# Taxpayers F.I.R.S.T.

***A Project of National Taxpayers Union Foundation***

**Informed by the discussions among the experts on the Taxpayers FIRST Advisory Board, NTUF offers the following ideas for action for effective use of the increased funds provided to the IRS under the Inflation Reduction Act the tax gap, modernization, taxpayer service, and taxpayer rights.**

## *Minding the Gap: Recommendations for Assessing, Addressing, and Ameliorating the Tax Gap*

1. **Report the tax gap data in context.** The top line dollar figure highlighted in IRS' press releases and often echoed throughout new coverage tends to be the gross tax gap estimate. The IRS should also highlight the "net tax gap" figure, not the "gross tax gap" figure as the most relevant metric. It should also break out the impact of enforcement and late payments on each subcomponent of the tax gap, as well as the type of noncompliance.
2. **Formalize and standardize the methodology and processes used to project the tax gap.** The ability to work with outside experts and stakeholders to improve the methodologies used to estimate the components currently included in the tax gap or to help build models for estimating emergent and missing areas of noncompliance can be assisted by RAAS producing a guide to policies and processes used.
3. **Provide transparency on points of uncertainty in tax gap projections, using ranges or confidence intervals where appropriate.** Given the complexities and variances in the methodologies discussed, the IRS should emulate the approach implemented in recent years by the Congressional Budget Office. CBO produces detailed cost estimates and analysis of legislative proposals. Under current Director Phillip Swagel, CBO has begun emphasizing the points of uncertainty in its cost estimates directly below their summary outlay and revenue estimate tables.

5. **Study how to improve the comprehensiveness of the tax gap calculation.** The IRS should seek to examine potential sources of underreporting income in emergent economic activities and areas where the IRS suspects significant noncompliance. These studies could be conducted on a rotating quarterly basis to develop or improve methodologies and data sources.
6. **Set accountable goals and metrics for addressing the tax gap.** The IRS should set clear goals for both estimating and reducing the tax gap. The goals would help focus the IRS on specific tasks towards defined objectives, and well-chosen metrics will help the IRS to measure its progress in achieving the goals. Treasury, the White House, Congress, and external stakeholders should assist the IRS in determining the proper metrics.
7. **Increase transparency on enforcement methods and tools.** In its forthcoming budget justifications, and in follow-up reports tracking progress in achieving the goals laid out in the Operating Plan, the IRS should enhance accountability by providing a more detailed look under the hood on how it intends to use its new resources to close the tax gap and what kind of realistic results it expects these expanded efforts to achieve. In cases where the IRS intends to investigate and employ new and emergent technologies, it should make clear exactly how and where it intends to do so.
8. **Quantify benefits of improved taxpayer services and taxpayer knowledge in boosting compliance.** When lawmakers and the IRS consider ways to enhance compliance, they should be incentivized to find ways to do so through enhancing taxpayer services and taxpayer knowledge of tax laws as well as their obligations and rights. The IRS and the Department of the Treasury, in partnership with external stakeholders, should find ways to quantify and demonstrate through evidence the return on the dollar of services and education.

9. **Provide timelier and clearer guidance on tax compliance.** Issuing pre-filing guidance on ways a taxpayer can stay on the right side of the law is a tax gap reduction strategy. Enhanced outreach and education initiatives that target problem tax areas, coupled with clearer forms and guidance, will mitigate confusion, enhance compliance, and reduce the tax gap.
10. **Consolidate duplicate Tax Gap pages on the IRS website.** The IRS should consolidate the various pages it has on the tax gap to reduce potential confusion given the overlapping resources available at irs.gov.

