
October 1998

TAX
ADMINISTRATION

IRS' Problem-Solving
Days



General Government Division

B-278847

October 16, 1998

The Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

In November 1997, the Internal Revenue Service (IRS) held the first in a series of problem-solving days (PSD) within each of its 33 districts. The purpose of these events was to enable taxpayers with unresolved tax problems to meet with IRS staff in an effort to resolve these problems.

This report responds to your request that we monitor and report on IRS' PSD initiative. Specifically, you asked us to determine (1) how the PSDs were organized and advertised and what IRS did to make them conducive to discussing and resolving taxpayers' ongoing tax problems, (2) taxpayers' overall satisfaction with the initiative and the extent to which taxpayers' problems were resolved, and (3) whether IRS identified any systemic problems or lessons learned and took subsequent actions on them.

Results in Brief

IRS began holding monthly PSDs in November 1997 to assist taxpayers in getting their tax problems resolved. To advertise the initiative, IRS used various means, including national and local newspapers, television, and radio. Taxpayers and practitioners were advised to call in advance to schedule appointments to discuss their tax problems with IRS staff. Some taxpayers who called in advance were able to get their problems resolved over the telephone. For taxpayers who scheduled an appointment in advance, IRS was generally able to have information about the taxpayers' case available at the time of the appointment. Taxpayers who walked in without an appointment were generally afforded an opportunity to meet with IRS staff to discuss their tax problems. Also, during PSDs each participating IRS office was staffed with employees from various functional groups, such as Examination and Collection, to provide a range of expertise and thus make the initiative conducive to discussing and resolving taxpayers' tax problems.

IRS' initial national PSD was held at each of its 33 district offices on November 15, 1997, and about 6,300 taxpayers attended. A subsequent national PSD, held on May 16, 1998, was attended by about 2,500 taxpayers. IRS held additional problem-solving events each month on various days and at various locations within each district. Overall, between November 1997

and July 1998, these events attracted more than 22,000 taxpayers. Many of these events were held on weekends and during off-duty hours, and IRS estimated that it incurred incremental costs of about \$11.5 million through the end of July 1998, primarily in the form of overtime salaries and related personnel compensation. Costs, such as rent and moving and installation of computers, were also incurred when PSDs were held at sites other than an IRS office. These costs do not include the costs to taxpayers in terms of personal time and travel required to attend these events.

Surveys that we and IRS have conducted of taxpayers who participated in a PSD have shown that they generally had favorable reactions to the PSD initiative, even though not all taxpayers at that time had their problems fully resolved. Our survey of taxpayers attending the first PSD indicated that about 91 percent believed it was a good idea, even though only about 34 percent of taxpayers reported that their problems had been fully resolved by the time they responded to our questionnaire. IRS surveys of taxpayers attending PSDs each month and a follow-up telephone survey conducted by IRS in April and May 1998 also indicated a generally positive response to the initiative. However, taxpayers responding to the IRS surveys indicated that IRS' effort to resolve their problems could be improved.

IRS has reviewed the types of problems that taxpayers have sought to resolve on PSDs and identified four main problem areas: penalties, audit reconsiderations, installment agreements, and offers in compromise. Currently, IRS has task groups reviewing each of these problem areas to identify administrative or legislative actions needed to reduce such problems in the future.

According to IRS officials who have studied the overall PSD initiative, an important lesson learned was that taxpayers with ongoing tax problems wanted to discuss them face to face with IRS staff to finally get their problems resolved. In addition, the IRS staff participating in PSDs indicated that the cross-functional approach to problem solving helped provide the technical expertise necessary to resolve many of the taxpayers' problems they encountered. IRS is also studying ways to incorporate problem-solving lessons learned from the PSD initiative into its day-to-day operations, such as providing taxpayers with appointments and having necessary technical support on hand to assist taxpayers in resolving their tax problems. IRS plans to continue holding PSDs through April 1999, when it is to decide if there is a continuing need for such events.

Background

During Senate Finance Committee oversight hearings held in September 1997, several taxpayers testified about problems they had experienced when dealing with IRS. In response, the then Acting Commissioner of Internal Revenue announced that IRS would hold monthly PSDs in each of its 33 districts, beginning in November 1997. According to the Acting Commissioner, the objective of this initiative was to provide taxpayers with an opportunity to meet face to face with IRS staff to help resolve ongoing tax problems, such as misapplied tax payments, nonreceipt of refunds, and disputed tax bills, that they had been unable to resolve through regular IRS channels.

