

# IRS Watch

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*By Kathy Petronchak\**

## Where the IRS Plans to Go: IRS Strategic Plan 2009–2013

**I**RS Commissioner Douglas Shulman has been on the job for over a year now, and it is always informative to see what a Commissioner's focus will be and what impact he hopes to have on tax administration. On April 27, 2009, IRS released the IRS Strategic Plan ("Strategic Plan")<sup>1</sup> for 2009–2013. It is evident from the plan that IRS will continue to focus on service and enforcement as the best means to administer the tax law.

The Strategic Plan sends a clear message that the role of tax practitioners and the use of third-party information reporting continues to resonate. Tax administration is no longer seen as solely the function of the IRS. Instead, the role has been expanded to include practitioners that help taxpayers comply with tax laws.

### **Strategic Plan**

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The Strategic Plan lays out two overarching goals: (i) to improve taxpayer service and facilitate voluntary compliance, and (ii) to enforce the law to ensure taxpayers meet their obligation to pay taxes.

With a voluntary compliance rate in the United States at 86 percent,<sup>2</sup> it could be argued that taxpayers and practitioners have done an outstanding job of complying with some very complex laws. There is still room for improvement, however, when you consider that the annual tax gap from noncompliance is estimated at \$345 billion.

Taxpayers who make best efforts to meet their tax obligations want to be assured that their friends and neighbors are paying their fair share of taxes as well. The most recent IRS Oversight Board Taxpayer Attitude Survey ("Taxpayer Attitude Survey") shows that 89 percent of respondents said it was not acceptable to cheat on your income taxes.<sup>3</sup>



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As taxpayers and practitioners, we welcome improvements to services that will aid in voluntary compliance and reduce the burdens associated with doing so. According to the Taxpayer Attitude Survey, the two most requested services were a toll-free number to answer questions and an informative Web site. The IRS already offers a suite of online services to taxpayers, Circular 230 tax professionals, and reporting agents to ensure 24 x 7 services. It will be interesting to see the enhancements that will be made to these tools.

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7, 2009, the IRS had reported a 28.7 percent increase in the number of visits over the same period in the 2008 filing season. The report also showed a 57.9-percent increase in the number of taxpayers who logged onto the “Where’s My Refund?” site.<sup>5</sup> The Strategic Plan states that the IRS continues to search for ways to increase its self-service options and to encourage taxpayers to take an active role in exploring solutions, such as online payment agreements, pre-filing agreements and private letter rulings.

## **Improve Taxpayer Service and Facilitate Voluntary Compliance**

The IRS’s taxpayer service goal includes four objectives:

- Incorporating taxpayer perspectives to improve all service interactions
- Expediting and improving issue resolution across all interactions with taxpayers
- Providing taxpayers with targeted, timely guidance and outreach
- Strengthening partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration

### **Incorporating Taxpayer Perspectives**

The Strategic Plan indicates that there continues to be a focus on resolving taxpayer issues in a timely and accurate manner. The Taxpayer Attitude Survey points to the Web site and toll-free numbers as preferred delivery methods for taxpayer service, so this article will focus on results in these areas.

In an early report this filing season, the Treasury Inspector General for Tax Administration (TIGTA) acknowledged the increased demands placed on the IRS in regard to the First-Time Homebuyer Credit, the Recovery Rebate Credit and requests for adjusted gross income amounts needed for e-filing purposes. TIGTA also reported that, while the IRS processed the returns and refunds in a timely manner, some of the service indicators (as of March 7, 2009) were lagging those of the last filing season. With an increased assistor call volume (108-percent increase over last year’s volume), the report states that through March 7, 2009, the IRS’s level of service was 58 percent, as compared to 79.5 percent in the last filing season.<sup>4</sup>

*IRS.gov* continues to be a popular Web site, and the TIGTA report indicated that as of the week ending March

### **Improve Issue Resolution**

The IRS issues millions of notices and letters each year and continues with efforts to improve the content and delivery of these communications. The IRS Oversight Board reported in its 2008 Annual Report to Congress<sup>6</sup> that there are approximately nine million enforcement contacts by the IRS each year. The largest increase is in the underreporter contacts that occur each year. With increased focus on information reporting and further enhancements to technology, the volume of notices is expected to continue to increase. Taxpayer understanding of these notices will certainly enhance taxpayer satisfaction and ease the burden associated with the notices.

