

**ANNUAL REPORT OF THE INTERNAL REVENUE
SERVICE NATIONAL TAXPAYER ADVOCATE**

HEARING
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

FEBRUARY 10, 1999

Serial 106-40

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

65-631 CC

WASHINGTON : 2000

For sale by the U.S. Government Printing Office,
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois	CHARLES B. RANGEL, New York
BILL THOMAS, California	FORTNEY PETE STARK, California
E. CLAY SHAW, JR., Florida	ROBERT T. MATSUI, California
NANCY L. JOHNSON, Connecticut	WILLIAM J. COYNE, Pennsylvania
AMO HOUGHTON, New York	SANDER M. LEVIN, Michigan
WALLY HERGER, California	BENJAMIN L. CARDIN, Maryland
JIM McCRERY, Louisiana	JIM McDERMOTT, Washington
DAVE CAMP, Michigan	GERALD D. KLECZKA, Wisconsin
JIM RAMSTAD, Minnesota	JOHN LEWIS, Georgia
JIM NUSSLE, Iowa	RICHARD E. NEAL, Massachusetts
SAM JOHNSON, Texas	MICHAEL R. McNULTY, New York
JENNIFER DUNN, Washington	WILLIAM J. JEFFERSON, Louisiana
MAC COLLINS, Georgia	JOHN S. TANNER, Tennessee
ROB PORTMAN, Ohio	XAVIER BECERRA, California
PHILIP S. ENGLISH, Pennsylvania	KAREN L. THURMAN, Florida
WES WATKINS, Oklahoma	LLOYD DOGGETT, Texas
J.D. HAYWORTH, Arizona	
JERRY WELLER, Illinois	
KENNY HULSHOF, Missouri	
SCOTT McINNIS, Colorado	
RON LEWIS, Kentucky	
MARK FOLEY, Florida	

A.L. SINGLETON, *Chief of Staff*

JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON OVERSIGHT

AMO HOUGHTON, New York, *Chairman*

ROB PORTMAN, Ohio	WILLIAM J. COYNE, Pennsylvania
JENNIFER DUNN, Washington	MICHAEL R. McNULTY, New York
WES WATKINS, Oklahoma	JIM McDERMOTT, Washington
JERRY WELLER, Illinois	JOHN LEWIS, Georgia
KENNY HULSHOF, Missouri	RICHARD E. NEAL, Massachusetts
J.D. HAYWORTH, Arizona	
SCOTT McINNIS, Colorado	

Pursuant to clause 2(e)(4) of Rule XI of the Rules of the House, public hearing records of the Committee on Ways and Means are also published in electronic form. **The printed hearing record remains the official version.** Because electronic submissions are used to prepare both printed and electronic versions of the hearing record, the process of converting between various electronic formats may introduce unintentional errors or omissions. Such occurrences are inherent in the current publication process and should diminish as the process is further refined.

CONTENTS

	Page
Advisory of February 3, 1999, announcing the hearing	2
WITNESSES	
Internal Revenue Service:	
Hon. Charles O. Rossotti, Commissioner	7
W. Val Oveson, National Taxpayer Advocate	30
U.S. General Accounting Office: Cornelia M. Ashby, Associate Director, Tax Policy and Administration Issues, General Government Division; accom- panied by David J. Attianese, Assistant Director and Kelsey M. Bright, Evaluator in Charge	44
SUBMISSION FOR THE RECORD	
Kamman, Bob, Phoenix, AZ, statement	55

**ANNUAL REPORT OF THE INTERNAL REV-
ENUE SERVICE NATIONAL TAXPAYER ADVO-
CATE**

WEDNESDAY, FEBRUARY 10, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in 1100 Longworth House Office Building, Hon. Amo Houghton (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-7601

February 3, 1999

No. OV-1

Houghton Announces Hearing on the Annual Report of the Internal Revenue Service National Taxpayer Advocate

Congressman Amo Houghton (R-NY), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the Annual Report to Congress of the Internal Revenue Service (IRS) Taxpayer Advocate. The hearing will take place on Wednesday, February 10, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:30 p.m.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include: from the IRS, Commissioner Charles O. Rossotti, and National Taxpayer Advocate W. Val Oveson; and the U.S. General Accounting Office. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

Congress established the requirement that the IRS Taxpayer Advocate submit an annual report to Congress as part of the taxpayer Bill of Rights 2 (TBOR 2), (P.L. 104-168) in 1996. TBOR 2 was enacted in order to expand the safeguards available to taxpayers in their dealing with the IRS. TBOR 2 directs the IRS Taxpayer Advocate to make an annual report to Congress identifying the initiatives undertaken by the Taxpayer Advocate in the previous fiscal year to improve taxpayer services and IRS responsiveness. The report discusses the 20 most serious problems which taxpayers experience in their dealings with the IRS, and it offers recommendations for administrative and legislative actions to address such recurring problems. The National Taxpayer Advocate recently submitted his third "Annual Report to Congress" covering fiscal year 1998.

Congress reinforced its commitment to safeguarding taxpayer rights last year when it passed the Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206). Title 3 of this Act is known as the Taxpayer Bill of Rights 3 (TBOR 3). For example, TBOR 3 provides relief to innocent spouses for the liability arising from prior joint tax returns, increases the IRS reimbursement of attorney fees to taxpayers who successfully defend their tax returns in disputes with the IRS, and prohibits the IRS from seizing a taxpayer's home without judicial approval.

The Act also expands requirements for the content of the annual report of the National Taxpayer Advocate. The annual report now must identify areas of the tax law that impose significant compliance burdens on taxpayers or the IRS, must make recommendations for mitigating these burdens, and must list the 10 most litigated issues for each category of taxpayers, including recommendations for reducing such disputes.

In addition, the Act also strengthens the independence and authority of the IRS National Taxpayer Advocate. It provides that local taxpayer advocates would report to the National Taxpayer Advocate instead of to their local operational supervisors. Until this change was made, the performance reviews and promotion decisions affecting local taxpayer advocates often was in the hands of a local operational supervisor whose primary responsibility may not have been taxpayer service. The new legislation assures that all taxpayer advocates function within the same "chain of command."

In announcing the hearing, Chairman Houghton states: "Congress has enacted significant new taxpayer safeguards over the past few years as a response to public complaints of heavy handed treatment by the IRS. Commissioner Rossotti and the National Taxpayer Advocate should be able to tell us how successful we have been in changing the attitude and practices of the IRS."

FOCUS OF THE HEARING:

The hearing will examine the details of the third annual report of the National Taxpayer Advocate and focus on its recommendations for further administrative and legislative actions to help improve taxpayer rights and to reduce taxpayer burdens.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the *close of business*, Wednesday, February 24, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS MEANS/.'

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman HOUGHTON. Good afternoon. Ladies and gentlemen, we're delighted to have you here and hope this is a worthwhile meeting. Thank you very much Mr. Rossotti, for being here and thanks to Val Oveson, also, for you're being here. This is the first Oversight Subcommittee of the Ways and Means in the 106th Congress.

The last time I was in this room with an Oversight Committee was when Jake Pickle was the head of the Oversight Committee, and I was the minority counterpart to him, and I learned a lot from him and I really miss him. Incidentally, I'm going to go down to see him in about a week and we'll bring him all the proceedings that happened here.

Anyway, this is the annual report to Congress of the IRS Taxpayer Advocate and as many of you know, the Congress passed the first Taxpayer Bill of Rights in 1988; second one in 1996; and the third one in 1998.

[The Report is being retained in the Committee files.]

The reason being of course, that the public keeps telling us they have a variety of bad experiences with the IRS. Now this is not universal, obviously, because the IRS is trying to do the best job it possibly can, but it happens. The nature of the work; the type of individual; the turnover of the people; so we have to keep on top of it, and we have to keep on our toes.

Today, what I like to do is to say a few words and then introduce my counterpart and the Minority Leader, Mr. Coyne.

Then, we'll turn the proceedings over to you, Mr. Rossotti. Mr. Rossotti is our first witness and he'll be speaking in a minute. The Commissioner has expressed a strong commitment to improving taxpayer service at the IRS. He's also in the process of implementing many of the new provisions in the IRS Restructuring and Reform Act of 1998, and, obviously, we look forward to hearing from you.

Val Oveson is sitting over here as the IRS National Taxpayer Advocate. While Mr. Oveson has only held his new post for about 5 months—is that right, Val? You'll never be more objective than you are now. He has brought a strong vision and fresh imagination to the Office of the Taxpayer Advocate, and we look forward to having him discuss the details of the annual report with us. We all welcome his recommendations for legislative changes, which he believes would help reduce the burden on taxpayers.

Finally, we're going to have representatives from the General Accounting Office to share with us their critique of the operations of the Office of Taxpayer Advocate.

[The opening statement follows:]

Statement of Chairman Amo Houghton, a Representative in Congress from the State of New York

Good afternoon ladies and gentlemen. I want to welcome you to the first Oversight Subcommittee hearing of 1999. We have a challenging year ahead of us.

It was my privilege to serve as the Ranking Member on this Subcommittee during the 103rd Congress when it was chaired by Jake Pickle. Jake Pickle was a firm but fair Chairman. I learned a lot from him which I hope to put into practice now that I am chairing the Subcommittee.

Congress passed the first taxpayer Bill of Rights in 1988. We passed the second taxpayer Bill of Rights in 1996, and the third Taxpayer Bill of Rights in 1998. The reason Congress keeps passing these laws is that the public keeps telling us of their bad experiences in dealing with the IRS. The Senate hearings last year documented the cases of numerous innocent taxpayers who were unable to extricate themselves from some maddening Catch-22 situations with the IRS.

Today we welcome IRS Commissioner Charles Rossotti as our first witness of the 106th Congress. The Commissioner has expressed a strong commitment to improving taxpayer service at the IRS. He also is in the process of implementing many of the new provisions in the IRS Restructuring and Reform Act of 1998. We look forward to hearing how his efforts are proceeding in all of these areas.

Val Oveson is the IRS National Taxpayer Advocate. While Mr. Oveson has only held his new post for about 5 months, he has brought a strong vision and fresh imagination to the Office of the Taxpayer Advocate. We look forward to him discussing the details of the annual report with us. We welcome his recommendations for legislative changes which he believes would help reduce the burden on taxpayers.

Finally, the U.S. General Accounting Office will share with us their critique of the operations of the Office of Taxpayer advocate and their comments on how it might improve its effectiveness.

As taxpayers begin filling out their 1998 federal income tax returns, we should try to make the experience as smooth as possible. No one necessarily enjoys paying taxes, but the operational mechanics of obeying the law should be as user-friendly as possible. The annual report of the Taxpayer Advocate should give us many good ideas on how to improve the tax system. While none of the provisions in the report is flashy or glamorous, they spell out the nitty-gritty details which taken collectively make the tax system a success or a failure.

I welcome our witnesses and I look forward to hearing their testimony.

Chairman HOUGHTON. I would like to ask Mr. Coyne, who is the Minority Leader, to make his statement, and if others would submit their statements for the record, I would appreciate that.

Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman. Today we will discuss the ability of the Internal Revenue Service to address the taxpayers' needs in this country. First, I want to welcome IRS Commissioner Rossotti to the Subcommittee's first hearing of the year. Taxpayers have already benefited from the management expertise and innovation that Commissioner Rossotti has brought to the IRS. His commitment to implementing IRS management reform and improving taxpayer services must be congratulated.

Second, I want to welcome the new IRS Taxpayer Advocate, Mr. Val Oveson, to the Subcommittee. As we do each year, we will consider the Advocate's uncensored analysis and recommendations for better resolving taxpayer problems. I urge everyone to read Mr. Oveson's introductory comments to the 1999 report. They are appropriately candid and, frankly, a breath of fresh air. Also, I welcome the Taxpayer Advocate's recommendations for administrative and legislative action and look forward to reviewing each of them.

Third, no IRS Oversight hearing would be complete without the participation of the U.S. General Accounting Office. The GAO dili-

gently monitors the IRS and does an excellent job of evaluating the implementation of new programs.

Finally, I want to welcome those IRS employees in the audience who are in Washington, DC. as participants in the annual Congressional Legislative Affairs Conference. Our goal in passing the IRS Restructuring and Reform Act of 1998 was both to achieve fairness for taxpayers and to provide IRS employees with the tools and resources they need to do a first class job for the American people.

With the IRS restructuring and reform legislation in place, we now need to ask whether the new laws are working and what more needs to be done. I am particularly interested in individual tax simplification; the new innocent spouse rules; administration of the earned income tax credit; and abatement of interest and penalty for taxpayers. The IRS Commissioner, the Taxpayer Advocate, and the GAO will contribute greatly to our discussion here today and I look forward to your testimony. Thank you.

Chairman HOUGHTON. Thanks very much, Mr. Coyne.

[The opening statement follows:]

Statement of Hon. William J. Coyne, a Representative in Congress from the State of Pennsylvania

Today, the Ways and Means Oversight Subcommittee will discuss the ability of the Internal Revenue Service to address the needs of taxpayers.

First, I want to welcome IRS Commissioner Rossotti to the Subcommittee's first hearing of the year. Taxpayers have already benefitted from the management expertise and innovation Commissioner Rossotti has brought to the IRS. His commitment to implementing IRS management reform and improving taxpayer services must be congratulated.

Second, I want to welcome the new IRS Taxpayer Advocate, Mr. Val Oveson, to the Subcommittee. As we do each year, we will consider the Advocate's uncensored analysis and recommendations for better resolving taxpayer problems. I urge everyone to read Mr. Oveson's introductory comments to the 1999 Report. They are appropriately candid and, frankly, a breath of fresh air. Also, I welcome the Taxpayer Advocate's recommendations for administrative and legislative action, and look forward to reviewing each of them.

Third, no IRS oversight hearing would be complete without the participation of the U.S. General Accounting Office. The GAO diligently monitors the IRS, and does an excellent job of evaluating the implementation of new programs.

Finally, I want to welcome those IRS employees in the audience who are in Washington D.C. as participants in the Annual Congressional Legislative Affairs Conference. Our goal in passing the IRS Restructuring and Reform Act of 1998 was both to achieve fairness for taxpayers, and to provide IRS employees with the tools and resources they need to do a first class job for the public.

With the IRS restructuring and reform legislation in place, we now need to ask whether the new laws are working and what more needs to be done. I am particularly interested in individual tax simplification, the new innocent spouse rules, administration of the Earned Income Tax Credit, and abatement of interest and penalty for taxpayers. The IRS Commissioner, the Taxpayer Advocate, and the GAO will contribute greatly to this discussion. I look forward to their testimony.

Chairman HOUGHTON. I would also like to introduce Mac McKenney, who is one of the staff directors, and Beth Vance, sitting back here; they have done a wonderful job.

Well, without further ado, I would like to introduce Mr. Rossotti. We would like to have your testimony, sir.

**STATEMENT OF HON. CHARLES O. ROSSOTTI, COMMISSIONER,
INTERNAL REVENUE SERVICE**

Mr. ROSSOTTI. Thank you very much, Mr. Chairman, and distinguished Members of the Subcommittee. Thank you very much for your very generous comments in your introduction. I certainly appreciate the opportunity to be here today, but I'm going to be very brief because I think the real focus is the report from Mr. Oveson. So, I'll just make a few background comments and take questions and then we'll get to Mr. Oveson.

I think that the IRS Restructuring and Reform Act that the Congress passed last year, not only had many detailed important provisions, but I think, very importantly, it set a clear direction for the IRS. It told us very straightforwardly that we simply have to do a better job in meeting taxpayers' needs and think about our work from the taxpayers' point of view. And so, the Restructuring Act and our modernization plans that are designed to support this direction are really a very significant change for the IRS—dealing with organization, operations, culture and many specific tax provisions.

And this is a very enormous project that does require us to set priorities and goals for the hundreds of specific changes that we are implementing. To give you an idea of just the magnitude of those reflected in law between the Taxpayer Relief Act of 1997 and the RRA of 1998, we have counted up about 1,260 Tax Code changes. And by the way, I did make sure that someone actually gave me a list of these, so this just wasn't a made-up number.

Now one of the most important areas of this RRA and our plan is creating a strong taxpayer advocate organization. In addition to dealing with specific cases, the taxpayer advocates are a listening post for all of us at the IRS, telegraphing important information about what is on the taxpayers' minds and helping to identify systematic problems that are hindering our ability to serve them.

Of course, the Taxpayer Advocate is also helping us lay the groundwork for what we really want to achieve, which is the day when everyone at the IRS will think of himself or herself as a Taxpayer Advocate, not just those that officially hold the title.

So I would just like to briefly summarize four specific areas in which we are working to create the strong taxpayer advocate organization that I think we all seek. First, and most importantly, was simply the appointment of Val Oveson as the National Taxpayer Advocate. He comes with outstanding credentials and experience. Most recently, he was the chairman of the Utah State Tax Commission where he helped to re-engineer the operations of that agency to focus on much-improved customer service. He also worked in streamlining the appeals process and in a new mediation process to handle disputes. Prior to that role, he was in private accounting practice and represented small businesses and other taxpayers. So I think he has exactly shown himself already, as a matter of fact, to be the right person for the job.

Second, is the reorganization of the Taxpayer Advocates Office, as called for by the Act. The RRA both enhanced the role and the independence of the National Taxpayer Advocate. It created a network of local taxpayer advocates who report directly to the National Taxpayer Advocate and are independent of the IRS examina-

tion, collections, and other compliance functions. It also required and increased the presence of local taxpayer advocates, so it ensures that at least one will be available in every State.

Third, we are making progress on a number of specific problem resolution programs. I think notably among these was the problem-solving days which were initiated in November 1997, and I think have been, largely due to the work of the local taxpayer advocates, very, very successful. It gave taxpayers an opportunity to sit down face-to-face with an IRS representative, who was empowered in most cases to deal with their specific problem right there on the spot.

Since the inception, we've had 32,000 taxpayers take advantage of this. So this is an important program that we intend to continue. Of course, we are also working on a lot of cases that don't come up during problem-solving day including many that come from congressional referrals; including some that came out of last year's Senate Finance hearings.

Let me mention an important new step we took in November, which is setting up the Taxpayer Advocate's hotline. That is 1-877-777-4778; that's a lot of sevens, but it is published; it is available, and we are beginning to get calls on it. I think, as Mr. Coyne knows it's being managed out of the Pittsburgh call-site. The employees there are doing an outstanding job.

Finally, of course, the RRA significantly increased the taxpayer rights and, with them, the role of the National Taxpayer Advocate Organization. One of the tools that is at the disposal of the Advocates is the Taxpayer Assistance Orders, which can be requested by a taxpayer that is suffering or about to suffer a significant hardship. I would add that the RRA expanded the number and range of situations that qualify as hardships, and this order can be issued whenever the taxpayer advocates determine that it is justified in granting relief to a taxpayer, and including, of course, keeping the IRS from taking an enforcement action, or especially a collection action against the taxpayer; and also in terms of releasing liens on taxpayer property. So, those are four specific areas.

