electronic tax administration advisory committee

Electronic Tax Administration Advisory Committee

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PREFACE

The Electronic Tax Administration Advisory Committee (ETAAC) was formed and authorized under the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). ETAAC's primary charter is to provide input to the Internal Revenue Service (IRS) on the development and implementation of the IRS strategic plan for electronic tax administration. Accordingly, ETAAC's responsibilities involve researching, analyzing, and making recommendations on a wide range of electronic tax administration issues.

Pursuant to RRA 98, ETAAC reports annually to Congress concerning:

- IRS progress on reaching its goal to electronically receive 80% of tax and information returns;
- Legislative changes assisting the IRS in meeting the 80% goal;
- Status of the IRS strategic plan for electronic tax administration; and
- Effects of electronically filing tax and information returns on small businesses and the self-employed.

The IRS ensures ETAAC membership reflects broad experience and stakeholder perspectives, including representation from state departments of revenue, large tax preparation companies, solo tax practitioners, software companies, and business filers from the nonprofit and for-profit sectors. ETAAC member biographies are in Appendix A.

In conducting its assessments and formulating its recommendations, ETAAC relies on a variety of information sources. Most importantly, ETAAC participates in numerous discussions with IRS representatives. ETAAC also reviews several reports, including those from the IRS Oversight Board (Oversight Board), the National Taxpayer Advocate, the Government Accountability Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA). The Committee is most grateful for their observations. Finally, on occasion, ETAAC seeks background insights from industry and state departments of revenue. Using all of this information, ETAAC formulates its annual report; however, the recommendations and opinions expressed in this report are solely those of ETAAC.

The Oversight Board, also established pursuant to RRA 98, is responsible for, among other duties, the delivery of an annual report to the Director of Electronic Tax Administration (or other IRS delegate), and a similar report to Congress with respect to advancing electronic tax administration. The Oversight Board and ETAAC have often concurred in many opinions and recommendations on the IRS' progress in the areas of electronic filing and electronic tax administration. Both the Oversight Board and ETAAC look forward to continuing to work together in the face of industry-wide changes and taxpayer expectations.

Finally, ETAAC recognizes IRS employees and leadership for their continued efforts to administer an increasingly complex tax system, meet taxpayer service expectations, and successfully process billions of transactions and hundreds of millions of tax returns. The United States tax system could not operate without their dedication, commitment, and talent. IRS employees and managers have made themselves available during filing season and on many other occasions to brief ETAAC on a variety of issues and initiatives, answer questions, and provide requested information, despite their demanding schedules. ETAAC appreciates their dedication, openness, and candor. Without the continuing and full support of IRS, ETAAC could not perform the job Congress has assigned to this Committee.

Public comments on this report may be sent to etaac@irs.gov.

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EXECUTIVE SUMMARY

ETAAC's key observations and recommendations for 2014 are included below, along with a brief recap of last year's progress and recommendations. The remainder of this report is organized into sections covering ETAAC's analysis, assessment, and proposed outcomes.

1. IRS is within 5% of Reaching the Milestone of Success in 2014 Filing Season Related to the 80% E-File Goal.

In 2014, the IRS exceeded its 80% e-file goal for individual tax returns for the third straight year. However, the e-file rate for all other major returns continues to fall short of the 80% threshold. The greatest room for e-file growth continues to be in employment tax returns (Form 94x series) and exempt organization forms. During the past five filing seasons, the Form 94x series e-file rate has seen the slowest growth out of all major return types.

2. IRS Continued Progress Toward ETAAC's 2013 Recommendation Areas

During the 2014 filing season, the IRS made great progress in transitioning Form 1041 and 94x returns to the Modernized e-file platform. There are opportunities for progress in other important areas, including e-signature, as well as opportunities to improve the taxpayer and tax professional experience through tools and resources.

3. The Future Environment Continues to Increase in Complexity and Challenge

The IRS faces challenges as it deals with budget reductions and the implementation of two regulatory changes that include the Patient Protection and Affordable Care Act and the Foreign Account Tax Compliance Act. With a reduced budget, the IRS needs to assess its investment decisions and allocate its resources appropriately to ensure it invests in key areas. The IRS also needs to increase its engagement with industry and states to deliver more to taxpayers with reduced budgets.

