Session Five:

Tax Preparation Services

2009 IRS Research Conference

Cognitive Ethical Reasoning of Tax Practitioners: A Preliminary Investigation Using a Tax Specific Version of the Defining Issues Test (DIT)

Paper submitted for the IRS Research Conference 2009, Washington

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Research Propositions

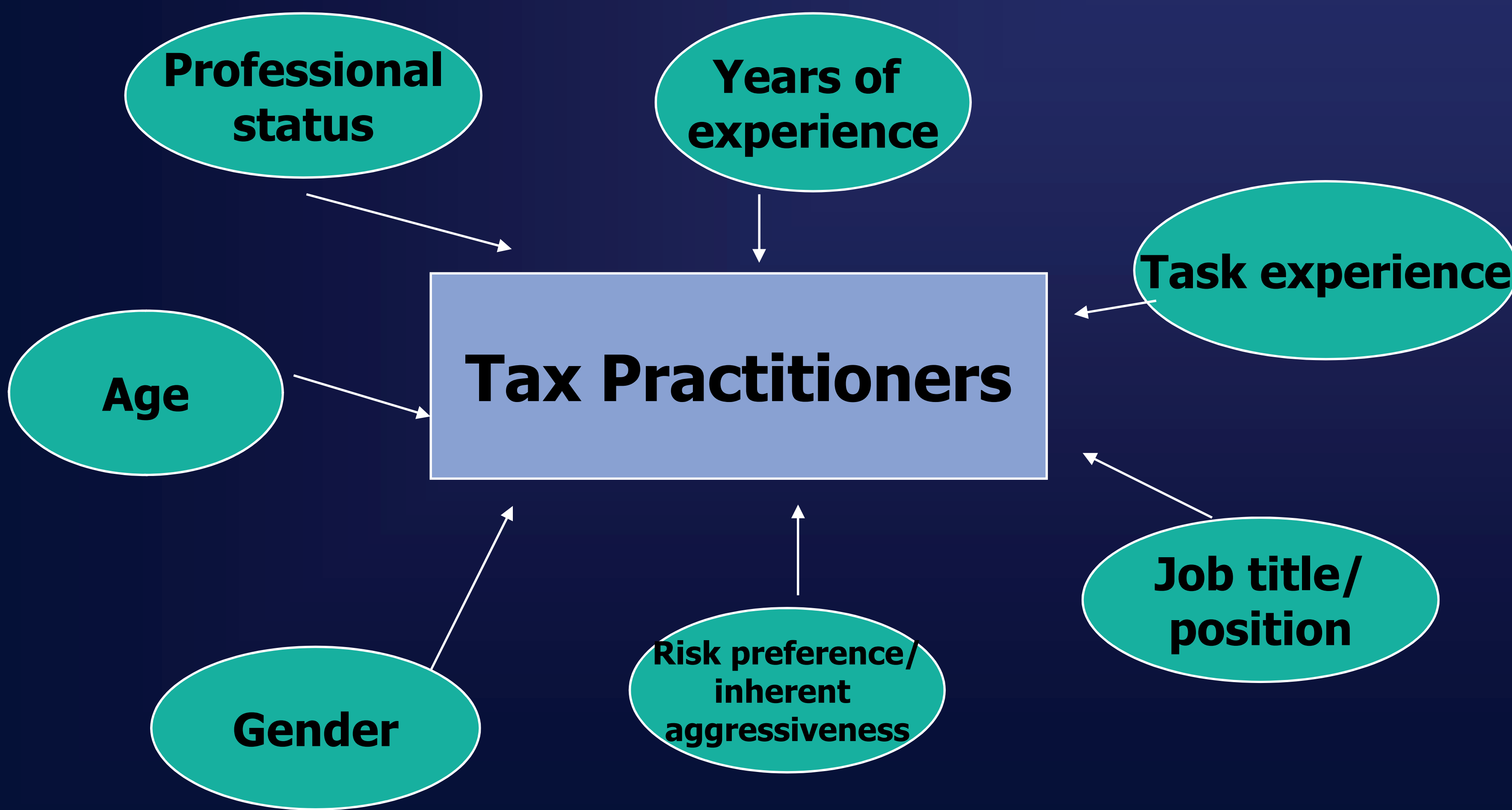
Seeking to understand the moral reasoning of tax practitioners

- **Does the tax profession attract people for whom a particular level of moral reasoning predominates?**
- **Does the tax context of itself invoke a different level of moral reasoning?**
- **Does the training/socialization of tax practitioners make their responses different from those of lay people?**