Each IRS district office is responsible for planning and implementing the PSDs, under the overall coordination of the national Taxpayer Advocate. The Office of the Taxpayer Advocate (OTA) administers the Problem Resolution Program (PRP), which was established in 1976 and currently operates in all IRS district offices and service centers to assist taxpayers in resolving tax problems or those who are suffering financial hardship. Other responsibilities of OTA include conducting advocacy projects to identify and address systemic and procedural deficiencies that contribute to the problems experienced by taxpayers and representing taxpayers' interests in the formulation of IRS policies and procedures.

Scope and Methodology

To identify how IRS implemented the PSD initiative, we met with the IRS national Taxpayer Advocate and his staff and obtained and reviewed national office guidance to the district offices concerning planning and implementing the PSDs. We also obtained and reviewed the PSD implementation plans from eight IRS districts and met with district office officials concerning these plans prior to the initial PSD held on November 15, 1997. We then attended the initial PSDs at these eight districts. We also attended the PSDs at two districts during December 1997 and at two districts during May 1998.

To determine taxpayers' overall satisfaction with the initiative and the extent to which taxpayers' problems were resolved, we obtained and reviewed available IRS statistics concerning the status of PSD cases in general and the specific results of closed PSD cases, as well as summary reports on the results of IRS' monthly taxpayer surveys and a summary report on the results of IRS' April and May 1998 taxpayer follow-up telephone survey. We also mailed a questionnaire to a stratified probability sample of the taxpayers who visited the 33 IRS sites on the initial PSD held on November 15, 1997. (App. I describes our sample, response rate, and

procedures to assess sources of nonsampling error.) We then analyzed the responses to determine at the time of our survey, among other things, the extent to which (1) taxpayers' problems were resolved either during or since the November 15 PSD, (2) taxpayers considered the PSD to be a good idea, and (3) taxpayers were aware of the Problem Resolution Office located in each IRS district office.¹ (See app. II for the results of our taxpayer survey.)

To determine systemic problems identified, lessons learned, and subsequent actions taken by IRS, we met with the national Taxpayer Advocate and his staff, a district office official who led a study of the overall PSD initiative, and a regional office representative of IRS' Taxpayer Equity Task Force. We obtained and reviewed pertinent documentation from these officials, including a compilation of lessons learned that was submitted to the National Office by the district offices, a copy of the report prepared at the conclusion of the PSD study, and minutes of meetings held by the Taxpayer Equity Task Force. We also discussed the objectives and status of ongoing task group studies of the four major areas that contributed to taxpayer problems identified during the PSD initiative with representatives from each of these task groups. (See app. III for definitions of these major problem areas.)

We did our work from November 1997 to August 1998 in accordance with generally accepted government auditing standards. The work was done at IRS' National Office and at the following nine district offices: Upstate New York, Delaware/Maryland, Georgia, North Florida, Illinois, Kansas/Missouri, South Texas, Northern California, and Southern California. We selected the IRS offices that we visited on the basis of geographic dispersion and the availability and proximity of our staff to assist in the audit work.

We requested comments on a draft of this report from the Commissioner of Internal Revenue. His written comments are discussed at the end of this letter and shown in appendix IV.

IRS' Implementation of the PSD Initiative

IRS' district offices are responsible for holding PSDs with guidance from OTA. IRS held its initial PSD in November 1997 and has held PSD events each month since then. Through the end of July, the PSD initiative had enabled

¹Since our results came from a sample of taxpayers, they are subject to sampling errors that are expressed as 95-percent confidence intervals. We are 95 percent confident that our sampling procedures provide results in this report that are within eight percentage points of what the results would have been if we had surveyed all participating taxpayers.

over 22,000 taxpayers to meet with IRS staff in an effort to resolve their ongoing tax problems.

OTA is responsible for monitoring and coordinating the overall PSD initiative. OTA provided general guidance to the district offices concerning how PSD events were to be planned, advertised, and implemented, including the necessary staffing, security, and information systems. OTA also selected the specific dates (November 15, 1997, and May 16, 1998) on which national events were held, and district offices decided the dates and locations for additional local problem-solving events each month. Most districts chose to hold PSDs in various locations within the districts to provide taxpayers throughout the geographic area of the districts an opportunity to meet with IRS staff to discuss their problems without traveling to the main district offices. Many districts also elected to hold these events during the week rather than on a Saturday. For example, in March 1998, 22 districts held a PSD on a weekday using extended business hours to accommodate taxpayers who could not visit during regular business hours. The other 11 districts held PSDs on Saturdays.

