completions</i> IRS Joint Operations Center Web page. IRFOF Daily/Cum Counts FY 2003-2005. FY 2003 covered period 01/10/2003 through 09/30/2003. Note: Startup of IRFOF was in January 2003.
▶ Español Landing Page	501,864	533,678	712,795	Contact Type: <i>Page Views</i> IRS. WebTrends Reporting System, FY ending 09/30 of the respective fiscal year.
<b>Registered User Portal</b> (for practitioners and other third party users)	not in service	data not collected	1,453,240	Contact Type: <i>Page Views</i> IRS.gov Monthly Reports for October 2004 through September 2005.
<b>Correspondence</b>				
Paper (mail)	3,226,630	2,780,714	2,934,919	Contact Type: <i>Closures</i> IRS. Accounts Management Information Report (AMIR) – National Summary, FY 2003-2005.

Figure A-6 shows the service category volume data collected by the IRS between FY 2003 and FY 2005.

Figure A-6. Service Category Volume Data for FY 2003 through FY 2005

	FY 2003	FY 2004	FY 2005	Contact Type and Source
<b>Tax Return Figures</b>				
<b>Total Number of Returns Filed</b>	131,385,000	132,014,000	133,759,000	<b>Contact Type: Returns</b> IRS, Wage and Investment Division, Customer Account Services, Month Ending IIRAPHQ Reports, 1040 Series Returns Processed, 12/31/2004 – 12/30/2005. IRS, Wage and Investment Division, Customer Account Services, IIRAPHQ Report, 1040 Series Returns Processed, December 31, 2004.
<b>Total Tax Returns E-Filed</b>	52,944,000	61,507,000	68,476,000	<b>Contact Type: E-Filed Returns (Telefile, Online, Practitioner accepted)</b> IRS, Wage and Investment Division, Customer Account Services, Month Ending IIRAPHQ Reports, 1040 Series Returns Processed, 12/31/2004 – 12/30/2005. IRS, Wage and Investment Division, Customer Account Services, IIRAPHQ Report, 1040 Series Returns Processed, December 31, 2004.
<b>TAC Tax Returns</b>	665,868	476,784	380,385	<b>Contact Type: Returns</b> IRS. Commissioner's Monthly Report for January 2006.
<b>VITA/TCE Returns</b>	1,606,739	1,934,661	2,111,344	<b>Contact Type: Returns Prepared</b> VITA/TCE returns prepared by partners, volunteers, IRS employees. IRS W&I SPEC, FY 2001 - FY 2005 Full Year Performance Activity for PAC 1C - SPEC.
<b>Volumes for Service Offerings and Service Channels</b>				
<b>Tax Forms and Publications</b>				
<b>Telephone</b>	3,501,011	2,791,551	2,249,736	<b>Contact Type: Calls Answered</b> IRS Snapshot Report – Product Line Detail (Enterprise Performance), Week Ending: September 30, 2005, Forms Order Line 800-829-3676.  IRS Snapshot Report – Product Line Detail (Enterprise Performance), Week Ending: September 30, 2004, ADC 800-829-3676. FY 2003 data shown on this report.
<b>Electronic</b>	559,587,185	578,916,703	158,106,909 <sup>264</sup>	<b>Contact Type: Downloads (Internet); Contacts (Kiosks)</b> IRS Internet WebTrends Reporting System. Kiosks – IRS Kiosk Database. FY 2003 Kiosk data not available.
<b>Correspondence</b>	-	-	-	All Correspondence is reported as Account Assistance
<b>In-Person</b>	1,843,886	1,780,573	1,556,794	<b>Contact Type: Field Assistance Forms Contacts</b> IRS. Commissioner's Monthly Report for January 2006.

<sup>264</sup> Beginning October 1, 2004, each Adobe Acrobat PDF file that was downloaded from IRS.gov was counted as only one (1) file download, regardless of the file size. However, it should be noted that prior to October 1, 2004, a file download involved breaking up the file into smaller "pieces" that could be more efficiently displayed to the user, and each "piece" of the file was counted as a separate download. This artificially increased the total number of downloads for PDF files; hence, a revised methodology to count the total number of downloads was implemented on October 1, 2004.

Figure A-6. Service Category Volume Data for FY 2003 through FY 2005 (Cont'd.)