4. Recommendations in Five Key Areas

For 2014, ETAAC is making 11 recommendations to drive 5 key outcomes.

- **Key Outcome 1:** Growth, improvement, and consistency of the electronic filing rate for major return types

- **Key Outcome 2:** Increased efficiency and accuracy of the foreign financial institution registration portal

- **Key Outcome 3**: One IRS-issued Personal Identification Number as the authentication component of an e-signature, with increased security and expanded usage

- **Key Outcome 4:** A secure, personalized online IRS account for individual and business taxpayers and tax professionals that increases voluntary compliance, decreases burden, lowers IRS customer service costs, and encourages e-filing

- **Key Outcome 5**: Increased accuracy and reduced taxpayer and tax professional burden in reporting advance payments of the premium tax credit under the Patient Protection and Affordable Care Act

PROGRESS TOWARD 80% E-FILE GOAL AND CONSIDERATIONS FOR THE FUTURE

One of ETAAC's primary responsibilities, as defined in its charter, is to research, analyze, consider, and make recommendations on the IRS' progress toward achieving its 80% e-file goal for major returns.[1] In keeping with historical analysis and reporting, ETAAC continues to calculate an electronic filing index (EFI) for use in this report. The Index assesses the e-file rates of a defined set of major tax returns, including a methodology to project full-year e-file rates, based on season-to-date information for the main driver of electronic filing rates – the individual tax return. Appendix B contains details about the Index and ETAAC's methodology.

In the 2014 filing season, the IRS has continued to make progress toward the 80% goal, but the growth in e-file rates appears to be slowing down, with only a 1.3% increase in the overall e-file rate. Overall, ETAAC estimates a 75.4% EFI rate for all major return types in 2014.

Table 1: 2011 – 2014 Electronic Filing Index

Electronic Filing Rate	2011	2012	2013	2014 Projection
EFI	68.1%	71.9%	74.1%	75.4.%

Sources: June 2013 ETAAC Annual Report to Congress for 2011-2013 rates; See Appendix B for calculation of 2014 projection.

Individual returns, which represent 77% of the 2014 filing season volume, continued to experience e-file growth. More importantly, e-file rates increased for all major return types. The EFI rates of corporate income tax and partnership returns grew most in absolute terms, year over year. In fact, at the current pace of growth, it appears that most major return types (excluding, notably, Form 94x series) should achieve the 80% threshold in the next few years, with the possibility of diminishing growth rates after 80% is achieved, as is now seen with the e-file rate for individual returns. To achieve an aggregate 80% EFI across all forms, 8.9 million forms must be converted from paper to e-file. Excluding individual returns from the aggregate EFI calculation, 15 million forms must still be converted from paper to e-file to achieve the 80% EFI threshold.

Table 2: 2014 Projected Electronic Filing Index (EFI)

	2013 Estimated			2014 Projection			2014 vs. 2013
Type of Return	Total	E-Filed	EFI	Total	E-Filed	EFI	Absolute Increase in Rate
Individual (Forms 1040, 1040-A, and 1040-EZ)	146,571,400	122,040,800	83.3%	148,267,600	124,718,522	84.1%	0.9%
Employment (Forms 94x)	30,066,900	9,571,400	31.8%	30,196,400	9,872,200	32.7%	0.9%
Corporation Income Tax (1120,1120-A,1120-S)	6,312,000	4,374,300	69.3%	6,285,300	4,741,700	75.4%	6.1%
Partnership (Forms 1065/1065-B)	3,594,500	2,506,400	69.7%	3,616,700	2,768,900	76.6%	6.8%
Fiduciary (Form 1041)	3,089,500	2,204,300	71.3%	3,110,500	2,396,100	77.0%	5.7%
Exempt Organizations(Forms 990, 990-EZ)	584,300	260,000	44.5%	600,900	285,300	47.5%	3.0%
Total	190,218,600	140,957,200	74.1%	192,077,400	144,782,722	75.4%	1.3%

Sources: 2013 Estimates based on IRS Publication 6186 (Rev. 10-2103) and 2014 projections per EFI methodology, as defined in Appendix B.