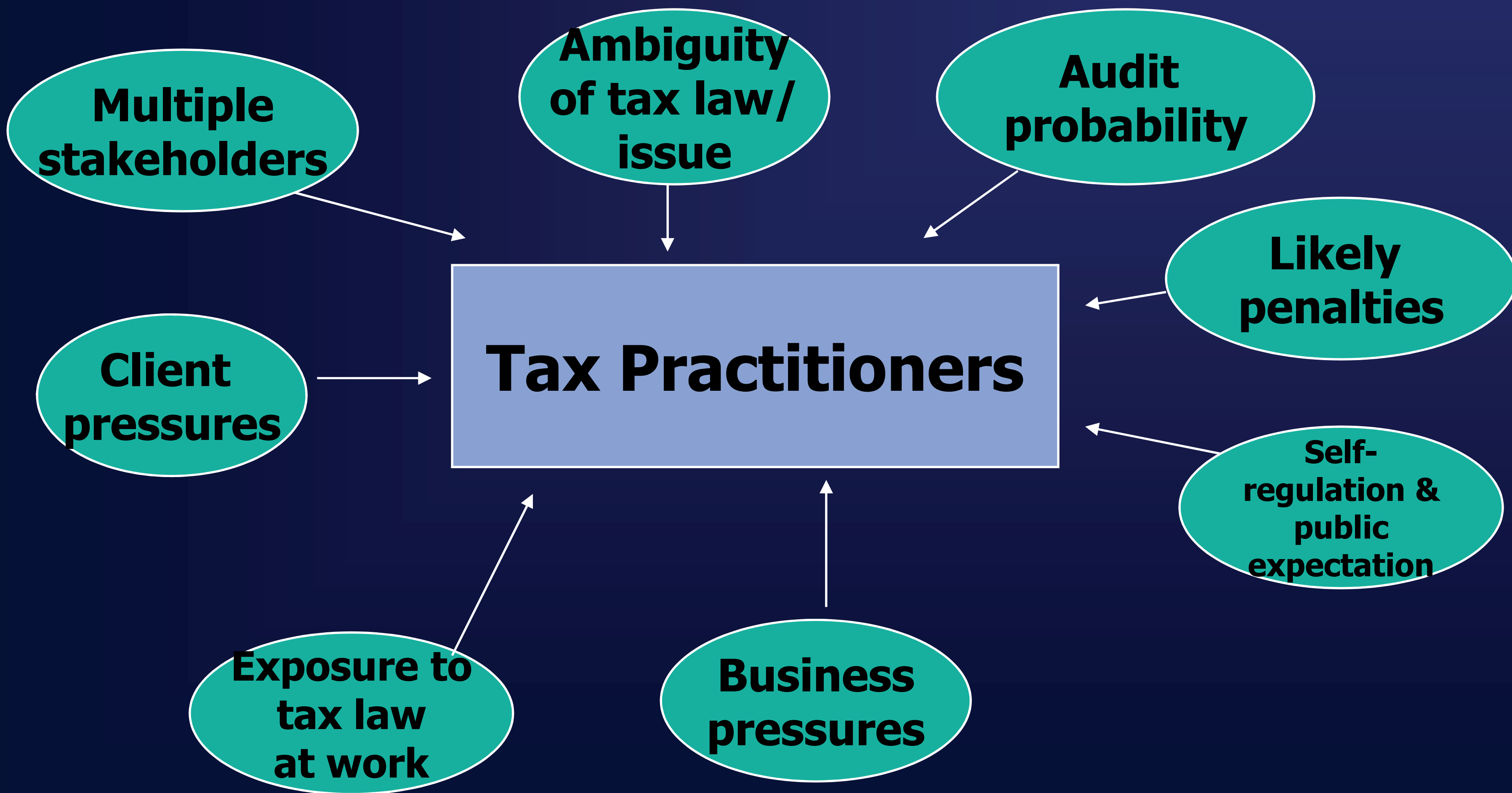
Tax Practitioners

- Why examine them?
  - Self-assessment
  - Complexity
  - Penalties for non-compliance
  - Cross border activity
  - Economic costs of non-compliance
- Ethics as a variable
- Corporate scandals

Factors leading to ethical dilemmas – endogenous variables



Factors leading to ethical dilemmas – exogenous variables



Cognitive Moral Development

- Before reaching a decision about how to behave ethically in specific situations, ethical or moral reasoning takes place at a cognitive level.
- The psychology of moral reasoning aims to understand thought processes about moral dilemmas, i.e., the state of mind of the decision maker and the processes individuals use in approaching dilemmas.
- Kohlberg's 6 stage model of moral development (1973)

Kohlberg’s model

Pre-conventional: focuses on the individual	Stage 1	The morality of obedience: do what you are told – avoid punishment.
	Stage 2	The morality of instrumental egoism and simple exchange: let’s make a deal.
Conventional: focuses on the group and relationships	Stage 3	The morality of interpersonal concordance: be considerate, nice and kind: you’ll make friends.
	Stage 4	The morality of law and duty to the social order: everyone in society is obligated to and protected by the law.
Post-conventional: focuses on the inner self and personally held principles	Stage 5	The morality of consensus-building procedures: you are obligated by the arrangements that are agreed to by due process procedures.
	Stage 6	The morality of non-arbitrary social cooperation: morality is defined by how rational and impartial people would ideally organise cooperation.

Moral Reasoning

- Rest and the Defining Issues Test (DIT)
- DIT in a business setting?
- Tax specific DIT developed

Method

- Distributed to 649 individuals (both tax practitioners and non-tax specialists) in Ireland in early 2009
  - 343 tax practitioners
  - 306 non specialists
- Response rate 39% (34% tax, 44% non specialist)
- 180 useable instruments after eliminations (80 tax, 100 non specialist)

Research Design

- 2 x 2 full factorial design
- CONTEXT (social vs TAX) and TAXPRACTITIONER (non-specialist/ tax practitioner)
- Demographic variables collected as potential covariates (age, gender, educational level)
- Type of practice collected for practitioners

Results

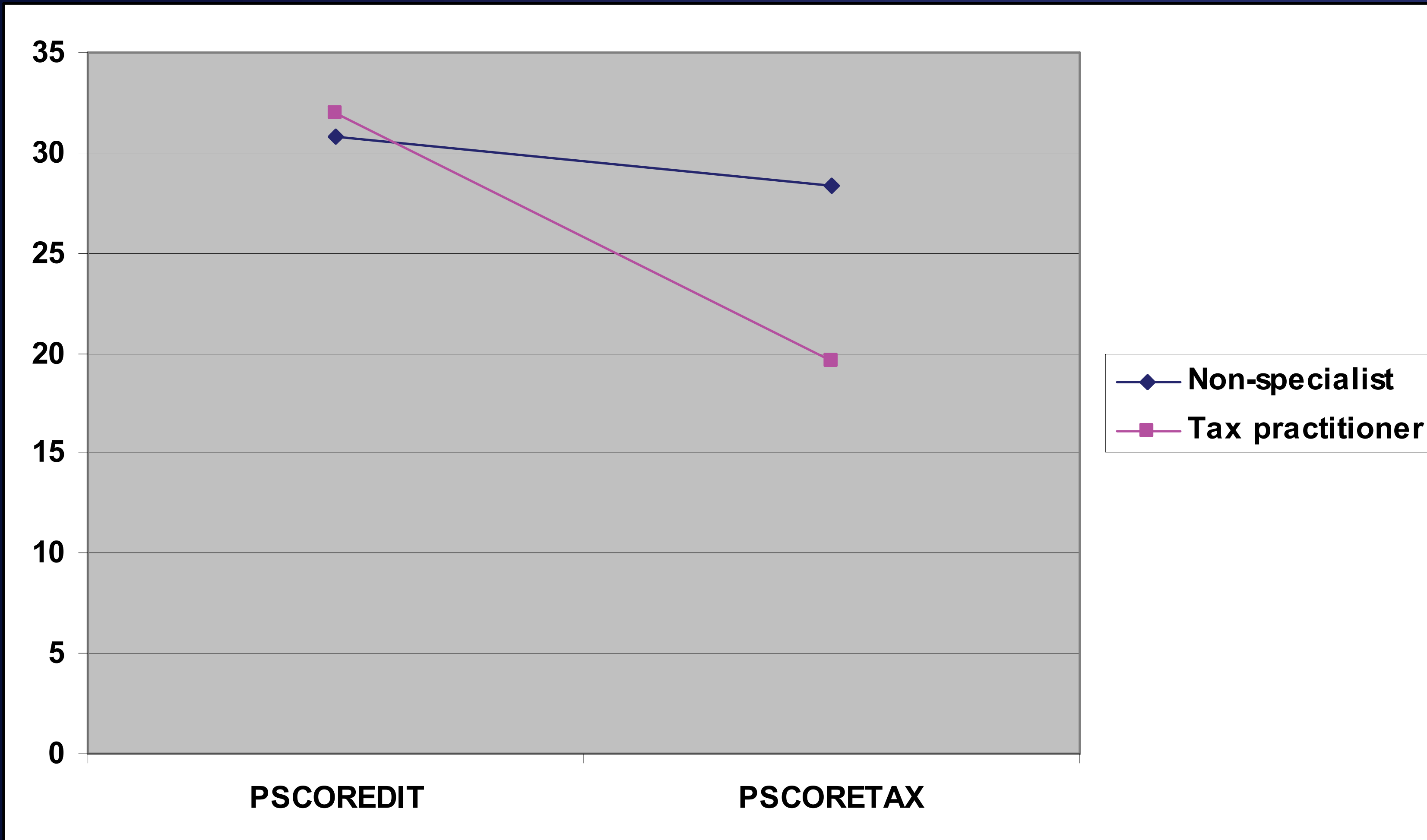
- Order effects found to be non-significant, so not used in later analysis
- GLM repeated measures model with TAXPRACTITIONER as a between-subjects factor used for the main analysis

GLM Results

	Type III Sum of Squares	df	Mean Square	F	Sig.	
Within-subjects effects						
CONTEXT	4867.556	1	4867.556	25.525	0.000	***
CONTEXT * TAXPRACTITIONER	2163.358	1	2163.358	11.344	0.001	***
Between-subjects effect						
TAXPRACTITIONER	1272.321	1	1272.321	4.578	0.034	**

Significance levels: *=.01, **=.05**

GLM Results (cont.)