I think it's worth concluding with the note that what is most important, and really the ultimate challenge here, is to address the systematic and reoccurring problems that still are very, very difficult at the IRS. I think that Mr. Oveson has correctly identified many of them in his report, but we continue to work with him to help us identify patterns and trends that will form guides for us as we address all the organizational, and technological, and other issues throughout the IRS.

So let me just conclude by stating my strong support for the National Taxpayer Advocate Organization as well as for Mr. Oveson. Personally, he's become a very, very important member of our whole top management team at the IRS. And that concludes my remarks, Mr. Chairman. I'd be happy to answer questions from the Committee.

[The prepared statement follows:]

Statement of Hon. Charles O. Rossotti, Commissioner, Internal Revenue Service

Mr. Chairman and Distinguished Members of the Subcommittee, I appreciate this opportunity to appear before the subcommittee today. I will be brief since the focus

of today's hearing is the Taxpayer Advocate's Report that will be presented shortly by the National Taxpayer Advocate, Mr. Oveson.

The IRS Restructuring and Reform Act of 1998 (RRA 98) set a clear direction for the IRS: we must do a better job meeting taxpayers' needs and focus on service from the taxpayers' point of view. Together, the Restructuring Act and our modernization plan that helps implement it, form the basis for the most significant change to the IRS' organization, operations and culture in almost a half century. This is an enormous project, requiring us to set priorities and goals for the hundreds of specific changes to both the Tax Code and our organization. To give you an idea of the magnitude, the Taxpayer Relief Act of 1997 and the RRA account for 1,236 Tax Code changes.

One of the key elements of the RRA and our modernization plan is a strong Taxpayer Advocate Organization to which I am totally committed. The Taxpayer Advocates are our listening posts throughout the nation telegraphing important information about what is on taxpayers' minds and identifying systemic problems that hinder our ability to serve them. And we are laying the groundwork so that all IRS employees will start thinking of themselves as Taxpayer Advocates—not just those who hold the title.

I believe we are meeting the challenges from the Congress and America's taxpayers for a strong and engaged National Taxpayer Advocate organization in a number of ways.

First, was the appointment of Val Oveson as National Taxpayer Advocate. Mr. Oveson comes to the job with outstanding credentials. He was Chairman of the Utah State Tax Commission and initiated re-engineering efforts that significantly improved the agency's customer service operations. His hard work resulted in a streamlined appeals process and a new mediation process to handle disputes, focusing on alternative dispute resolution practices. He fits the job like a glove.

Second, is the reorganization of the Taxpayer Advocates' Office under the Restructuring Act. The RRA both enhanced the role and independence of the National Taxpayer Advocate. It created a system of local Taxpayer Advocates who report directly to the National Taxpayer Advocate and are independent of IRS' examination, collection and appeals functions. The Act also increased the presence of local Taxpayer Advocates so that one will be available to taxpayers in each State.

Third, we're making Agency-wide progress on a number of problem resolution fronts. Problem Solving Days have been very successful, thanks in large measure to our Taxpayer Advocates' hard work and dedication. Taxpayers can now sit down and meet face-to-face with an IRS representative to help resolve a specific problem and have all the functional experts in one place to assist them. Since the inception of Problem Solving Days in November 1997, approximately 32,000 taxpayers have taken advantage of this innovative program with even more taxpayers expected to participate in 1999. The Taxpayer Advocates have built a lot of equity into this program and I want to see it continue, but more importantly, I want to build these practices into our everyday treatment of taxpayers.

Our Taxpayer Advocates' duties do not stop at Problem Solving Days. They are also on the front lines working on tens of thousands of individual taxpayer cases each year, including the many that came, and continue to come out of last year's Senate Finance Committee hearings. The National Taxpayer Advocate has also spotlighted the Problem Resolution Program with a new toll-free number for people with long-standing tax troubles. The hotline for help—1-877-777-4778—is available for taxpayers who haven't been able to promptly resolve problems through normal IRS channels.

Fourth, the IRS Restructuring and Reform Act significantly increased taxpayer rights, such as innocent spouse and expanding offers in compromise, and with them the role of the National Taxpayer Advocate organization. One of the tools at their disposal is the Taxpayer Assistance Order, which can be requested by a taxpayer suffering or about to suffer a "significant hardship" involving tax law administration. I would add that the Restructuring Act expanded situations that qualify as significant hardships. The orders can be issued if the Taxpayer Advocate determines a significant hardship exists that justifies granting the assistance order. The Taxpayer Assistance Orders can cover a variety of circumstances, including keeping the IRS from taking action against a taxpayer and requiring the release of taxpayer property.

Mr. Chairman, that brings me to a final and most important challenge—solving the recurring, systemic and practical problems that plague the IRS. From their many meetings with taxpayers, our Taxpayer Advocates see patterns and trends emerging. If they help us diagnose these overarching taxpayer problems, Mr. Oveson and I will do our best to work to get the right prescription to cure them.

In conclusion let me restate my strong commitment to the National Taxpayer Advocate Organization. It is a vital and integral part of today's and tomorrow's modernized IRS and is in good and capable hands in the person of our new National Taxpayer Advocate, Mr. Val Oveson.

Chairman HOUGHTON. Thanks very much, Mr. Commissioner. Well, I'd like to start this thing off. I think you probably have a recurring theme of tax simplification because, if I take a look at it, the complexity of the tax law is the top problem in which taxpayers are experiencing problems in dealing with the IRS. But let me just put a little meat on that. I've got in my hand a Form 8863. It doesn't mean a lot to most people, but anyway here it is. It has something to do with education credits—hope and life-time learning credits. According to the instructions in this form, it takes over an hour and a half to complete and file, and I won't go through the various 13 minutes for this; 10 for that; 34 for that, but it's just one tax form.

I guess one of the things that bothered me is that, in listening to the President's budget, in the State of the Union, he proposed 28 new targeted tax cuts, among them a new tax credit for fuel-efficient vehicles, for instance, which would total nearly \$33 billion over 5 years. So, you being in charge of the IRS, and as the public servant who is responsible for administrating the Internal Revenue Service, you've got to be concerned about this. Whether you like the concept or not, you've got to be concerned with the procedured mechanism which will allow the IRS to handle this thing.

It takes so much time for taxpayers to comply with the law. I just wonder where we're going here? We try to do something right by the public, particularly because of the IRS reform bill of last July: Yet, at the same time we're piling on more problems and more complexities. How do you handle this?

Mr. ROSSOTTI. Mr. Chairman, as you know, the Taxpayer Advocate's report did identify from their casework that complexity. I suppose it's not very surprising that it is one of the first, if not the first, things he gets as feedback from the taxpayers. Of course, this is an issue that involves way more than the IRS. In fact, it is not predominantly the IRS; it really involves the work of the Congress and the Treasury Department and the administration. I think that our role, as I see it, in the RRA is a rather limited one, but it is something new. We are supposed to work under the provisions of the new law, with the Joint Committee going forward on any new provision that is proposed to provide the Congress what is called a complexity analysis. It is the responsibility of the Joint Committee, but we are, and the Treasury is, supposed to support their efforts. We are currently working with the Joint Committee to develop a methodology as to how that would be done. So that is at least, I think, an opportunity to be more focused on that issue when laws are proposed.

There is also a provision in the RRA that the IRS is supposed to issue an annual report on the complexity of the Tax Code, which is something that has never been done before. Simply, we're working on a methodology to try to figure out exactly what that means and how we can do that in a way that would be most productive

to support the work of the Congress. So I think that—plus, what you're going to do today and hear from Mr. Oveson in terms of practical issues that come up in his casework, are some of the steps that I think the IRS can do to help the Congress and the administration cope with this issue.

Chairman HOUGHTON. But, in practical fact, we are asking you to control your budget; we are asking you to invest in new equipment; we are asking you to show the leadership that you've shown in business in running a tight ship. Yet, at the same time, we superimpose on your operation all these new tax credits which are going to cause a tremendous amount of difficulty—very, very expensive. Do you ever push back? Do you ever say, "Hey, listen, you know, we can only take so much?"

Mr. ROSSOTTI. Well—

Chairman HOUGHTON. I don't ask you to be disloyal; I'm just asking for your opinion.

Mr. ROSSOTTI. You know, I think that really our role is to provide advice as it is requested by the administration and Congress on the administrative aspects of different provisions. There is now a provision, thanks to the RRA, where we have, let's say, a more official vehicle for doing that. And then, of course, we have Mr. Oveson's report today where he has an opportunity at some level to deal with these things.

But I have to honestly say that I think that, when you get to the Tax Code itself and the complexity issues, these are predominantly policy issues, that, as you know, are heavily negotiated and worked on over the course of the whole year between the administration, and the Treasury and the Congress. So I think our role is one of providing information and support where we can, but we are not really the lead players on that problem.

Chairman HOUGHTON. All right, thanks very much.

Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Commissioner, what are some of the examples of how taxpayers across the country are benefiting from the provisions allowing for the IRS to abate interest and penalties?

Mr. ROSSOTTI. Well, I think that this is something that Mr. Oveson is going to talk about in a little bit more detail, so I don't want to steal his thunder. But I think that what we are trying to do is, for example, be more active in seeking out ways to make sure that, when it's equitable, that penalties especially are abated. A good example of that is the order that Mr. Oveson issued abating potential penalties with respect to cases that were an inventory for the innocent spouse issue, while we were waiting to get some of our regulations out.

There is also a provision which now allows us to abate interest where there is a managerial act on the part of the IRS, an IRS person, that causes an interest assessment. And then, finally, of course, there's the provision that allows for suspension of accrual of the interest in the cases where an examination goes beyond the 18-month period that's in the law.

Those are some of the examples, but I think Mr. Oveson may be able to also tell you some of the things that he's working on to try to make sure that we use authority effectively.

Mr. COYNE. How about the electronic tax return filing? Could you bring us up-to-date on how that's going?

Mr. ROSSOTTI. Yes. Well, of course, we don't really have statistics for this filing season yet because it's just getting started, but last year I think we were really quite successful in increasing the amount of filing. It was up about 25 percent, which was a little bit more, actually, than we expected. It came up to almost 25 million electronically filed returns.

Now the other big thing that we have done is we've got an Electronic Tax Administration Marketing Program or strategic plan, as we call it, which was actually published in December, and outlines a series of steps over a 5-year period or so, that we're going to take to gradually break down the various barriers to electronic filing that fall in the way. For example, this year there are a couple of important programs. One of them is that we have a pilot program to eliminate the infamous jurare form for certain taxpayers, where even though you file electronically, you still have to send in a paper form. There are security issues there, but we've got some solutions to some of them and we're implementing them on a pilot basis this year.

We are also, for the first time, allowing some taxpayers to be able to pay a balance-due return by credit card, so they can electronically pay as well as file. There are a series of innovative programs that Mr. Barr, who is our Assistant Commissioner, has come up with in conjunction with the private sector to, for example, work on certain providers, allowing low-income tax payers under \$25,000 to file electronically for free over the web, which I thought was a particularly good program.

I will say, however, Mr. Coyne, that the fulfillment of the strategic plan for Electronic Tax Administration and reaching the goal that the Congress has set, to get ultimately to 80 percent filing, is going to require us to address some fundamental barriers in our technology. This is one of the key things that really impedes us because we have an electronic system which is a modern system tacked onto a 30-year-old technology base, and this is one of the reasons why you get into things, for example, where not all the schedules can be filed. That eliminates a lot of people from being able to file.

So in our strategic plan, broader strategic plan for updating our technology, we are giving a high priority in the first period to some of the things that will help us to support the Electronic Tax Administration program.

Mr. COYNE. What is the status of creating and funding low-income tax clinics?

Mr. ROSSOTTI. Yes, we have \$2 million in this year's budget to provide grants for that. I can get the exact dates here, but, basically, we have a process underway and we've announced a process for people to submit grant requests. We expect to get them out, I believe it's by June, and then start dispensing the money in the summertime. And we also have, I believe, \$4 million in the budget request from the following fiscal year for this one that's just coming up, fiscal year 2000. So we're very enthusiastic about that program.

I think, as a strategy, one of the things that we're trying to do across the board in the IRS is to put more resources, relatively

speaking, on working with taxpayers in various ways to help them get their returns in right the first time, rather than letting errors accumulate and then having to spend a lot of resources of theirs and ours later. This is an example of doing that.

[The information follows:]

The implementation plan for the new IRS Low Income Taxpayer Clinic (LITC) Grant Program is on schedule. Two million dollars has been allocated for FY99 LITC grant awards. We published a notice in the Federal Register on 1/14/99 announcing the availability of the draft application package and requested public comment. We are currently in the process of reviewing the comments we received from the public and external stakeholders. We will finalize the application package and solicit applications via a Federal Register announcement in April 1999. A selection panel will review the applications received and those recipients selected will be notified in July 1999. An orientation conference for grant recipients will be held in late July 1999 and grant funds will be disbursed in August 1999.

Six million dollars has been requested in the IRS FY 2000 budget for LITC grant funding. Applications for the FY 2000 program will be solicited in early September 1999.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Mr. Hayworth.

Mr. HAYWORTH. Mr. Chairman, thank you very much. It's an honor to be here on the Oversight Subcommittee.

Commissioner Rossotti, thank you very much for being here today, and I look forward later this afternoon on my schedule to seeing Ava Turner from the southwest district, who will stop by to visit more one on one. But we appreciate the formality of these hearings and the informational goals that we have.

Mr. Oveson, I look forward to hearing from you in a few moments, since you are a neighbor to the north from Utah, and we share at least one portion of those four corners.

Commissioner, you outlined a rather ambitious schedule of outreach. I think it was typified with the problem-solving days we saw—and certainly many of us as Members of Congress joined in, I remember one particular Saturday in the spring gone by—just the overall challenges you face in terms of making every IRS employee a taxpayer advocate, which you said in your opening statement very generously was your goal, to have everyone view their job ultimately as that of a taxpayer advocate.

One of the criticisms leveled at government in general, whether it is county, State, Federal, especially those organizations that deal with the citizenry in this type of relationship, is that from time to time the hours produce inconveniences. It was one of the great ironies, former Speaker Gingrich used to talk about, that for many folks seeking employment the unemployment office would be open from 8 to 5, while, ostensibly, a person should be out trying to find a job, and then seeking help from government only to find those doors closed. What type of hours are we looking at in general for IRS installations? And are those hours for face-to-face encounters? Do they deviate from the regular business day?

Mr. ROSSOTTI. Well, actually, that's an excellent point. One of the simplest, relatively speaking, although nothing is really simple to change in the IRS, but one of the most, I think, straightforward changes that has the most positive impact, is simply making our people available in various forms when, exactly as you say, the taxpayers need them. And it's not only in person; it is by phone, also. I mean, this year for the first time, beginning in January, our

phone lines are open 24 hours a day, 7 days a week. Last year we did it 16 hours, and before that, it was, as you say, only during so-called normal hours.

What we found last year is that, without actually having answered a lot more phone calls, in total we increased the level of access, the chances of actually getting through the first time, very, very significantly, simply by rescheduling people to be there, for example, in the afternoons when people wanted to call as opposed to in the morning, when people happen to come to work according to normal hours. This year for in-person contacts, during the filing season, we have a significant number, I think it's about 250 sites around the country that are open on Saturdays, for example, and some of these are going on at the shopping malls and other places like that.

The problems-solving days, as you mentioned, are special activities that we have usually about once a month that are set up specifically at convenient times and hours, and this is just a very straightforward thing, but a very important thing in terms of making our services available. Longer-term, what we really want to try to do is basically make it the option of the taxpayer when and how they deal with us. I mean that's our role. That's a harder goal to do, but that's what we want: If you want to deal with us face-to-face, you do it that way; if you want to deal with us by phone, you do it that way, or eventually by Internet.

Mr. HAYWORTH. And that was going to be my next question. In addition, mindful of the fact our friends are here from the Congressional Network of Record, C-Span, covering this, and no doubt some are more than casually interested taxpayers maybe watching, you mentioned your 24-hour hotline, and I recall a plethora of sevens. Is there some hidden message in your 1-800 number, a slogan that's included there?

Mr. ROSSOTTI. No, it's not a slogan. Our slogan is we're working to put service first and that's part of the way we're doing that.

Mr. HAYWORTH. And it's tough to fit into seven digits.

Mr. ROSSOTTI. Yes, it is.

Mr. HAYWORTH. But let's follow up on that e-mail or the electronic help; how soon do you think you'll be bringing that online?

Mr. ROSSOTTI. Well, it's already online in part. We have a very, very successful website which gets hundreds of millions of hits, as it's called, a year. You can get answers to frequently asked tax questions. You can download virtually any form that we have, which was always another very simple problem. If you were doing your tax return and you needed a certain form, you had to go all the way back to an IRS office or you had to send in for it by mail. You can now sign onto your computer on our website and download any form that you want right on your computer.

You can also, through the partnerships that we have with certain preparers, in some cases file your return through the Internet. That goes through some of the people that provide tax preparations software, not directly our website.

Now, beyond that, the next big step is to actually transact business with specific taxpayer account information over the Internet. At this point we can't do that because we don't have the security systems. So we're doing it now for general purpose information that

is not under privacy rule. It's going to take us a few years to work out an acceptable secure method to be able to communicate with taxpayers over the Internet with specific taxpayer data, but that will be one of the things that we will be working on in our technology blueprint.

Mr. HAYWORTH. Thank you, Mr. Commissioner, and thank you, Mr. Chairman.

Chairman HOUGHTON. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

Welcome, Commissioner. We're glad to see you again. We always learn a lot from your testimony. How many employees are there at the IRS now?

Mr. ROSSOTTI. Well, in round numbers it's just under 100,000.

Ms. DUNN. I remember asking you that question last year sometime, and it was at 106,000 then. So you actually are downsizing as you're carrying through these other responsibilities?

Mr. ROSSOTTI. Well, it depends on whether you count seasonal employees. I mean, actually, in terms of what is called equivalence, which is, if you work two people half-time, that's one equivalent, it's about 90. The exact number is 98,500. And it is down over 5 years. We're down about 16,000 employees over the last 5 years compared to where it was, let's say, in 1993.

Ms. DUNN. Good. Well, I just had the very pleasant experience of meeting with two of your employees in my office, Willa Royer, who is the Taxpayer Advocate for the State of Washington, and Judy Moneham, who is the communications person, and they were very impressed by the strength of leadership. So I think that's a great compliment to you, and you ought to know that people are talking about that out there.

What kind of response are you getting from the employees of the IRS as you move through the RRA?