According to IRS officials, the national office and district offices coordinated their efforts to ensure that PSD events were advertised both nationally and locally through newspapers, press releases, television, and radio. Local congressional offices and practitioner groups were also advised of dates and locations for upcoming problem-solving events. Taxpayers and practitioners were advised to call in advance to schedule appointments. Those who called in advance regarding tax problems were given appointments, and their tax accounts were researched to facilitate discussing and resolving their problems on the PSD. In addition, some taxpayers who called IRS regarding a PSD were able to get their problems resolved over the telephone without visiting an IRS office. However, due to the complexity of their tax problems, many taxpayers chose to visit an IRS office to discuss their problems face to face. "Walk-ins" who attended a PSD without an appointment were also generally provided an opportunity to meet with IRS staff to discuss their tax problems.

During PSDs, the participating offices we visited were generally staffed with IRS employees from various operating groups, such as Customer Service, Examination, and Collection, who had a wide range of expertise in various tax matters and were available to assist taxpayers, thus making the initiative conducive to discussing and resolving their ongoing tax problems. This arrangement enabled IRS staff, who initially met with taxpayers to discuss their problems and who may not have had the

required training or expertise necessary to resolve a particular type of problem, to call upon other IRS staff for assistance. For example, if a taxpayer wanted to discuss a technical issue and the initial IRS employee had not been trained in that area, the employee could ask a specialist to assist the taxpayer. According to the IRS official who led a study of the PSD initiative, this cross-functional approach was particularly helpful in dealing with many of the taxpayers who had multiple problems that had remained unresolved for long periods of time. The official said that IRS staff also considered this approach useful because it helped them to better understand taxpayers' problems and to develop possible solutions.

Each participating office we visited had also arranged for computer terminals, information systems, and technical support as well as office space and security to accommodate as many taxpayers as possible during these events. In some instances, space limitations made it necessary for these events to be held at locations other than an IRS office.

IRS' initial national PSD, which was held at each of the 33 district offices on Saturday, November 15, 1997, was attended by about 6,300 taxpayers and received generally favorable press coverage and reactions from taxpayers. IRS held a second nationwide PSD at each district office on Saturday, May 16, 1998, which was attended by about 2,500 taxpayers. IRS' district offices have also held additional monthly PSD events between November 1997 and July 1998. More than 22,000 taxpayers had attended PSDs through the end of July 1998.

According to OTA, the incremental costs for planning and holding these events, as well as for following up on the taxpayers' cases that resulted from them, were about \$11.5 million through the end of July 1998, primarily resulting from overtime salaries and related personnel compensation. Additional costs, such as rent, and moving and installation of computers, were incurred when PSD events were held at locations other than an IRS office. IRS estimated that the overall costs for holding PSDs during fiscal year 1998 likely would be about \$15 million. These estimates do not include the costs to the taxpayers in both the money and time they spent in an effort to get their problems resolved through the PSD initiative, nor do the estimates reflect IRS' and taxpayers' costs from previous attempts to resolve their problems. For example, our survey of taxpayers who participated in the initial PSD indicated that all had made prior attempts to resolve their problems, including about 86 percent who had tried over the telephone, about 63 percent who had tried through the mail, and about 42 percent who had tried in person. As these percentages

indicate, many taxpayers used more than one method in attempting to resolve their problems. Based on their previous attempts to resolve their problems, about 39 percent of taxpayers responded that they had participated in the PSD because they considered it to be their “last resort.”

Taxpayers Had Generally Favorable Reactions to PSDs, Although Many Problems Were Not Resolved

Surveys that we and IRS conducted of taxpayers who participated in a PSD have shown that taxpayers have had generally favorable reactions concerning the PSD initiative. In particular, the results of our taxpayer survey showed that the vast majority of taxpayers who participated in the first PSD felt that (1) it was easy to schedule an appointment for this event, (2) they were treated courteously by IRS employees, and (3) they appreciated the opportunity to meet face to face with IRS staff to discuss their problems. Overall, about 91 percent² of taxpayers believed that the PSD was a good idea. This 91 percent included all taxpayers who felt that their problems had been fully resolved and about 86 percent of those who felt that their problems had not been fully resolved at the time of our survey.

Since the beginning of the PSD initiative, IRS has conducted monthly surveys of taxpayers who attended a PSD. The monthly surveys have addressed issues such as promptness of service, convenience of office hours, employee courtesy, and IRS’ effort to resolve taxpayers’ problems. Overall, the results of these monthly surveys have been favorable. However, each month survey respondents indicated that IRS’ effort to resolve their problems could be improved.

In addition to its monthly surveys, IRS conducted a follow-up telephone survey in April and May 1998 of taxpayers who had participated in the PSD initiative, either in person or by telephone. The results of the follow-up telephone survey led IRS to revise the format of its monthly surveys in an effort to obtain more detailed information, particularly about whether taxpayers’ problems had been resolved during the PSD and, if not, the reasons why.