GLM Results (cont.)

- PSCOREDIT is not significantly different for the two groups (separate MANOVA confirms this)
- The two P scores are only significantly different in the tax practitioner groups (separate GLM models for each group confirm this)

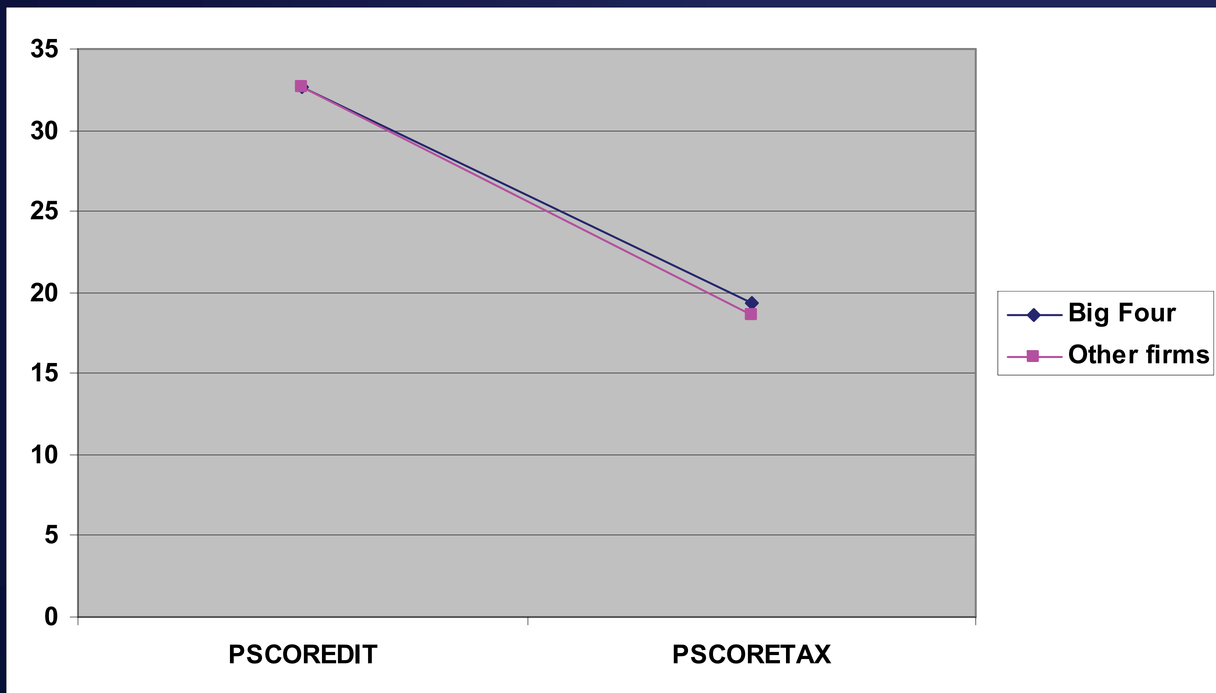
Results (cont.)

Checks for different outcomes from training/ socialization compared:

- **Practitioners in the Big Four firms with those in other types of private practice (GLM repeated measures)**
- **Private practice practitioners with those in the revenue service (insufficient numbers for statistical tests at this stage)**

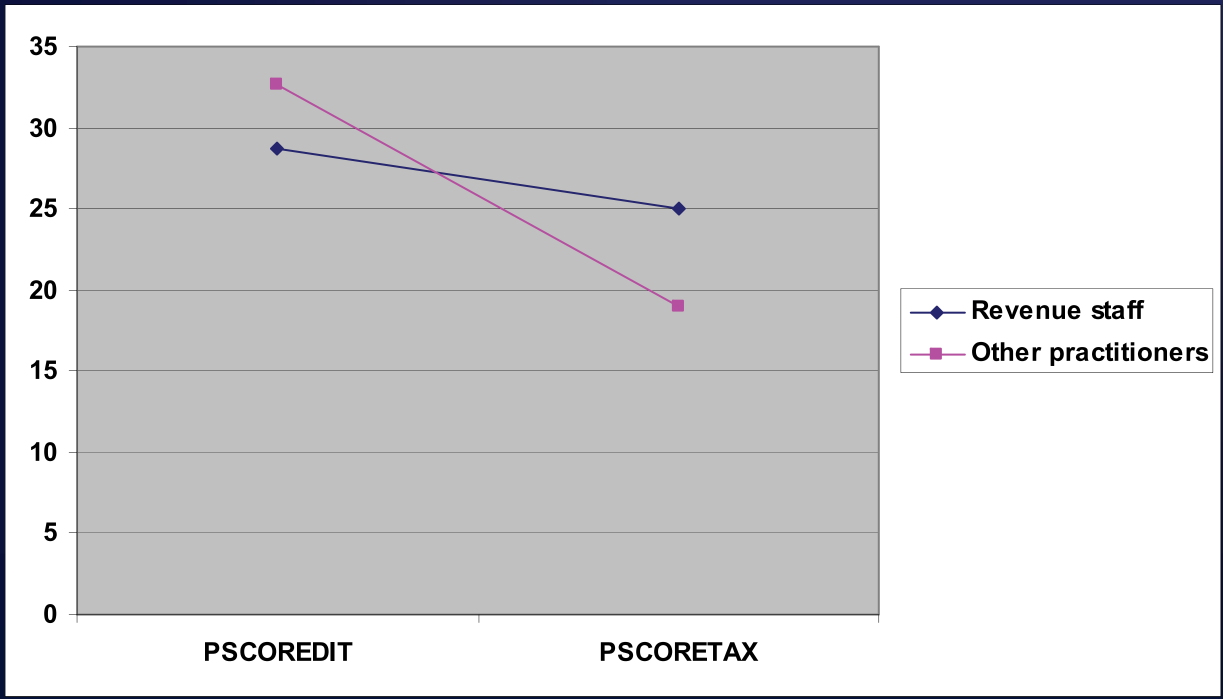
Results (cont.)

Those working in Big Four firms were not significantly different from other practitioners (p>0.1)



Results (cont.)