[1] Relevant to the 80% goal, the IRS considers the major tax returns filed by individuals, businesses, and tax-exempt entities, as defined in IRS Strategic Plan 2009-2013, Pub. 3744 (4-2009). As used in ETAAC's report, "major types of tax returns" refers to the most significant of those returns, as identified in Appendix B.

The greatest room for e-file growth continues to be in employment tax (Form 94x series) and exempt organization returns. More importantly, the year-over-year comparisons in Table 2 above provide a clear indication that the greatest e-file growth-rate challenge for the IRS continues to be the Form 94x series, with 20.3 million forms still filed on paper. During the past five filing seasons, the Form 94x series e-file rate has seen the slowest growth of all major return types for reasons highlighted in past ETAAC reports and the 2013 Electronic Filing Annual Report to Congress published by the IRS Oversight Board. The slow growth in e-file rates for the Form 94x series remains the IRS' biggest challenge to achieving an 80% goal across all major form types.

INFORMATION RETURN REPORTS

Although information returns are not included in EFI calculations for major tax returns, ETAAC also tracks e-file rates for information returns. The e-file rate for the majority of information returns now exceeds the 80% threshold, including the K-1 series, which was below the 80% e-file threshold in prior years. Form 1099-MISC is the only information return form type that has not achieved an 80% e-file rate. In fact, the e-file rate for Form 1099-MISC fell to 61.9% for 2014, from 63.5% in 2013, with 35.7 million Forms 1099-MISC still projected to be filed on paper this filing season. ETAAC continues to advise the IRS to consider a strategy to improve the e-file rate for Form 1099-MISC, as defined in Recommendation 5 in the June 2013 ETAAC annual report. As the IRS adds third-party information returns to validate items reported on taxpayer returns (such as the new ACA-driven Form 1095 series), ETAAC will continue monitoring e-file rates and identifying gaps and barriers to 80% e-file goals.

Table 3: Information Returns to Note

	2014 Projection			
Type of Return	Total	Paper	EFI	2013 Report EFI
Form 1099-MISC	93,719,000	35,677,000	61.93%	63.5%

Source: 2014 Projections from IRS Publication 6961 (Rev. 8-2013), Table 1; 2013 Report EFI from 2013 ETAAC report to Congress (June 2013)

THE 80% E-FILE GOAL AND THE FUTURE

In 2014, the IRS has exceeded its 80% e-file goal for individual tax returns, for the third straight year. However, excluding individual returns from the EFI calculation demonstrates that the EFI for all other major returns is 46% – falling far short of the 80% threshold. This trend will likely continue for many years because of low e-file rates, year-over-year growth, and overall influence on EFI of employment tax returns (Form 94x series).

As this report will discuss in greater detail, the IRS continues to make significant progress toward improved electronic tax administration and electronic interaction with taxpayers. This is demonstrated by taxpayers' increased adoption of IRS.gov for self-service, electronic refund participation, electronic filing of information returns, growth of tax-based computer and smartphone applications, and the roll-outs of the "Where's My Refund?" tool, the IRS Tumblr feed, the Get Transcript tool and the FATCA registration portal.

Given the current state of e-file rates across major return families (including information returns), ETAAC will continue to monitor e-file rates against 80% goals, and believes that great opportunity exists to improve electronic tax administration based on new electronic approaches to corresponding and interacting with taxpayers.

PROGRESS TOWARD 2013 RECOMMENDATIONS

The IRS addressed several elements related to ETAAC's 2013 recommendations.

TECHNOLOGY AND INFRASTRUCTURE STANDARDS THAT SAFEGUARD TAXPAYER DATA AND PROMOTE CONFIDENCE IN ELECTRONIC TAX ADMINISTRATION

In its 2013 report, ETAAC recommended that the IRS approve and publish an IRS Authorized e-file Provider Security Publication and include the Security Controls Implementation Plan. ETAAC also recommended that the IRS adopt a phased approach for plan implementation that promotes, educates, and guides appropriate and scalable industry security and privacy standards for taxpayer data inclusive of an industry assessment template and an implementation timeline.