Although in general the surveys indicated PSDs have been well received by participating taxpayers, many taxpayers’ problems were not resolved through the initiative. Our survey indicated that about 25 percent of participating taxpayers initially felt that their problems had been fully resolved during the November 15th PSD. Some of these taxpayers—about

²Because our survey was based on a sample and subject to sampling errors, our result of 91 percent is surrounded by a 95-percent confidence interval of ± 4 percentage points.

9 percent—responded that they believed their problems were not resolved after all. However, a greater number of taxpayers who initially felt that their problems had not been resolved during the November 15th PSD—about 18 percent—responded that they believed their problems had since been fully resolved. The net result was that an estimated 34 percent of these taxpayers felt that their problems had been fully resolved at the time of our survey.³

In addition, about 67 percent of the taxpayers responding to our survey said that they left the PSD knowing what further steps needed to be taken to get their problems resolved. It is important to recognize that certain problems may take longer to resolve than others, and it is possible that some taxpayers who did not have their problems resolved at the time of our survey may have had them resolved since then.

Further, some taxpayers may not consider their problems resolved unless IRS makes a change in their favor.⁴ According to IRS officials, PSD cases that resulted in no changes would usually be for one of two reasons: (1) IRS determined that there was no basis on which to make a change, such as instances in which taxpayers failed to furnish requested additional information or (2) the tax laws did not allow IRS the flexibility to make a change, such as instances in which the statute of limitations period for sending tax refunds to taxpayers had expired.

IRS Is Considering Ways to Institutionalize Lessons Learned During the PSD Initiative

IRS has conducted various studies related to the PSD initiative. These efforts include studies to identify the main causes, including systemic problems, of some major problem areas raised by taxpayers on PSDs, a Taxpayer Equity Task Force convened by the national Taxpayer Advocate, and an overall review of the PSD initiative to identify lessons learned and the need for continued problem-solving events. IRS' field offices have also begun on their own to initiate some actions to better resolve taxpayers' problems.

IRS has analyzed the types of problems taxpayers have sought to resolve on PSDs since the beginning of the initiative and identified four main problem areas: penalties, audit reconsiderations, installment agreements, and offers in compromise. IRS currently has task groups reviewing each of these problem areas in an effort to identify possible actions that could reduce

³For this estimate of 34 percent, the 95-percent confidence interval is ± 6 percentage points.

⁴OTA does not have the results of all closed PSD cases. However, one IRS region that has tracked the results of its closed PSD cases since the initiative began indicated that through the end of July 1998, about 45 percent of closed cases were either fully or partially changed in favor of the taxpayers.

such problems in the future. With the exception of the review involving installment agreements, which began in May 1998 and is not scheduled to be completed until fiscal year 1999, each task group was expected to conclude its study with a report including recommendations by the end of September 1998. In addition to these reviews of the four main problem areas, the Taxpayer Advocate has convened a Taxpayer Equity Task Force to assist in identifying both administrative and legislative provisions that may have resulted in unintended consequences for taxpayers and thus may have had an impact on the resolution of their problems. The Taxpayer Equity Task Force has coordinated its efforts with the various task groups that are conducting the four reviews, to avoid duplicating efforts as well as to ensure that its findings are shared with and considered by the task groups.

Each of these four main problem areas has been identified by IRS in the past and has been the focus of prior studies. In that regard, the Taxpayer Advocate's Annual Reports to the Congress, for both fiscal years 1996 and 1997, mention each of these problem areas as a major source of PRP cases and the focus of taxpayer advocacy projects conducted by IRS' field offices. For example, during fiscal year 1997, one IRS region studied taxpayer complaints concerning installment agreements and offered several recommendations to reduce taxpayer burden and improve taxpayer satisfaction pertaining to this area. At the time of our review, IRS had acted upon one of the 15 recommendations from this project. According to an OTA official, the findings from this project will be used as a starting point for the task group studying installment agreements.

In addition to these reviews of specific PSD problem areas, IRS has also conducted an overall review of the PSD initiative to determine the lessons learned over the course of the initiative and the need for continued problem-solving events in the future. According to IRS officials involved in this review, among the lessons learned from PSDs were that many taxpayers who attended did so because they wanted to discuss their ongoing tax problems face to face with IRS staff in an effort to finally get them resolved. In addition, the officials said IRS staff appreciated the opportunity to deal directly with taxpayers concerning their problems. They also thought that the cross-functional, problem-solving approach used on PSDs provided the degree of technical expertise necessary to help many taxpayers with their problems.

