NATIONAL TAXPAYER ADVOCATE’S REPORTS TO CONGRESS

On June 25, 2013, Nina E. Olson, the current United States Taxpayer Advocate and, thus, head of the Internal Revenue Service (“IRS”) Office of the Taxpayer Advocate, released her mid-year annual report dated June 30, 2013, to Congress entitled “National Taxpayer Advocate Fiscal Year 2014 Objectives Report to Congress” (“Report”) which outlines and identifies key issues, goals and activities that the Taxpayer Advocate Service (“TAS”) plans to address during the upcoming IRS fiscal year.

TAS is a government office dedicated to helping taxpayers solve their problems with the IRS. Olson is the only IRS employee authorized to make legislative proposals directly to Congress. Twice a year, she identifies the top problems that taxpayers face to the IRS and Congress, and analyzes how the IRS can alleviate those problems.

The main concerns expressed in the Report were the effect of budget cuts in the IRS’ ability to meet taxpayer needs, the IRS’ unwillingness to issue refunds to victims of tax return preparer fraud and shortcomings for assisting victims of tax-related identity theft. Recommendations were made for Congress to provide ample funding to the IRS for adequate training of IRS employees to ensure that taxpayer needs are met. It was noted that funding for IRS employee training has been cut by 83% since 2010.

REPORT PRIORITY ISSUES

The Report identifies a prioritized list of issues on which TAS will focus during the upcoming fiscal year including:

- Relieving the financial harm suffered by victims of tax return preparer fraud.
- Conducting adequate oversight of the tax return preparer industry.
- Providing effective, timely and taxpayer-centric relief to victims of identity theft.
- Utilizing effective and timely collection alternatives to minimize taxpayer burden while reducing the number and dollar amount of balance-due accounts.
- Conducting education and outreach to taxpayers about their responsibilities under the Affordable Care Act.
- Resolving erroneous revocations of the tax-exempt status of small Internal Revenue Code (“IRC”) §501(c)(3) organizations and failing to provide them with a pre-revocation administrative appeal.

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Establishing less draconian and more reasonable "settlement initiatives" for the millions of taxpayers who have legitimate reasons for overseas bank and financial accounts and whose failure to file reports was merely negligent.

SPECIAL REPORT

Olson and TAS also released a second report, a special report entitled "Special Report to Congress, Political Activity and the Rights of Applicants for Tax-Exempt Status" ("Special Report") which examines the IRS' use of questionable criteria to screen applicants for tax-exempt status. Please refer to our June 12, 2013 tax tip "Internal Revenue Service Tea Party Scandal".

The Special Report groups issues identified into the following four categories:

- Lack of guidance and transparency,
- Absence of adequate checks and balances,
- Management and administrative failures, and
- IRS Exempt Organization's unit ("EO") cultural difficulty with TAS.

In the report, Olson and TAS recommend the IRS enact a Taxpayer Bill of Rights to summarize the dozens of rights within the IRC and group them into ten broad categories modeled after the U.S. Constitution's Bill of Rights. Olson explains how EO actions and inaction with respect to IRC §501(c)(4) organizations applications for tax-exemption violated eight out of ten of the rights within the recommended Taxpayer Bill of Rights. In addition, the Special Report highlights the prior filing season in review, TAS research initiatives, case advocacy, systemic advocacy, integrated TAS technology and advancing a climate of advocacy through new approaches to education. Finally, in the Special Report, Olson and TAS outline various specific recommendations addressing each of the four categories of issues outlined above.

CONCLUSION

TAS and the IRS Tax-Exempt/Government Entities division ("TE/GE") are now working together to address the issues raised in the report. TE/GE executives are working on setting up a task force with TAS that will focus on EO procedures, update the TAS-TE/GE Service Level Agreement and identify training and education issues for employees. Inadequate guidance, training, systems and metrics all seem to be the cause of many of the issues that TAS currently faces. Insufficient transparency and management failures also deeply contribute to the problems at hand. The National Taxpayer Advocate has made the Report and Special Report recommendations to help prevent these issues from reoccurring as well as plans for internal reforms. These issues will be studied in more depth in the upcoming IRS fiscal year and it is anticipated further developments will be made in the year-end report to Congress.

A complete copy of both the Report and Special Report can be accessed at the healthcare services section of our firm’s website.