### **Strengthening Partnerships**

The Strategic Plan states that third parties, including tax preparers and software companies, account for 87 percent of taxpayers’ first interaction with IRS. This affirms that tax professionals are a critical part of tax administration. To increase the quality of the services provided to tax preparers, the IRS plans to create dedicated issue resolution teams, establish centralized points of contact for practitioners and expand the e-service options.

The IRS conducts a number of liaison and education activities with practitioners to learn about developments in tax preparation and to understand taxpayer concerns. In its most recent report to Congress, the IRS Oversight Board stated that “the IRS should also expand its partnerships with professional tax preparers so that they become the first line of defense in reducing non-compliance ... . The IRS should not and can not be the sole organization promoting tax compliance. Tax professionals must do their part to ensure the integrity of the tax system.”<sup>7</sup> Whether it is educating taxpayers or ensuring compliance, the IRS definitely sees a role for third parties.

## Enforce the Tax Law to Ensure Taxpayers Meet Their Obligation to Pay Taxes

On the enforcement side, the IRS goal focuses on six objectives:

- Meeting the challenges of international tax administration
- Continuing the focused oversight of the tax-exempt sector
- Expanding enforcement approaches and tools
- Allocating compliance resources using a data-driven approach to target existing and emerging high-risk areas
- Ensuring that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law
- Proactively enforcing the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden

### International Tax Administration

The IRS is focused on hiring and developing employees to work in the area of international enforcement, with a particular focus on the area of transfer pricing. In a recent speech, an IRS executive from the Large and Mid-size Business (LMSB) Division indicated that the IRS is currently in the process of training all their revenue agents on international issues.

There is also an increased effort by the IRS to work with other countries to coordinate and cooperate on enforcement issues. The Strategic Plan states that the IRS intends to “increase the effectiveness of tax treaties with partner nations and international organizations and participate in cooperative efforts to identify tax issues.”<sup>8</sup> In recent speeches, government executives have advised of plans to increase the exchange of information through sources such as the Joint International Tax Shelter Information Centre (JITSIC) or the Organization for Economic Cooperation and Development (OECD). Through these types of alliances, the IRS is a part of the working groups that exchange information on tax avoidance and explore ways to detect international noncompliance, address mutual compliance challenges and address a specific concern they have identified, such as offshore banking or brokerage.

The IRS will continue to target issues that are worthy of the resources available. And, for the international tax administration objective, the Strategic Plan states they will “explore innovative enforcement strategies that keep pace with the realities of a globalized tax environment, including convening issue management teams and con-

ducting strong, issue-based risk assessments to target the areas of most significant risk.” The issue-based strategy has been tested in the LMSB Division, and it appears from the Strategic Plan that there are plans to expand this examination strategy to other international issues.

### Enforcement Approaches and Tools

IRS officials often state that the IRS cannot audit its way to full compliance. In light of this, the Strategic Plan includes a desire to continue with a multi-pronged approach to ensure compliance. Although the IRS plans to continue many of its current enforcement initiatives, it will also use alternative approaches, such as additional information reporting and soft notices. The IRS has already begun the use of soft notices, the goal of which is to allow taxpayers an opportunity to self-correct their returns without having to go through an audit or having to correspond extensively with the IRS. This process is less burdensome on taxpayers while allowing the IRS to “touch” more taxpayers and to seek voluntary compliance.

### Enforce the Law in a Timely Manner

A need to initiate compliance contacts more efficiently, and to complete the audits and collect taxes, was noted. One of the challenges the IRS faces is the proliferation of tax avoidance schemes, as new ones are identified each filing season. The IRS has noted that they “will address tax avoidance schemes through prompt and decisive action, combined with educational activities for taxpayers and practitioners.” The IRS, as evidenced by their actions to address practitioners incorrectly preparing returns for economic stimulus payments last filing season, has some experience with quickly reacting during the filing season and having enforcement personnel make timely contacts.