A report based on the lessons learned that were identified during this review concluded that IRS should focus attention on making the

problem-solving process used during PSDs a part of its everyday operations. Recommendations in the report included (1) adopting a policy in each district office whereby taxpayers may make appointments in advance or simply walk in to get their problems resolved, (2) providing access to cross-functional technical resources on demand, (3) expanding and standardizing walk-in hours, (4) establishing a network in each district office to help employees with difficult cases, and (5) continuing monthly PSDs until a day-to-day problem-solving capability has been established.

In response to this study, IRS' Taxpayer Treatment and Service Improvements Executive Steering Committee indicated that monthly PSDs will continue through April 1999, at which time IRS will assess whether there is a continuing need for them. In addition, IRS is studying ways to incorporate lessons learned from the PSDs into its day-to-day operations to better assist taxpayers in resolving their tax problems, by establishing procedures for providing taxpayers with appointments and for providing the necessary technical support. We agree that assisting taxpayers in resolving their tax problems and making such assistance an integral part of IRS' day-to-day operations could be beneficial to both taxpayers and IRS.

In addition to the various studies undertaken, IRS' field offices have begun taking actions on their own to better assist taxpayers in getting problems resolved. For example, according to IRS regional officials each of the district offices in one region has established cross-functional teams that are available to assist other employees in resolving cases involving difficult tax problems. This approach has been recommended by the national office for nationwide implementation. In addition, according to IRS regional officials some districts have begun to provide taxpayers with appointments to discuss their tax problems, some have provided for walk-in service during normal business hours, and some have established evening hours for conducting audits.

Congress recently passed legislation that should also aid taxpayers in getting tax problems resolved. The Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206) (1) strengthens the role of the national Taxpayer Advocate by expanding the authority to assist taxpayers; (2) replaces the current problem resolution program with local taxpayer advocates reporting directly to the national Taxpayer Advocate; (3) requires the national Taxpayer Advocate to report annually to Congress, at least 20 of the most serious problems encountered by taxpayers and the actions taken by IRS concerning these problems; (4) requires IRS to publish the telephone numbers for each local office of

the Taxpayer Advocate; and (5) requires IRS to publish a taxpayer's right to contact the local Taxpayer Advocate on the statutory notice of deficiency, including the location and telephone number of the appropriate office.⁵ These changes, if effectively implemented, should be helpful to taxpayers. Based on our survey, only about 31 percent of taxpayers participating in the November 15th PSD reported that they had prior contact with IRS' Problem Resolution Office, which, before the PSD initiative, was the main avenue for taxpayers to get assistance in resolving ongoing tax problems. About 63 percent of taxpayers reported that they were unaware this particular office existed.

Conclusions

IRS' PSD initiative has proven to be beneficial to both taxpayers and IRS from several standpoints. For instance, it has given some taxpayers an opportunity to discuss their ongoing tax problems face to face with IRS employees, and it has resulted in some taxpayers reporting that their problems were fully resolved. Although most of the surveyed taxpayers' problems were not immediately resolved through the initiative, a majority of them reported that they were informed of the steps they needed to take to get their problems resolved. Most of the surveyed taxpayers also reported that they were treated courteously by the IRS employees that they dealt with during the initiative. For their part, IRS officials said that IRS employees welcomed the opportunity to meet directly with taxpayers in an effort to assist them and felt that the cross-functional approach used during the initiative was very beneficial for resolving taxpayers' problems. The positive benefits of the initiative, however, were gained through costs to both participating taxpayers and IRS.

The major problem areas that IRS identified as leading to PSD cases were similar to problems that IRS had previously identified and studied as part of the Problem Resolution Program. IRS' ongoing studies to identify possible systemic deficiencies causing these problems could result in recommended actions to reduce or eliminate the incidence of such problems in the future. In addition, the lessons learned from the PSD initiative in general should help IRS carry out the Taxpayer Advocate's responsibilities mandated by the Internal Revenue Service Restructuring and Reform Act of 1998 and improve its day-to-day capability to resolve taxpayers' ongoing tax problems. Improving this capability could lead to

⁵IRS sends a statutory notice of deficiency to inform taxpayers of the additional taxes that have been determined to be owed after taxpayers have received an earlier notice about tax adjustments that had been recommended by an auditor. Generally, the statutory notice gives the taxpayer 90 days to file a petition with the Tax Court for a determination of the deficiency.

less dependence on monthly PSDs and the added costs associated with these events to both taxpayers and IRS.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Commissioner of Internal Revenue or his designee. In a September 15, 1998, meeting, the national Taxpayer Advocate and members of his staff provided oral comments in which they agreed with the report's findings. The Commissioner of Internal Revenue provided us with written comments on October 1, 1998, in which he expressed IRS' commitment to improve the PSD program to meet the needs of taxpayers. He also said that IRS needs to work to resolve taxpayer problems at the original point of contact with IRS. (See app IV.)