The IRS has completed an assessment of the feasibility of implementation of this recommendation, including oversight and management. The IRS has also identified industry best practices and is considering critical next steps. In the interim, Publication 4557, Safeguarding Taxpayer Data a Guide for Your Business, should be used as guidance.

CONTINUED FOCUS ON THE GROWTH, IMPROVEMENT, AND CONSISTENCY OF 80% ELECTRONIC FILING GOAL ON THE IRS MAJOR RETURN TYPES

In 2013, ETAAC recommended that Phase II design of the IRS Foreign Account Compliance Act (FATCA) portal should allow for bulk upload of information required for FATCA compliance.

IRS plans for the FATCA portal include adding functionality to allow sponsored entities to upload the data of their sponsoring entities, an expanded approach for Global Intermediary Identification Number (GIIN) verification, and a standard XML schema that can be used for reciprocal reporting by financial institutions, tax administrators, and the IRS.

ACCESS TO INFORMATION FOR TAXPAYERS, TAX RETURN PREPARERS AND THIRD PARTIES THROUGH REAL-TIME INTERNET TOOLS TO MITIGATE FRAUD AND ACHIEVE MORE ACCURATE AND TIMELY RETURNS

In 2013, ETAAC recommended that, subject to taxpayer consent, the IRS offer taxpayers and taxpayer designees (return preparers or tax software) Internet-based tools to provide real-time access to resources currently available within internal IRS systems.

The Office of Online Services (OLS) has developed multiple Internet-based tools that require taxpayer authentication and consent. These tools include "Where's My Refund?," "Where's My Amended Return?," and the Get Transcript tool. Released in 2014, the Get Transcript tool allows taxpayers to immediately view, print and download PDF copies of their IRS transcripts for recent tax years. The IRS plans to expand interactive capabilities associated with viewing transcripts, and identify additional features associated with an account. The IRS is also planning a pilot program called Taxpayer Digital Communications, which will include secure email correspondence and live chat. Taxpayers would be required to register and authenticate their identity before participating. For tax professionals, OLS is developing new functionality to electronically submit Power of Attorney authorizations to the IRS.

Leveraging tax service delivery channels from and with the private sector for outreach, issue resolution, and requirements gathering

In 2013, ETAAC recommended that the IRS broaden outreach activities by leveraging and expanding current partnerships with accounting professionals and other taxpayer groups through low-cost and high-return electronic delivery channels, such as current electronic media and new virtual delivery methods. Broadening outreach activities would particularly help the IRS mitigate ACA effects on tax administration and communicate filing season status and future trends. In addition, the Stakeholder Liaison should remain an integral component for IRS advancement of electronic tax administration.

The IRS is effectively using time and resources as it continues to hold regular conference calls with stakeholders, such as industry groups, the Federation of Tax Administrators, and the Modernized e-File working group. The information shared, issues discussed, questions presented, and concerns addressed all speak to a collaborative effort of support the IRS receives from industry. The IRS also engages with various tax industry consortiums that include virtual sessions to discuss best practices for online tools to aide taxpayers and tax preparers, and to develop clearer taxpayer messaging for services such as "Where's My Refund?," ACA-related information, and services in field locations.

The Stakeholder Liaison function routinely disseminates privacy information, which will continue to be a key agency message, through its outreach channels to practitioners and industry stakeholders. This outreach function ensures that key IRS compliance messages reach far beyond participants at face-to-face and virtual outreach events, to practitioners' clients and industry organization members.

Modernized e-File (MeF) and Customer Account Data Engine (CADE2) implementation

In 2013, ETAAC recommended that the IRS continue to transition all form types to the MeF platform, work toward completing the Customer Account Data Engine (CADE2), and allow all tax returns to be filed electronically.