	FY 2003	FY 2004	FY 2005	Contact Type and Source
<b>Volumes for Service Offerings and Service Channels (Cont'd.)</b>				
<b>Tax Law Assistance</b>				
Telephone	5,684,061	7,326,388	7,224,744	Contact Type: <i>Calls Answered</i> IRS. Enterprise Telephone Database. SQL Query of Tax Laws Calls Answered for FY 2003 – FY 2005.
Electronic – ETLA	247,842	110,813	30,780	Contact Type: <i>Messages</i> IRS Mailman Version 6.0.
Electronic – Kiosk		5,889	8,852	Contact Type: <i>Contacts</i> . IRS Kiosk Database. FY 2003 data not available.
Correspondence	-	-	-	All Correspondence is reported as Account Assistance
In-Person	1,719,210	1,433,056	1,165,091	Contact Type: <i>Field Assistance Tax Law Contacts</i> IRS. Commissioner's Monthly Report for January 2006.
<b>Account Assistance</b>				
Telephone	23,770,703	22,538,928	18,242,570	Contact Type: <i>Calls Answered</i> IRS. Enterprise Telephone Database. SQL Query of Account Calls Answered for FY 2003 – FY 2005.
Electronic (IRFOF)	12,366,159	14,865,966	22,095,575	Contact Type: <i>Completions</i> IRS Joint Operations Center Web page. IRFOF Daily/Cum Counts FY 2003-2005. FY 2003 covered period 01/10/2003 through 09/30/2003. Note: Startup of IRFOF was in January 2003.
Correspondence	3,226,630	2,780,714	2,934,919	Contact Type: <i>Closures</i> IRS. Accounts Management Information Report (AMIR) National Summary.
In-Person	3,255,018	2,458,859	2,531,552	Contact Type: <i>Field Assistance Account Contacts</i> IRS. Commissioner's Monthly Report for January 2006.
<b>Return Preparation</b>				
Telephone	-	-	-	Not offered through this channel
Electronic – E-Filing	52,944,000	61,507,000	68,476,000	Contact Type: <i>E-Filed Returns (Telefile, Online, Practitioner accepted)</i> IRS, Wage and Investment Division, Customer Account Services, Month Ending IIRAPHQ Reports, 1040 Series Returns Processed, 12/31/2004 – 12/30/2005. IRS, Wage and Investment Division, Customer Account Services, IIRAPHQ Report, 1040 Series Returns Processed, December 31, 2004.
Correspondence	-	-	-	Not offered through this channel
In-Person	2,272,607	2,411,445	2,491,729	Contact Type: <i>Returns prepared</i> (VITA+TCE+TACs returns) VITA/TCE returns prepared by partners, volunteers, IRS employees at VITA/TCE sites. IRS. Commissioner's Monthly Report for January 2006. IRS W&I SPEC, FY 2001 - FY 2005 Full Year Performance Activity for PAC 1C - SPEC.

## Customer Segments

### Overview

This section provides an overview of the research and data used to develop taxpayer segmentation that enabled a better understanding of taxpayers' filing and tax behaviors and their expectations for taxpayer service. During Phase 1, the team used primary research from organizations that represent taxpayers. The team used secondary research to determine the expectations of taxpayers when interacting with the IRS. During Phase 2, the team will use additional primary research to further validate and refine the IRS's understanding of taxpayers' needs, preferences, and expectations for taxpayer service.

Approximately 281 million individuals live in the United States and 63 percent are currently federal income filers that the IRS actively works to support.<sup>265</sup> The taxpaying population filed more than 133 million individual tax returns in 2005,<sup>266</sup> and that number is expected to increase to 143 million in 2012.<sup>267</sup>

Analysis indicates the taxpaying population is constantly changing. The population is growing, the average age of taxpayers is increasing, the population is becoming more ethnically diverse, and the use of technology is increasing. The IRS has the unique and challenging task of addressing the responsibilities of each taxpayer in this diverse and rapidly changing base.

### Approach

To better understand the expectations of such a diverse taxpayer base, the TAB team segmented the population by two main differentiating factors—income and generation.<sup>268</sup>

Similar to what is used by leading financial organizations,<sup>269</sup> segmenting by income provides important insights into commonalities and differences across income groupings. In addition, generational cohort theory asserts that values, attitudes, aspirations, expectations, and motivations<sup>270</sup> are established when a person comes of age (17-23 years old), are strongly influenced by the prevailing social era, and will be widely shared by others coming of age in the same era.<sup>271</sup> More importantly, these socio-cultural assumptions have been shown to remain relatively stable over a lifetime, even though individual abilities and needs change as a person ages.

