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Status of the 1988 Tax Return Filing Season

Statement of
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Before the
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives



Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its inquiry into the status of the 1988 tax filing season. Our work is in response to requests from your Subcommittee; the Joint Committee on Taxation; and the House Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs.

The 1988 filing season is the first in which IRS and taxpayers must implement many of the changes in the Tax Reform Act of 1986. That Act, the most sweeping tax legislation in three decades, changed 2,000 subsections of the Internal Revenue Code and necessitated changes in over 200 forms and instructions. Thus, IRS was faced with the monumental task of preparing both taxpayers and its own employees in a short period of time.

My testimony makes six points:

- First, under the circumstances, we believe IRS did a good job in trying to prepare its employees and the taxpaying public for the 1988 filing season.

- Second, telephone assistance has been meeting taxpayer demand in terms of quantity. But preliminary results of test calls by IRS and us indicate that IRS assistors need to improve the accuracy of their responses to taxpayer questions.

- Third, our preliminary survey at walk-in offices indicates a high level of satisfaction with IRS service.

- Fourth, some forms and publications have been unavailable to taxpayers at certain walk-in distribution sites. Of the mail and telephone requests for forms and publications, IRS statistics show that about 98 percent have been filled.

- Fifth, members of the tax practitioner community have mixed views on the adequacy of written guidance IRS has issued to help taxpayers and practitioners interpret the Tax Reform Act of 1986. They believe that the lack of some guidance and the complexity of other guidance are causing problems for both taxpayers and IRS.

- Sixth, at this early point in the filing season, returns processing is proceeding smoothly and service center inventories are at levels that IRS considers manageable.

IRS' EFFORTS TO IMPLEMENT
THE TAX REFORM ACT OF 1986
AND PREPARE FOR THE 1988
FILING SEASON

Overall, we believe IRS did a commendable job in trying to do all that had to be done in a short period of time to implement tax reform and in trying to anticipate what might happen during the 1988 filing season. IRS developed a strategy that sought not only to assure timely actions in implementing more than 2,000 section changes to the Internal Revenue Code but also to prepare the public and its own staff for the impact tax reform would have on preparing 1987 returns and processing them in 1988. In so doing, IRS did more than ever before to prepare for the filing season.

In reviewing IRS' efforts, we looked at forms development, taxpayer service, employee training, service center readiness, and written guidance provided taxpayers.

In the area of forms development, IRS tried to minimize the complexity of the 162 revised forms and 48 new forms by releasing most of them for public comment and by pretesting some, such as the 1040 series, using focus groups. Despite IRS' efforts, some forms remain complex. For example, tax practitioners point to the form to compute deductible home mortgage interest, which was

released last summer for public comment and pretested using focus groups. Tax practitioners had mixed views as to whether the form could have been any simpler.

To better inform the public, IRS sent flyers to about 94 million taxpayers describing some tax reform-related changes and offering a new publication which explains in more detail the effects of the 1986 Act. The mail-order demand for that publication reached about 11 million as of February 6, 1988. IRS also conducted nationwide teleconferences with preparers to explain changes and answer questions. Currently, IRS, with the assistance of the Ad Council, is conducting an extensive media campaign urging people to file early.

Also in the area of taxpayer service, IRS made a concerted effort to hire and train staff early and have them prepared for the filing season. IRS hired about 1,000 more telephone assistors than last year and installed about 900 more telephone lines. Classroom training for assistors was provided earlier than ever before and the assistors were kept on board for extensive on-the-job training. In past years, assistors were trained and then furloughed until the filing season began. Although some districts had problems hiring assistors early, most were able to hire the necessary number of staff by the start of the filing season, putting IRS in a more advantageous position, from an on-board staffing perspective, than in past years.

IRS took similar steps to prepare service centers for the 1988 filing season. It hired and trained returns processing staff early with an eye towards being fully prepared to process returns at the start of the filing season. All centers reached their filing season hiring objectives. In addition, IRS performed readiness checks at each center and developed contingency plans to address unexpected filing patterns, unacceptable processing delays, or inventory backlogs. Among other things, contingency plans include steps to shift service center staff to functions where problems develop. We are now monitoring returns processing and, should it become necessary, will see whether the contingency plans work as intended.

In addition to contingency plans and readiness checks, National Office teams visited all 10 service centers during 1987 to brief management on the anticipated impact of tax reform on the filing season, what to expect, and how to deal with it. IRS is projecting an overall net increase of 3.7 million tax returns for the 1988 filing season, a 3.6 percent increase over 1987, and a net increase of 3.2 million errors on filed returns.