As of January 2014, the IRS had migrated 94x and 1041 form families onto the MeF platform and had successfully transitioned all forms off the legacy system. The IRS continues to make every effort to ensure that CADE2 is functioning within the agreed-upon processing timeframes and that data posting to the database accurately mirrors Individual Master File (IMF) data. The IRS continues to work with industry stakeholders to enhance the capabilities of MeF to help minimize reject conditions. Congress should provide the IRS with adequate funding to ensure that there is sufficient staffing and for the additional system changes needed to complete the implementation (and make necessary improvements) to the Modernization Program, which includes MeF and CADE2.

EMERGING ENVIRONMENT AND CHALLENGES

Since its inception in 1998, ETAAC has provided more than 100 recommendations to the IRS for improved electronic processing and taxpayer services. During the past 16 years, the IRS has fully or partially implemented more than 50 of these recommendations. The IRS' adoption of ETAAC recommendations can be seen as an acknowledgement of the contributions of the committee. During the past five years, ETAAC has expanded its recommendations to the IRS and Congress to address the evolving landscape and challenges the IRS faces in electronic tax administration. In its 2010 report, ETAAC accurately predicted that IRS was approaching a strategic inflection point in performing its mission due to increased responsibilities, reduced budgets, and heightened taxpayer expectations. These predicted challenges have come to fruition and have significantly affected the IRS' ability to continue growth in electronic services and interactions with the taxpayer community.

In 2011, a major IRS reorganization resulted in the elimination of the IRS Electronic Tax Administration division. Although this reorganization indicated that the IRS had adopted electronic processing as a part of its day-to-day environment, the reorganization also presented new challenges to a continued, targeted focus on facilitating electronic interaction with the taxpayer community. Taxpayers have come to expect centralized leadership governing IRS electronic policies and procedures, and now must make sense of individual initiatives across IRS divisions that may not be indicative of overall organizational policy. As one of the only IRS advisory committees that represent all elements of the taxpayer community, ETAAC's role in supporting IRS goals and reflecting the concerns of a diverse taxpayer community is more relevant now than at any other period since 1998.

As of the date of this report, the IRS has not published its next strategic plan. ETAAC continues to believe that without the benefit of a strategic plan, the IRS' increased responsibilities and lower budgets are relevant concerns and have the potential to decrease taxpayer confidence in the overall tax system.

BUDGET CHALLENGES

For the past several years, the IRS has faced increasing budget challenges, as it takes on more workload and responsibilities without corresponding budget increases. This year, the IRS budget remains flat, which will continue to create resource constraints. As a result, the IRS must carefully allocate its available resources and budget to ensure that existing agency priorities continue to function before it can allocate funding to implement tools and resources for new or enhanced taxpayer services. In the 2014 filing season, taxpayers saw increased wait times when they called the IRS for assistance and experienced delays with mailed correspondence. The IRS has also been forced to reduce the number of audits it performs because of reallocation of staff and resources to other essential functions.

In tax season 2015, the IRS must be fully prepared to administer its responsibilities under the ACA. This will required the IRS to enhance systems, create new forms and instructions, and reallocate already strained resources to ACA implementation. The IRS will also need to create taxpayer and tax professional resources and tools to help affected parties navigate the complexities of these new laws without creating additional burden on the filing process. Without increases to its budget, the IRS will continue to be forced to choose between meeting its obligations to administer the tax code and providing essential services to taxpayers.

LATE LEGISLATION

As of December 31, 2013, 55 tax provisions had expired for the 2014 tax year. Congress is discussing whether to extend some, if not all, of these expired provisions. If Congress makes these decisions in late 2014 or early 2015, taxpayers and the tax industry again may face a delayed start to the tax season. A delay in the tax filing season adversely affects some of the most vulnerable taxpayers, such as those who rely on refundable credit payments, including the Earned Income Tax Credit, as part of their annual budget. Delays also cause undue hardship on the IRS, states, and tax software developers, who must scramble to quickly implement the changed provisions to ensure that taxpayers can meet their tax filing obligations. In addition, the uncertainty caused by late legislation impedes the training and education of tax preparers and taxpayers, which can cause further obstacles to a smooth tax season.