As agreed with your office, unless you announce the contents of this report earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Ranking Minority Member, Senate Committee on Finance; the Chairman and Ranking Minority Member, House Committee on Ways and Means; various other congressional committees; the Director of the Office of Management and Budget; the Secretary of the Treasury; the Commissioner of Internal Revenue; and other interested parties.

The major contributors to this report are listed in appendix V. If you or your staff have any questions concerning this report, please contact me or Joseph Jozefczyk, Assistant Director, on (202) 512-9110.

Sincerely yours,



James R. White
Director, Tax Policy and
Administration Issues

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Abbreviations

| | |
|-----|---------------------------------|
| IRS | Internal Revenue Service |
| OTA | Office of the Taxpayer Advocate |
| PRP | Problem Resolution Program |
| PSD | Problem-Solving Day |

Problem-Solving Day Taxpayer Participant Survey Methodology

To obtain participating taxpayers' views on IRS' Problem Solving Days (PSD), we mailed questionnaires to a sample of PSD participants in December 1997. The results presented in this report are based on 201 responses to our questionnaire and are presented in detail in appendix II.

We drew our sample to represent the population of all taxpayers that visited an IRS office during the November 15, 1997, PSD and were recorded as participants with a full address in an IRS database. To obtain a probability sample of participants, we first drew 600 taxpayer names from a list of all 8,099 taxpayers that IRS had identified in its Problem Resolution Office Management Information System database by December 3, 1997, as having had any type of contact with IRS concerning the November 15, 1997, PSD. We excluded 427 taxpayers with incomplete addresses before forming this list. The sample was randomly drawn from three strata that we defined by the date and closure status of the case. Of the 365 taxpayers that we were able to contact, we found that 243 had actually visited a November 15, 1997, PSD site and thus were eligible for our study. The remainder (122) had not visited IRS during the PSD. Completed questionnaires were obtained from 201 respondents. All results presented in this report have been weighted to estimate the views and experiences of the on-site participants after adjusting for nonresponse rates within the three sample strata.

Because we surveyed a sample of on-site participants, our results are estimates of all participants' characteristics and thus are subject to sampling errors that are associated with samples of this size and type. Our confidence in the precision of the results from this sample is expressed in 95-percent confidence intervals. The 95-percent confidence intervals are expected to include the actual results for 95 percent of the samples of this type. We calculated confidence intervals for our study results using methods that are appropriate for a stratified, probability sample. For the percentages presented in this report, we are 95 percent confident that the results we would have obtained if we had studied the entire study population are within ± 8 or fewer percentage points of our results. For example, our estimate that about 91 percent of the participants feel that the PSD was a good idea is surrounded by a 95-percent confidence interval of ± 4 percentage points and thus stretches from 87 to 95 percent.

In addition to these sampling errors, the practical difficulties in conducting surveys of this type may introduce other types of errors, commonly referred to as nonsampling errors. For example, questions may be misinterpreted or the respondents' answers may differ from those of

people who do not respond. We took several steps in an attempt to reduce such errors. The questionnaire was pretested with eligible taxpayers. All initial sample nonrespondents were sent a follow-up questionnaire mailing. All data were double keyed during entry. Computer analyses were performed to identify inconsistencies or other indications of errors and all computer analyses were checked by a second independent analyst. The low response rate is of special concern for this study. Of the initial 600 sampled taxpayers, 54 percent either returned a complete, usable questionnaire (201) or responded that they were not eligible for the survey because they had not visited an IRS site during the November 15, 1997, PSD (122 sample selections). The difference in this response rate for the three sample strata was small (7 percentage points) and not statistically significant.

To help evaluate the low response rate, we conducted a small-scale telephone follow-up survey of nonrespondents and did not find large or statistically significant differences between respondents and nonrespondents. For the telephone follow-up survey, we contacted a subsample of the sample that had not responded to the initial or follow-up mailings. We obtained telephone numbers from IRS or through local directory assistance services. Sixty-one of the 75 selected cases were reached after a minimum of 15 telephone calls had been attempted during morning, afternoon, and evening hours on both weekends and weekdays. The small difference between the eligibility rate of 66 percent for these 61 follow-up taxpayers (21 were not eligible for our sample because they had not visited an IRS office during the PSD), and the eligibility rate of 67 percent for the respondents to the main survey is not statistically significant and does not indicate that the procedures followed in the main survey are overestimating the participation in the PSD. Of the remaining 40 follow-up contacts, 6 refused to participate; and 34 answered the telephone survey follow-up questions, which were compared with the results of the mail survey. The answers provided by these 34 follow-up respondents were not statistically significantly different from those provided by the mail survey respondents for the major questions that were compared. About 88 percent of the telephone follow-up respondents and 91 percent of the mail survey respondents reported that they felt the PSD was a good idea. About 18 percent of the telephone follow-up respondents and 24 percent of the mail survey respondents reported that their problems had been fully resolved on the PSD.