<sup>265</sup> United States Department of Commerce, U.S. Census Bureau, *2000 Census*, <http://www.census.gov>. and Internal Revenue Service, Electronic Tax Administration Marketing Database (ETA MDB), *Individual Filer Table for 2003*, 2003.

<sup>266</sup> Internal Revenue Service, SOI, *Tax Stats - Filing Year 2005 (Tax Year 2004) Reports*, Week Ending December 30, 2005.

<sup>267</sup> Internal Revenue Service, Wage and Investment Office of Research, *Taxpayer of the Future*, September 2005, page iv. (Note: Figure includes the 1040 family individual returns both from W&I and SB/SE (Schedule C, E, F or 2106).

<sup>268</sup> Generational cohort is a compound term including both biologically determining information (generation) and socially determined information (cohort). Cohorts are formed when political and historical events occur that significantly change a culture.

<sup>269</sup> Internal Revenue Service, Taxpayer Assistance Blueprint, *TAB Leading Practices Research*, January 2006.

<sup>270</sup> Meredith, Geoffrey E, Charles D.Schewe, PhD with Janice Karlovich, *Defining Markets, Defining Moments; America's 7 Generational Cohorts, Their Shared Experiences, and Why Businesses Should Care*, Hungry Minds Press, 2002, pages 22-25.

<sup>271</sup> Meredith, Geoffrey E, Charles D.Schewe, PhD with Janice Karlovich, *Defining Markets, Defining Moments; America's 7 Generational Cohorts, Their Shared Experiences, and Why Businesses Should Care*, Hungry Minds Press, 2002, pages 27-29.

Initially, the taxpaying population was segmented into four income groups and seven generational segments<sup>272</sup> as illustrated in **Figure A-7**.

**Figure A-7. Initial Taxpayer Segmentation Framework**

Income Segments	General Population Segments
<b>Low Income</b> AGI < \$36K	<b>Generation Z</b> Years 1994 through 2005—Ages 0 to 13
<b>Moderate Income</b> \$36K ≤ AGI < \$62.5K	<b>Generation Y</b> Years 1977 through 1993—Ages 14 to 29
<b>Moderately High Income</b> \$62.5K ≤ AGI < \$100K	<b>Generation X</b> Years 1966 through 1976—Ages 30 to 40
<b>High Income</b> AGI ≥ \$100K	<b>Trailing Edge Baby Boomers</b> Years 1955 through 1965—Ages 41 to 51
	<b>Leading Edge Baby Boomers</b> Years 1946 through 1954—Ages 52 to 60
	<b>Post War</b> Years 1928 through 1945—Ages 61 to 78
	<b>Traditionalists</b> Years 1890 through 1927—Ages 79 to 116

Because of the relative lack of difference between a number of the generational segments, with respect to expectation, need, and preference for service, and to keep the segments a meaningful size from which to draw conclusions, the seven generational segments were reorganized into four segments—Seniors (ages 61-116), Baby Boomers (ages 41-60), Generation X (ages 30-40), and Millennials (ages 0-29). The final segmentation framework resulted in four income groups and four generational segments as illustrated in **Figure A-8**.

**Figure A-8. Final Taxpayer Segmentation Framework**

Income Segments <sup>273</sup>	Generational Segments <sup>274</sup>
<b>Low Income</b> AGI < \$36K	<b>Millennial</b> Coming of age 1995 and beyond: Ages 0 to 29
<b>Moderate Income</b> \$36K ≤ AGI < \$62.5K	<b>Generation X</b> Coming of age 1984 – 1994: Ages 30 to 40
<b>Moderately High Income</b> \$62.5K ≤ AGI < \$100K	<b>Baby Boomers</b> Coming of age 1963 – 1983: Ages 41 to 60
<b>High Income</b> AGI ≥ \$100K	<b>Seniors</b> Coming of age 1908 – 1962: Ages 61 to 116

This income and generational segmentation approach enabled the matching of existing filing characteristics with secondary data on common behaviors seen in income and generational segments, especially around their expectations for service and use and adoptability of technology.

<sup>272</sup> Meredith, Geoffrey E, Charles D.Schewe, PhD with Janice Karlovich, *Defining Markets, Defining Moments; America's 7 Generational Cohorts, Their Shared Experiences, and Why Businesses Should Care*, Hungry Minds Press, 2002, pages 14-15.