TAX FRAUD GROWTH AND PROLIFERATION

Identity theft is a national issue that is growing in frequency and sophistication, costing the federal government and individuals billions of dollars a year. Because identity theft and tax fraud have become pervasive issues affecting the integrity of the tax system, the IRS has taken steps during the past year to directly combat these issues. One such effort is the Identity Protection Personal Identification Number (IP PIN) pilot program. The IP PIN is a unique six-digit number that taxpayers input when filing their returns, and is designed to help the IRS verify taxpayer identity and avoid delays in return processing. The limited pilot program allows selected taxpayers to apply for an IP PIN on a voluntary basis, even if they are not victims of identity theft. The pilot program was offered to taxpayers in Florida, Georgia, and the District of Columbia, because these locations experience the highest per-capita rate of tax-related identity theft. Outside of the pilot, only taxpayers who are victims of identity theft are eligible to receive an IP PIN.

To better combat this issue, the IRS should consider taking advantage of the functionality used in the IP PIN pilot program for a future standard of identity theft protection. This would allow taxpayers to take an active role in protecting their identities from being used to perpetuate tax fraud, instead of waiting to obtain an IP PIN reactively after they have already become victims.

ETAAC 2014 RECOMMENDATIONS

ETAAC believes that the IRS is facing more emerging challenges than in any time in history as it relates to successful administration of the tax laws of this country. To continue the great history of service and tax administration long established by the IRS, future considerations should include some or all of the following recommendations.

First, even though the overall electronic filing rate for all major returns has increased, major barriers remain for return types other than the Form 1040 series individual returns. The IRS should consider improvements to the e-filing process that would remove impediments for small businesses and increase the electronic filing rate of employment tax returns. If the IRS makes efforts to maintain and increase overall taxpayer confidence in e-filing, numerous compliance and economic benefits will result.

Second, the development and introduction of the foreign financial institution (FFI) registration portal has paved the way for effective registration of hundreds of thousands of financial institutions required to register for the Foreign Account Tax Compliance Act (FATCA). The IRS should improve current programming limitations and develop new functionality in the registration process to encourage maximum FFI participation and compliance with FATCA.

Third, when electronically filing their tax returns, taxpayers are currently faced with managing multiple Personal Identification Number (PIN) options to complete an e-signature. The IRS should simplify this process by creating one secure, IRS-issued universal PIN to serve as the identity-verification component of an e-signature. This would reduce taxpayer and tax preparer confusion, proactively combat the proliferation of identity theft, and boost e-filing rates across all major return types.

Fourth, in the face of increased demand and fewer resources, the IRS needs to develop a cohesive strategy to improve its manual, unsustainable customer service model. For the IRS to successfully shift toward more effective electronic customer service processes, it should plan and implement a comprehensive online account for taxpayers and tax professionals. This investment would reduce burden, increase tax revenue through voluntary compliance, and present a sustainable solution to increasing IRS customer service challenges.

Finally, in anticipation of reporting requirements under the ACA, the IRS should seek to proactively encourage tax return accuracy by providing filers with easily referenced information on their ACA tax credit amounts. Congress should grant the IRS expanded corrective authority to check returns for reporting accuracy and correct returns with inaccurate amounts. These measures would increase voluntary compliance and eliminate much of the need for IRS notices and follow-up for compliance.

The following is a complete listing of ETAAC's 2014 key outcomes and recommendations:

Key Outcome 1: Growth, improvement, and consistency of the electronic filing rate for major return types

> **Recommendation 1:** The IRS should implement initiatives to remove barriers to e-filing for small businesses, to increase the electronic filing of employment tax returns. Such efforts include taxpayer outreach, industry engagement, and review and update of published materials on IRS.gov.

Key Outcome 2: Increased efficiency and accuracy of the foreign financial institution (FFI) registration portal

> **Recommendation 2**: The IRS should improve FFI registration portal functionality to minimize data-integrity issues, reduce the potential for registration errors, and provide greater ease of use for registrants.

> **Recommendation 3**: In anticipation of future Global Intermediary Identification Number (GIIN)-matching requirements, the IRS should implement functionality to allow for the downloading of real-time FFI lists.