## *Call to Action: Crafting a New Taxpayer Service Experience*

1. **Ensure Modernization Efforts Also Improve Customer Service.** In our report on IRS modernization, we offer a series of ideas for action on how the administration could better utilize funds from the IRA to modernize the IRS. These ideas for action include ensuring technological modernization at the IRS keeps up with the broader environment and implementing structural changes to improve accountability within the IRS.
2. **Adopt More Metrics and Publicize Results.** Over the last two filing seasons, the IRS highlighted its customer service improvements, crediting the IRA for making it possible. However, the IRS has favored cumulative, high-level metrics. Going forward, the IRS should adopt metrics that focus on outcomes rather than merely counting inputs or outputs.] One simple improvement could be to add a question about the quality of service provided at the end of a taxpayer's call to the IRS.
3. **Improving Services for Historically Underserved Communities.** Many economically vulnerable populations – including rural residents, persons with disabilities, and those with lower incomes – are often overlooked when it comes to taxpayer services. To better serve these communities, the IRS could enhance its outreach efforts to inform more taxpayers about their eligibility for programs like the EITC and how to access other taxpayer services.

## *From Lag to Leap: A Roadmap for Successful IRS Modernization*

1. **Produce an Enhanced Modernization Plan with Cost Analysis.** The IRS should provide more details on its modernization plans beyond those included in the Standard Operating Plan and the supplemental documents released in 2024. Such information could be provided via a newly enhanced plan focused primarily on modernization. Whatever form it takes, the plan should include itemized cost analyses along with any relevant deadlines, deliverables, and benchmarks for each of its modernization initiatives. Any cost analysis should attempt to account for interactions between estimates and be accompanied by an analysis of the benefits of such expenditures.
2. **Provide More Transparent Updates and Metrics.** The IRS should be much more transparent when reporting on its various modernization and service initiatives. Any successes or failures should be expressed though clearly defined metrics that accurately reflect any progress being made. Whenever possible, such data should be released on a rolling basis, giving taxpayers and policymakers updates at a pace that is close to real-time.
3. **Accelerate the Pace of Modernization.** Any new tools employed by the IRS – whether they are developed from scratch or purchased off-the-shelf – should match current IT standards and be readily updatable or replaceable to keep pace with future advancements. IRS staff should have access to subject matter expertise to ensure algorithms and other processes are well-informed in customer service, enforcement, and other areas. When advanced technologies are used for enforcement and compliance, taxpayers must also have access to prompt and accessible dispute resolution procedures that provide information about why the action was taken.
4. **Use Some Enforcement Funds for Supportive Modernization Efforts.** One major shortcoming of the IRA was its insufficient focus on modernization. Following the advice of stakeholders

and policymakers across the ideological spectrum as well as an analysis of the organization's needs, the administration should shift an appropriate portion of the IRS's recently augmented funding from enforcement to modernization and technology improvements. If necessary, the IRS should work with Congress to amend any restrictions on the IRA's funding that could hinder a shift to more important priorities.

5. **Add a Strategic Accountability Entity to the IRS Structure.** The IRS Restructuring and Reform Act of 1998 attempted to fill this gap by establishing the IRS Oversight Board – made up of presidential appointees confirmed by the Senate – to provide oversight and strategic guidance to the IRS. After failing to fill several vacancies, the Board has been effectively inactive, with no new appointments or significant activity for several years. Congress and the IRS would benefit from a high-level panel of experts who provide ongoing, independent, non-adversarial guidance to the IRS and the Commissioner, particularly on medium- and long-term projects.

## *Shaping a Future of Fairness: Proposals to Safeguard and Strengthen Taxpayer Rights*

1. **Elevate the Importance of Taxpayer Rights in Federal Law and in IRS Publications, Website, and Physical Locations.** Both the legislative and the executive branch should take formal steps to raise the profile of taxpayer rights in tax administration and enforcement. For starters, Congress should move the Taxpayer Bill of Rights to Section 1 of the Internal Revenue Code and take steps to make its provisions more enforceable. The Taxpayer Bill of Rights could be more prominently displayed on the front page of the IRS website, and the IRS could also ensure that the Taxpayer Bill of Rights is prominently displayed at in-person Taxpayer Assistance Centers (TACs) and Low-Income Tax Clinics.

2. **Revise IRS Notices to Provide Explanations of Taxpayer Rights.** While the Strategic Operating Plan outlines a new approach to issuing IRS notices aimed at clarity, any such changes should prioritize taxpayer rights above mere simplicity and brevity. An approach that incorporates taxpayer rights would emphasize taxpayer access to due process as well as information about assistance options.