<sup>273</sup> For the purpose of this analysis, income is represented as AGI.

<sup>274</sup> Generational cohort theory asserts that values, attitudes, aspirations, expectations, and motivations are established when a person comes of age (17-23 years old), are strongly influenced by the prevailing social era, and will be widely shared by others coming of age in the same era.

The segmentation strategy highlights the similarities and differences in certain filing characteristics across income and generational segments. **Figure A-9** describes the filing characteristics that were considered across each segment.

**Figure A-9. Filing Characteristics Definitions**

Filing Characteristic	Definition
# of Returns (in 1000s)	The total number of returns filed
% Electronic Filed	The percentage of returns filed electronically as opposed to paper filing
% Paid Preparer	The percentage of returns prepared using a paid preparer or practitioner
% Refund Returns	The percentage of returns receiving a refund, as opposed to returns with a balance due or fully satisfied tax obligation (no money owed or refunded)
% Simple Returns <sup>275</sup>	Percentage of returns that are simple (1040EZ), as opposed to intermediate (1040 w/ schedule A or B) and complex (1040 w/ schedules other than A or B)

The segmentation framework for filing characteristic data by income and generational segment is illustrated in **Figure A-10**. This data provided insight into taxpayers' tax and filing behaviors.

**Figure A-10. Tax Year (TY) 2003 Filing Characteristics by Income and Generational Segment**

Generational Segments	Filing Characteristics	Income				Totals
		AGI < \$36K	\$36K ≤ AGI < \$62.5K	\$62.5K ≤ AGI < \$100K	AGI ≥ \$100K	
<b>Seniors</b> <i>Coming of age 1908 – 1962: Ages 61 to 116</i>	# of Returns (Ks)	14,998	5,176	3,617	2,646	26,437
	% Electronic Filed	32%	33%	32%	26%	31%
	% Paid Preparer	69%	70%	69%	76%	70%
	% Refund Returns	83%	69%	69%	62%	76%
	% Simple Returns	36%	22%	11%	2%	26%
<b>Baby Boomers</b> <i>Coming of age 1963 – 1983: Ages 41 to 60</i>	# of Returns (Ks)	19,952	11,681	9,173	6,874	47,680
	% Electronic Filed	48%	47%	47%	38%	46%
	% Paid Preparer	63%	60%	59%	63%	61%
	% Refund Returns	87%	83%	81%	69%	82%
	% Simple Returns	31%	30%	11%	2%	23%
<b>Generation X</b> <i>Coming of age 1984 – 1994: Ages 30 to 40</i>	# of Returns (Ks)	14,753	6,406	3,610	1,704	26,473
	% Electronic Filed	60%	58%	58%	47%	58%
	% Paid Preparer	61%	56%	55%	61%	59%
	% Refund Returns	92%	88%	87%	75%	89%
	% Simple Returns	33%	38%	15%	3%	30%
<b>Millennial</b> <i>Coming of age 1995 – Beyond: Ages 0 to 29</i>	# of Returns (Ks)	24,487	1,629	317	60	26,493
	% Electronic Filed	45%	57%	58%	41%	46%
	% Paid Preparer	49%	53%	55%	70%	49%
	% Refund Returns	92%	87%	82%	68%	91%
	% Simple Returns	63%	49%	23%	7%	62%

<sup>275</sup> Simple returns are defined as 1040EZ, Telefile, 1040A with no schedules, EITC if no form attached, 1040 with no schedules. Intermediate returns are defined as 1040A with Schedule 1, Schedule A/B, Child Care Credit, and EITC with form attached. Complex returns are defined as 1040 with Schedule C, E, F, other schedules, 1040NR, 1040SS, 1040PR.

**Figure A-10. Tax Year (TY) 2003 Filing Characteristics by Income and Generational Segment (Cont'd)**

Generational Segments	Filing Characteristics	Income				Totals
		AGI < \$36K	\$36K≤AGI< \$62.5K	\$62.5K≤AGI<\$100K	AGI≥\$100K	
Totals	# of Returns (Ks)	74,191	24,892	16,716	11,285	127,084
	% Electronic Filed	46%	47%	46%	37%	45%
	% Paid Preparer	59%	61%	60%	66%	60%
	% Refund Returns	89%	82%	80%	68%	81%
	% Simple Returns	43%	32%	12%	2%	33%

Filing data from TY 2003 (calendar year [CY] 2004) was used during the analysis across each income and generational segment, because it was the latest full set of data currently available. For some elements, such as the percentage of returns electronically filed, more current data exists and are reflected as such in the rest of the document. However, for the purpose of this analysis, the available data will provide an accurate reflection of trends and taxpayer behaviors. Moving forward, similar analysis will be performed to better understand the changes in filing behaviors and trends over time. Additionally, several meaningful sub-segments exist within the *AGI < \$36K* income segment, including Earned Income Tax Credit (EITC) eligible taxpayers, taxpayers under the poverty level as defined by the census bureau, and many first time filers. Phase 2 will explore the specific needs and preferences of these sub-segments in greater detail.