Mr. ROSSOTTI. Well, let me be very, very candid with the Committee about this issue because I think it's an extremely important issue. I think about the time that I took office, in the fall of 1997, the IRS had been, and was continuing to be, subject to a great deal of criticism from a variety of sources. And I think that many of the employees in the IRS were really very, very committed to try and do the best job they can. We were somewhat demoralized and somewhat confused, actually, about where the IRS was going. I think the passage of the bill in July of last year and the efforts that we've made internally to communicate what this means, not just in the little details, but in the bigger picture, has begun to turn that around.

I was glad to hear your comments about the employees because what we've said is, we now have our marching orders. I mean our marching orders are clear from the bill. It told us, develop a mission statement; focus on serving the taxpayers. We've done a new mission statement. It doesn't mean that we're not still in the business of collecting taxes, but we have to put more emphasis on how we serve the taxpayers while we're doing that.

I think that you know we put out the mission statement in July. You can go into almost any person's office and see this mission statement. And I think that while there's still a lot of confusion

over many details, I think there's at least a sense of direction, and I think that's very positive.

So I believe that we still have a recovery period, if you will, from the difficult period we were in, but I honestly believe that we have at least turned the corner in the sense that the people in the organization feel now that we have a sense of direction and we know where we're going. I guess that's the best answer I can give you to that, and I think you ought to ask Mr. Oveson the same question—

Ms. DUNN. Good.

Mr. ROSSOTTI [continuing]. When he comes up, because he's been traveling around a lot the same as I am and can give you, I think, a good perspective on it.

Ms. DUNN. And as I understand in reading the pieces on the restructuring, you've brought in a lot of the employees to help you make some of these changes, and I think that's very useful. Are there any areas that concern you, particularly with the requirements that the Congress has put on you, as you go through restructuring?

Let me just bring up one point. For example, you continue to do the collection, the enforcement, that sort of thing, and we have told you that you can no longer track perennial evaders. Is that going to be a big problem and are there other areas like that?

Mr. ROSSOTTI. Well, let me be honest on this also. OK, there are a large number of provisions in the Restructuring Reform Act that deal with IRS procedures; you mentioned several of them. Some of them are quite detailed. There's a whole section, for example, that deals with due process and collections which gives taxpayers certain rights. Many of these are rather complicated, and we are just in the process of getting out now the internal guidance, the manuals, and the training.

I think that if you're out in your districts and you happen to be talking to some IRS employees, you may very well get some complaints from some IRS employees along the lines that, look, we've got all these complicated provisions; we've not yet gotten adequate training. And my answer to that is, they are right; we haven't given them adequate training yet because we're still developing it in some cases. In some of these provisions, literally every single one of the 100,00 employees has to be trained.

So for the rest of this year our job of leadership here is to work with the employees and work with these provisions and get some experience with it, and help do a better job of training the employees. I think if we come back next year at this time, we will have had a year of experience, and we will be better able to answer your question about whether there are some areas that need to be adjusted.

I think we will learn a lot from the implementation of some of these things. Some of them are rather complicated. It would not surprise me if there were some adjustments that were required, but we're not really yet in the position to be able to intelligently comment on that because we're just really in the process of rolling them out.

Chairman HOUGHTON. Mr. Neal.

Mr. NEAL. Thank you very much, Mr. Chairman.

Commissioner, let me ask you a question about the individual alternative minimum tax from a compliance, an IRS/administration, and from a taxpayer point of view. As you know, nonrefundable personal credits like the child tax credit, the new education credits, and the dependent care credit, are not allowable against the AMT. This means that hundreds of thousands of taxpayers with middle incomes could suddenly find themselves as AMT taxpayers. We fixed this problem last year, and the administration in the President's budget proposed a fix for 2 additional years. If this were ever to go into effect, and hundreds of thousands of middle-income taxpayers suddenly had to make alternative minimum tax calculations, what would that do to the IRS in terms of compliance challenges, given the fact that many people would not pick up on the notion that they should be making AMT calculations? Would this lead to problems with the administration of the tax system by the IRS, such as drawing off resources that check returns, sending notification of additional taxes due, or simply explaining why? Given you are dealing with individuals, do you think that this would significantly increase taxpayer frustration with the system?

I was much involved with this issue last year and we were able to come up with at least a fix that will get people temporarily through the problem, but, once again, Commissioner, it's my hunch—and I'm interested in your opinion—that we're about to confront another nightmare with this question.

Mr. ROSSOTTI. Well, let me just say that we worked with the Joint Committee to try and help them figure out a way to get that fix in at the last minute before the tax year. And as you noted, there is, I believe, a proposal in the administration's budget to extend a solution to this going forward, without having done a specific analysis. I don't have details. I would generally concur with the thrust of your question. To the extent that you have more taxpayers getting involved with another provision, and it requires a separate calculation, that would certainly impose time on the taxpayers as well as on the IRS. That's very true.

Of course, it would depend on how many taxpayers were affected? To the extent that it affected a larger number of taxpayers, I think that the thrust of your question would generally be borne out.

Mr. NEAL. The second part of my questioning is that last year, of course, we made a big deal out of the IRS here, and we were able to hear much testimony about the problems of the IRS. Obviously, some of those issues have been repaired, but let me ask you about resources. Is the Congress doing enough, do you believe, in appropriating the necessary means to ensure that you have the opportunity to not only upgrade and to, as Mr. Hayworth indicated, speak to many of the technological changes that are coming along, I guess the short of it is, are you prepared?

Mr. ROSSOTTI. Well, I think that Congresswoman Dunn made a good point, which was that prior to this fiscal year that we're in now, there was, as a result of budget depressurization, a significant drawdown in the number of staff at the IRS and at the same time the volume of returns, the economy, and in some cases the complexity of the law was going up. So this was not a trend that could continue.

I think, in addition to that, it's no secret we have a very, very seriously deficient situation with respect to the technology that we depend on. You put those two together, and we had turned that situation around.

In fiscal year 1999, which is the year that we're in now, with the cooperation of the Congress, we were able to turn that situation around. There are two main things: to stabilize the size of the work force, so that we would at least keep it the same, which is, I think, what we need to do in order to cope with our workload; and also to invest some money, to have some money invested in the two or three major things we need to do, which is the technology, the training of the work force, and the organization of the workforce.

For fiscal year 2000, the President has just submitted his budget, and I'll be testifying in the Appropriations Committee later this month. We have proposed a budget that will sustain us on both of those key items, assuming that we can get the money that's in the President's budget.

So I think that basically answers the question. I will say this: That this is not a short term; it's not just fiscal year 1999 and 2000. We're into a program here, in order to deliver on all the commitments that have been made to the public via the RRA and deal with our technology shortfalls and our training shortfalls, we're going to be really having to invest this money for a number of years to come. So I think we made a good start in fiscal year 1999, and we're attempting to use that money wisely, but we will have to sustain a level of investment in training and technology and management for quite a few years.

Mr. NEAL. I see that my time is about to expire. Thank you, Commissioner.

Chairman HOUGHTON. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

I'd like to start off with a statement, which is, having spent a lot of time on IRS issues in the last few years on the Restructuring Commission as co-chair, and then on this Subcommittee, this is not your father's IRS. We are truly beginning to see some changes, and I think that is going to be evident when we hear from the new Taxpayer Advocate as well. And I want to commend both of you for the steps that you've taken, even over the last several months, since enactment of the legislation.

The Restructuring and Reform Act gives you the tools, we think, to be able to make the kind of fundamental change in the IRS over the next few years that are necessary. I think this year will be, though, the key year, and both on Capitol Hill and at the IRS we have to be sure that the changes are being implemented properly. I'm optimistic but, although it's not your father's IRS, it could fall back into it. I think, as we've noted today with the questions, there still are a lot of challenges. So while commending you, I think we also need on this Committee and at the IRS to keep our eye on the ball.

With regard to complexity, I applaud Chairman Houghton, our new chairman of this Subcommittee, for raising the issue right off the bat. I think it's the most important next step in terms of IRS reform, and that is reform of the Tax Code itself, and simplification.

I will say three things. First, in the legislation we just finally got enacted in July, we have three provisions which help do that. One is this complexity analysis that the Joint Tax Committee now has to do with all those tax credits that you talked about, and we didn't have that before. Now whether in the end that's going to stop those new complexities from being enacted or not, we'll have to wait and see, but at least there will be a balance now and there will be a much better information as to the impacts on the taxpayer and on the system.

Importantly, in the legislation we require that the IRS be part of the process in terms of giving input. Second, we have this report that's before us which has legislative recommendations, and I applaud you on those recommendations. I think there's a lot there we might want to look at very seriously even for this year.

But as important in the legislation, as you know, Commissioner, we require that you give us a report, separate and apart from the Taxpayer Advocate's report, on the very topic of complexity, and finally, we put in the legislation that we want the IRS at the table as tax legislation is being developed. We don't, frankly, think that input only from the Treasury Department is adequate. We're happy to have Treasury's input, and we're going to get that through the White House. That's the tax policy input, but we really need the IRS to be independent of the Treasury in regard to telling us how these great-sounding tax legislative proposals are going to impact the Service and the taxpayer—how many new lines on a form; how many new schedules; how many additional hours, as Mr. Houghton talked about.

I guess the one thing that we tried to do in the legislation, and the message I hope we're sending forward today—and I think the chairman started off with this—is: Don't be shy. I mean, we want to hear it unvarnished from you, what is the impact—not, frankly, with the layer of tax policy and politics that necessarily has to accompany the White House and the Treasury view on these proposals, but from the people who are administering the Code.

The second point I'd like to touch on is the new aspects of the law as it relates to the Taxpayer Advocate. And again, we're just passed and enacted them in July—it creates a new system around the country, as you know, of the taxpayer advocate reporting directly to the National Taxpayer Advocate. This was quite controversial, and I heard from our local taxpayer advocates as recently as today that it has helped them to strengthen their position locally. They think it has worked well, but I'd love, Commissioner, to get your views on that, if I could.

Then second is the Taxpayers' Assistance Orders. How's that working? We made it easier for taxpayers to get a TAO, made it easier for taxpayer advocates to use TAO, which was hardly used at all prior to that time, in the case where a taxpayer would otherwise suffer significant hardship.

Finally, again on the annual report to Congress, I just want to say I think it's a very good report. It's the third one we've had. It's better, I think, than the previous year and the previous year, and particularly I want say that you haven't been in government long enough because you still write plain English. [Laughter.]

Maybe some of us in Congress need to work on that, but it's very plain-spoken and honest, and I want to applaud you for that.

Finally, let me make one other point—then, if you could answer, Commissioner—how you think the Restructuring Act provisions as to the Advocate are working. With regard to the oversight board, the legislation required that the President send nominees to the Senate for this new public/private oversight board that's going to give the IRS over the long-term the kind of continuity of oversight that we all think it needs; the expertise we've talked about that is necessary in order to have these long-term changes at the IRS.

That oversight board date deadline has come and gone. It was January 22. That's how I count—6 months from passage of the legislation. I would just make a strong pitch today from the congressional side that we were serious about it. I know, Mr. Commissioner, you are very serious about it and want the right people there, nonpartisan people, who can give you the expertise that you need. But I would hope that you would give this Committee today some sense of what the process is there, what the status is of those nominees.

With that, Mr. Chairman, I've gone over my time. I would ask the Commissioner if he could respond to that.

Chairman HOUGHTON. Yes, we are going to try and stick to our time limits, if we can. So, if you could give some short answers, we would appreciate it.

Mr. ROSSOTTI. Well, I can give a really short answer to the second one because, as was reported in the press today, there is a list of nominees awaiting final approval at the White House. Of course, they will have to go through the vetting process, but at least, as best as I know, that is very close to being completed. Then it will be a matter of how long it takes to go through the process.

I will say I'm very much looking forward to having this board. The more I've learned in the last year, the more I see, there's a great deal of wisdom to the recommendation that was made by the Commission to have this board. I believe that with the continuity and with the people that I think are likely to be appointed to it, we will have a dialog there with a set of people on management issues that, given how long it's going to take to implement some of these things like technology, is really very important.

As far as how the restructuring provisions affect the Taxpayer Advocate, I'll just make that very brief because that's what Mr. Oveson is here for, but I think there are a number of things I mentioned. No. 1, it is an independent organization—independent in the sense that it doesn't report to the compliance functions. I think that's appropriate and I think that will help to make them effective.

There still has to be a relationship there because, you know, these issues need to be worked out by the compliance functions effectively in the first place, so they don't end up having more and more cases going to the taxpayer advocates. So that's the challenge that we face, but having them independent is a good idea. We're in the process of working out even more details on how that's going to work.

The other point is that we have brought in Mr. Oveson as a person from outside the IRS, although he has tax administration expe-

rience, as we've done in a number of other positions. I think that brings a fresh perspective to the whole thing. I think it's extremely useful to everybody. I think this is true not only with Mr. Oveson, but with some of the other positions we've filled. So those are all positive things that will help us very much in going forward.

Chairman HOUGHTON. Well, thanks very much, and thank you, Mr. Portman. You've done a fabulous job in terms of the whole IRS reform; your knowledge is very deep here.

I'd like to call on Dr. McDermott.

Mr. MCDERMOTT. Thank you Mr. Chairman. Sometimes we pass legislation; you wonder what happens. In the interviews of taxpayers on problem-solving days out there, do you have some feeling for what those have turned up and how many there have been, how many people show up, and what's the nature of the thing they bring to the—

Mr. ROSSOTTI. Well, the problem-solving days were actually an issue in November 1997. In fact, my third day in office I went to the first one that started up. There's a GAO report, actually, which I will be glad to give you if you don't have a copy, that was done on them, which actually, indicates a great deal of taxpayer satisfaction with the service they've gotten. There's been about 32,000 or 30,000-some odd taxpayers that have come in person for these days. They can either come in with an appointment or they can walk in, although many of them come in with appointments. The days, really have been most useful in addressing problems that have lingered for a period of time—the problems that haven't been able to get solved for whatever reason. Either the taxpayer didn't understand it or the IRS didn't do a good enough job. We've had the people on the spot right there that could deal with all aspects of these problems from all the different technical disciplines of the IRS.

Taxpayers like being able to deal in person, get the answer on many cases right there on the spot, or if not get the answer there on the spot, have a person that could follow up with it. We've done satisfaction surveys for every taxpayer that's been in, done by an independent contractor, and we've gotten really exceptionally high ratings.

What's interesting to me is this has occurred, despite the fact in a significant number of cases it is not possible within the law to give the taxpayer the answer to their tax problem that they would like. Sometimes the taxpayer simply owes the money and we can work out maybe a payment mechanism, but they still have the obligation that they came in with. But despite the fact that this clearly occurs in a significant number of cases, the mere fact they've gotten the right kind of treatment and the right kind of service has been very satisfying. And we're trying to build the lessons of this into the way we operate every day. We try and make these very same things happen on a regular basis every day. So the taxpayers can get the right kind of treatment, get the answers they want, and get it when they want it.

We're not there yet by any means, as I answered Mr. Hayworth. We have a lot of work to do, but we're doing a lot of things to make it more practical every day, such as the phone lines being open, the Saturday hours of service, and that sort of thing.

Mr. MCDERMOTT. Do you have regular problem-solving days?

Mr. ROSSOTTI. Yes, we do. We have a problem-solving day once a month in usually every district and we have some that are coordinated nationally, so there will be more publicity, but many of them are managed by the local districts according to what the schedules are that make sense in that district. So they will rotate, for example, different cities within a district usually in a given State. There's a district office in one city, but then they'll be posted to do other places in other cities throughout that district. They will rotate these problem-solving days throughout the different parts of the district.

Mr. MCDERMOTT. So if I go to a community meeting and somebody tells me they have a problem with the IRS, I can say, call the office, and go in to a problem-solving day.

Mr. ROSSOTTI. That's the way to do it. And they can call the hotline, and the taxpayer advocates' lines, by the way, are now listed, which is a new provision as well. We've now just listed all the local taxpayer advocate phone lines in each district, as well as the one that I gave you, the 877 line. But they don't need to wait for problem-solving day; they can try to get their problems resolved with us right there, but if there is a particular reason such as a more complex problem, they can certainly go to a problem-solving day.

Mr. MCDERMOTT. How many people come away from those winners?

Mr. ROSSOTTI. Winners?

Mr. MCDERMOTT. How many losers? Well, I mean, they come because they don't want to pay, right?

Mr. ROSSOTTI. Well, not necessarily, not necessarily. Actually, surprisingly enough, people come—I have been to quite a few of these; you get people that have had a problem and many of them just want to get the problem resolved one way or the other. They're just confused or they try to get it resolved and they haven't been able to pay. There are people that have come in that haven't filed. I was actually at a problem-solving day and was sitting down with a taxpayer and a fellow brought in a shoebox full of information, and said, "I simply didn't file my return for I don't know how many years." He had just filed once and then he just got scared, or whatever, and he didn't file.

Because there was a problem-solving day, he came in, and that person helped him prepare his returns. Now, he's actually due a refund. That's not the most common case, but actually it's not that uncommon. There are people that come in with a whole variety, range of things.

Now, as I said to you, I don't have the statistics—maybe Mr. Oveson does—of exactly how many people get the result that they sought, but it's certainly well less than 100 percent. And yet people are still responding to these surveys, saying they're quite satisfied with the service. This is basically a model of how we want the whole IRS to work. We want the IRS to work in such a way that we provide each taxpayer exactly the service they need, help them get to the answer that is within the law, but get there promptly and quickly and not have these problems linger.

Mr. MCDERMOTT. Thank you.

Chairman HOUGHTON. Thanks very much. Mr. McInnis.

Mr. MCINNIS. Thank you, Mr. Chairman.

Commissioner, I think you're doing an excellent job, but any time the IRS is in an office, it has a fairly threatening presence. It reminds me, when I was young, I had a friend who used to be able catch a bumblebee by its wings when it landed, and of course, when you do that with a bee, it stings; the stinger goes out. The bee still survives for about 15 minutes, and then he would go over and drop it down somebody's shirt. The presence of the bee, despite the fact we weren't very persuasive in telling the person to calm down because the bee had no stinger, just the presence of the buzzing in the back of the shirt created a panic. And sometimes that's what the IRS does.

Let me give you an example kind of the analogy that I'm trying to go into. About 5 years ago in Montrose, CO—let me tell you, my district is all the mountains in CO district, and I am a Republican. When I ran as a Republican, one of my big deals was working with the IRS, trying to get a response. I think we've come a long way there, but this particular constituent in Montrose, CO—we've had excellent service, by the way, response to me, by your employees out there—this particular person underpaid their taxes by 1 cent. And the IRS immediately sent out a notice—I think it was the Federal Employment Taxes sent out a notice that they were going to seize his accounts, and so on and so forth. It's kind of like a bee down a shirt. I didn't really think it had a sting, but there certainly is a very threatening presence. The publicity that the IRS got was extremely negative. The IRS deserved it.