In the area of written guidance, IRS used various formats, such as announcements, notices, and revenue rulings, to explain tax law changes and new filing requirements. As of February 11,

1988, some guidance had been issued on 66 of the 76 sections of the Act that IRS identified as high priority.

I will now discuss what has happened during the filing season to date.

TAXPAYER SERVICE AT

CALL SITES

Most taxpayers who seek help from IRS in preparing their returns do so via the telephone. As of February 13, IRS statistics show that the 32 call sites had answered about 7.2 million telephone calls from taxpayers seeking answers to tax law questions. That volume is 9.8 percent more than last year but 10.9 percent less than IRS had anticipated.

Although weekly patterns vary, IRS' statistics indicate that call sites cumulatively have met about 84 percent of the demand for telephone service, which is only slightly below IRS' objective of 85 percent.

To assess the quality of the telephone service and to identify areas where telephone assistors may need help, IRS headquarters personnel have been making calls using 41 test questions since January and will continue to do so through the filing season. According to IRS results on about 5,000 of 20,000 planned calls,

74.8 percent of the calls were answered correctly. That percentage was composed of 61 percent that were answered correctly and completely and another 13 percent that were answered correctly but not completely. The remaining 25 percent were answered incorrectly.

We have just begun our own assessment of IRS' accuracy and accessibility in answering 20 tax law questions. Our preliminary results, based on 224 calls over 6 days, show that we are receiving correct responses to about 61 percent of our calls: 57 percent completely and 4 percent not completely. The remaining 39 percent were answered incorrectly. Seventy-seven percent of the time we were able to reach an assistor on the first try. The rate increased to 93 percent within 5 tries. Because these results are based on only 13 percent of the total calls we intend to make and are unweighted, they are very preliminary and not projectable at this time.

Managers and assistors at five call sites told us that many taxpayer questions are related to tax reform changes, such as those involving home mortgage interest deductions, dependency rules, and individual retirement arrangements. We observed that call site managers are reviewing assistor responses for accuracy and completeness and have mechanisms in place to identify questions or issues giving assistors problems. IRS officials are

providing feedback, guidance and/or additional training to assistors on problem issues.

TAXPAYER SURVEY AT IRS

WALK-IN OFFICES

We recently started an assessment of IRS' walk-in taxpayer service. On 3 days this month, we surveyed 423 taxpayers who visited walk-in offices in Washington, D.C.; Wheaton, Maryland; Detroit, Michigan; Livonia, Michigan; Seattle, Washington; and Portland, Oregon. We plan to survey taxpayers again in March and April.

Our preliminary survey results indicate that taxpayers were generally pleased with the service IRS provided. More specifically

- 84 percent of the respondents were either generally satisfied or very satisfied with the usefulness of the assistance the IRS walk-in office provided,
- 81 percent were generally satisfied or very satisfied with the clarity of the information provided,
- 74 percent were assisted within 15 minutes of arriving at the office,

-- 82 percent were generally satisfied or very satisfied with the amount of time it took to get assistance, and

-- 95 percent were generally satisfied or very satisfied with the courtesy of IRS' assistors.

Less than 7 percent of our respondents indicated dissatisfaction in any of the above aspects of IRS' walk-in service.

Asked whether preparing their tax return this year was easier, harder, or about the same as last year

-- 45 percent of the 423 taxpayers said it was harder or much harder,

-- 32 percent said it was about the same, and

-- 13 percent said it was easier or much easier this year.

About 10 percent of our respondents indicated that they were not sure yet how difficult preparing their returns would be.

DISTRIBUTION OF FORMS AND PUBLICATIONS

In light of IRS' efforts to encourage taxpayers to file early, it is important that necessary forms and publications are readily available. Taxpayers can either obtain those documents in person at walk-in distribution sites or order them by mail or phone.

Using an IRS list of 233 forms and publications, we measured the availability of those documents at six walk-in distribution sites in six districts. Availability varied from site to site. For example, at two sites which receive forms and publications from the same central source, one site did not have 41 forms and publications while the other site was missing 11. Because of space limitations, some walk-in sites may not be able to stock all 233 forms and publications. Some of the out-of-stock documents, however, such as those relating to the submission of information returns, were included on IRS-prepared lists of forms and publications that the walk-in sites should stock. The out-of-stock documents also included publications on issues, such as individual retirement arrangements and business use of the home, that would seem to be of interest to many taxpayers.

According to the director of one of the three national distribution centers that provide forms and publications to the walk-in sites, orders from sites are often placed after the site has exhausted its supply. This creates a temporary shortage in

particular forms or publications. Persons in charge of the walk-in locations, who are responsible for reordering, told us that the unavailability of forms and publications at the walk-in locations creates anxiety and frustration on the part of taxpayers. Such frustration could detract from the effectiveness of IRS' promotional efforts to file early.