Secondary data provided key facts and description of people across generational segment (See **Figure A-11**).

**Figure A-11. Key Facts and Descriptions of Generational Segments**

Generational Segments	General Cohorts	Key Facts in 2000 <sup>276</sup>	Description
Seniors	<b>Traditionalists Ages 79-116</b>  <b>Came of Age 1908-1945</b>	<ul style="list-style-type: none"> <li>7.2% of U.S. population</li> <li>20.1 million individuals</li> <li>Average age: 80 years in 2000</li> <li>Average income: \$24,003</li> <li>7.5% employed</li> <li>73% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>The Traditionalist generation is a combination of three generations born between 1890 and 1927, ranging in age from 79 to 116 in 2006.<sup>277</sup></li> </ul>
	<b>Post War Ages 61-78</b>  <b>Came of Age 1946-1962</b>	<ul style="list-style-type: none"> <li>13.9% of U.S. population</li> <li>39 million individuals</li> <li>Average age: 68 years in 2000</li> <li>Average income: \$34,526</li> <li>42.3% employed</li> <li>73% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>The Post War generation consists of individuals born between 1928 and 1945, ranging in age from 61 to 78 in 2006.</li> <li>Their technology base was telephone and television, but they are increasingly using the Internet.</li> </ul>

<sup>276</sup> Johnson, Tallese, and Jane Dye. "Indicators of Marriage and Fertility in the United States from the American Community Survey: 2000 to 2003," Population Division U.S. Bureau of the Census Washington, DC 20233, May 2005. Except as noted, data in the Key Facts column of Figure A-11 is derived from the Integrated Public Use Microdata Series (IPUMS) Version 3.0; 5% Sample of Census 2000.

<sup>277</sup> Statistics for the Traditionalists are slightly understated by the number of people aged 94-116 in 2000. IPUMS 5 percent sample data only extends to age 93. The Census 2000 reported 50,454 individuals 100 years or older in Census 2000 PHC-T-13. Population and Ranking Tables of the Older Population for the United States.