Those in the revenue service had P scores in the tax context which were more similar to those in the social context – larger sample needed for proper investigation



Tentative Conclusions

- Tax practitioners use lower levels of ethical reasoning at work than in a social context
- This appears to be as a result of training / socialisation
- May be as result of having a predominantly law and order orientation
- Further analysis is necessary

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Increasing Preparer Responsibility, Visibility, and Competence

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Time to Change the Dynamics

- The Problem:
  - High incidence of errors among paid preparers' returns, but who is at fault?
    - GAO: Inaccuracies not necessarily the preparers' fault
      - 2001 Form 1040 Comparative Error Rates:
        - 52% on all returns
        - 56% on returns prepared by paid preparer
    - Qualitative Research/Mystery Shopper Scenarios:
      - Significant preparer misconduct that could trigger IRS civil/criminal penalties

Time to Change the Dynamics

- How to Change the Reality
  - Increase visibility of preparer and taxpayer conduct
  - Active IRS effort to better understand the preparer community
  - Specifically engage areas of systemic compliance problems:
    - Identify and educate preparers, taxpayers
  - Ensure a minimum competence level and inject a more uniform sense of professionalism into the industry
  - Make preparers take responsibility for their returns

Time to Change the Dynamics

- Proposed Methods:
  - Reform due-diligence rules, anchor obligations to areas of systemic noncompliance
  - Require use of a common preparer ID number, create a reliable database to tie preparers to their returns
  - Register and test preparers

Time to Change the Dynamics

- The Importance of Education to Tax Compliance
  - IRS: Leverage educational role that preparers play in the system
    - Target preparers that prepare returns suggestive of high rates of noncompliance
      - Above a threshold level of schedule C returns
      - Client return DIF scores significantly higher than industry/preparer average
      - Math errors on returns
      - Examination results that suggest higher adjustments than an appropriate benchmark

Time to Change the Dynamics

- Responsive Regulation:
  - Emphasis on "Front-End" compliance efforts
    - Educate, serve, inform preparers of best practices; ID preparers, test competence, communication in person and in writing
    - Moves agency away from command-and-control regulatory posture
    - Avoids resource-intensive preparer audits, use of civil injunctions powers to shut down bad preparers
  - Audit-first approach will fail
    - Agency resource issues
    - Preparer/small business backlash from increased audits

The Current Landscape: Skepticism

- Skeptics of additional regulation: given the limited information about preparers, what sense does it make for the IRS to add measures directed at them?
  - Are errors tied to poor scruples, incompetence, or characteristics of taxpayers themselves?
  - Lack of meaningful or sustained government effort in the existing framework.

The Current Landscape: Lack of Information or Standards

- But: Despite need for additional information and inadequate attention given to preparers, importance of preparers to tax compliance makes a more robust understanding of them compelling.
  - Use of paid preparers: 53% of individual returns in 1996, over 62% by 2005. Yet the IRS does not know how many paid preparers there are, does not monitor their performance or
  - Preparers often overlook rules about preparer ID and due diligence, IRS overlooks the violations
  - CA, MD, OR: registration requirements for preparers. In the rest of the country, no requirement that preparers demonstrate any competence.

The Current Landscape: Ulterior Motives

- NTA 2007 Annual Report: Questionable Motivation
  - Many preparers' primary business: other products and services

1. Increased profit potential from these ancillary sales undermines motivation to professionalize return preparation
2. Consumer demand for these products + close proximity to return prep process = potential fuel for taxpayer/preparer misconduct

The Current Landscape: “Don’t Ask, Don’t Tell”

- Legally unambiguous areas:
  - Preparers limit responsibility by hiding behind a “don’t ask, don’t tell” approach to facts relevant to computing the return. In such cases, the government has difficulty assigning responsibility for errors.
  - Where Congress or the IRS has changed the rules of the DA/DT approach, changes were insufficient and government lacked sustained interest in enforcing the rules or making the changes visible to taxpayers or the IRS itself.

The Current Landscape: Systems of Noncompliance

- Taxpayer/Preparer noncompliance becomes habitual
  - Suggests that IRS monitoring and education of new taxpayers can stem years of possible problems

- Concentration of incompetent/unscrupulous preparers and noncompliant taxpayers:
  - If IRS can meaningfully capture and correlate preparer data with taxpayer noncompliance benchmarks, e.g. DiF scores, industry averages, IRS can touch significant levels of noncompliance.

Emphasizing Responsibility

- Mapping taxpayers/preparers is essential if the IRS and Congress are to understand causes of noncompliance.

Emphasizing Responsibility: Taxpayer/Preparer Sociology

- Sakurai/Braithwaite: 3 categories of preparer. Taxpayers seek out preparers that share their values.
  1. Honest and risk averse
  2. Cautious tax minimizer
  3. Creative and aggressive planner: least popular in terms of taxpayer preference, but cause for greatest concern
- Karlinsky/Bankman: sole proprietors seek out preparers comfortable with their approach
- Albert/Bloomquist, Edgerton: small number of preparers responsible for disproportionate underreporting of certain types of income
- Kidder/McEwen: some practitioners broker noncompliant behavior, some facilitate compliance

Taxpayer/Preparer Interaction

- Three ways taxpayers present themselves to preparers:
  1. Intent on understating liability/over claiming refunds
  2. Indifferent– defer to preparer's advice
  3. Seek assistance in preparing returns correctly
- Three ways preparers present themselves to taxpayers:
  1. Help clients understate liability/over claim refunds
  2. Indifferent about client compliance
  3. Ensure clients properly report liabilities/claim refunds

Emphasizing Responsibility:

- Studying the dynamic taxpayer/preparer interaction must animate IRS research into preparers' decisions to comply or not to comply with tax law.
- Despite lack of information, by taking specific steps, IRS research can reduce errors associated with preparer-generated individual income tax returns.

Tying Due Diligence to Areas of Systemic Noncompliance: Current Due Diligence Rules

- The current due diligence rules cannot effectively check preparers' willingness to become type 1 (willful) or type 2 (indifferent) actors
  - Difficult to attribute knowledge, particularly of a sole proprietor's unreported income, to a preparer
  - Currently: preparer cannot ignore implications of what they know, but no sense of additional obligations to address areas of systemic noncompliance
  - Standard: Vague/adaptable common law negligence standard for whether a preparer should make a further inquiry. It is inconsistent!

Approaches to Resolving Due Diligence Issues

- The IRS must move away from one-size-fits-all approach to noncompliance
  - If research reveals high areas of noncompliance associated with specific issues, e.g. EITC child residency requirements,
    - The tax system must affirmatively impose an obligation to ask questions that
    - Place responsibility for taxpayer actions squarely on the taxpayer
    - Limit preparers' ability to hide behind clients or avoid existing affirmative obligations by choosing not to ask relevant questions

Difficulties: Focus Group Research

- Question: What do you do if you have seen the client around town, living beyond the low income he reported on previous tax returns that you review?
- Response: further inquiry or turning away business is not the norm!
  - Preparers with ties to the cash economy: some actively signal a lack of interest in knowing harmful facts.
  - Preparers want to attract and retain clients, not cross examine them on touchy, personal topics and alienate them.
  - Especially uncomfortable inquiring further where the preparer has only a "general awareness" of inconsistencies between reported income and taxpayer's lifestyle.

Focus Group, Continued

- Question: Who do you think has greater influence on complying with the tax laws? The practitioner or the client?

Difficulties: Little Connection between Required Questions and Areas of Systemic Noncompliance

- Current regime ties due diligence to preparer's underlying knowledge of the circumstances, not to underlying systemic areas of high noncompliance.

- Existing specific due diligence rules are insufficient:
  - Congress has legislated specific rules for the EITC, but has not emphasized the preparer's role in error prevention, does not require preparer to ask sufficient questions to isolate responsibility for errors.

Failure of Existing Efforts of Current Due Diligence Regime

- § 6694 and Circular 230 still generally* allow preparers to rely on clients' information without further inquiry.
  - Preparer can't ignore implications of the data or ignore own knowledge
  - but little practical advice is given on need to inquire further about general lifestyle
  - or about areas of general systemic underreporting.