So I sat down with the IRS and I called your regional office, if I remember correctly, in Salt Lake or in Provo maybe, Utah, wherever in Utah. And they said, "Well, it's the computer program; the computer automatically kicks out these notices on anybody that's delinquent." I said to the gentleman, "Why don't you have it, if it's under \$5 or if it's underpaid by a dollar, why don't you red-flag it? Then let a supervisor see whether you really need to pursue this or whether you can just call the person and say, 'Send your penny in,' or maybe you have got a little coffee pot collection; throw a penny in for the guy."

So he assures me it can't be done because it's the computer system, but they're going to start doing that. Well, about 2 weeks ago it happens again, and it happens in Montrose. This time it's not 10 cents. I mean, last time it was a penny; this time it's 10 cents—same thing.

So all the goodwill that you, as Commissioner, and your employees out there, have been trying to accomplish, it's long overdue, but you've been trying to accomplish in the last year. In that region it has gone with newspaper articles. This one is entitled, "IRS wants a dime plus penalty fees." It's a \$100. He underpaid by a dime. They sent him a penalty assessment for \$100.

I don't understand, Commissioner, why you can't have a policy in there—look, you've got to instill a little common sense, and if anything under this amount of money, the computer kicks it out, it goes to a supervisor, and then the supervisor determines whether or not that should go forward.

The second thing I think that would be helpful to the IRS is we recently had a large bankruptcy by an individual in CO who owned

a baseball team. This individual owed the IRS millions of dollars and the IRS settles with him. Of course, the IRS does this confidentially and they won't release the settlements, the terms of the settlement. So I have my constituents who are lucky to make \$25,000 a year and they get hammered by the IRS; they were in violation; it wasn't wrongful. I think the IRS needs somehow, when they make a large settlement like that, they need to have some kind of explanation. So the average Joe out there, which is most people, because most people aren't in this income bracket, understand why, if you're a fat cat, so to speak—and I don't say that derogatorily, but that's what they are—you can walk away from the IRS owing them millions because they'll do the settlement.

So, if you wouldn't mind commenting briefly on this stuff, 10-cent stuff?

Mr. ROSSOTTI. First of all, you've identified some of the kinds of communications challenges, as well as factual challenges, we have in regaining fully the confidence of the public as a result of those stories. There should be tolerances; they shouldn't be sending people bills for 10 cents. As a matter of fact, there are tolerances in most of the programs that we have that do cutoff certain bills. So I don't know how that particular one occurred.

I can tell you that, given the number of different systems we have, it could be that there's a problem with that particular system, where it doesn't have the tolerance in it that would prevent that kind of a notice from going out. We are going to be looking, this year, at some of the tolerances across the board to make sure they all still make sense.

In other words, you're absolutely right, and it's a matter of implementing it in a sensible way. It's not as easy to do, given the systems we have, as it sometimes seems, but we're going to try and do that.

As far as the other question on the settlement that was published in the paper, the fact that the IRS doesn't comment, this is one of the real things as a new person with this job that is really very difficult for an average person to understand. I mean, the laws have been passed by the Congress for very good reasons, to protect privacy of taxpayers, and they're really very, very stringent. I cannot even acknowledge, if somebody is the taxpayer, even if it's in the press—let alone, say anything about the case. This leaves the possibility open in a variety of different kinds of issues for any kind of information to come out publicly without the IRS being able to comment on it. I have certainly not got the solution to that problem.

I have one of my other new recruits that came from outside the IRS who is our Chief of Communications and Liaison, who worked on Capitol Hill, Mr. Williams, who is here with us today. One of his jobs, which is a very challenging one, is to try and figure out a strategy where, while we stay within the privacy laws, we communicate much more information to the public about the way we do business.

Without getting into a specific case, we are trying to explain things more to the public, why things are the way they are. We have made a little bit of progress. For example, people are constantly asking, how do you select people for audit? You know, this

was a very mysterious process to a lot of people. We have put out a publication now—it's just a couple of paragraphs—as was requested in the law, that gives at least an explanation of different ways that people are selected for audit. We're going to try to go more in that direction to try and explain these kinds of things.

I don't think that was a high priority, as far as I can tell, in the past, to try to de-mystify, if I could use that word, the way some of these things are done. There are many cases, I can tell you, that I've looked at where there have been things repressed or reported that just would clearly look crazy to the average taxpayer or look wrong to the average taxpayer. When you look under the surface, you find that, yes, there really was a reason. If you could figure out a way to explain it, it wouldn't look that crazy. By the way, some of them really were crazy and there wasn't any way to explain it, but that was more the exception.

I am personally committed, as one of our guiding principles for our whole plan, to figuring how we can have more open and straightforward communication with the public on a variety of things, in order to regain or gain or increase the confidence of the public that we're actually doing the right things when these things happen.

Chairman HOUGHTON. Thanks very much. Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Mr. Commissioner, thank you very much for being here and I want to thank you for all of the wonderful work, the great work, that you've been doing.

Recently, in the 5th district of Georgia, the IRS established two electronic filing centers. In one case I know of in particular where a woman came in, a taxpayer, she received assistance or help from the IRS to file her taxes in electronic fashion. She was so happy that she asked the agent, did she owe him anything, could she pay, and the agent said no. She was so happy and overcome she started crying. It is very unusual to have people being so happy leaving the IRS center. So you've made a lot of progress. You made at least one person in Atlanta in the 5th district very happy. I'm sure you've made a lot of people very happy around the country. So I want to thank you for that.

Mr. ROSSOTTI. Thank you, Mr. Lewis.

Mr. LEWIS. The Internal Revenue Service has made tremendous efforts to encourage taxpayers to pay their taxes through electronic filing. Still, most taxpayers have to pay somebody else to do the electronic filing for them, or to purchase filing software that can be very intimidating for those who are not very computer literate. Are there any plans to make it possible for the taxpayers to file electronically without having to hire any electronic filer or purchase filing software?

Mr. ROSSOTTI. Yes, sir, Mr. Lewis. We have, actually, I think, made some pretty good progress this season on that, and there are actually about three different ways, and I'm looking at my book to get the exact numbers, but we've got three different ways of trying to help make that happen.

One is the way that you mentioned with the woman in your district, and I really appreciate getting that comment, in the IRS walk-in site. With service sites, some of which are open Saturday,

you can walk in and get help in actually filing your return electronically right there on the spot.

A second way is through a variety of low-income and volunteer sites that we have. We have several hundred that we staff with different volunteer organizations around the country, that help people prepare their returns. Some of those we're equipping to be able to file electronically. I hope that, as we go forward, we'll have a lot more of them.

The third way is to use some partnerships we've had with some vendors through the Internet, where, for example, with one particular vendor, you can actually sign on to the website, if you're a low-income tax payer. I think the cutoff is \$25,000. They will allow you to use the software right on the Internet and file your return free of charge.

So that's three different ways that we've got this year for providing free electronic filing. I think that we have an opportunity to actually increase that over the coming years as part of our strategic plan for Electronic Tax Administration.

Mr. LEWIS. Thank you. Mr. Commissioner, the IRS has been kind enough to help hold an EITC workshop in my district later next month. The purpose of this workshop is to help taxpayers understand the EITC program and whether they qualify for the tax credit. I believe that outreach efforts like this, and the taxpayer day sponsored by the Service, can go a long way to improving the IRS image among taxpayers.

Can you tell me what type of feedback you're receiving from your outreach efforts around the country?

Mr. ROSSOTTI. Well, as you point out, we have a number of those outreach efforts specifically directed to EITC. Around the country we're having these various Saturday workshops. We're also working with different volunteer groups to help publicize and educate both practitioners and employers about that. We don't have any feedback from this season yet because it's too early, but I can tell you that last year we began this effort for the first time. I actually went to a couple of these on Saturday last year myself, one of the EITC awareness days. While I don't know if there are any people that reacted as much as the constituent in your district, I have to say I was at a shopping mall in, I think it was in suburban county in Maryland, where we had an EITC awareness day. We had a booth set up where people came in. The only thing that I can say is that a lot of those people were just amazed that there was anything like this happening, which is unfortunate, because we should be doing these things more readily.

So I think the reaction, when people know about it, is very, very good. Our challenge is to let people know about it. We're still learning how to publicize these kinds of activities and, to use a business buzzword, make use of sales and marketing techniques to get out there through outreach efforts and let people know that these services are available. That's the direction we're going to go in in the future. When taxpayers do know about it and when they do take advantage of it, they certainly have a favorable reaction.

Mr. LEWIS. Thank you very much, Mr. Commissioner. Thank you, Mr. Chairman.

Chairman HOUGHTON. Thanks, Mr. Lewis.

We've got a couple of other questions, if you can stay a minute longer. Mr. Portman wants to ask a question and then Ms. Dunn. Do you want to ask another question, Mr. Neal? OK, so it's just two other questions.

Mr. PORTMAN. Just a quick followup: We had talked about the complexity issues, and there's been discussion earlier about interest and penalties. I notice in the Advocate's report we have some specific recommendations as to how legislation could be developed to make the interest and penalties provisions work better. Again, I think there's a lot of meat here. I know that comes from the Advocate, and not necessarily from the IRS or from Treasury.

But there is also in the legislation which was enacted last year a requirement—I think it was one year from the date of enactment—that there be a Treasury and joint tax report, independent, as I recall, on the interest and penalty issue.

Is the IRS working on that? Then a comment, which would be, if not, I hope you are. Because, again, what we are really looking for, although Treasury is the tax policy arm of the government, is the input from you all, along the lines of what Mr. Oveson's going to talk about later, as to how we could reform current practice to make it work better for the system and the taxpayer.

Mr. ROSSOTTI. As a matter of fact, as you noted, that is a Treasury lead, but we are working with them on it. We have staff people working on it.

Let me just say, one thing I've learned is that there have been any number of studies on interest and penalties. In fact, there was one that was done that I heard about just when I came into office, and I said, "Can I see that study I heard about on interest and penalties?" It was about this thick [indicating].

So I think the challenge is going to be, although there is ample information there, to sort out what's really practical to do and can be enacted in legislation and will be acceptable from a revenue standpoint and other standpoints. There is information, and the studies and analysis is there. So I hope that it will be productive in terms of giving recommendations to the Congress.

Mr. PORTMAN. Final question—and I agree with you on that; many people felt we bit off more than we can chew on the IRS Restructuring and Reform Act, but that was one area where we, in essence, punted, simply because of the difficulty in coming up with an answer that was able to be accepted by you all, frankly, and on a bipartisan basis here on the Hill. So it's a complex area and it's difficult to make those tradeoffs. There's a second report that is required—and, again, I'm raising these issues because we pass this great-sounding legislation and sometimes there is not followup. We want you to know we're serious about following up on these reports and on making them not only useful in terms of Committee hearings, but in terms of actual legislative action.

Your report on March 1 addresses sources of complexity in the administration of the tax laws. I guess my question to you today is, are you taking into account what the Taxpayer Advocate is giving us today, so there is not overlap or duplication that's unnecessary, and are you comfortable with that report? Indeed, it's going to be submitted to us by March 1, as required by the Ways and Means and Finance Committees.

Mr. ROSSOTTI. Maybe I'm confused. I thought that it was another year. I guess I'm a little confused on which report that one is—the overall IRS report on complexity.

Mr. PORTMAN. This is not from the Advocate; this would be from the IRS.

Mr. ROSSOTTI. Yes, in terms of the date, I know we're due—if it's due March 1, I think I'm in trouble because that's only a few weeks from now. I guess I thought it was a little bit later than that.

Mr. PORTMAN. I think it is March 1, but I guess it's good that we raised it because I could be wrong; maybe it's a year from March 1.

Mr. ROSSOTTI. I may be slightly confused, but I'll have to go back and check and get you the answer.

[The information had not been received at the time or printing.]

Mr. PORTMAN. Well, maybe it's good that we raised it, and again, that's information that we're looking for. My thought was, given that this Taxpayer Advocate's report perhaps has more substance in that area than we have had in the past, that this is part of the input—

Mr. ROSSOTTI. Let me just say, although I'm a little unsure of the date, that we are working on the overall complexity analysis required by the law. And we will be definitely taking into account the information from the Taxpayer Advocate.

Mr. PORTMAN. Apparently, it is due March 1 and it's a separate report. It's telling us what the sources are of complexity in the administration and current tax laws. So it's a little different than the complexity analysis, and certainly it should be something that could be done in conjunction with that.

Mr. ROSSOTTI. I'll have to go back and check up on that.

Mr. PORTMAN. Sorry to add to your workload and tax policies. Thank you, Mr. Commissioner.

Chairman HOUGHTON. Ms. Dunn.

Ms. DUNN. Thank you, Mr. Chairman.

Mr. Rossotti, since we have you here, would you take a minute or two to bring us up to date on the IRS preparations for the year 2000?

Mr. ROSSOTTI. Yes. I think I can summarize that. Our biggest goal was to get almost all or most of our systems, our key systems, compliant—in other words, ready to run for this tax filing season. So we had to be ready by now, and we have achieved that goal. We have almost all of our major systems back into production with Y2K compliance fixes in this current filing season, which I think was an important, very important, milestone to be reached.

The other point that needs to be understood about that is that because of all of those changes, over a billion dollars' worth of technology changes, plus, all the tax law changes, we have consistently said that we have considerable amount of risk of potential errors during this filing season, especially as we go into the next 60 days into the peak period. So far, we have been relatively good. We have had a few minor problems, but we really expect that there will be localized things that will come up.

We've taken some very special precautions with all our practitioner groups and our website, and other places, to react very quickly if a taxpayer is impacted and our goal, of course, is to not

have any impact on the taxpayer. We will achieve that goal, but we want to react very, very quickly in case there are problems that come up as a result of all these different changes that have been made.

So by the time we get through this filing season in the next 60 days, we will have gone through what I think is really the highest-risk period that we have. There's still a lot of work to do for the rest of this calendar year because we still have some significant completion of pieces of it, the smaller pieces, and some rollout of new equipment that we have to do. Then we have a big test to do in terms of actually rolling the clock forward, testing all these systems. But I think it is a very important milestone, that we've gotten all this stuff back into production for this filing season.

Ms. DUNN. Let me just follow up, Mr. Rossotti. I think when we were talking about this a year or so ago, you were going to go—your system was going to go online in September of this year. You have, obviously, moved that way up. When will the debugging process start?

Mr. ROSSOTTI. Well, I think that I was referring to two different things. We have tested each system one at a time to make sure it's compliant and put it back into production for the filing season. In parallel, we have what we call the end-to-end test, and I think that was what we were talking about with you, where we actually test the whole set of systems front to back with the clock rolled forward, as it's called, in other words, set for January 2000. We did also start that, as was planned, last fall, and actually, that was quite successful.

We tested the first piece of it. We are continuing that test for the rest of this year with bigger and bigger pieces of the system. That's really the main job that we have to do, the biggest single piece of work that we have to do for the rest of this calendar year. So those are both going on in parallel, so to speak, and both of them have been pretty much on schedule.

Ms. DUNN. [Ms. Dunn crosses her fingers.]

Mr. ROSSOTTI. That's my feeling exactly.

Chairman HOUGHTON. Well, thanks very much. We've had some wonderful Commissioners of the IRS, but I've never seen anybody get off quite so easy and had so many compliments as you have, Mr. Rossotti. [Laughter.]

So, I think all of you sitting in the back who work for the IRS ought to be very proud.

Two points: Clearly, as you look out at a multi-year schedule, you're going to have to do some investment in technology and equipment, and I would imagine that might be one of the big Achilles' heels. I don't know what your program is, but I think it's required that you submit a budget at least to the board, and then the board, in turn, will give it to us. Do you have any plans for a multi-year budget?

Mr. ROSSOTTI. Yes. That is a very, very good point. It is absolutely the case that we will have to be investing over a period of years, and I think that's where the board can play a very beneficial role. We are working on putting together a multi-year budget. We are just starting. In fact, I had a meeting today at the Treasury about this. We are just starting a process that will allow us to put

together a meaningful multi-year process. We have some extrapolations now, but, quite frankly, they're not all that meaningful.

We are working on a process, I think, for the fiscal year 2001 budget, which is the one after the one that's already been submitted. We're going to have some progress on that, particularly with respect to the technology. By the end of this fiscal year, we will have an updated strategic plan for the major updating of the technology. That is already underway. We've got work going, and by the end of this fiscal year, we will have that, which is a key piece that has to go into the long-term strategic plan. So we have a lot of work to do to get ready, to have a truly meaningful strategic plan that takes both operations and investment into account. In anticipation of having the board, but even just because we think we need it for internal management, we are starting to work on that. I think it will take us about 2 years, 2 calendar years of work, to really do all the things we need to put together a multi-year plan that I would consider adequate and meaningful.

Chairman HOUGHTON. Peter Drucker used to say there were two issues when you confront a problem. One is doing things right and the other is doing the right things. It seems to me that you are doing the things right, that you are trying to organize this very complicated group of people and functions into a really efficient, effective unit. Doing the right thing to me, ultimately, is making sure that the customers, the consumers, the citizens out there, not only feel that, but feel that you are reducing the time and the compliance cost for them to fill out their tax forms.

I hope the next time that you appear for us that you will expand on that. So thank you very much, Mr. Commissioner.

Mr. ROSSOTTI. Thank you very much, Mr. Chairman and Members of the Committee. And now we'll have Mr. Oveson.

Chairman HOUGHTON. Yes, Mr. Oveson, the Taxpayer Advocate. Mr. Oveson, if you would like to give us your testimony, we'd be delighted to have it.

**STATEMENT OF W. VAL OVESON, NATIONAL TAXPAYER
ADVOCATE, INTERNAL REVENUE SERVICE**

Mr. OVESON. Thank you, Mr. Chairman. Mr. Chairman, and distinguished Members of the Subcommittee, I'm delighted to be here to give my first report to Congress since I assumed the position of National Taxpayer Advocate several months ago. I welcome the opportunity to share with you my vision for the Advocate's roles and the progress that we made last year, and to talk to you about our agenda for the next year on behalf of the American taxpayers.

I appreciate and support what Commissioner Rossotti has expressed in his testimony. Consistent with his words, he has supported me with his actions and he's committed to having a strong taxpayer advocate organization. He believes that the taxpayer advocates have a unique vantage point that will help us to determine how we can best serve the American taxpayers.

As you remember, he strongly encouraged Congress to strengthen the Advocate's role in the Restructuring Act last year, and he has great expectations that I will be able to use my expanded authority, as you intended, to meet taxpayers needs for assistance.

Since starting work on September 8 of last year, I have spent a great deal of time learning the organization and getting to know the people both inside and outside the advocates' organization and inside and outside of the IRS. As a member of Commissioner Rossotti's top management team, I have spent a lot of time with the agency's top leaders. In addition to learning from these leaders and these meetings, I've also had the opportunity to share my views and to promote a more taxpayer-sensitive and service-oriented IRS.