On information reporting, the IRS notes that it plans to “continue to use the information we already receive and support proposals to increase information reporting . . . . IRS will use new third-party information reported on credit card reimbursements to businesses. The IRS will also use third-party reporting of security sales to inform its compliance programs.” As noted earlier in this article, the IRS issues millions of notices each year with many of them initiated by the underreporter activities. With more complete information reporting, the IRS will be better armed to address noncompliant taxpayers.

### Increased Focus on Adherence to Professional Standards

The reliance on the assistance of tax professionals has increased over the years. Currently, approxi-

**Table 1.**

	FY 2006	FY 2007	FY 2008
Individuals with income over \$200,000	2.57%	2.87%	2.94%
Small Corporate Returns	0.80%	0.92%	0.95%
Large Corporate Returns	18.60%	16.80%	15.26%
Subchapter S Returns	0.38%	0.45%	0.40%
Partnership Returns	0.36%	0.42%	0.42%

mately 60 percent of taxpayers use the services of a tax professional to assist with their compliance obligations. There are over one million tax preparers, of which 400,000 to 500,000 are Circular 230 practitioners. The Strategic Plan states that “the IRS must acknowledge the important role of these third party practitioners in the tax system, and continue to serve them effectively while helping ensure that they meet professional standards and abide by the law . . . . As we focus on providing service to tax preparers, we will also expect cooperation from them.”

In the Treasury report *A Comprehensive Strategy for Reducing the Tax Gap*, released on September 26, 2006, it was stated that “closer coordination is also needed with practitioner organizations, including bar and accounting associations, to maintain and improve mechanisms to ensure that advisors provide appropriate tax advice.”<sup>9</sup> As the practitioner strategy continues to develop and the IRS discusses and releases information on it, tax preparers will better understand the expectations of them.

### Compliance Resource Allocation

The Strategic Plan describes the plans to have an allocation of resources to activities that have the greatest impact on compliance. This will be achieved by the enhancement of case selection processes. To ensure this happens, the IRS will make extensive use of research to inform efforts. The Strategic Plan states that “the IRS will sustain its focus on taxpayer populations where complexity creates opportunities for noncompliance, such as flow through entities, high-income individuals and corporations.” Enforce-

ment statistics over the last few years show coverage rates in these categories shown in Table 1.

### Challenges Ahead

The Strategic Plan also describes the internal and external challenges the IRS will face over the next five years. Some of these are issues that the IRS currently struggles with, as evidenced by their inclusion in the previous Strategic Plan (for 2005–2009). These challenges include the aging workforce, legislative changes that increase the complexity of tax administration, and the accelerating globalization of individual and corporate taxpayers.

With the ideals stated in the current Strategic Plan, the IRS will be challenged to make changes to their systems in utilizing information to risk-assess returns and to select them for examination. The IRS has also stated a desire to provide quicker processing of taxpayer data and transactions. To balance this with taxpayer burden and opportune response times will be critical.

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#### ENDNOTES

- any loss sustained by any person who relies on this publication.
- <sup>1</sup> IRS Strategic Plan, available at [www.irs.gov/pub/irs-pdf/p3744.pdf](http://www.irs.gov/pub/irs-pdf/p3744.pdf).
- <sup>2</sup> [www.treas.gov/press/releases/reports/otptaxgapstrategy%20final.pdf](http://www.treas.gov/press/releases/reports/otptaxgapstrategy%20final.pdf).
- <sup>3</sup> IRS Oversight Board Taxpayer Attitude Survey, available at [www.treas.gov/irsob/reports/2009/IRSOB\\_2008-TAS.pdf](http://www.treas.gov/irsob/reports/2009/IRSOB_2008-TAS.pdf).
- <sup>4</sup> Treasury Inspector General for Tax Administration, Interim Results of the 2009 Filing Season, March 30, 2009, Reference Number 2009-40-058.
- <sup>5</sup> *Id.*
- <sup>6</sup> IRS Oversight Board Annual Report to Congress 2008, March 2009.
- <sup>7</sup> *Id.*
- <sup>8</sup> See note 1, *supra*.
- <sup>9</sup> See note 2, *supra*.

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