*Some individual itemized deductions commonly subject to abuse, such as § 274(d) (travel expenses) carry specifically legislated substantiation requirements.

Examples: EITC and Sole Proprietor Compliance

- NTA: While congressional and administrative action has attempted to heighten due diligence requirements, IRS implementation has been inadequate. Suggestions for improvement:
  - Increase visibility and significance of preparer action: implement a tiered penalty structure and require preparer to sign, under penalty of perjury, and submit a due diligence attestation to both the IRS and the claimants.
  - IRS is considering refining EITC due diligence requirements:
    - require preparers to ask questions on areas of high error rates
    - perhaps ID documentary sources of evidence that tie qualifying children to taxpayer's residence.
    - Current EITC statutory requirements: fail to push preparers to gather information that could likely flag errors
  - IRS must also address high error rates in other unambiguous issues
    - Sole proprietorships: expand specific due diligence requirements, provide due diligence worksheets to avoid "don't ask/don't tell" problem

The IRS Must Change the Norm of Ignoring the Due Diligence Rules

- TIGTA mystery shopper EITC scenario: consistent noncompliance among unenrolled preparers
  - Preparers usually either formed assumptions or relied on tax prep software
  - Information worksheets vs. mere asking for ID cards
  - Failure to ask all probing questions required by the EIC Checklist
- Conclusion:
  - There is a norm of noncompliance among some unenrolled preparers
  - The IRS can only ensure compliance with any new due diligence norms if it can track and monitor preparers
  - Must educate, be able to backstop with enforcement against continued noncompliance

Tracking and Monitoring Preparer Performance

- TIGTA/GAO: IRS limited by lack of information about paid preparers
  - Significant handicap: researchers and policymakers cannot determine problems, meaningfully consider solutions without identifying information
  - GAO: IRS does not collect info re: whether preparer is enrolled or part of commercial chain, or number/types of returns a preparer files
  - TIGTA: Preparers use either SSN, Employer ID, or Practitioner Tax ID when the preparer does not want to disclose SSN.
    - No IRS list that would show a preparer's name, ID numbers, practitioner/unenrolled preparer/Electronic Return Originator.
  - Many preparers fail to sign returns: may incur a civil penalty, but no meaningful or systemic IRS enforcement. IRS still processes these unsigned returns– this remains a priority even if preparer information is inaccurate.

TIGTA Recommendations

- IRS must develop/require a single preparer ID # in order to track them
- Will enable more systematic education and enforcement
- Will make preparers more transparent players in the tax compliance decision.

Keep Preparers Visible

- Presence of information returns significantly increases compliance– taxpayer assumption IRS will detect noncompliance when information is reported to it. Opposite scenario for preparers.
- IRS must show preparers that it is aware of their actions.
  - Preparers outside Treasure Circular 230: largely outside IRS visibility
  - IRS can connect data from e-filing, introduce scan/barcode date to highlight disparities in knowledge
  - Tax prep software can show taxpayers average amounts, e.g. charitable contributions, that deviate from the norms
  - Can also show IRS when specific preparer-generated returns suggest errors– IRS can quickly contact preparers about the discrepancies, focus on preparer self-correction instead of audits or penalties

Target New Preparers

- Habits start early. Avoid habitual noncompliance through affirmative outreach to new preparers.
  - Promising signs: Government outreach to first time EITC preparers– provides list of common errors, due diligence requirements, where to go for help.
  - IRS must take similar steps with sole proprietor return preparers.
  - Kirchler: sole proprietor noncompliance results from a perceived loss of freedom– reactance motive among sole proprietors to evade taxes
  - Over time, entrepreneurs more likely account for taxes in their operations
  - Return preparers can educate sole proprietors about tax compliance need and methods
  - Challenges: where there is a pattern of underreporting in an industry or community– this is a useful avenue for IRS involvement.

Refining the Taxpayer/Preparer Understanding

- Underlying reasons for systemic noncompliance in preparer generated EITC/sole proprietor returns:
  - Ignorance of law
  - Misunderstanding/failure to learn facts
  - Inability/unwillingness to detect errors
  - Facilitation of noncompliance by due diligence failure
  - Aiding and abetting taxpayer underreporting
  - Directed noncompliance
- But: mystery shopper scenarios are limited in scope. IRS must expand the studies.
  - Work backwards from noncompliance hypothesis to specific contributing causes
  - Limit number of auditors conducting the tests to reduce tester difference's effect on preparer variations
  - Better correlate filing of a tax return to actual experiences
  - Issue the tester a worksheet to identify reasons for preparer's conduct

Registering and Testing Paid Preparers

- No federal RCET requirement that applies to all paid preparers
- Renewed interest: NTA Reports to Congress, OR and CA experiences
  - 72% higher chance that an Oregon paid preparer would file accurately, compared to the national average. Translates to about $390 million more in income taxes paid.
  - 22% lower chance in California
  - GAO: an Oregon-style approach to paid preparer regulation can be beneficial nationally
- A tax system should impose RCET if it values accountability and visibility
  - But the IRS must meaningfully track paid preparer performance, be willing to sanction incompetent or unscrupulous preparers
  - Federal RCET program would allow IRS to collect preparer identification data to track performance.

The California Approach

- Registration
  - Paid preparers who are not attorneys, CPAs, enrolled agents must register. Failure to register: $2500 unless registers within 90 days, then increase to $5000.
  - 60 hours of qualifying education, 20 hours continuing education
  - $5000 surety bond
  - Renewal each year
- Enforcement of unregistered preparers
  - One full time, one part time employee dedicated to enforcement
  - Suspected violators sent penalty letters and encouraged to become preparers
  - 2005-2006: 77 individuals ID'd as unregistered, 56 registered, 21 were fined, 6 issued $5000 penalty, 4 stopped preparing.

The Oregon Approach

- Registration
  - Paid preparers who are not CPAs, attorneys, working for a CPA
  - Two-tiered registration: LTP and LTC
- Enforcement of unregistered preparers
  - Fines for each unlicensed return
  - Restitution to consumers harmed by fraud
  - $5000 civil penalties, revocation/suspension of license
  - 2001-2007: $2 million in fines through 48 actions, one person fined more than $800,000
  - Preparers have administrative and judicial appeal rights

Oregon vs. California Approaches

- 30 hours of continuing education in OR for both tiers, vs. 20 hours in CA; 80 hours qualifying in OR, 60 in CA
- Examination in OR: 46% of applicants fail first tier test, 70% fail the more experienced tier.
- Minimum educational requirement, disclosures re: applicant's honesty in OR.
- Small size of OR preparer community: more effective regulatory relationship?
- Costs:
  - CA: $1.2 million enforcement, $29/preparer
  - OR: $123/licensee, total cost $6 million, $490,000 direct administration (balance of $6 million is preparer costs)
  - Both states: additional costs of $200-$300/year per preparer

Benefits of the Oregon Plan

- $6 million in costs vs. $390 million in additional taxes paid (compared to national average)
- Unknown to what extent that requirements contributed to the higher accuracy, but even if a small amount, still a good investment
- IRS typically expects 4:1 return on compliance expenditures
- Estimate: 350,000 unenrolled reporters nationally--$35 million in costs, with additional expenses to preparers of $337-$394 million.