Taxpayers can also order forms and publications by mail or phone. Those orders are filled by one of the national distribution centers. IRS statistics indicate that as of February 13, 1988, the centers had filled about 98 percent of the 4.8 million mail and telephone requests for forms and publications. According to IRS officials, the distribution centers normally process those orders within 24 to 48 hours of receipt. As of February 13, there were 51,900 backorders for forms and publications in reprint status, which is down about 40 percent from the previous week.

INTERPRETATIVE GUIDANCE

IRS has made progress in meeting its plan for providing written guidance on the 1986 Act. That plan centered around IRS' identification of 76 sections of the Act that required priority attention. By February 11, after dropping 2 sections from the priority list, IRS had issued partial guidance on 66 sections. However, IRS was behind schedule on 26 sections, having issued no

guidance on 8 of them, and delayed its target completion dates for another 22 priority sections.

Tax practitioners we contacted had mixed views on IRS guidance. Usually they characterized IRS' original implementation plan as realistic. Some felt that issued guidance was generally adequate while others criticized the lack of detail in some regulations. They all expressed concern with the lack of specific guidance on passive activity rules, which was one of the areas that IRS had targeted for early guidance. Practitioners predicted that the lack of early guidance on passive activities as well as the inherent complexity and newness of other issues, such as reporting mortgage interest, filing returns for children, and calculating travel and entertainment expenses, could result in increased errors on returns and taxpayer requests for filing extensions.

RETURNS PROCESSING

AT IRS SERVICE CENTERS

Although it is still early in the filing season, IRS statistics and our work at 4 of 10 IRS service centers indicate that the processing of tax returns is progressing smoothly and that the service centers are maintaining their correspondence and error inventories at levels that IRS considers manageable.

Despite IRS' intensive campaign to encourage taxpayers to file earlier this year, the trend in recent years towards filing later appears to be continuing. As of February 12, 1988, IRS had received about 17.0 million individual tax returns and issued about 1.7 million refunds. These figures are down 9.7 percent and 11.6 percent, respectively, from the same period in 1987. Although IRS had projected that taxpayers might file their tax returns later in 1988 because of the need to adjust to tax law changes, the actual number of returns filed still falls about 5.5 percent below projections. If this pattern continues, the volume of filings around April 15 could be heavier than IRS anticipated and could trigger contingency plans to prevent delays in processing refunds and depositing remittances.

In preparing for the 1988 filing season, IRS made a concerted effort to reduce service center inventories to their lowest level in several years. These include such inventories as correspondence from taxpayers and errors on tax returns that must be corrected before a return can be processed. IRS had projected that taxpayer correspondence and errors might increase substantially in 1988 as taxpayers and IRS personnel reacted to changes in tax forms and filing requirements. As of February 13, IRS service centers reported that these inventories remain at levels that IRS considers manageable.

Although the error inventories reported by service centers as of February 13, 1988, were lower than at the same time last year, IRS officials noted several areas where taxpayers are making frequent errors:

- Taxpayers are not selecting the correct standard deduction for their marital and/or age category.
- Filers of Form 1040EZ returns are not indicating on line 4 whether they can be claimed as a dependent on another person's return.
- Filers of Form 1040 are incorrectly claiming total miscellaneous deductions on Schedule A when they should only be claiming those deductions that exceed 2 percent of their adjusted gross income.

IRS is alerting taxpayers and tax preparers to these problems through press releases and newsletters. It hopes thereby to reduce the number of similar errors from taxpayers who file later. IRS is also identifying processing errors made by service center staff and feeding that information back to them to improve their performance.

CONCLUSION

Overall, IRS did well in its initial efforts to implement tax reform and prepare for the 1988 filing season. Despite its efforts, however, implementing a new law as extensive as the 1986 Act is apt to create some confusion and complexity for IRS and taxpayers. Consequently, individuals in the tax practitioner community are expressing concerns about complexity and uncertainties, IRS assistors are not answering all questions accurately, and taxpayers are likely to make more errors on their returns. Although IRS' and our statistics are very preliminary, they indicate the need for IRS to improve the accuracy of telephone assistor responses to assure that returns are completed accurately and processed timely. Walk-in sites must order forms and publications in a timely manner so they are readily available to taxpayers who want to file early, as IRS is encouraging. As noted in our statement, IRS has established various mechanisms to identify and correct problems, such as assistor responses to taxpayer questions. We will monitor the effectiveness of IRS' actions as we continue to monitor the remainder of the filing season.

This concludes my prepared statement. We will be pleased to respond to any questions.