**Figure A-11. Key Facts and Descriptions of Generational Segments (Cont'd.)**

Generational Segments	General Cohorts	Key Facts in 2000 <sup>278</sup>	Description
Baby Boomers	<b>Leading Edge Baby Boomers</b> Ages 52-60  <b>Came of Age</b> 1963-1972	<ul style="list-style-type: none"> <li>• 11.8% of U.S. population</li> <li>• 33 million individuals</li> <li>• Average age: 55 years in 2000</li> <li>• Average income: \$49,911</li> <li>• 76.2% employed</li> <li>• 76% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>• Leading Edge Baby Boomers were born between 1946 and 1954, ranging in age from 52 to 60 in 2006.</li> <li>• Baby boomers will buy computers and hi-tech products for themselves, their children, and grandchildren.</li> </ul>
	<b>Trailing Edge Baby Boomers</b> Ages 41-51  <b>Came of Age</b> 1973-1983	<ul style="list-style-type: none"> <li>• 17.9% of U.S. population</li> <li>• 50 million individuals</li> <li>• Average age: 45 years in 2000</li> <li>• Average income: \$38,638</li> <li>• 76.8% employed</li> <li>• 77% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>• Trailing Edge Baby Boomers were born between 1955 and 1965 and are between the ages of 41 and 51 in 2006.</li> <li>• The introduction of the personal computer and online services such as CompuServe<sup>279</sup> brought e-mail to home and small business users for the first time, setting a technology frame for this generational cohort different from its predecessors.</li> </ul>
Generation X	<b>Generation X</b> Ages 30-40  <b>Came of Age</b> 1984-1994	<ul style="list-style-type: none"> <li>• 15.3% of U.S. population</li> <li>• 43 million individuals</li> <li>• Average age: 34 years in 2000</li> <li>• Average income: \$28,335</li> <li>• 74.8% employed</li> <li>• 79% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>• Generation X comprises the individuals born between 1966 and 1976, ranging in age from 30 to 40.</li> <li>• Personal computer networks and extensive commercialization of the Internet provided vehicles through which they could act as free agents. Mobile phones became widely available as they came of age.</li> </ul>
Millennials	<b>Generation Y</b> Ages 14 -29  <b>Come of Age</b> 1995-2011	<ul style="list-style-type: none"> <li>• 24.4% of U.S. population</li> <li>• 68.5 million individuals</li> <li>• Average age: 20 years</li> <li>• Average income: \$22,786</li> <li>• 28.4% employed</li> <li>• 76% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>• Generation Y comprises individuals born between 1977 and 1993, ranging in age from 14 to 29 in 2006.</li> <li>• Generation Y comes of age during the dramatic rise of broadband access to the Internet with extensive bandwidth. Their technology frame has shifted to on-demand information of any media type on virtually any type of device.</li> </ul>
	<b>Generation Z</b> Ages 0 -13  <b>Come of Age</b> 2012 and beyond	<ul style="list-style-type: none"> <li>• 9.6% of U.S. population</li> <li>• 27 million individuals</li> <li>• Average age: 8 years in 2000</li> <li>• Average income: NA</li> <li>• 0% employed</li> <li>• 78% live in metropolitan areas</li> </ul>	<ul style="list-style-type: none"> <li>• Generation Z comprises individuals born in 1994 and onward, currently ranging in age from 0 to 13. The ending point of this generation is difficult to predict, because many social factors will influence a change in attitudes that will mark the successor generation.</li> <li>• It is likely that current technology and what emerges over the next decade will shape the Generation Z assumptions of how service is delivered.</li> </ul>

<sup>278</sup> Johnson, Tallese, and Jane Dye. "Indicators of Marriage and Fertility in the United States from the American Community Survey: 2000 to 2003," Population Division U.S. Bureau of the Census Washington, DC 20233, May 2005. Except as noted, data in the Key Facts column of Figure A-11 is derived from the Integrated Public Use Microdata Series (IPUMS) Version 3.0; 5% Sample of Census 2000.

<sup>279</sup> PBS, "Milestones in the Development of the Internet and Its Significance for Education," *PBS Net Timeline* and *Hobbes Internet*.

Two additional population segments were considered that span all generations and income levels—limited English proficiency and disabled taxpayers.

- **Disabled** – Taxpayers that have a vision or hearing impairment; physical limitation; difficulty in learning, remembering or concentrating; self-care limitation; difficulty working; or difficulty going outside of the home to shop or visit a doctor.<sup>280</sup>
- **Limited English Proficiency (LEP)** – Persons identified as speaking English “not well” or “not at all” by the U.S. Census Bureau.<sup>281</sup>

## Disabled<sup>282</sup>

Nearly 20 percent of persons age five and older have a disability. Persons reporting an employment disability totaled 21.3 million and 18.2 million people reported difficulties going outside of the home to shop or visit a doctor.<sup>283</sup>

Persons with disabilities face many challenges. Taxpayers who cannot interact with the IRS normally because of a sensory or physical disability, for example, need various channels to communicate with the IRS such as the Telecommunications Device for the Deaf/Teletypewriter (TDD/TTY) line, Federal Relay Operator, Internet, and telephone options.

“Only one-quarter of people with disabilities own computers, and only one-tenth ever make use of the Internet. Elderly people with disabilities, and those with low incomes or low educational attainment, are even less likely to take advantage of these new technologies.”<sup>284</sup>

### Disability Descriptors

- 19.3% of population (age 5 or older)
- 49.7 million individuals
- Median Income: \$20,500
- Family median income: \$39,515
- 60.1% disabled men employed
- 51.4% disabled women employed
- 78% have 12th grade education
- Average family size: 2
- 49% do not own computer
- 22% use the Internet
- 1.4% do not have access to a telephone
- 22% live in metropolitan areas

<sup>280</sup> United States Department of Commerce, U.S. Census Bureau, *Disability Status: Census 2000 Brief*, March 2003.

<sup>281</sup> United States Department of Commerce, U.S. Census Bureau, Summary File 3, 2000 Census of Population and Housing, Technical Documentation, March 2005, page B-32.