Maximizing Accountability, Visibility, Responsibility

- Meaningfully enforce an identification requirement
- Regulation IRS communications to preparers on likelihood of accuracy or preparers' particular needs
  - Schedule C/EITC issues
  - Trends that show compliance/service challenges to preparers
- Assumptions:
  - Will not drive the noncompliant to self-prepare, will not materially increase preparation costs, will not drive preparers underground to avoid responsibility
  - IRS will backstop the program with enforcement, will ensure that unlicensed preparers will not enter and remain in the system
- IRS actions:
  - Emphasize ID requirement through investigators on the ground
  - Possibly expand private rewards for whistleblower provisions

Responsive Regulation

- Regulators must be responsive to the conduct of those they seek to regulate.
- Regulation takes on a pyramid structure: in many cases, the government has no need to automatically resort to coercion or sanction
- Assumption: a good regulator can draw out a responsible moral self to enable offenders to change their ways and allow more effective future regulation
- Recent criticism: IRS suffers from a one-size-fits-all model

Responsive Regulation and Paid Preparers

- Administrators should emphasize the partnership between taxpayers, preparers, and government. Need to reward good behavior, along with punishment of bad behavior, can contribute to enforcing compliance.
- Encourages self-regulation: codes of conduct, best practices, reward for preparers who attend training programs that exceed the minimum or reach certain benchmarks
- Issue: encourage positive behavior, but remain ready to punish offenders

Conclusion

- Deep need for the IRS to collect information by type of preparer to gain a nuanced understanding of error rates by preparer and issue
- Encouragement of good behavior starts with IRS knowing and acting on information about preparer interaction with taxpayers
- Audits, penalties, and civil injunctions should only be used after IRS encourages positive steps, and only after a persuasive communication of disapproval
- Possible legislative change should require RCET to encourage visibility, responsibility, competence, and allow IRS and preparers to cooperate, make the submission of inaccurate information more difficult.

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Taxpayer Value Model: Incorporating Taxpayer Perspective to Improve Service Interactions

Ben Shackleford: Internal Revenue Service
Pete Webb: Pacific Consulting Group

What is the TVM ?

Objective:

“Formalize an integrated process for making service investment decisions that includes specific criteria to evaluate taxpayer, partner, and government value.”
- TAB Phase 2

The TVM supplies a measure of what taxpayers prefer for consideration in decisions related to taxpayer service

Why Develop the TVM?

- Answers the question: “Which service improvements will provide greatest impact on taxpayer value?”
- Quantifies the value of service performance according to taxpayers
- Estimates the cross-channel “market share” impact of changes in service performance
- Permits consistent comparison of how all taxpayers and various taxpayer segments will value different service delivery configurations

What Does the TVM Offer IRS Decision Makers?

- Baseline measures developed from empirical data representing taxpayer preference
- A taxpayer perspective for prioritizing service initiatives identified in the Applied Taxpayer Assistance Blueprint (TAB) research
- An estimate of market potential, not a forecast of actual use
- A prototype for simulating changes in preferences based on market offerings
- An estimate of potential, not a forecast of actual use
- Insights for where marketing activities hold the greatest potential for service improvements

Trade-off (Conjoint) Survey for Taxpayer Service

Service Needs	→	Service Channels	→	Taxpayer Value Criteria	→	Output Measures
Form or Pub		TAC, Face to Face		Access Time		Overall Taxpayer Value
Notice		TAC, Self Serve		Service Time		Relative Importance of Value Criteria
Return Prep		Toll-free, Representative		Hours of Availability		Channel Choice Shares
Tax Law Question		Toll-free, IVR		Quality: % First Contact Resolution		
Refund		Web, Chat				
Prior Year Return Information		Web, Browse				
Payments		Mail				
TIN or EIN						

Using The TVM: Inputs
Service Need, Service Channel

1, Getting a Form or Publication
2, Getting information about an IRS notice
3, Getting Tax Return Prep Assistance
4, Answering Tax Law Questions
5, Getting Refund Information
6, Getting Prior Year Return Information
7, Getting Information about payments
8, Applying for a Taxpayer / Employer ID No

1, Local IRS Office, Face-to-Face
2, Local IRS Office, Self-Serve
3, IRS Toll-Free, Rep Assistance
4, IRS Toll-Free, Auto Voice Menu
5, IRS Web Site, Live Chat
6, IRS Web Site, Browse
7, Regular Mail

Using The TVM: Inputs

Taxpayer Segment, Attributes of Service

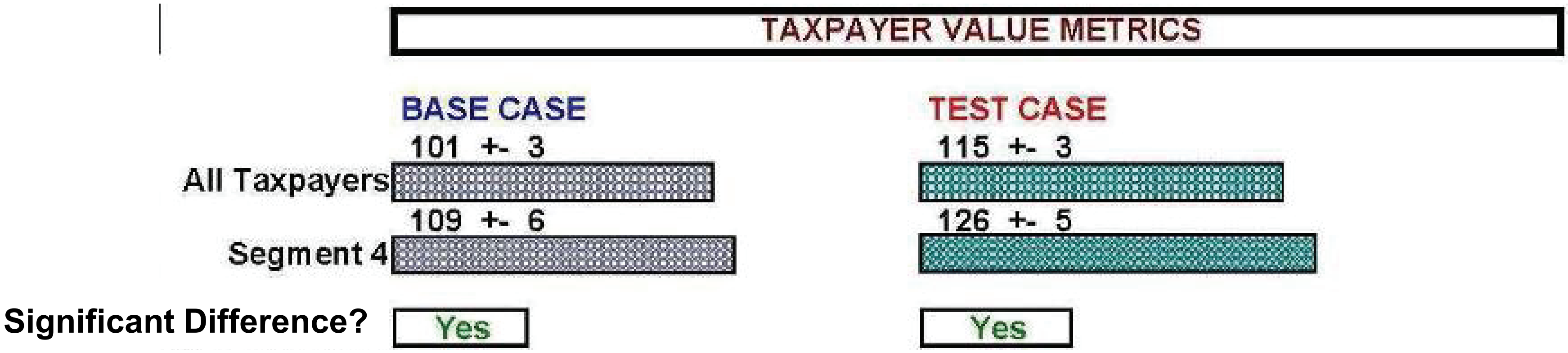
1, 18 to 29 yrs.
2, 30 – 39 yrs.
3, 40 - 59 yrs.
4, 60 yrs. and Over
5, Less Than High School Graduate
6, High School Graduate of GED
7, Some College or Associate's Deg.
8, Batchelor's Degree or Higher
9, Less than 35,999
10, $36,000 to 49,999
11, $50,000 to 61,999
12, $62,000 to 99,999
13, $100,000 or more
14, With a Disability
15, Without any Disability
16, Read English Well or Very Well
17, Read English Not Well
18, Self-Prepared By Hand
19, Self-Prepared Using Tax Software
20, Paid Preparer
21, Unpaid Preparer or Other
22, ELF
23, Paper
24, Web
25, Phones
26, Mail
27, Walk-In
28, Did Not Contact IRS

- **Access time**
- **Service time**
- **Hours of availability**
- **Percent first contact resolution**