The low response for the entire survey means that findings could differ from those that would have been obtained from the full sample. The

Appendix I
Problem-Solving Day Taxpayer Participant
Survey Methodology

results from this small-scale follow-up of nonrespondents provide some evidence that the differences are not likely to be large.

Summary of Taxpayer Responses to Our Survey Concerning Problem-Solving Day

Following is a summary of responses to the survey we sent to a random sample of participants soon after the initial problem-solving day on November 15, 1997. The results in this appendix have been weighted to account for the initial selection rates and subsequent response rates in each of the three sample strata. For questions for which the respondent was to “check all that apply,” the percent of total survey respondents checking each response is provided and generally exceeds 100 percent in total. For questions for which the respondent was to “check one,” responses are expressed as a percent of the total responses to that question and should equal 100 percent (exceptions may occur through rounding).

Survey Questions and Responses

1. How did you learn that IRS was planning to hold a problem-solving day on November 15, 1997? (Check all that apply.)

| Source | Percent |
|-------------------------|---------|
| Newspaper announcement | 51% |
| Television announcement | 32 |
| Radio announcement | 16 |
| Word of mouth | 16 |
| Other | 15 |

2. What was the primary reason you decided to participate in the IRS problem-solving day? (Check one.)

| Primary reason | Percent |
|--|---------|
| Announcement seemed like a good opportunity to resolve problem | 51% |
| Considered this a last resort | 39 |
| Encouraged by someone else | 6 |
| Other | 4 |

Note: Three taxpayers did not respond to this question.

Appendix II
Summary of Taxpayer Responses to Our
Survey Concerning Problem-Solving Day

3. Did you make an appointment with IRS for problem-solving day or did you walk in without an appointment? (Check one.)

| Participation method | Percent |
|----------------------|---------|
| Made an appointment | 72% |
| Walked in | 28 |

Note: One taxpayer did not respond to this question.

4. If you made an appointment, was it easy or difficult to schedule it? (Check one.)

| Appointment process | Percent |
|---------------------|---------|
| Easy | 88% |
| Difficult | 12 |

Note: Sixty taxpayers skipped this question based on their answer to the prior question or otherwise did not respond to this question.

5. What type of tax returns were you discussing with IRS on problem-solving day? (Check all that apply.)

| Type of tax return | Percent |
|--------------------|---------|
| Individual | 85% |
| Business | 22 |
| Schedule C | 3 |
| Other | 5 |

6. What was the nature of the ongoing problems you tried to resolve with IRS on problem-solving day? (Check all that apply.)

| Nature of problem | Percent | Nature of problem | Percent |
|-----------------------------|---------|----------------------|---------|
| Penalties | 34% | Offer in compromise | 22% |
| Disputed bill or assessment | 34 | Levy | 20 |
| Disputed payment | 29 | Nonreceipt of refund | 8 |
| Lien | 24 | Seizure | 7 |
| Installment agreement | 23 | Other | 19 |

Appendix II
Summary of Taxpayer Responses to Our
Survey Concerning Problem-Solving Day

7. Prior to participating in problem-solving day, what methods had you used to resolve your problems with IRS? (Check all that apply.)

| Prior resolution methods | Percent |
|---------------------------------|----------------|
| Telephone | 86% |
| Mail | 63 |
| In person | 42 |
| Other | 19 |

8. Was your problem with IRS resolved on problem-solving day? (Check one.)

| Status on problem-solving day | Percent |
|--------------------------------------|----------------|
| Fully resolved | 25% |
| Partially resolved | 30 |
| Not resolved | 45 |

9. Did you leave problem-solving day knowing what further steps needed to be taken to get your problem solved? (Check one.)

| Knew steps needed for problem resolution | Percent |
|---|----------------|
| Yes | 67% |
| No | 33 |

Note: Fifty-five taxpayers skipped this question based on their answer to the prior question or otherwise did not respond to this question.

10. Do you now have a contact person at IRS to follow up with concerning your problem? (Check one.)

| IRS contact person | Percent |
|---------------------------|----------------|
| Yes | 68% |
| No | 32 |

Note: Fifty-four taxpayers skipped this question based on their answer to the prior question or otherwise did not respond to this question.