The climate has changed and the support for the Taxpayer Advocate's office is at an all-time high. Mr. Rossotti and the Treasury Department officials have been very supportive of me in the new independent role. Our local taxpayer advocates are also enthusiastic about the new structure, and they are responding well to the new organization.

As many of you have mentioned, we have many of the advocates in the town this week, unrelated to this hearing; it's coincidental they are here. Many of them are here, and I acknowledge their presence, I wish that I could introduce each of them individually to you. They are wonderful people with the desire to get the job done.

More taxpayers and stakeholders are aware of the new role and are expecting the National Taxpayer Advocate's Office, or expecting me, and my colleagues to have a strong customer service influence within the IRS. With strong support from all directions, I'm optimistic that we can make a difference.

The annual report that I recently submitted to you covers fiscal year ending September 30, 1998. While much of the material in that report that you've referred to and that you have is prescribed by statute, I will be evaluating the style and the format during the next year, and will be developing new approaches and new ways to communicate this material and information to you. I look forward to working with you and your staff to help shape and form the report, so that we get the best product possible in your hands. I have reviewed the recommendations, obviously, and have gone through them and validated them both inside and outside this IRS, and I recommend them to you for action.

Last year was a busy year on many fronts for the Taxpayer Advocates Organization. With the intense scrutiny that the IRS had on it, it highlighted the visibility of this office and its programs. I believe that the resulting legislation, RRA 98, will help the Taxpayer Advocate Organization to effectively promote change and to work as a catalyst to create a better treatment for taxpayers in the Service.

Last year taxpayer advocates resolved more than 270,000 cases and received requests for assistance from 32,049 potential hardship cases. We were able to grant relief or provide assistance to 74 percent of the taxpayers who applied for Taxpayer Assistance Orders. In three cases, three instances, agreement could not be reached between the advocate and the functional areas that they were working with, and enforced Taxpayer Assistance Orders were given in those three instances. I can review those with you later, if you'd like. They are very interesting situations.

In many of the other cases the law prohibited us from providing relief, and that is appropriate; we are not to go outside of the law, obviously. But it is very effective, the program, in dealing with many, many taxpayers who had problems and concerns with the IRS.

In April 1998, less than a year ago, my office was delegated a new authority by Commissioner Rossotti to issue Taxpayer Advocate Directives. This authority allows the office, or allows me, to grant the equivalent of a Taxpayer Assistance Order for agency-wide procedural issues and to correct actions that negatively impact on large groups of taxpayers or all taxpayers.

On December 7, 1998, I issued the first Taxpayer Advocate Directive, which directed the districts and the service centers to abate penalty on those innocent spouse cases that were suspended, pending guidance on the new equitable treatment provisions of RRA 98 which you passed last year.

That Taxpayer Advocate Directive also recommended that the regulation interpreting the abatement of interest statute be reopened to allow more taxpayers to qualify for the benefits of the statutory provision. This delegated authority is a powerful tool. It can change systemic procedural management practices that are inequitable and burdensome to taxpayers. To the extent possible under the laws and regulations, we have a desperate need to change the processes and practices up front before there is need for taxpayer advocates to get involved and intervene in a difficult case.

During my years in the tax business, I've become familiar with the phrase "protecting the interest of the Government." As I speak to particular groups of my own profession around the country, I've asked them if they have ever heard the term "protecting the interest of the Government from the IRS." And I get a resounding "yes" from every audience that I talk to.

In studying RRA 98, and applying the spirit as well as the letter of the law, I am convinced that you, Congress, have liberated us, literally liberated us, from thinking in the same philosophy as protecting the interest of the Government, which most of the time means maximizing the revenue to the Government. And that is so offensive to the taxpayers, and I believe that we are on a new wave, a new vision, of moving from that.

I see my red light is on, and we will just go whipping right through here. The report I know you have seen—

Chairman HOUGHTON. You will be able to add whatever you want later on in answering the questions. In fact, many people, when questions are asked, answer another question. [Laughter.]

Mr. OVESON. I was going to highlight the citizen advocacy panels that we are working on. You have read about that, and we can talk about that in questions, if you would like. It affects many of your areas.

Problem-solving days is a tremendous program during the last year that we have been very involved in, and programwise we are responsible for operating that program. The district directors and the district employees are the ones that carry the bulk of the work and have done a great job.

There are other programs that I can talk about that we are involved with to better publicize the Advocate's Office, as you di-

rected last year. But let me say, in closing, that I want to thank the Subcommittee for giving me the opportunity to report this year on the activities of the office. I will do everything within my power to see that the taxpayer rights are protected and that the IRS treats all taxpayers with dignity and respect.

I will also continue to recommend administrative and legislative changes that I feel are needed to make the Nation's tax system more responsive and less burdensome. I know that this is an enormous task. However, I am confident that with the sustained continued commitment from you in the Congress, from the Treasury, from the Commissioner, and all 98,000 IRS employees, we can meet the challenge to provide a better service and a greater equity to America's taxpayers. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of W. Val Oveson, National Taxpayer Advocate, Internal Revenue Service

Mr. Chairman and Distinguished Members of the Subcommittee: I am pleased to make my first appearance before the Congress since I assumed the job of the National Taxpayer Advocate of the Internal Revenue Service. I welcome the opportunity to share with you my vision of the Taxpayer Advocate's role, the progress we made during fiscal year 1998 and the agenda we hope to carry out in fiscal year 1999 on behalf of America's taxpayers.

I appreciate the support Commissioner Rossotti expressed in his testimony. Consistent with his words, he has supported me with his actions and is committed to a strong Taxpayer Advocate organization. He believes that the Taxpayer Advocates have a unique vantage point that will help us determine how we can serve taxpayers more effectively. As you may remember, he strongly encouraged Congress to strengthen the Advocate role in the Internal Revenue Service Restructuring and Reform Act of 1998. He has great expectations that I will be able to use my expanded authority as you intended to meet the taxpayers' needs for assistance in dealing with the Service.

Since starting work on September 8, 1998, I have spent a great deal of time learning the organization and getting to know people both inside and outside the Advocate's office. As a member of Commissioner Rossotti's top management team, I have spent time meeting with the agency's leaders. In addition to learning from these leaders, I have used these meetings to promote a more taxpayer sensitive and service-oriented IRS.

The climate has changed and support for the Advocate's Office is at an all time high. Commissioner Rossotti and Treasury Department officials have been very supportive of me and the new independent role. The local taxpayer advocates are also enthusiastic about the new structure and they are responding well to the new organization. More taxpayers and stakeholders are aware of the new role and are expecting the National Taxpayer Advocate to have a strong customer service influence on the IRS. With such strong support from all directions I am optimistic that we will succeed.

The annual report that I recently submitted to Congress covers the fiscal year ended September 30, 1998. As I stated in the foreword, the format and the underlying statistical information were determined before I arrived. The format is based on the management information systems that have existed for many years. While much of the material is prescribed by statutes, I will be evaluating the style and format during the next year and will be developing new approaches and ways to communicate the recommendations.

Nevertheless, I reviewed the recommendations that were made through the process put in place last year, validated the contents of the report with the local taxpayer advocates, and recommended the results to you for action. The taxpayer treatment initiatives and legislative proposals in the 1998 annual report reflect the direction that I will pursue on behalf of America's taxpayers in the future.

Fiscal year (FY) 1998 was a busy year on many fronts for the Taxpayer Advocate organization. The intense scrutiny on the IRS heightened the visibility of my office and its programs. I believe that the resulting legislation, the RRA '98, will help the National Taxpayer Advocate organization to effectively promote change and to work as a catalyst in creating better treatment for taxpayers and enhancing customer service.

During FY 1998, the Taxpayer Advocates resolved more than 272,000 cases and received requests for assistance on 32,049 potential hardship cases. We were able to grant relief or provide assistance to 74% of the taxpayers who applied for Taxpayer Assistance Orders (TAOs). Local Advocates in only 3 instances could not agree with the local functional area with responsibility for action. In those cases, the local advocates issued and enforced the TAOs.

In 1,444 cases, the law prevented us from providing the relief sought. The largest number of cases in this category concerned the offset of refund payments to other liabilities. Because the taxpayer's refund was used to collect liabilities owed to other government agencies, we were not able to provide hardship relief as intended by the statutes. My report contains legislative proposals aimed at correcting this problem.

In April of 1998, the National Taxpayer Advocate was delegated new authority by the Commissioner to issue Taxpayer Advocate Directives (TADs). This authority allows the National Taxpayer Advocate to grant the equivalent of a Taxpayer Assistance Order for agency wide procedural issues and correct actions that negatively impact a group of taxpayers. On December 7, 1998 I issued the first TAD which directed the districts and service centers to abate penalties on "innocent spouse cases" on which the IRS suspended action pending guidance on the new equitable treatment provisions in RRA '98. The TAD also recommended that the regulation interpreting the abatement of interest statute be reopened to allow more taxpayers to qualify for the benefits of this statutory provision. This delegated authority is a powerful tool to change systemic, procedural and management practices that are inequitable and burdensome. To the extent possible under the law and the regulations, there is a desperate need to change processes and practices up front before there is a need for a Taxpayer Advocate to intervene in a difficult case. I intend to be involved in the development of new processes and implementation of new tax laws. I will continue to issue TADs when I feel it is appropriate to alleviate taxpayer inequity and burden.

During my years in the tax business, I became familiar with the phrase, "protecting the interests of the government." Studying RRA '98 and applying the spirit as well as the letter of the law, I am convinced that Congress liberated the IRS from this philosophy, where the phrase "protecting the interest of the government" means "maximizing the revenue to the government." It is obvious to me that Congress intends that the IRS will balance the interest of the taxpayer with the interest of the government. This balanced approach will require the IRS to walk away from issues and situations that they may not have done in the past.

Last year many of you expressed concern that the Taxpayer Advocate's Office was one of the IRS's best kept secrets. We have worked hard to remedy your concerns. We have published the phone number of each local taxpayer advocate in the phone directory and we are in the process of setting up the other independent communications systems that are called for in RRA '98. We have also established a separate toll-free telephone number for the Taxpayer Advocate's program. This new number (1-877-777-4778) was operational beginning November 1, 1998. The telephone service is provided in four sites, two (Richmond and Pittsburgh) during 'normal' business hours and two (Atlanta and Fresno Service Centers) for "after hours" service. The sites are staffed with employees trained and equipped to effectively handle these sensitive calls. This new number has been widely advertised and is listed in this year's Form 1040 packet under "getting help."

Another initiative we began last year was the Taxpayer Equity Task Force. It was created to identify issues and recommend changes that will promote fairness and equity in tax administration and balance the need for equity in individual cases, with the need for equity for all taxpayers. The Task Force members represent all the functional areas of the IRS and is supported by staff of the Taxpayer Advocate's Office. Input is solicited from all areas of the IRS for equity issues and regular meetings are held with outside stakeholders.

The Task Force assesses the need for changes using evidence from case problems and other sources, determines priorities, and fully researches the problems accepted for review. Where change is recommended, it is determined whether the recommendation requires administrative or legislative changes. Conclusions and recommendations coming from the Taxpayer Equity Task Force are considered at the highest levels of the IRS. Administrative recommendations endorsed by the National Taxpayer Advocate are sponsored by the affected function(s) for implementation as soon as possible. A recent example of this group's impact is illustrated by the agreement by the Operations area to establish a National Interest Administrator. This new office will provide uniform guidance and consistency for computing taxpayer interest. I might add, the computation of interest was a major issue identified in Problem Solving Days.

One of our greatest successes last year was Problem Solving Days (PSD). National PSDs provided the opportunity for taxpayers to have face-to-face contact with an IRS employee to assist them in resolving problems with the IRS. The first national PSD was held on November 15, 1997, and approximately 6,300 taxpayers attended throughout the country that day. We continued to hold monthly events (frequently on Saturdays and evenings, as well as week days) in all districts offices. Approximately 43,000 taxpayers attended these events from November 1997 through December 1998. The Advocate's Office provides program direction for PSDs and IRS district offices implement the program. It is truly an agency-wide effort which has also created a great deal of enthusiasm within the IRS as employees experienced first hand that taxpayers need face-to-face contact with knowledgeable representatives who have the authority to act. Customer satisfaction surveys and employee surveys are conducted at each PSD. An outside contractor analyzes these surveys and provides reports. Follow-up taxpayer telephone surveys were also conducted in May and November, 1998. Survey results indicate:

- Taxpayers want to discuss their problems face-to-face with IRS employees; and
- IRS employees like the cross-functional approach to assisting taxpayers, providing the technical expertise necessary to resolve problems; and
- Taxpayers like being able to make appointments and come in on evenings and Saturdays.

PSDs are scheduled to occur monthly in every district office through the end of 1999. These monthly schedules are published in a number of places, including the Internet at www.irs.ustreas.gov. The events are also publicized through public service announcements in national and local newspapers, TV, radio, and various trade publications.

Problem Solving Days are an extremely important tool for helping taxpayers, but in the long-term we must make "every day a problem solving day." The IRS is continuing to gather data to analyze the effectiveness of PSDs and determine the best way to deliver top quality customer service to taxpayers. By building our experiences of PSDs into the IRS day-to-day operation, the agency can improve the level of customer service in all areas, including walk-in service. To best serve the interest of the taxpayers, there should not be a gap in service between "regular" days and "Problem Solving Days."

Another exciting initiative involving the Taxpayer Advocate's Office is the creation of the Citizen Advocacy Panels (CAPs). The mission of the program is to:

- Provide citizen input into enhancing IRS customer service by identifying problems and making recommendations for improvements of local IRS systems and procedures; and
- Elevate the problems to the appropriate IRS official and monitor the progress to effect change, and refer individual taxpayers to the appropriate IRS office for assistance in resolving problems.

Each CAP will consist of 8 to 15 volunteers from the district who are willing to commit approximately 100 hours each year to the panel, and may include one or more tax practitioners. The applicants are screened and interviewed by an outside contractor who recommends the top 20 applicants to the Treasury Department. The Secretary of the Treasury then decides the panel's membership.

CAPs will hold public meetings at least twice a year in various locations throughout the districts. They will receive and review written correspondence from taxpayers to identify customer service issues, obtain information, identify taxpayer concerns, and solicit feedback on proposed panel recommendations for improvement. The panel will also review recommendations for action from the IRS, prepare special reports, monitor local IRS effectiveness in serving customers and handling complaints, and make recommendations to improve service.

The first CAP was established in June of 1998 in the South Florida District. Three other CAPs will be started in the following areas during FY 1999: Brooklyn (comprising the boroughs of Brooklyn and Queens and the counties of Nassau and Suffolk on Long Island), Midwest (comprising the states of Wisconsin, Iowa and Nebraska) and Pacific-Northwest (comprising the states of Washington, Oregon, Alaska and Hawaii).

The Southern Florida CAP has already developed several recommendations in the short time they have been in existence. Our initial assessment indicates that these panels will provide excellent feedback as the IRS strives to improve customer services and be more responsive to taxpayer needs.

In closing, I would like to thank the Subcommittee for giving me this opportunity to report on the activities of the office and to share my vision for the future of the program. I will do everything within my power to see that taxpayer rights are protected and that the IRS treats all taxpayers with dignity and respect. I will also continue to recommend administrative and legislative changes that I feel are needed

to make the nation's tax system more responsive and less burdensome. I know that this will be an enormous task. However, I am confident that with the sustained commitment of Congress, the Treasury Department, the Commissioner, and IRS employees, we can meet the challenge to provide better service and greater equity to America's taxpayers.

Chairman HOUGHTON. Well, thank you very much. I'm going to forego my question and turn the questioning over to Mr. Coyne for a moment. But before I do, it's absolutely essential that we know that you have the freedom of operation, and that you are not constrained by the bureaucracy of the IRS. We have to know that, and we have to support you, because your job is equally as important as the Commissioner's job. So, with that, let's go to the questions.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Oveson, do you have with you or do you have any knowledge of what the most current compliance rate is for taxpayers, the voluntary compliance rate for individual taxpayers?

Mr. OVESON. The only information I have is what I have heard. I haven't seen the actual report. It was 87 percent—

Mr. COYNE. Eighty-seven?

Mr. OVESON [continuing]. Was the current compliance rate for taxpayers in the United States, and I am pulling that out of my memory and from discussions that have gone on in the months that I have been here, and also being in tax administration prior, but we can verify that and get back to you.

Mr. COYNE. OK.

[The information follows:]

We estimate that for the tax year 1992, there was an 83% voluntary compliance rate for individual taxpayers. That is, we estimate that individual taxpayers voluntarily paid 83% of the total tax dollars that were due and owing.

Mr. OVESON. I would like to point out, however, that, though that percentage is out there floating around, 98 percent of the revenue comes in without any activity at all by the IRS—people complying with the Tax Codes. So less than 2 percent of the revenue comes in as a result of enforcement action. So we really are dealing with a very small percentage of the population in terms of the service problems that we are talking about, but it is 87 percent, overall as I understand it.

Mr. COYNE. Well, my staff just gave me a percentage here of 99 percent for wage-earners. Have you ever heard that figure?

Mr. OVESON. No, I have not.

Mr. COYNE. OK, I would appreciate if you could get those statistics to me.

So most individual taxpayers file their taxes on time and there is really not much of a problem overall?

Mr. OVESON. Well, the 99 percent that you just gave is consistent with what I said, of the 98 percent coming in without any enforcement action. But I hadn't heard that the compliance rate was there, but, yes—

Mr. COYNE. What's your figure without enforcement action?

Mr. OVESON. Ninety-eight percent of the revenue comes in without any enforcement action.

Mr. COYNE. Without having to take any enforcement action to get it, 98 percent. Thank you.

I have introduced a bill to simplify the capital gains tax. Have you had a chance to review that?

Mr. OVESON. I have, but you will also have noted that I had a recommendation in the 38 recommendations that was very similar. I don't want to upstage you at all in terms of the proposal you are making, I have looked at the capital gains issue. The capital gains issue is one that bubbles up from our case work. And certainly with the capital gains and Schedule D issue that we faced a couple of years ago, it impacted a great many taxpayers. It is an issue that's of concern to taxpayers that we're dealing with in casework on a day-to-day basis. Solving that issue, particularly for the mutual-fund investors, which are the regular, normal people of this country, would certainly be a plus in terms of reducing burden and helping taxpayers comply with the law.

Mr. COYNE. OK. In your opinion, as the advocate, are the IRS tax forms and publications as simple and clear as they could be?

Mr. OVESON. No. They are not. And efforts have been made over the years to change those, and there are some efforts right now, in terms of rewriting those forms and publications. They are using some outside contractors, as I understand it, in helping to accomplish that task. The taxpayer advocate plays a role with that, and I intend on playing a more aggressive role, we are able to look at forms from a different perspective.