Changed service attributes represent proposed changes in the service environment

Using The TVM: *Outputs*

Taxpayer Value Score



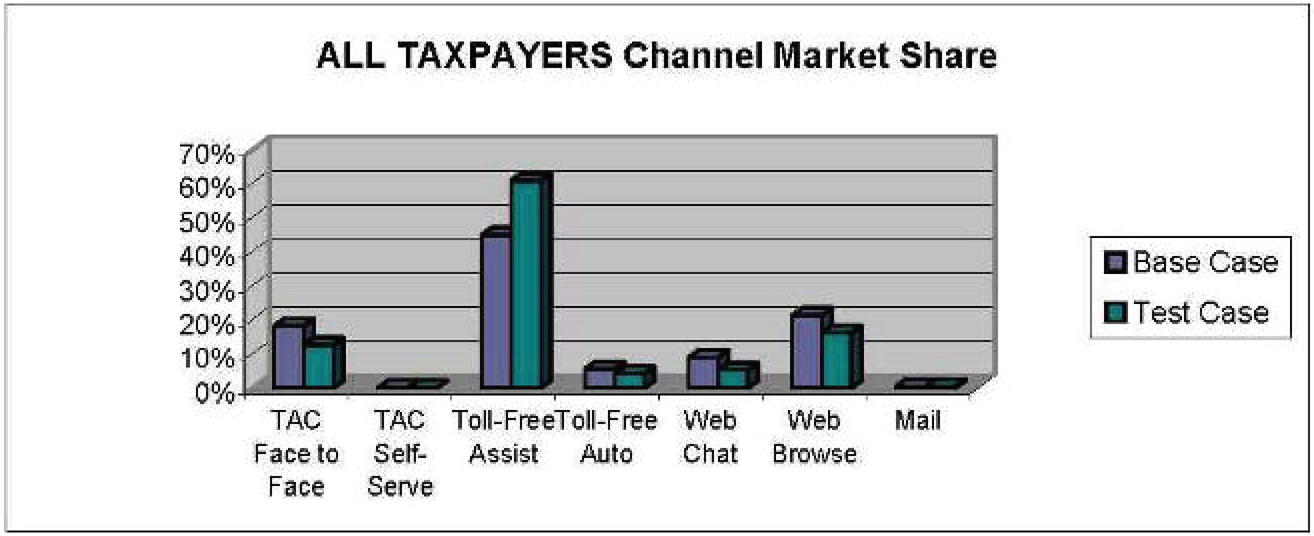
The TVM generates scores of taxpayer value for all taxpayers and any selected segments according to the base case (normal operating conditions) and a test case that reflects possible changes in the service environment. It also shows the relevant sample sizes, percentage of value increase, and percentage of taxpayer group that changes will make better off.

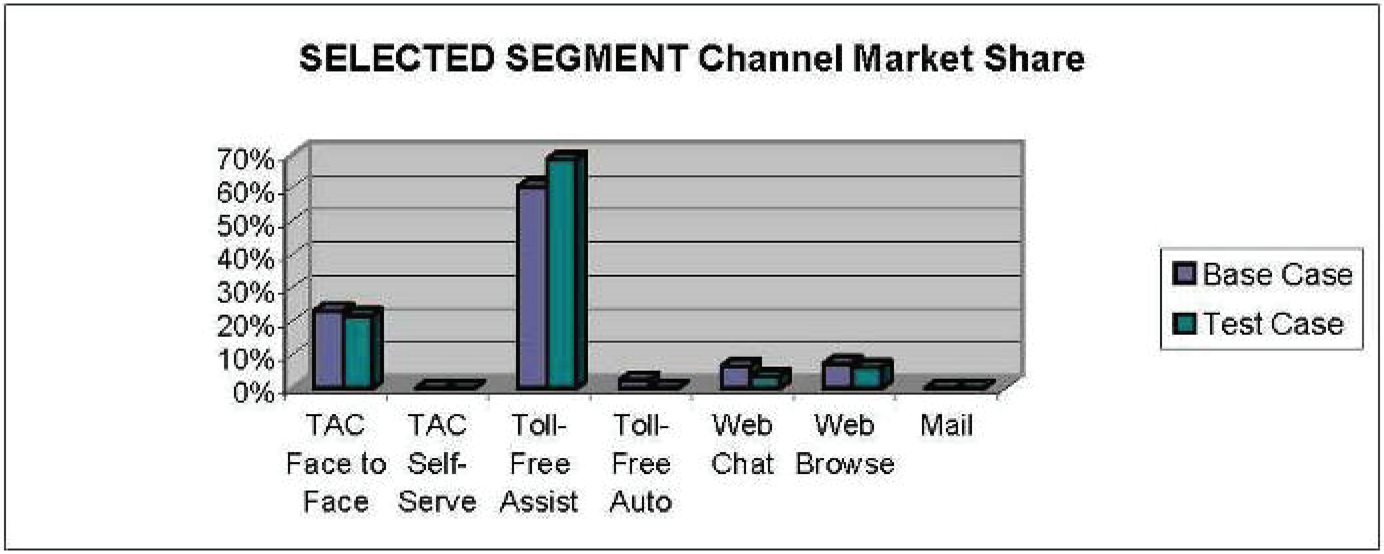
Sig. Diff.?	Sample Size	% Value Increase	% Better Off
Yes	536	14%	61%
Yes	165	16%	69%

Using The TVM: *Outputs*

Anticipated Market Behavior

The TVM also estimates where taxpayers will seek service before and after possible changes





TVM Example 1:

Hypothetical – “My IRS Account”

Service Need – Information About Payment
Service Channel – Web, Browse
Taxpayer Segment – Taxpayers ages 18 - 29
Service Attributes

- Access Time – Improves 12 minutes from 15 to 3
- Service Time – No change
- Hours of Availability – No change
- First Contact Resolution – Improves 5% from 85% to 90%

TAXPAYER VALUE METRICS				
	BASE CASE	TEST CASE	% Value Increase	% Better Off
All Taxpayers, Info about Payment	98	113	+ 15%	41%
18-29 Years, Info about Payment	94	115	+ 23%	63%

TVM Example 2:

Hypothetical – "COLDS"* Impact on Phones

Service Need – Answering a tax law question
Service Channel – Phone, Representative Assistance
Taxpayer Segment – 60 years and over
Service Attributes

- Access Time – Improves 1 minute
- Service Time – No change
- Hours of Availability – No change
- First Contact Resolution – Improves 5% from 85% to 90%

TAXPAYER VALUE METRICS

	BASE CASE	TEST CASE	% Value Increase	% Better Off
All Taxpayers	101	115	+ 14%	61%
Taxpayers 60 years and older	109	126	+ 16%	69%

* Customer On-Line Decision Support

Next Steps: Model Enhancements

- Build an awareness factor into the channel share estimates
- Add an “inertia” factor for dynamic projections
- Consider ways to more accurately reflect taxpayer assessment of differential importance of service needs
- Re-do the conjoint survey (now three years old)

Taxpayer Value Model
(TVM)