Appendix II
Summary of Taxpayer Responses to Our
Survey Concerning Problem-Solving Day

11. If your problem was not resolved or was partially resolved on problem-solving day, has it been fully resolved since then? (Check one.)

| Problem resolved since problem-solving day | Percent |
|---|----------------|
| Yes | 18% |
| No | 82 |

Note: Fifty-three taxpayers skipped this question based on their answer to the prior question or otherwise did not respond to this question.

12. If you left problem-solving day thinking that your problem was resolved or knowing what steps needed to be taken, has IRS said or done anything since then that leads you to believe that your problem may not be resolved after all? (Check one.)

| Problem not resolved after all | Percent |
|---------------------------------------|----------------|
| Yes | 9% |
| No | 91 |

Note: One hundred thirty-one taxpayers skipped this question based on their answer to the prior question or otherwise did not respond to this question.

13. Were you treated courteously by IRS employees during and since problem-solving day? (Check one.)

| During problem-solving day | Percent | Since problem-solving day | Percent |
|-----------------------------------|----------------|----------------------------------|----------------|
| Yes | 96% | Yes | 62% |
| No | 4 | No | 12 |
| | | No contact since | 25 |

Note 1: Six taxpayers did not respond to this question concerning their treatment by IRS during the problem-solving day.

Note 2: Fifteen taxpayers did not respond to this question concerning their treatment by IRS since the problem-solving day.

Appendix II
Summary of Taxpayer Responses to Our
Survey Concerning Problem-Solving Day

14. Based on your experience, do you think that IRS' problem-solving day was a good idea? (Check one.)

| Problem-solving day a good idea | Percent |
|--|----------------|
| Yes | 91% |
| No | 9 |

Note: Six taxpayers did not respond to this question.

15. Each IRS district office has an office called the "Problem Resolution Office," which was established to help taxpayers resolve their tax problems. This office is headed by a "Taxpayer Advocate." Have you ever contacted a Problem Resolution Office in order to resolve tax problems? (Check one.)

| Prior contact with Problem Resolution Office | Percent |
|---|----------------|
| Yes | 31% |
| No, but I knew such an office existed | 6 |
| No, I was not aware such an office existed | 63 |

Note: Four taxpayers did not respond to this question.

Definition of the Main Problem Areas Identified During Problem-Solving Days

IRS has analyzed the types of problems that taxpayers have sought to resolve on problem-solving days since the beginning of the initiative and identified four main problem areas, including (1) penalties, (2) audit reconsiderations, (3) installment agreements, and (4) offers in compromise. Following are definitions for each area.

Penalties

The Internal Revenue Code contains various provisions authorizing IRS to impose financial penalties on a taxpayer for violation of provisions in the code. For example, section 6651 of the code authorizes IRS to assess a penalty if a taxpayer fails to file a required tax return or fails to pay a tax liability on time. IRS assesses the penalty in addition to the taxes and interest owed by the taxpayer.

Audit Reconsiderations

Treasury Regulation 301.6404-1 authorizes IRS to reconsider an audit assessment. For example, if a taxpayer disputes an assessment and provides additional information to support his or her position, IRS may reconsider and abate the assessment.

Installment Agreements

Section 6159 of the Internal Revenue Code authorizes IRS to allow taxpayers to pay their taxes in installments, with interest, in order to facilitate payment of the tax liability.

Offers in Compromise

Section 7122 of the Internal Revenue Code authorizes IRS to compromise tax debts. Offers in compromise are taxpayer proposals to settle tax debts for less than the amount owed.

Comments From the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 1, 1998

Mr. James R. White
Director, Tax Policy and Administrative Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. White:

Thank you for the opportunity to review your recent draft report entitled "Tax Administration: IRS' Problem Solving Days." I am pleased that the report recognizes the value of problem solving days in resolving tax problems and for providing responsive customer service.

We will continue to evaluate and improve the problem solving day program in order to meet our customers' needs. At the same time, we agree that we need to work to resolve all taxpayer problems at the original point of contact with the Service.

The ultimate goal of all of our efforts is to deliver better customer service to taxpayers and to make every day a problem solving day. The frequency of and targeted audience for problem solving days could eventually change as a higher level of taxpayer service becomes the standard within IRS. To that end, the Taxpayer Treatment and Service Improvement Steering Committee will study the problem solving day results and, in April 1999, make recommendations for their future direction.

If you have any questions regarding this response, please contact me, or a member of your staff may contact Jack Mannion at (202) 622-3907.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles O. Rossotti".

Charles O. Rossotti

cc: Assistant Chief Inspector, Internal Audit
National Director, Government Liaison and Disclosure
National Director, Legislative Affairs Division
Director, Office of Accounting and Internal Control, Department of the Treasury

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