<sup>282</sup> United States Department of Commerce, U.S. Census Bureau, *Disability Status: Census 2000 Brief*, March 2003, United States Department of Commerce, U.S. Census Bureau, *American Fact Finder, PEOPLE: Disability*, July 2005, page 19, and National Organization on Disability, *Education Levels of People with Disabilities*, July 25, 2001. Sources are also references for “Disability Descriptor” information.

<sup>283</sup> *Ibid.*, page 1-2.

<sup>284</sup> Kaye, H. Stephen. “Computer and Internet Use Among People with Disabilities,” *Disability Statistics Report 13, United States Department of Education, National Institute on Disability and Rehabilitation Research*, March 2000, page 1.

## Limited English Proficiency

LEP taxpayers are persons identified as speaking English “not well” or “not at all” by the U.S. Census Bureau (See **Figure A-12**).<sup>285</sup> In 2003, 12.3 million persons age five years or older identified themselves as LEP taxpayers—an increase of 17 percent between 2000 and 2003.<sup>286</sup> The LEP taxpayer population age 15 years or older was 11.4 million. The LEP population, regardless of income level or professional status, also has a heavy reliance on tax practitioners to assist with tax issues and tax return preparation.<sup>287</sup> In order to assist LEP taxpayers, the IRS created the Multilingual Initiative (MLI) Strategy to establish a language assistance program that included providing oral and written language assistance to LEP persons, within resource constraints.<sup>288</sup> The purpose of the order was to improve access to federally conducted and federally assisted programs and activities and to help reduce language barriers.

Less than half of the LEP population is aware of the IRS Spanish language Web site as a source for tax information. Fifty-eight percent of the respondents who were aware of the site indicated they would use it.<sup>289</sup>

*“Hispanics claim to access government agency (non-health) Web sites at least weekly, which is more often than the average on-line household accesses them.”<sup>290</sup>*

Three identified trends, issues, and problems that affect LEP populations include:

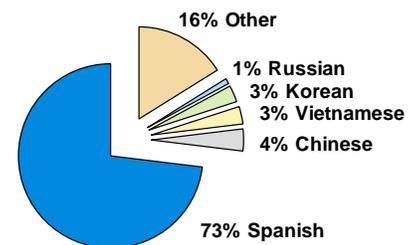
- The increasing LEP populations located in ethnic communities require focused marketing, communications, education and outreach.
- There is an increasing demand for non-English/non-traditional communications, education, and outreach.
- There is limited use of electronic initiatives among LEP taxpayers.<sup>291</sup>

### LEP Descriptors

- 0.7% of taxpaying population
- 12.3 million individuals
- ~ 5% unemployed
- Average age: 37 years
- Average income: \$38,068
- 41% have 12th grade education or higher
- Average family size: 3.9
- 58% do not own computer
- 32% use the Internet
- 8% do not have access to a telephone
- 90% live in metropolitan areas

U.S. Census Bureau. “U.S. Summary 2000 Profile.” July

**Figure A-12. Composition of LEP Population**



<sup>285</sup> United States Department of Commerce, U.S. Census Bureau, *Summary File 3, 2000 Census of Population and Housing, Technical Documentation*, March 2005, page B-32.

<sup>286</sup> Internal Revenue Service, *Multilingual Initiative 2005 Limited English Proficient Needs Assessment*, December 8, 2004-April 30, 2005, slide 8.

<sup>287</sup> Internal Revenue Service, Multilingual Initiative, *Hispanic Language/Ethnic Islands Data and their Implication on Tax Administration*, Hispanic Language/Ethnic Islands Profile, Project 2-04-16-2-043E, Final Report, Wage and Investment Research Group 2, page 16.

<sup>288</sup> Creation of the Multilingual Initiative (MLI) Strategy Office was in response to Executive Order 13166, Improving Access to Services for Persons with Limited English Proficiency.

<sup>289</sup> Internal Revenue Service, *Multilingual Initiative 2005 Limited English Proficient Needs Assessment*, December 8, 2004-April 30, 2005, slides 23, 24.

<sup>290</sup> Internal Revenue Service, Multicultural Marketing, W&I Strategic Forecasting & Analysis, *Marketing to Hispanics – Media Portion*, Media Portion, Project #7-04-16-2-006N, August 2004, page 40.

<sup>291</sup> Internal Revenue Service, *Multilingual Initiative 2005 Limited English Proficient Needs Assessment*, December 8, 2004-April 30, 2005, slide 31.



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