If you've been working with those forms and publications year after year after year, sometimes you don't see the way they are being viewed from the outside. And I'll give you an illustration. Several years ago, when I was a tax administrator in Utah, I got a letter from the IRS. I'm used to sending these letters out with my name on them. I get the letter, and I'm mad, immediately mad, because of the tone of the letter, how much it's going to make me go research and do all that is required. Then I smiled and sat back and said, "Am I doing that to people on a daily basis."

And indeed I was, and it was a very humbling event for me. I won't go into the details of what happened as a result of the letter, unless you want to. [Laughter.]

Mr. COYNE. Well, thank you very much. Thank you.

Chairman HOUGHTON. Thank you. Ms. Dunn.

Ms. DUNN. Thank you, Mr. Chairman. And thank you for coming to talk to us today, Mr. Oveson.

Mr. Rossotti talked about making the taxpayer advocate, increasing the presence of the taxpayer advocate around the country. How are you doing that?

Mr. OVESON. Could you repeat the question, please?

Ms. DUNN. Mr. Rossotti, who spoke to us just a little while ago, talked about making greater the presence of the taxpayer advocates around the country, the different taxpayer advocates. How are you accomplishing that?

Mr. OVESON. Well, increasing the presence. We're assuring that there is one taxpayer advocate in every State, and we're following RRA 98 in the requirements to publicize—great requirements, by the way—to publicize the program more. He mentioned the 800 number. Also, each of the taxpayer advocates have their local tele-

phone number in each of the local directories. I can talk to you about the challenges that presents, because that's the only local number for most of the IRS offices. So we're getting lots and lots of calls. Outreach programs in terms of speeches, and meetings with practitioners and community groups. Those kinds of things are going on.

We also, in cooperation with the general IRS communications department, cut a series of public-service announcements that are being aired during this filing season. But the one single, biggest thing in getting the word out that we're here and that we're in business and we're there to help is publishing the taxpayer-advocate number in the 1040 booklet. It's there under getting help, very prominently displayed.

Ms. DUNN. Are you getting cooperation from local newspapers when you move out into communities to hold your taxpayer days?

Mr. OVESON. You're referring to the problem-solving days?

Ms. DUNN. That's right.

Mr. OVESON. Yes. Although with the sustained effort of problem-solving days, having one in each district, it's hard to sustain that level of interest for free advertising and free media—the public relations kind. We've refrained from getting into paid advertising. Maybe we need to look at that in the future. But we've had great support from the media, but I don't think we can expect that to be sustained over a long period of time.

As Commissioner Rossotti said, on that problem-solving-day issue, we need to, as quickly as possible, work the concepts and principles of problem-solving day into our normal work habits and our work schedules so that we can change the nature of problem-solving days into everyday being problem-solving days.

Ms. DUNN. Let me ask you a question about electronic filing. We've talked about this over the last couple of years because many small businesses were required at one point to file electronically. We got a, sort of a time gap there, that we were able to provide for folks who weren't ready to do that. But, part of the discussion was the education process had not taken place. Are you feeling confident now that we're getting information out, and are people beginning to respond more to the possibility of electronic filing? And are most people eager to do that or are you finding that it is not used much?

Mr. OVESON. Well, in that particular vision, with small business on the electronic transfer of funds, there is a filing component to that, but it's the funds transfer that caused all of the problems. And I think that is leveling out as the requirements have been rolled out and more are doing it, although I have mentioned in the report that penalty administration is one of the biggest problems, and that particular area is one that penalty administration needs to be watched very carefully because it can be very onerous on a small business who misses the deadline by 1 or 2 days or gets things messed up with these electronic-funds transfers that are reviewed. They need to be careful with that.

Ms. DUNN. And so people are responding? There is more electronic filing taking place now?

Mr. OVESON. Yes.

Ms. DUNN. Good. Good.

One last question I would like to ask you. In previous hearings we've had with the taxpayer-advocate, I have felt that there was very little independence and responsiveness to the taxpayer over responsiveness to the IRS. We tried to change that. Are you feeling comfortable in the amount of independence you have to be the true representative of the taxpayer rather than of the IRS?

Mr. OVESON. I feel a very keen responsibility to make sure that I maintain that independence in attitude and in spirit. And we talk about it a lot among the ranks that are sitting behind me. And I feel I am getting tremendous support from the Commissioner to be independent. And if I weren't, I'd need to let you know that. I think that's what you're asking.

What really makes me enjoy my job, and when I go home and feel like I've really been successful, is when I deal individually with a taxpayer and can look at the situation differently, push something within the law, and make a difference and solve problems. That's what's exciting to me about the job. That's why I took it when it was offered to me by the Commissioner, and I feel that we are, that I have the independence, and we're developing the organizational independence to meet your expectations and the expectations of the taxpayer.

Chairman HOUGHTON. Thank you. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman, and welcome. I believe this is your first testimony before Congress. Is that correct?

Mr. OVESON. In this setting, yes. I've done it many other times in other settings and other issues in my past life, but—

Mr. PORTMAN. But as taxpayer advocate, in this life, which we all hope will be a long and prosperous one for you?

Mr. OVESON. Thank you.

Mr. PORTMAN. Again, I think the report is quite good, and it's refreshing to see some of the candid assessment of some of the problems. We have a lot of problems, and you've gone through in your report a number of them by giving us the top 10 problems taxpayers are experiencing with the IRS, which, of course, starts with complexity of the Tax Code as we talked about, but also some other very specific areas where we can do work. The most litigated tax issues, the legislative proposals, again I find very helpful, and I think there are some of those we might be able to work with very soon. And again, some of those are tough areas that you've gotten into, and I just want to reiterate what the chairman said and what Mrs. Dunn said, which is independence. It's absolutely critical here because if you look at these recommendations you're making, some of them are quite consistent with the White House or Treasury or the policy positions this administration might take. Some seem to vary a little bit from it, and that's very healthy. We want to hear directly, unvarnished, from you as to what is in the interest of the taxpayer.

This is a very unusual mechanism that we have, and most taxpayers aren't aware of it, which is that your job is to look out for them and their interests, and yet to work within the system. And there are always, I think, going to be some inherent conflicts with that and some difficulties. In the legislation that we enacted in July that's been talked about a lot today, we specifically made a change in the structure of your department to try to add to that

independence, again, that the previous questioners asked you about. And what we said was that instead of the local taxpayer advocates reporting through the normal processes to the Commissioner, that they would instead report to you. So you have an army of people out there, some of whom I think are in the audience today—I know they were here for a conference this morning—and their job is to look out for the best interest of the taxpayer, try to resolve difficult problems, but then ultimately to report to you.

And I guess the question that I would have, which we asked the Commissioner earlier, has that made them more effective? Is that working? And what problems do you see—I would suggest one might be the difficulty of obtaining resources or support, now that they are reporting to you. What problems have arisen in that new structure that you might want to tell us about this afternoon?

Mr. OVESON. Yes, I think it has made a difference, but I would leave it to them. Their conversations they're having individually with you, to ask them how they feel about that. My feeling is that yes they are. Certainly, organizationally they are not feeling the same amount of peer pressure or pressure to deal internally as they have before. My sense after 5 months is that that was a tremendous problem in some areas and in other areas it wasn't a problem. But psychologically, I think overall, it's made a tremendous difference.

Mr. PORTMAN. You mean in certain regions or districts it wasn't as much of a problem as in other regions or districts.

Mr. OVESON. It depended on the local support that they were getting for their program and for the aggressive nature that they may have been taking with the taxpayers.

And the second part of your question?

Mr. PORTMAN. It really relates to what difficulties have arisen because of that new structure. In the examples that I raise, without trying to put words in your mouth, would be difficulty in obtaining resources, support, cooperation on cases, and that sort of thing. Has it changed those relationships in a way that is negative?

Mr. OVESON. The relationships have changed, but I sense that I feel a tremendous support from throughout the organization in terms of resources and—there is a new mood and a new vision moving through the IRS, and we're on the leading edge of that, if you will, right now. And there's a tremendous outpouring of support. Hopefully that will continue and we'll make the transitions that we need to as an organization.

Mr. PORTMAN. One final question, if I might. My light's about to go off. In the restructuring bill there is conference report language, that the national taxpayer advocate should be able to hire and consult counsel as appropriate. And I just wanted to ask you, have you exercised that authority to seek outside counsel? Do you need outside counsel? How do you receive, specifically, the legal information that you need? Do you believe somebody who works for the chief counsel's office can be independent? And how do you intend to proceed on that in the future?

Mr. OVESON. I talked very early on with the Commissioner about getting counsel support and help that we very, very badly needed. And we have been given tremendous support from Stewart Brown and the Chief Counsel's office. He detailed somebody, and imme-

diately, with a staff of attorneys, I'm very pleased with their service. They are becoming a taxpayer advocate within the Chief Counsel's office in many ways. And that's being made permanent, and I am satisfied at the current time that my legal needs are being met in that fashion.

Mr. PORTMAN. The delegation of a specific lawyer to your area or to you, is being made permanent?

Mr. OVESON. Yes. Again, I have a say in who that attorney is, but it is an attorney from the Chief Counsel's office. I do not have independent legal counsel.

Mr. PORTMAN. And do you feel the need to have access to independent counsel?

Mr. OVESON. Not at the current time, but we may need to revisit that sometime in the future.

Mr. PORTMAN. Thank you, Mr. Chairman.

Chairman HOUGHTON. Mr. Coyne's got a question.

Mr. COYNE. Thank you, Mr. Chairman.

Sir, relative to the interest in the innocent-spouse cases, suspending the interest, do you have any recommendation or could you develop any recommendation that you could send to us that would correct that problem legislatively? That is to suspend the interest in the innocent-spouse cases.

Mr. OVESON. Yes. It is one of the recommendations that I have made—I've made a legislative recommendation that you could act on, but it's my personal opinion that Treasury could change the regulation to allow the waiver of interest on a managerial basis.

Mr. COYNE. In the absence of that, do you have a legislative recommendation that you've made?

Mr. OVESON. I have. They're both in the report.

Mr. COYNE. OK. All right.

Mr. OVESON. I've made a recommendation to Treasury and the recommendation is among the ones that are in the report to Congress.

Mr. COYNE. Thank you.

Chairman HOUGHTON. I'd like to ask a couple of questions, but first of all I'd like to follow upon what Mr. Portman was saying. I don't know whether I agree with you in terms of the counsel. There's a man or a woman, a body, who is there working as your counsel. And it's being paid for by the U.S. Government. I can't conceive of you not wanting an independent counsel in your independent shop.

Mr. OVESON. I am supportive of what we're doing right now, and I'm hopeful that it will work. If it doesn't work, like I said, we can revisit this and I can report back to you at a later time whether that is adequate or not.

Chairman HOUGHTON. Just one overall question, and again we appreciate your testimony. You submitted a report, a good report. You've made 38, 39 recommendations. Could you summarize the two or three really important ones? Give a priority to them. Also, how they dovetail with the issues which the taxpayers are most interested in?

Mr. OVESON. There is a crosswalk between the top 20 issues, the top 10 most litigated issues, and the report. And we could provide that crosswalk to you—maybe we need—that's what I was referring

to in providing a better format and style to the report that would be more helpful to you.

Mr. Chairman, I'm reluctant to classify or to prioritize those recommendations. One of the reasons that I am reluctant to do that, is one of the geniuses, if you will, of the system that you've set up here is that we don't have to score those recommendations. We don't have to look at a lot of the other things that you and the Treasury Department and others would do as you seek to implement them. Our recommendations are coming from a groundswell of casework. So we have an empirical base to look at, and also a taxpayer perspective. Some of those recommendations may affect a very few number of individuals, but they could be still very important to those individuals. So, if you want that, we could provide that another time.

Chairman HOUGHTON. So all 39 recommendations have equal importance? I mean if somebody woke you up in the middle of the night and said, "Hey, which is the most important?" What would you say?

Mr. OVESON. Obviously not. They're not all of equal importance in terms of the number of people that would be affected and the amount of revenue that they would cost. Most of them do cost revenue, incidentally, and again we have not analyzed that. That's not our perspective, as we're working on that. But you asked twice, so maybe I shouldn't wait till a third time. The penalty issue, the late-payment penalty, eliminating that would be a tremendous benefit to every taxpayer that found himself in the situation.

The history of that penalty, if you remember from the late seventies and early eighties, was to stop taxpayers from wanting to borrow money from the Government instead of from their bank, a credit card, or other source of money. At that time, you remember, the interest was fixed and was way below the market-rate of interest. Times have changed, and we now have a market rate of interest, and that penalty still is there and is causing many of these cases that you're seeing where someone owes 300 and 400 percent of the amount of the tax by the time you get things resolved.

That's one that would be a real high priority.

Chairman HOUGHTON. OK, well let me follow upon that for just a second. Late penalties are a problem for taxpayers. You've identified the late penalty as a problem, which ought to be addressed by the IRS. Is the IRS addressing that?

Mr. OVESON. That is not within the authority of the IRS to address that particular issue. There's a law on the books that says there is a late-payment penalty: 2 percent a month up to a maximum of 25 percent, I believe that penalty is. And there's nothing the IRS can do about that.

Chairman HOUGHTON. So, is the IRS about to give us recommendations in terms of changes to the law that they think would make their job easier?

Mr. OVESON. On that particular issue?

Chairman HOUGHTON. That or any other important issue.

Mr. OVESON. I'm not privy to—

Chairman HOUGHTON. You might come back to us on that, if you could. Any other questions?

Mr. PORTMAN. Just to follow up on that point. I think we've already made it with the Commissioner, but I think it would be very helpful if the Commissioner would take into account your real-world experience on the interest and penalty front, particularly the late-payment issue, but also some other issues that you addressed. And then in turn the Treasury report, that I understand is due in July, would include the input from the Commissioner so that we have in place by this summer some very well thought out consensus recommendations on how constructively to move forward because it's a huge issue for taxpayers as well as an issue for your folks in trying to administer it. And in the end, it ends up with, in my view, more taxpayers being out of compliance than need be. And probably in terms of the revenue impact that you referenced earlier, as soon as we can get a revenue estimate that takes into account the dynamics of human behavior probably will result in more people being willing to come forward without that enormous—you said 300 to 400 percent—sometimes penalty on the taxes due.

Chairman HOUGHTON. Yes. Well, thank you. I really feel that we've got to work together on this thing. Obviously we are working as a service organization for the country to try to help taxpayers. So, if we could work together on some of these issues, I'd appreciate it.

Mr. OVESON. OK. I think this provides a great opportunity, Mr. Chairman, for us to work with you and your staffs on the report cycle for next year and, if prioritization of those recommendations is what you want, let's work with you to come up with a standard to make that prioritization. Again, the crosswalk that I've mentioned between the top 20 list, provides some relationship to that because that top 20 list is—

Chairman HOUGHTON. These are the top 20 in terms of what the taxpayers want?

Mr. OVESON. Right. And that's quite empirical. I mean we've gone out and done surveys, we've done focus groups, we've surveyed internal IRS people, and that is not a willy-nilly list. It's got a lot of substance behind it. And if we crosswalk the recommendations to that list, that should provide some help.

Chairman HOUGHTON. OK. Well thank you very much, Mr. Oveson. You're doing a great job. We're lucky to have you. Thanks for your testimony.

Mr. OVESON. Thank you.

Chairman HOUGHTON. OK. Now, we're going to have the third panel composed of: Cornelia Ashby, Associate Director of Tax Policy and Administration Issues in the GAO; Mr. Attianese, Assistant Director of Tax Policy; and, Kelsey Bright, Evaluator in Charge of the General Government Division.

Thank you very much for being with us today.

The last panel—I will try to do this as expeditiously as possible. Ms. Ashby, will you begin?

**STATEMENT OF CORNELIA M. ASHBY, ASSOCIATE DIRECTOR,
TAX POLICY AND ADMINISTRATION ISSUES, GENERAL GOV-
ERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE;
ACCOMPANIED BY DAVID J. ATTIANESE, ASSISTANT DIREC-
TOR AND KELSEY M. BRIGHT, EVALUATOR IN CHARGE**

Ms. ASHBY. Mr. Chairman, we are pleased to be here today to assist the Subcommittee in its oversight of IRS' Office of the Taxpayer Advocate. Our statement highlights three key challenges facing IRS and the National Taxpayer Advocate as decisions are made about restructuring the advocate's office.

These challenges are, addressing complex staffing and operational issues within the advocate's office in a way that will ensure that it offers an independent means for taxpayers to resolve their problems, strengthening efforts called advocacy within the advocate's office to determine the causes of taxpayer problems so that systemic causes can be identified and corrected, and developing the performance measures that the National Taxpayer Advocate needs to manage operations and measure effectiveness.

Staffing and operational issues are commonplace in most organizations, but dealing with these issues could be more challenging for the advocate's office because of the need for the office to be perceived as independent from IRS operations while having to rely on those operations to accomplish its objectives.

To illustrate, until last October, most PRP assistance to taxpayers who could not get their problems resolved through normal IRS channels was done by employees called caseworkers who were not part of the advocate's office. They were in functional units in the district offices and service centers. Last October, IRS moved about 20 percent of the caseworkers to local advocates' offices. In addition, IRS is developing an implementation plan to have the remaining 80 percent assigned to local advocates' offices this year.

Herein lies a somewhat unique challenge: developing a plan for bringing all caseworkers into the advocate's office that includes mechanisms for giving PRP, on the one hand, the benefits of reliance on the functions for such things as caseworker training and managing workload fluctuations, and on the other, the benefits of a separate operation with actual and perceived independence, the ability to select highly qualified caseworkers, and control over its resources.

Workload increases also present a staffing and operational challenge. Such increases might make it necessary for the advocate's office to decide which cases to address with PRP resources. That is, some taxpayers who seek help from PRP, may have to be referred to other IRS offices. IRS' criteria for deciding what qualifies as a PRP case are broad enough to encompass virtually any taxpayer contact. We understand why the advocate's office would not want to turn away any taxpayer; however, if PRP accepts cases that could be handled elsewhere in IRS, the program could be overburdened—a situation that could reduce PRP's ability to help taxpayers who have nowhere else to go to resolve their problems.

The Advocate's Office has taken steps to meet its second challenge—strengthening advocacy efforts. However, Advocate's Office staff and PRP caseworkers told us that they were spending only a minimal amount of time on advocacy because of increased work-

load. In that regard, our survey of IRS staff who were doing Advocate's Office work as of June 1, 1998, showed that advocates and their staffs were spending about 10 percent of their time on advocacy, and PRP caseworkers were spending less than 1 percent of their time on advocacy.

We understand the need to give priority to casework over advocacy when there is not enough time to do both. However, advocacy efforts are key to IRS' success. As I mentioned earlier, increased workload might make it necessary for the Advocate's Office to be more selective in the cases it decides to handle. This could allow more time for advocacy efforts.