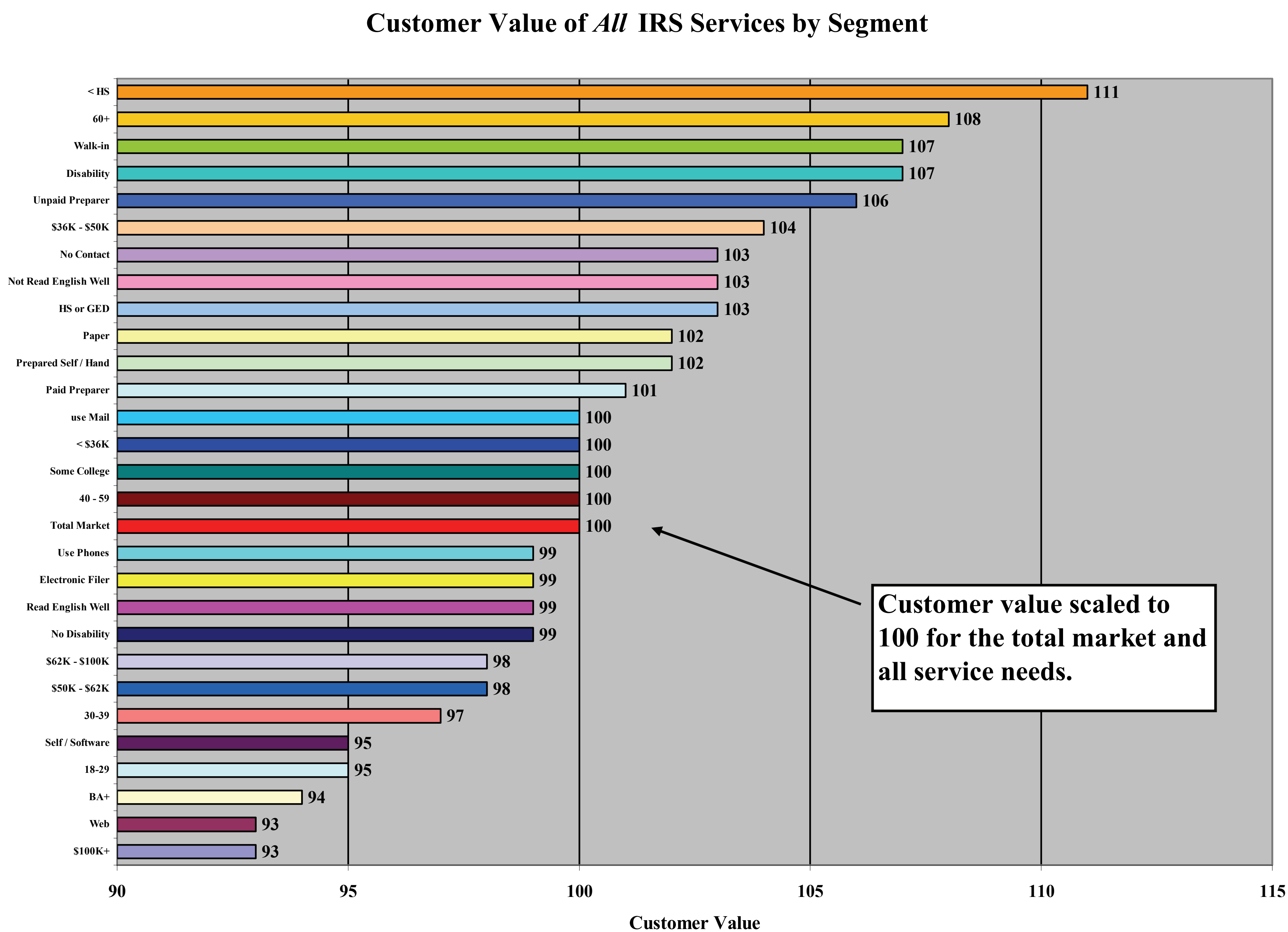
Bringing Taxpayer Value into the
Investment Decision Process

Appendices

Appendix A: Analysis Template

TAXPAYER VALUE MODEL (TVM) – ANALYSIS TEMPLATE		
Initiative Title:		
Date:	TVM File Name:	
Service Need:		
Service Channel:		
Taxpayer Segment:		
Segment Rationale:		
Business Estimate of change in Access Time:		
Basis for change in access time:		
Business Estimate of Change in Servicing Time:		
Basis for change in servicing time:		
Business Estimate of change in Hours of operation:		
Basis for change in hours of operation:		
Estimate of change in First Contact Resolution		
Basis for change in First Contact Resolution:		
Run By:		

Appendix B: Normalized Taxpayer Value



Appendix C: The TVM Main Screen

IMPACT OF A SINGLE-CHANNEL SERVICE INITIATIVE

COMMENT BOX

Case Description

Service Need	Channel	Segment
6) Getting Prior Year Return Information	3) IRS Toll-Free, Rep Assistance	4) 60 yrs. and Over

TEST CASE INPUTS

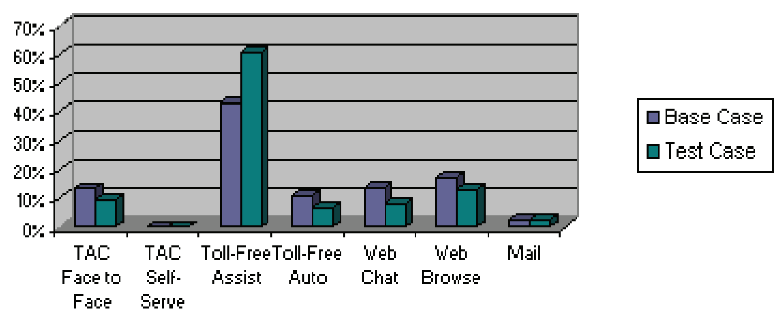
	BASE CASE	TEST CASE
Access Time (mins)	5	3
Servicing Time (mins/days)	5	3
Hrs of Availability (1, 2, or 3)	2	3
% First Contact Resolution	85%	90%

RUN BASE CASE AND TEST CASE

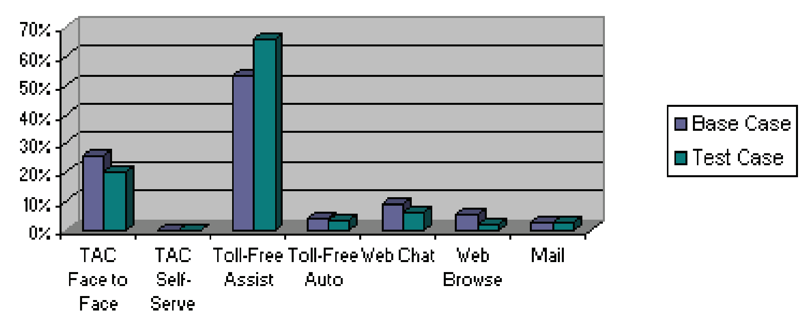
TAXPAYER VALUE METRICS

	BASE CASE	TEST CASE	Sig. Diff.?	Sample Size	% Value Increase	% Better Off
All Taxpayers	104 +- 4	128 +- 4	Yes	476	22%	61%
Segment 4	116 +- 6	141 +- 6	Yes	154	21%	66%
Sig. Difference?	Yes	Yes				

ALL TAXPAYERS Channel Market Share



SELECTED SEGMENT Channel Market Share



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Tax Preparation Services

2009 IRS Research Conference

Tax Preparation Services

Discussant: Nina Olson

National Taxpayer Advocate, Internal Revenue Service

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Closing Remarks

Janice Hedemann

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IRS

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Thank you for attending the Conference.

Please complete and submit your evaluation form.

We look forward to seeing you next year!