

Taxpayer Advocate Service 2010 Annual Report to Congress

On January 5, 2011, National Taxpayer Advocate Nina E. Olson released her annual report to Congress, identifying the need for tax reform as the number one priority in tax administration. The Advocate expressed continuing concern that the IRS's increasing use of hard-core enforcement actions, particularly tax liens, is inflicting unnecessary harm on financially struggling taxpayers. The report also examines challenges the IRS is facing in implementing the new health care law.

Tax Reform

“There has been near universal agreement for years that the tax code is broken and needs to be fixed,” Olson said in releasing the report. “Yet no broad-based attempt to reform the tax code has been made. This report documents the burdens the tax code imposes on taxpayers and explores why many taxpayers may nevertheless feel wedded to key aspects of the current system, undermining efforts at reform.”

An analysis of IRS data shows that taxpayers and businesses spend 6.1 billion hours a year complying with tax-filing requirements. “If tax compliance were an industry, it would be one of the largest in the United States,” the report says. “To consume 6.1 billion hours, the ‘tax industry’ requires the equivalent of more than three million full-time workers.”

Individual taxpayers find return preparation so overwhelming that about 60 percent now pay preparers to do it for them. An additional 29 percent use tax software, with leading software packages costing \$50 or more. IRS researchers recently estimated that the annual monetary tax compliance burden of the median individual taxpayer (as measured by income) is \$258.

IRS Use of Hard-Core Enforcement Tools, Especially Tax Liens

The report describes the Advocate's continuing concern that IRS collection practices inflict

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unnecessary harm on financially struggling taxpayers, and fails to achieve the IRS's overriding objective of increasing long-term voluntary compliance with the tax laws.

“Tax collection requires a delicate balancing of the government’s interest in collecting revenue and ensuring that all taxpayers pay their fair share of tax, on the one hand, and protecting financially struggling taxpayers from unnecessary harm, on the other,” Olson said. “Current IRS policies do very little balancing. For example, IRS lien filing policies are all about ‘protecting the government’s interest’ and don’t consider the impact on the taxpayer.”

The report states that the IRS has taken steps in the last year to reassess its collection policies but concludes that more steps should be taken quickly. The report reiterates the Advocate’s longstanding suggestion that the IRS make greater use of collection alternatives, such as offers in compromise, when dealing with taxpayers who cannot afford to pay their liabilities in full. A comprehensive assessment of the IRS’s collection policy and a suggested roadmap toward a more effective approach are presented in Volume 2 of the report.

IRS Challenges In Administering Benefits Programs, Including Health Care Reform

Historically, the IRS’s mission has been to collect taxes, but in recent years, Congress has directed the IRS to administer an increasing number of social benefit programs, including Economic Stimulus Payments, the First-Time Homebuyer Credit, and the Making Work Pay Credit. The recent directive to administer major aspects of the new health care law will add significantly to the IRS’s workload. “I am confident the IRS can succeed in its implementation of health care reform,” Olson said. “But a comprehensive assessment of the issues and challenges that lie ahead is a prerequisite for success.”

The IRS will administer four key provisions of the new law: the Small Business Tax Credit, the Premium Assistance Credit, the Individual Responsibility Requirement, and the

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Employer Requirement. Among the challenges the IRS faces is determining the types of new information it needs to gather, determining the new entities it needs to work with, resolving privacy issues, and implementing a new definition of income, the report says.

“From an organizational standpoint, there are substantial differences between benefits agencies and enforcement agencies in terms of culture, mindset, and the skill sets and training of their employees,” Olson said. “As the IRS prepares to administer large portions of the health care legislation, it will have to shift from being an enforcement agency that primarily says, in effect, ‘you owe us’ to an agency that places much greater emphasis on hiring and training caseworkers to help eligible taxpayers receive benefits and work one-on-one with taxpayers to resolve legitimate disagreements.”

To view the full report go to <http://www.irs.gov/advocate/article/0,,id=233846,00.html>

To view the executive summary go to http://www.irs.gov/pub/irs-utl/execsummary_2010arc.pdf

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