In addition, the Advocate's Office needs to share information on these efforts throughout IRS to conduct them in a systematic and coordinated way to reduce the possibility of duplication of effort. Further, the Advocate's Office has not identified its top priorities. It has no way to determine the actual impact of its advocacy efforts. Without such information, the National Taxpayer Advocate does not know which advocacy efforts have the greatest potential to reduce taxpayers' compliance burden.

This leads to the third challenge: developing performance measures to be used in managing operations and assessing the effectiveness of the Advocate's Office and PRP. Currently, the Advocate's Office uses four program measures, but they do not produce all of the information needed to assess program effectiveness. Two describe program activity and are useful for some program management decisions. A third could help the National Taxpayer Advocate know whether PRP actually serves those taxpayers who need and qualify for help, but recently IRS' Office of Internal Audit found that inconsistent data collection for the measure could affect the integrity and reliability of the measure's result. Also, the measure is used only at service centers.

The fourth measure—designed to determine the quality of PRP casework—provides some data on program effectiveness, but it does not have a customer-satisfaction component. Without this component, the National Taxpayer Advocate does not know if taxpayers are satisfied with PRP services or whether taxpayers consider their problems solved.

Mr. Chairman, this concludes my prepared statement. We would be happy to answer any questions you have.

[The prepared statement follows:]

Statement of Cornelia M. Ashby, Associate Director, Tax Policy and Administration Issues, General Government Division, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee: We are pleased to be here today to assist the Subcommittee in its oversight of the Internal Revenue Service's (IRS) Office of the Taxpayer Advocate. Our testimony is based on our ongoing work for the Subcommittee. Our work has included (1) interviewing IRS officials at the National Office, all 4 regional offices, and 17 of the 43 district offices and service centers; (2) reviewing numerous documents relating to the work of the Advocate's Office; and (3) surveying IRS staff who were doing Advocate's Office work as of June 1, 1998. We are currently drafting our report, which we expect to issue later this year.

As you are aware, IRS is changing its organizational structure in response to the IRS Restructuring and Reform Act of 1998. My statement highlights three key challenges facing IRS and the National Taxpayer Advocate as decisions are made about restructuring the Office of the Taxpayer Advocate. These challenges are to:

- address complex staffing and operational issues within the Advocate's Office in a way that will ensure that it offers an independent means for taxpayers to resolve their problems. Specifically, while maintaining independence from IRS operations, the National Taxpayer Advocate must, to some extent, depend on other IRS units in developing a caseworker reporting structure, establishing a resource control and tracking system, obtaining caseworkers and providing them with appropriate training, and determining how best to use available resources.
- strengthen efforts within the Advocate's Office to determine the causes of taxpayer problems so that systemic causes can be identified and corrected. In that regard, the Advocate's Office needs to share information on these efforts throughout IRS and conduct them in a systematic and coordinated way to reduce duplication of efforts among its offices.
- develop the performance measures that the National Taxpayer Advocate needs to manage operations and measure effectiveness.

BACKGROUND

IRS founded the Problem Resolution Program (PRP) in 1976 to provide an independent means of ensuring that taxpayers' unresolved problems were promptly and properly handled. Initially, PRP units were established in IRS district offices and, in 1979, PRP was expanded to include the service centers. In late 1979, IRS created the position of Taxpayer Ombudsman to head PRP. In 1996, Congress replaced the Ombudsman's position with what is now the National Taxpayer Advocate.

The goals of PRP are consistent with IRS' mission of providing quality service to taxpayers by helping them meet their tax responsibilities and by applying the tax laws fairly. PRP's first goal is to assist taxpayers who cannot get their problems resolved through normal IRS channels or who are suffering significant hardships. For example, local advocate offices can expedite tax refunds or stop enforcement actions for taxpayers experiencing significant hardships. During fiscal year 1998, PRP closed more than 300,000 cases, of which about 10 percent involved potential hardships. The second goal of PRP is to determine the causes of taxpayer problems so that systemic causes can be identified and corrected and to propose legislative changes that might help alleviate taxpayer problems. IRS commonly refers to this process as advocacy. The third goal of PRP is to represent the taxpayers' interests in the formulation of IRS' policies and procedures.

IRS has a taxpayer advocate in each of its 4 regional offices and has local advocates in its 33 district offices, 30 former district offices,¹ and 10 service centers. The National Taxpayer Advocate has responsibility for the overall management of PRP, and regional and local advocates have responsibility for managing PRP at their respective levels. The Office of the Taxpayer Advocate funds the advocate positions; the staff in advocate offices at all levels² and other resources for advocate offices.

PRP assistance to taxpayers who cannot get their problems resolved through normal IRS channels is done by employees called caseworkers, who are not part of the Advocate's Office. They are in IRS' functional units—mainly customer service, collection, and examination—in the district offices and service centers. Most PRP resources, including caseworkers, are funded by the functions, and about 80 percent of the caseworkers report to functional managers—not local advocates. Some offices, however, had a centralized structure in which PRP casework was done by employees who were funded by the functions, but reported to the local taxpayer advocate.

Formerly, regional and local advocates were selected by and reported to the director of the regional, district, or service center office where they worked. However, in response to a requirement in the IRS Restructuring and Reform Act of 1998, regional advocates are now selected by and report to the National Taxpayer Advocate or his or her designee; and local advocates are now selected by and report to regional advocates. Additionally, last October, IRS began moving to a more centralized reporting structure for the caseworkers—in which they would report to local advocates instead of functional management. IRS officially assigned those caseworkers who were already reporting to local advocates—about 20 percent of the caseworkers—to local advocate offices. In addition, IRS is developing an implementation plan to have the remaining 80 percent of the caseworker positions assigned to local advocate offices this year. IRS plans to submit budget requests that reflect these staffing changes by transferring funds for caseworkers to the Advocate's Office.

¹ In 1996, IRS consolidated its regional and district offices and reduced the number of its district offices from 63 to 33. The 30 former district offices continue to have staff and operations, including local advocate staff.

² Unless specifically noted, a reference to "advocate's staff" or "Advocate's Office staff" refers to staff in the Advocate's Office at all levels.

During fiscal year 1998, the staffing level of the Advocate's Office increased from 428 to 584 authorized positions. Our survey showed that, as of June 1, 1998, the Advocate's Office had 508 on-board staff. At the same time, there were about 1,500 functional employees doing PRP casework in IRS' field offices. Advocate staff worked on, among other things, sensitive cases; cases involving taxpayer hardship; and advocacy work, such as identifying IRS procedures that cause recurring taxpayer problems. Caseworkers worked on resolving individual taxpayer problems as well as participating in some advocacy efforts. During times of high casework levels, many Advocate's Office staff are required to do casework in addition to their other duties.

RESOLVING STAFFING AND OPERATIONAL ISSUES WHILE MAINTAINING INDEPENDENCE

The first challenge facing IRS and the National Taxpayer Advocate is the need to address staffing and operational issues while ensuring the independence of the Advocate's Office. Staffing and operational issues, such as resource allocation, training, and staff selection, are commonplace in most organizations. However, dealing with these issues could prove more challenging for the Advocate's Office because of the need for PRP to be independent from the IRS operations that have been unsuccessful in resolving taxpayers' problems. Independence—actual and apparent—is important because, among other things, it helps promote taxpayer confidence in PRP.

A key staffing and operational issue is developing an implementation plan for bringing all caseworkers into the Advocate's Office that includes operational mechanisms that will give PRP the potential benefits of both a reliance on the functions and a separate operation. According to IRS officials, having the caseworkers in the functions may have facilitated caseworker training and the handling of workload fluctuations; however, this arrangement may also have led to the perception that PRP was not an independent program. In addition, as we will discuss later, this organizational arrangement may have contributed to some of the other PRP staffing and operational issues.

Another, but related, staffing and operational issue is capturing information about resource usage that advocates need to manage PRP. Some local advocates told us that the lack of control over PRP resources, including staff, made it difficult to manage PRP operations. Advocates do not know the full staffing levels or the total cost of resources devoted to PRP, because IRS does not have a standard system to track PRP resources. Instead, each function tracks its resources differently. The absence of this type of management information yields an incomplete picture of program operations, places limitations on decision-making, and hinders the identification of matters requiring management attention. In addition, having this basic program information would improve the National Taxpayer Advocate's ability to estimate the resources needed in the restructured Advocate's Office.

Providing appropriate training is also an issue. It is important that caseworkers and other staff receive adequate training if they are going to be able to help taxpayers resolve their problems and effectively work on advocacy efforts. Our survey of IRS staff who were doing advocate office work showed that training has been inconsistent throughout the Advocate's Office and among PRP caseworkers. For example, as of June 1, 1998, more than half of the PRP caseworkers had not completed a formal PRP training course for their current position. Caseworkers should be trained in both functional responsibilities and PRP operations. Functional training, such as training in tax law changes, is important because resolving taxpayer problems requires that caseworkers understand the tax law affecting a particular case. Historically, because caseworkers were usually functional employees, they routinely received training in functional matters. The National Taxpayer Advocate is faced with ensuring that caseworkers continue to receive needed functional training even if they are no longer functional employees. In this regard, the National Taxpayer Advocate is considering whether to implement a cross-functional training program for caseworkers that would provide training in multiple IRS functions. IRS officials told us that this would broaden caseworker skills and might provide faster and more accurate service to taxpayers.

Acquiring qualified PRP caseworkers has been an issue. In the past, the quality of caseworkers depended on the office and the function that assigned the caseworkers to PRP. Local advocates told us that they had no assurance that the functions would provide PRP with qualified staff. It is important for the Advocate's Office to develop mechanisms to ensure that qualified caseworkers are selected so that program goals are met. Once the Advocate's Office is no longer dependent upon the functions for its staff, it can implement a competitive selection process for PRP caseworkers that should help ensure that it gets the staff it needs.

As IRS restructures the Advocate's Office, it must consider how best to handle workload fluctuations. Over the past 18 months, the Advocate's Office and PRP's

workloads have increased. Factors that have affected and could continue to affect workload include increased media attention, the introduction of a toll-free telephone number for taxpayers to call PRP, and Problem Solving Days.³ Historically, PRP has relied on the functions to provide additional staff to cover workload increases. However, as the office is moving toward a structure that would place all caseworkers in the Advocate's Office, this source of additional caseworkers may no longer be available. Many local advocates told us that it would be difficult to handle workload fluctuations without the traditional ability to obtain additional caseworkers from functional units.

Workload increases may also make it necessary for the Advocate's Office to decide which cases to address with PRP resources. That is, some taxpayers who seek help from PRP may have to be referred to other IRS offices. Local advocates told us that workload increases could compromise PRP's ability to help taxpayers. For example, an increase in the number of PRP cases could negatively affect the timeliness and quality of PRP casework.

IRS has three criteria for deciding what qualifies as a PRP case. The first two criteria are specific—(1) any contact by a taxpayer on the same issue at least 30 days after the initial contact and (2) no response to the taxpayer by a promised date. However, the third criterion—any contact that indicates established systems have failed to resolve the taxpayer problem, or when it is in the best interest of the taxpayer or IRS to resolve the problem in PRP—is broad enough to encompass virtually any taxpayer contact. We understand why the Advocate's Office would not want to turn away any taxpayer. However, if PRP accepts cases that could be handled elsewhere in IRS, the program could be overburdened, potentially reducing PRP's ability to help taxpayers who have nowhere else to go to resolve their problems.

USING ADVOCACY TO PREVENT PROBLEMS FROM RECURRING

The second challenge facing IRS and the National Taxpayer Advocate is to strengthen advocacy efforts within the Advocate's Office. Advocacy efforts are key to the success of the Advocate's Office because the improvements they generate can reduce the number of taxpayers who ultimately require help from PRP. Ideas for advocacy efforts are generated at the national, regional, and local levels. These efforts are aimed at eliminating deficiencies in IRS' processes and procedures that cause recurring problems. Through advocacy efforts, the National Taxpayer Advocate can recommend changes to the Commissioner, IRS functions, and Congress to improve IRS operations and address provisions in law that may be causing undue burden to taxpayers.

The Advocate's Office has taken steps to promote advocacy, such as implementing regional advocacy councils and identifying strategies to increase awareness of advocacy within IRS. The Advocate's Office has encouraged the functions to play a greater role in assisting taxpayers and improving procedures to reduce taxpayer compliance burden. For example, the Advocate's Office is working with functional management through an executive level group—called the Taxpayer Equity Task Force—to develop ways to strengthen equity and fairness in tax administration. The Task Force consists of a cross section of executives from IRS' functions and staff from the Advocate's Office. It was established to “fast-track” potential administrative changes and legislative proposals recommended to the National Taxpayer Advocate.

However, the Advocate's Office staff and PRP caseworkers told us that they were spending only a minimal amount of time on advocacy. In that regard, our survey showed that as of June 1, 1998, advocates and their staffs were spending about 10 percent of their time on advocacy, and PRP caseworkers were spending less than 1 percent of their time on advocacy. Advocate office staff and PRP caseworkers told us that increased casework limited the time they could spend on advocacy.

We understand the need to give priority to casework over advocacy when there is not enough time to do both. The National Taxpayer Advocate's ability to deal with these competing priorities is hampered, however, by the absence of (1) a systematic and coordinated approach for conducting advocacy efforts and (2) data with which to prioritize potential advocacy work.

To provide information on advocacy to field offices, the Advocate's Office has developed a list of ongoing advocacy projects. However, the list includes only national-level projects; there is no corresponding list of local efforts, even though those efforts could be addressing issues with agencywide implications. Advocacy staff told us that

³Beginning in November 1997, IRS began holding a series of Problem Solving Days in each of its 33 districts. The purpose is to give taxpayers with unresolved tax problems the opportunity to meet face-to-face with IRS staff in an effort to resolve those problems.

because there is no system for sharing information on local advocacy efforts, there is some duplication of effort among field offices. Additionally, field staff told us that there is no system that provides feedback on the status of advocacy recommendations. For example, in one district, staff told us that they forwarded the same recommendations to the Advocate's Office over the course of several years but never received feedback on what actions, if any, were taken on those recommendations.

The Advocate's Office also has not identified its top advocacy priorities, and it has no way to determine the actual impact of its advocacy efforts. Without such information, the National Taxpayer Advocate does not know which advocacy efforts have the greatest potential to reduce taxpayers' compliance burden.

DEVELOPING MEASURES OF EFFECTIVENESS

The third challenge facing IRS and the National Taxpayer Advocate is to develop performance measures to be used in managing operations and assessing the effectiveness of the Office of the Taxpayer Advocate and PRP. Developing measures of effectiveness is a difficult undertaking for any organization because it requires that management shift its focus away from descriptive information on staffing, activity levels, and tasks completed. Instead, management must focus on the impact its programs have on its customers.

Currently, the Advocate's Office uses four program measures, but they do not produce all of the information needed to assess program effectiveness. The first two measures—the average length of time it takes to process a PRP case and the currency of PRP inventory—describe program activity. While these two measures are useful for some program management decisions, such as the number of staff needed at a specific office, they do not provide information on how effectively PRP is operating.

The third measure, PRP case identification and tracking, attempts to determine if potential PRP cases are properly identified from incoming service center correspondence and subsequently worked by PRP. This measure is an important tool to help the National Taxpayer Advocate know whether PRP actually serves those taxpayers who need and qualify for help from the program. However, a recent review of this measure by IRS' Office of Internal Audit found, among other things, that inconsistent data collection for the measure could affect the integrity and reliability of the measure's results. Also, the measure is designed for use only at service centers; there is no similar measure for use at district offices, resulting in an incomplete picture of whether taxpayers are being properly identified and subsequently referred to PRP.

PRP's fourth measure—designed to determine the quality of PRP casework—provides some data on program effectiveness. This measure is based on a statistically valid sample of PRP cases and provides the National Taxpayer Advocate with data on timeliness and the technical accuracy of PRP cases. Among other things, selected PRP cases are checked to determine whether the caseworker contacted the taxpayer by a promised date, whether copies of any correspondence with the taxpayer appeared to communicate issues clearly, and whether the taxpayer's problem appeared to be completely resolved. Caseworkers and advocate staff in the field told us that the quality measure was helpful because the elements that are reviewed provide a checklist for working PRP cases. According to staff, this helps ensure that most cases are worked in a similar manner in accordance with standard elements.

The quality measure, however, does not have a customer satisfaction component. The Advocate's Office is piloting a method for collecting customer satisfaction data, but the results of this effort are unknown. Because IRS does not collect customer satisfaction data from taxpayers who contacted PRP, the National Taxpayer Advocate does not know if taxpayers are satisfied with PRP services or whether taxpayers considered their problems solved.

The National Taxpayer Advocate has the formidable task of developing measures that will provide useful data for improving program performance, increasing accountability, and supporting decisionmaking. To be comprehensive, these measures should cover the full range of Advocate Office operations, including taxpayer satisfaction with PRP services and the effectiveness of advocacy efforts in reducing taxpayer compliance burden.

SUMMARY

In summary, the responsibilities of the Office of the Taxpayer Advocate—helping taxpayers who have not been able to resolve their tax problems through normal IRS channels, helping taxpayers experiencing financial hardship, and promoting advocacy—require the office to become involved in most, if not all, of IRS' varied operations. These broad responsibilities must be fulfilled if IRS is to provide the level

of customer service envisioned in its mission statement. As the Office of the Taxpayer Advocate restructures, it will be faced with many challenges. Addressing these challenges is pivotal to the National Taxpayer Advocate's success.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or the Members of the Subcommittee may have.

Chairman HOUGHTON. Thanks very much. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman. I wonder if you could explain to us where the taxpayer Advocate's Office fits into the new IRS organizational structure. Were you able to determine that?

Ms. ASHBY. Well, the new structure is being developed, although it is actually too early to answer that question. There is a team that is looking into the structure of the Advocate's Office and how that structure might change in the new environment. There are also teams looking at other aspects of the reorganization. I know that the team is developing a blueprint and has actually done quite a bit of discussion and drafting of the blueprint so far. But there are no final decisions that have been made.

Recently, as I said in my statement and here briefly, there have been some changes to the Office in moving some of the caseworkers from the functions to the Advocate's Office, and there are plans to do more of that. There have been other changes under restructuring such as now making the line of authority from local advocates to the National Advocate as opposed to through functional directors. But in terms of ultimately how the structure looks, it is really too soon to answer that.

Mr. COYNE. Could you explain the advantages and disadvantages of having employees who traditionally do the functional work, collections and appeals being assigned to the taxpayer advocate's section? Are there advantages and disadvantages to that?

