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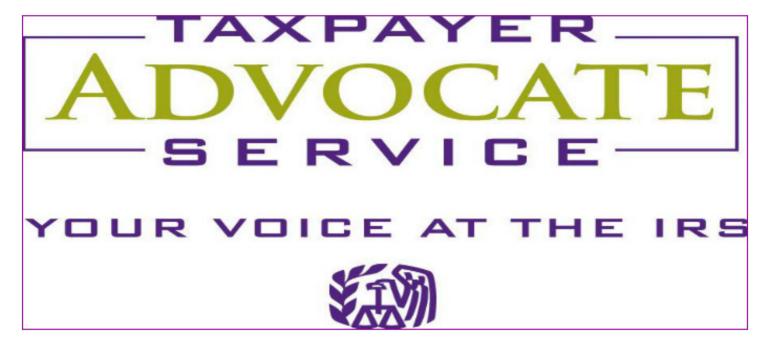
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Ken Berry • Jan. 16, 2018



The new annual report to Congress released by National Taxpayer Advocate (NTA) Nina E. Olson, the head of the IRS watchdog, may have the nation's tax collection seeing purple. In addition to describing faced by the IRS in this budget-conscious era, the NTA has unveiled a new publication, The Purple Book," detailing 50 legislative recommendations for strengthening taxpayer rights and improving tax administration (IR-2018-03, 1/10/18).

For starters, the NTA report says the reduction in IRS funding since Fiscal Year (FY) 2010, approximately 20% in inflation-adjusted terms, has challenged the agency's ability to perform the basic tasks of administering the tax system.

"As the National Taxpayer Advocate, I see daily the consequences of reduced funding

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taxpayers, particularly with regard to telephone service. In most years, the IRS receives more than 100 million telephone calls. Even prior to the enactment of the new tax legislation, the Tax Cuts and Jobs Act (TCJA), the IRS was projecting it would only be able to answer about six out of ten calls from taxpayers during the filing season and about four out of ten taxpayer calls during the full fiscal year. The TCJA will likely lower those numbers.

In addition, as part of the report, the NTA has released "The Purple Book" presenting 50 legislative recommendations. Many of these proposals have been detailed in prior NTA, but others are presented in this inaugural publication for the first time.

Most of the recommendations are presented on a single page in a straightforward fashion. Among the new recommendations, Olson has proposed that Congress codify both the Taxpayer Bill of Rights and the IRS mission statement as Section 1 of the Internal Revenue Code.

The Purple Book makes other recommendations to strengthen taxpayer rights, improve the tax-return filing process, improve IRS assessment and collection procedures, reform tax code penalty and interest provisions, strengthen taxpayer rights before the Office of Appeals, enhance confidentiality and disclosure protections and strengthen the independence of the Office of the Taxpayer Advocate.

Finally, federal law mandates that the NTA's annual report to Congress identify at least 20 of the "most serious problems" encountered by taxpayers and to make administrative and legislative recommendations to mitigate those problems. Overall, this year's report identifies 21 problems, makes dozens of recommendations for administrative change, makes 11 recommendations for legislative change, analyzes the ten tax issues most frequently litigated in the federal courts and presents seven research studies and two literature reviews.

For example, the following issues are addressed in this section:

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communication. The report recommends that the IRS undertake a comprehensive study of taxpayer needs and preferences by taxpayer segment, using telephone, online and mail surveys, focus groups, town halls, and research studies to develop a multi-faceted service strategy based on the results.

- Real" vs. "unreal" audits. The law provides significant protections for taxpayers under audit. Over time, however, the IRS has increasingly been notifying taxpayers that they owe additional tax through means that don't fit within the traditional definition of an audit. These "unreal audits" include proposed adjustments under math error authority, the Automated Underreporter document-matching program and the Automated Substitute for Return program. The NTA recommends that the IRS reevaluate and revise its definition of an audit and the application of taxpayer protections through the lens of the Taxpayer Bill of Rights.
- Streamlined 501(c)(3) approval: In 2014, the IRS adopted a streamlined application and approval process to reduce processing times for certain organizations seeking tax-exempt status under Section 501(c)(3) of the tax code. But this has sometimes resulted in erroneous grants of tax-exempt status. The NTA recommends that the IRS review an applicant's narrative statement of actual or planned activities and the applicant's organizing documents before deciding whether to approve the application for tax-exempt status.
- Passport denial and revocation: Under a 2015 law, the Department of State is required to deny an individual's passport application and is authorized to revoke or limit an existing passport if the IRS certifies that the individual has a "seriously delinquent federal tax debt" (i.e., a federal tax debt exceeding \$50,000). The NTA makes several recommendations to ensure that taxpayers receive adequate advance notice and an opportunity for their case to be heard.

This is only a brief overview of the report by NTA Olson. More information, including the entire report, is available at

https://taxpayeradvocate.irs.gov/reports/2017-annual-report-to-congress/full-

report. The full Purple Book can be found at

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