3. **Provide Accountability in the Penalty Process.** Ensuring that penalties are only assessed through appropriate and legally clear processes provides taxpayers with protection of the final right in the Taxpayer Bill of Rights, the right to a fair and just tax system. The law requires IRS employees to obtain approval from their supervisor in order to assess some penalties but is not specific as to the timing when supervisory approval is required. To provide accountability in this process, supervisory approval should be secured prior to communicating the penalty to taxpayers

4. **Ensure the Independence of the Office of Appeals.** Congress and the IRS should ensure the Independent Office of Appeals makes its decisions without undue influence. One step, recommended by the Taxpayer Advocate Service, is to require taxpayers' consent before allowing IRS attorneys or agents to participate in a conference at the Office of Appeals and avoid turning a settlement conference into an adversarial or mediation forum. Legislation has been introduced in the House of Representatives to require taxpayer consent for participation in these meetings. Members of Congress have also proposed prohibiting ex parte communications between the Office of Appeals and other IRS employees regarding any pending proceedings.

5. **Strengthen the Taxpayer Advocate's Flexibility.** Congress should consider expanding the Taxpayer Advocate Service's role in the regulatory process. Members of Congress have introduced legislation to require the Treasury to formally seek the Taxpayer Advocate Service's comment on how any new regulations might affect taxpayer rights prior to their publication. In addition, the Taxpayer Advocate Service has recommended that Congress pass legislation to explicitly allow the Taxpayer Advocate Service to hire legal counsel, make independent personnel decisions, and file amicus briefs in court proceedings.

NTUF extends gratitude to the following individuals who contributed their input to discussions that informed this paper. The views expressed herein do not necessarily reflect the views or positions of any individual contributor or organization associated with the contributors.

**Fred Goldberg**
*Former IRS Commissioner and Chief Counsel*

**Caroline Bruckner**
*Tax professor at American University's Kogod School of Business and the Managing Director of the Kogod Tax Policy Center*

**Fred Forman**
*Former IRS Associate Commissioner of Business Systems Modernization*

**Joe Bishop-Henchman**
*Executive Vice President of the National Taxpayers Union Foundation*

**Janet Holtzblatt**
*Senior Fellow at the Urban-Brookings Tax Policy Center*

**Jason DeCuir**
*Co-owner and Partner at Advantous Consulting, a leading multi-state tax services firm*

**Barbara J. Robles**
*Former Principal Economist with the Federal Reserve Board of Governors*

**Gordon Gray**
*Director of Fiscal Policy at the American Action Forum*

**Leslie Book**
*Professor of Law at Villanova Charles Widger School of Law*

**Peter Mills**
*Senior Manager of tax policy and advocacy at the American Institute of Certified Public Accountants*

**Ben Ritz**
*Vice President of Policy Development & Director, Center for Funding America's Future at the Progressive Policy Institute*

**Melanie Lauridsen**
*Vice President of Tax Policy & Advocacy AICPA & CIMA*

**Nina Olson**
*Executive Director of the Center for Taxpayer Rights and former IRS National Taxpayer Advocate*

**Pete Sepp**
*President of the National Taxpayers Union*

**Adam Michel**
*Director of Tax Policy Studies at the Cato Institute*

**Erica York**
*Senior Economist and Research Manager with Tax Foundation's Center for Federal Tax Policy*

**Jason J. Fichtner**
*Chief Economist at the Bipartisan Policy Center*

**Jeff Trinca**
*Founding Vice President of Van Scoyoc Associates*

**Alex Brill**
*Senior Fellow at the American Enterprise Institute*

**Graham O'Neill**
*Tax Policy Strategist at Prosperity Now*

**Andrew Lautz**
*Associate Director for the Economic Policy Program at the Bipartisan Policy Center*

**Megan Killian, CAE**
*Executive Vice President at the National Association of Enrolled Agents*

**Demian Brady**
*Vice President of Research of the National Taxpayers Union Foundation*

**Andrew Wilford**
*Senior Policy Analyst of the National Taxpayers Union Foundation*

***2024 National Taxpayers Union Foundation***
***122 C Street NW, Suite 700, Washington, DC 20001***
***ntuf@ntu.org***