Ms. ASHBY. There are. One advantage is that the Taxpayer Advocate's Office would have control over those resources. Right now, that office doesn't really know how many resources there are, how many caseworkers there are in the functions working on PRP cases. In order for us to determine that information as of one point in time, June 1998, we had to actually survey functions in district offices and service centers and ask how many of your staff is working on—could you identify your staff that are working on PRP cases. And we were able to come up with what we think is a pretty good number for a particular point in time.

The National Advocate's Office cannot do that. So control over resources would be one advantage. Another would be an increased perception of independence, I think. Right now, with a lot of the caseworkers being assigned to the functions that created the problems that brought the taxpayers to the PRP program, that might give a sense of lack of independence, although in reality, that might not be the case.

And advantage of having the caseworkers in the function is workload fluctuations. They can be dealt with more easily. Caseworkers who work part time on PRP, in times with less workload, could work on other matters, and in times of heavy workloads more could be put on PRP. That's not to say that there can't be arrangements made even with the caseworkers being in the Advocate's Of-

face for the same thing to occur. But those mechanisms will have to be put in place. They aren't currently.

And I'll ask Mrs. Bright or Mr. Attianese if they have anything they can add to that.

Ms. BRIGHT. Some of the other advantages to having the caseworkers within the function, in addition to as Cornelia said, handling fluctuations, is that you do have the functional expertise out there to handle very difficult cases. And you also have a routinized way to handle training for the caseworkers. The caseworkers need to be trained not only in PRP matters but, very importantly, in the functional matters. This would include tax-law changes to keep them current on what's happening. And they are dealing with these taxpayers every day, and they need to be kept up to date on the changes in the tax law.

Another advantage to having the caseworkers in the functions is that the functions then feel the pain. They know what the problems are that the taxpayers are experiencing as opposed to having a separate group out there to deal with any—kind of their cleanup. They are going to have these problems and they are just going to figure that PRP will eventually clean it up for them.

But like Cornelia said, there are many advantages to having the independence of the caseworkers.

Mr. COYNE. Thank you, Director.

Chairman HOUGHTON. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. And I want to say that we're delighted the GAO has the ability to help this Subcommittee stay up with some of these issues because we don't have the staff and the resources—speaking of resource problems—to do this kind of in-depth interviewing and surveying.

I think that this is a kind of mixed report card. I would ask you what your opinion is, but I think what we're ending up with is a snapshot of a place in time of a system that's getting on its feet in terms of the new independence, new reporting. And I'm concerned, following on Mr. Coyne's questions, which I think were excellent in terms of what are the advantages and disadvantages of this flexible workload or the flexible personnel were coming in and out, about training.

I think the thing I see here that concerns me the most is what you're saying about inconsistency in training, whether it's taxpayer advocates locally who are in the PRP program all the time, or whether it's these people who are coming in from the functional areas, and, as Ms. Bright just said, one advantage is they kind of get trained in PRP while they are doing this work. But if the training is inconsistent and these functional folks are used to dealing with taxpayers, frankly, in more of a contentious way, or at least, less of an advocate's way, how can we improve the training so that when you have this workload fluctuation you can respond to it with personnel flexibility but still have the training there. So ideally, first comment on my general summary which seems like its kind of mixed but seems like it's going OK given that it's new, but specifically as to the training. How would you address that now and in the future?

Ms. ASHBY. All right. I wasn't calling this a report card. I think it is more of a progress report. We were not evaluating the Advo-

cate's Office. We were looking at it in terms of a snapshot, as you said, of a point in time, where things are. And particularly for purposes of this hearing, we were focusing on what we saw as the challenges, the things that IRS, the National Taxpayer Advocate, and Congress need to be aware of as restructuring takes place and as legislative proposals are considered.

A good plan is on the books, or on the table, but whether or not it works out depends on how well these challenges are met. And they have to be in order for IRS to meet its current mission.

With regard to the training issue, the inconsistency comes about because right now most of the caseworkers, until recently, all of the caseworkers really were part of functions. And they were getting the training that their counterparts would get in the function. And that has varied across districts, service centers, and at different points in time.

Mr. PORTMAN. That's a different issue.

Ms. ASHBY. That's a different issue. We have not done an in-depth study of training, although that is something that we possibly would look at in the future. But that's where the inconsistency comes in.

Mr. PORTMAN. So it's not so much within the National Taxpayer's Advocate's Office as it is in the different districts and regions as to all the IRS employees at the function level.

Ms. ASHBY. That has certainly been the case to date. We did not look at training in the Advocate's Office.

Mr. PORTMAN. Which has been a problem in the past. And I remember hearing horror stories a few years ago of a region that decided in order to save some of their budget dollars, that they weren't going to do any training for a year. I think there was some basis for that allegation, and therefore, the taxpayers suffer because you have people who were not up to speed, as Ms. Bright said on legislation and people who were not up to speed on other taxpayer service and customer-service issues.

But specifically on training, is the taxpayer Advocate's Office doing the right kind of training and who controls that training? Is it done through Washington, through the National Taxpayer Advocate? How does their training take place? And is that adequate?

Ms. ASHBY. Well, as I said, we did not do an evaluation of training in the Advocate's Office or any other part of IRS. The Advocate's Office does have a budget. It has funds that it uses to support its operations, the National Advocate's operation and that of the local advocates, and so forth. And I would imagine that would include training. I'll ask Mrs. Bright, who actually did a lot of the site visits and actually talked to the people in the National Office, if she could elaborate on that.

Before that, I want to make it clear that with all of these challenges, we are not saying these challenges cannot be met under either organizational structure. We're not suggesting one is better than the other at this point. But we are simply saying that these are challenges, and these are things that will have to be dealt with regardless. There are pluses and minuses with the caseworkers either in the functions or under the Advocate's Office. And, in either case, there would have to be mechanisms put in place that allow

for training, that allow for adjustments to workload fluctuations, and so forth.

Ms. BRIGHT. I think what you're alluding to, Mr. Portman, was there are really two different tracks of training that the caseworkers need. They need to be trained in PRP matters as well as functional matters. And if you're going to pull in someone from a function to work in PRP, they have to be trained that way, and vice-versa. And it isn't a matter of one day you show up and slip on another hat and you're a PRP worker. So traditionally the PRP would be handled by the taxpayer advocates. They get trained in certain quality standards and how to handle PRP cases and things like that. So it's really two different training tracks. I think you were absolutely right on that. And they are handled separately, as it is now.

Now when the caseworkers come underneath the local advocate, I think that it would present an opportunity to try to routinize the training so that they receive both. Now one of the challenges will always be, how do you train the functional employees in the PRP matters when workload increases require them to come and then help out. That's something they are going to have to look at. But the Advocate's Office does have a training task force that started last year, and they're doing a training needs assessment. And I know that they're doing training for the Advocate's Office staff as well as developing PRP training, at least updating it because they think it was several years out of date.

Mr. PORTMAN. Mr. Chairman, just one final question, without looking for an answer but of potential or maybe a future report. These new performance standards, which we think are very important to reforming the IRS over time, in other words, not having people given bonuses or promotions based on revenue brought in by taxpayers, but based on other standards like efficiency, how efficient they are in audits, or professionalism, whether they know what your particular business is like if you're running a small business or individuals. Whether they understand whatever your complicated transactional problems are that ended up having you interact with the IRS. Courteousness, those kinds of standards.

On the PRP, or the taxpayer advocate's measurements, I would just be interested to know whether they are developing performance standards that are consistent with the goal of our legislation, again, to kind of move away from the traditional performance measures, make it more like the private sector. And I would just leave that as an issue we may address in the future.

Chairman HOUGHTON. Would you like to comment?

Ms. ASHBY. Well, not beyond what we said in our statement. But that fourth measure I mentioned, the measure that supposedly measures quality, there is a systematic way of determining a value for that measure. There's statistical sampling involved. The issue we have there, there's one component of knowing whether the Advocate's Office has been effective, and that's asking the taxpayer that initially had the problem. And it does not do that. But that measure is promising.

Ms. BRIGHT. They also do have a task force that they just chartered to look at the performance measures for their office. I'm not sure what the membership of the task force is, but I know it does

include people within the Advocate's Office. So they are looking into this right now.

Chairman HOUGHTON. Well, this may be a bit redundant, but I'd like to piggyback on the issue that Mr. Portman brings up because you talked about the different challenges in your report, and then you say that the Advocate's Office use four different measures. One of the measures, you talk about, is the quality of the caseworker. Then, you go on to say, and I'm going to read you this; perhaps, you can sort of explain it a little better. The quality measure does not have a customer-satisfaction component, and that's what we've been talking about. The Advocate's Office is piloting a method for collecting customer-satisfaction data, but the results of this effort are unknown because IRS does not collect customer-satisfaction data from taxpayers who contacted PRP. The National Taxpayer Advocate does not know if taxpayers are satisfied with the services or not. I would think that would be the most important of all things to do. Maybe you can help us on that.

Ms. ASHBY. Well, we certainly think it's important. Whether it's the most important of all, I guess that's a matter—

Chairman HOUGHTON. Well, in the world I have lived in, the most important person was the customer; you worked back from there.

Ms. ASHBY. It's a little bit complicated here because a taxpayer might be dissatisfied because he or she had to pay taxes, and legitimately so. So you have to temper this. It's a little bit different than selling a product and wanting to know if your customers are satisfied with it or not. But at the same time, for a program like this where taxpayers who have not been able to have their problems resolved through normal IRS channels, actually contacted the PRP and asked for some kind of help, I think it is very important to know whether the taxpayers feel they got the help or not.

Chairman HOUGHTON. What—just to follow up here—what might your report look like next year? I mean are there things that you are going to be following up on—that you're concerned with?

Ms. ASHBY. In terms of the current work we're doing for the Subcommittee?

Chairman HOUGHTON. Absolutely.

Ms. ASHBY. We are currently drafting the report. So in terms of, generally the things that are in the statement and the things I've mentioned here this afternoon, we'll be covering those, but we'll have a lot more information in it. We'll cover some areas that haven't been mentioned.

In terms of following up a year from now, our report will be out a lot sooner than that, in the next 2 or 3 months. In terms of following up, we are following the restructuring efforts throughout IRS. We are on top of what is going on with the various design teams and not just with the taxpayer Advocate's Office, but the performing business units and various other aspects of the reorganization. We just wish to be prepared to do our work, all of our work, just about, certainly our work on the administration side. We need to know what is going on with restructuring. So we are following up on every aspect.

Chairman HOUGHTON. Good. Any other questions. Well listen, thank you very much. We certainly appreciate your time, your testimony, and your patience. Thanks very much.

[Whereupon, at 4:40 p.m., the hearing was adjourned.]

[A submission for the record follows:]

Statement of Bob Kamman, Phoenix, AZ

Mr. Chairman and Members of the Subcommittee: Today's hearing demonstrates that you recognize that the IRS Taxpayer Advocate program deserves serious attention. Such Congressional oversight is all the more important, because appointments have not yet been made to the IRS Oversight Board, in many ways the centerpiece of last year's heralded "New IRS" legislation. The IRS Restructuring and Reform Act of 1998 (RRA98) required that the President appoint seven members to this Board within six months of July 22, 1998. It is unfortunate that the Administration has not been able to comply with this deadline.

Two years ago, I had the opportunity to testify before the National Commission on Restructuring the IRS, concerning taxpayer-rights issues. At that time, I expressed concerns about the IRS definition of a "hardship" that is required to trigger action by the Taxpayer Advocate under Code Section 7811. I wrote:

When Congress passed the first Taxpayer Bill of Rights, it authorized the issuance of Taxpayer Assistance Orders in cases where a taxpayer "is suffering or about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered by the Secretary [of the Treasury]." IRS Problem Resolution Officers have taken a stoic view of "hardship" ever since. One of their favorite form letters is one that informs applicants that their case does not qualify for special treatment, because hardship has not been demonstrated. The instructions for Form 911, the Application for Taxpayer Assistance Order, tell distressed taxpayers that "a significant hardship normally means not being able to provide the necessities of life for you or your family. Examples of such necessities include, but are not limited to: Food, shelter, clothing or medical care." According to this standard, Japanese-American internees of World War II relocation camps suffered no significant hardship.

So I was pleased that RRA 98 acted on the NCRIRS recommendation that the hurdle be lowered. "Hardship" now includes "an immediate threat of adverse action; a delay of more than 30 days in resolving taxpayer account problems; the incurring by the taxpayer of significant costs (including fees for professional representation) if relief is not granted; and irreparable injury to, or a long-term adverse impact on, the taxpayer if relief is not granted."

However, I am disturbed that the repealed definition of "hardship" continues to be displayed on the IRS website. The Taxpayer Advocate's Annual Report asks you to believe that "communication and outreach efforts continue to be high priority items for the NTA. Several ways to improve communications with taxpayers are being pursued. These include: A site on the Internet. Currently, the NTA's site is part of the IRS's Internet home page, The Digital Daily." (Report, pages 5-6.)

Thousands of taxpayers access the IRS website daily. Some are directed to the Taxpayer Advocate page by links from other sites, such as Washington Post Internet pages. Why is the repealed definition of "hardship" still in place there, unchanged after six months? Why is the new toll-free PRP Telephone Number, which was implemented more than three months ago, still unlisted at the Taxpayer Advocate website? Compare this neglect to other areas of the IRS website—like the collection of press releases—which are updated daily.

(The subcommittee's hearing started at 2:30 pm on February 10, 1999. At 4:41 pm that afternoon, the Taxpayer Advocate website was updated to add the new definition of hardship. However, the old definition was not deleted, and is still displayed in a more prominent position than the new one.)

Unfortunately, it is not just taxpayers who are missing the latest news from the Taxpayer Advocate. It is Taxpayer Advocate employees, as well. In December, a Problem Resolution specialist at the Ogden Service Center was still quoting the repealed "hardship" standard to me, when trying to explain why expedited assistance was not available to a client.

The existence of such unreformed IRS hard-liners should be expected. The lack of a program to identify and retrain them, should not be. Nine years ago, in the December 11, 1989 Wall Street Journal, I wrote, "How well can the Ombudsman's office [predecessor to the NTA] be taking care of misbehavior elsewhere if it can't take a second look at its own work? How can it evaluate the job it does—and help Congress review it—if it has no system for letting taxpayers explain why they think

the Ombudsman has failed?" While IRS rates an A+ for the public-relations accomplishments of its Problem Solving Days, I would like to share one case history that shows how these questions still need to be answered, nine years later.

Kathleen [her full name and details of her private life are already public record in Tax Court proceedings, because the Taxpayer Advocate program refused to help her] is the victim of a Service Center correspondence audit. Such audits frequently deny taxpayers many of the rights that are provided by an examination in an IRS district office—for example, a face-to-face meeting with an IRS employee, and an Appeals Office review before assessment of more tax.

On August 13, 1998, the Philadelphia Service Center mailed Kathleen a "Notice of Deficiency," disallowing the Earned Income Credit she had claimed for 1995 and 1996. With penalties, the tax due would be almost half of her annual income. On August 22, 1998, IRS held a "Problem Solving Day" in Butler, Pennsylvania, near Kathleen's home. Kathleen went to the IRS office and met with a revenue agent. He concluded that Kathleen's returns deserved review, either by a local auditor or the IRS Appeals Office. He told me later that he wanted to call the Service Center, but no one there was assigned that Saturday to back up the District employees who worked at "Problem Solving."

The revenue agent turned the case over to the local Taxpayer Advocate in Pittsburgh, who contacted the Service Center Examination Division Chief to ask that the audit be transferred to the district's Appeals Office. His request was denied. An acting Section Chief at the Service Center later told the revenue agent that this was an "EIC Project" case and the Service Center "would not let go of it." At no time did anyone in the Pennsylvania District Taxpayer Advocate's office try to contact anyone in the Philadelphia Service Center Taxpayer Advocate's office. When a Service Center manager says "NO" to a local Taxpayer Advocate, the case is closed.

However, had the Service Center Taxpayer Advocate been asked to intervene, it is unlikely that the results would have been different. In early October, I helped Kathleen and her Enrolled Agent prepare an "Application for Taxpayer Assistance Order" requesting that the case be released to the District, and the 90-day letter rescinded pending a decision on the merits.

We did not use the old Form 911, which had not been revised and still contained the repealed definition of hardship still posted on the IRS Website. We wanted to point out that the hardship Kathleen was suffering included "the incurring by the taxpayer of significant costs (including fees for professional representation) if relief is not granted."

The Service Center Taxpayer Advocate's office received Kathleen's request on October 13, 1998. It did not respond until November 13—the day after the deadline for filing a Tax Court petition had passed. In a call to Kathleen's Enrolled Agent, a Service Center caseworker said that the IRS revenue agent at Problem Solving Day was wrong to have become involved.

A week before the Tax Court filing deadline, I called the Washington office of National Taxpayer Advocate Val Oveson. I spoke with one of Mr. Oveson's assistants on November 4, and faxed him the details of Kathleen's case as he requested. When I received no response by Monday, November 9, I sent another fax pointing out that the Tax Court petition deadline was three days away. At 5:00 pm EST on November 10, as IRS was closing for the Veteran's Day holiday and I was beginning to prepare a Tax Court petition, a member of Mr. Oveson's staff called to ask me to repeat the basic facts of the situation. It was clear that my earlier correspondence had been lost.

I filed the Tax Court petition, then spoke by phone with a staff member in the Pennsylvania District Taxpayer Advocate's office, who defended the system. IRS did not deny our appeal rights, he told me, because the Tax Court case would now be assigned to the Appeals Office for review. Kathleen must just "sit and wait." The problem, he informed me, is with "someone deciding to get placed ahead of every other taxpayer in the same situation. When the system is working, we allow the system to work."

Two months later, the Appeals Office in Pittsburgh—where Kathleen wanted her case to be transferred, when she went to Problem Solving Day—agreed that she owes nothing. The Tax Court case is being dismissed, thanks to my pro-bono help. But I know that there are hundreds of other such audits at the Philadelphia Service Center, of taxpayers who are denied a hearing, from both the Appeals office and the Taxpayer Advocate's office.

IRS has a form for nearly everything, but it has no form for me to file with the National Taxpayer Advocate to voice my complaint about the failure of the system—in the District, in the Service Center, and in his own office. Because there is no complaint form, there is no section in the Annual Report with statistics on the number of complaints filed, how many were investigated, and how many were found to have

merit. Because there is no such system for filing, investigating and evaluating complaints, there is much less data for the General Accounting Office to examine, when it audits the Taxpayer Advocate program

In a letter responding to my 1989 Wall Street Journal commentary, then-IRS Ombudsman Damon Holmes wrote, "I invite . . . taxpayers and tax practitioners who have complaints about the program to contact my office, where I promise there will be an independent review of the complaint." Perhaps the Subcommittee could suggest to Mr. Oveson that he renew this vow.

Thank you for the opportunity to present these comments, and for your continued vigilance in protecting taxpayer rights.