Key Outcome 3: One IRS-issued Personal Identification Number (PIN) as the authentication component of an e-signature, with increased security and expanded usage

> **Recommendation 4:** The IRS should implement one Universal PIN (U-PIN) as the authentication component of an electronic signature, to replace the multiple methods currently used and to make this the secure standard for future e-signature activity.

> **Recommendation 5**: The IRS should strengthen the authentication process for individuals to obtain the U-PIN.

> **Recommendation 6**: The IRS should expand the acceptance of the U-PIN to all form types requiring an electronic signature.

Key Outcome 4: A secure, personalized online IRS account for individual and business taxpayers and tax professionals that increases voluntary compliance, decreases burden, lowers IRS customer service costs, and encourages e-filing

> **Recommendation 7**: In its next strategic plan, the IRS should commit to creating a single, comprehensive online account for both individual and business taxpayers to provide taxpayers with broad capabilities to obtain tax and account information, manage their tax accounts, and interact with the IRS on account-related and compliance issues. To encourage broad taxpayer adoption, the IRS should allow taxpayers to create their secure online account when preparing their tax returns using tax preparation software.

> **Recommendation 8**: In its next strategic plan, the IRS should commit to creating a single, comprehensive online service account for tax professionals to assist their clients. To encourage broad adoption, the IRS should develop a registration process that allows both Circular 230 practitioners and unenrolled return preparers access to tax professional online service account features.

> **Recommendation 9:** As part of its development efforts for online IRS accounts, the IRS should include the ability for taxpayers and tax professionals to execute and file authorizations electronically so that tax professionals can immediately represent their clients and/or receive information on behalf of their clients.

Key Outcome 5: Increased accuracy and reduced taxpayer and tax professional burden in reporting advance payments of the premium tax credit (PTC) under the Patient Protection and Affordable Care Act (ACA)

> **Recommendation 10:** For the 2015 filing season, the IRS should create an online lookup tool for advance payments of PTC that provides taxpayers with the amount of the tax credit they received under the ACA for the 2014 tax year.
>
> **Recommendation 11:** Congress should give the IRS corrective authority to alert taxpayers to discrepancies in PTC advance payment amounts and provide taxpayers with the ability to adjust the amounts before the IRS accepts the return.

The remainder of this report provides ETAAC's summary and detailed recommendations, and its supporting assessment.

KEY OUTCOME 1

EDUCATION AND OUTREACH FOR EMPLOYMENT TAX RETURNS

Key Outcome 1: Growth, improvement, and consistency of the electronic filing rate for major return types

Recommendation for this outcome:

Recommendation 1: The IRS should implement initiatives to remove barriers to e-filing for small businesses, to increase the electronic filing of employment tax returns. Such efforts include taxpayer outreach, industry engagement, and review and update of published materials on IRS.gov.

Background on Key Outcome 1

Employment tax returns (Form 94x series) continue to be the largest group of returns not filed electronically, with 67% of the submissions still filed on paper. This means that, in 2014, the IRS will process about 20.3 million paper Form 94x returns. Earlier this year, the Form 94x return series was transitioned to the Modernized e-File platform, which allows filers to transmit the returns online. However, as ETAAC has previously identified, the Form 94x return series presents several barriers for small businesses to electronically file employment tax returns. If the IRS does not address these obstacles, ETAAC does not expect the IRS to achieve a significant increase in the electronic filing rate of the Form 94x series.

An example of a barrier to e-filing for small businesses that don't transmit returns through an electronic return originator (ERO) is the signature process required to e-file Forms 940 and 941. The taxpayer must sign Form 8453-EMP, *Employment Tax Declaration for an IRS e-file Return*, scan the document into a PDF format, upload that document to their software provider, and transmit the form with the return. This process requires these small-business owners to have access to a scanner and the software to support the conversion to PDF format. Key Outcome 3 in this report provides detailed information on removing this barrier.

ETAAC acknowledges that the IRS recently formed a team to begin discovery work to determine how to remove impediments to achieving a higher e-file rate on business returns, specifically the Form 94x series. ETAAC encourages various divisions within the IRS to commit to working cross-functionally and collaboratively to achieve a higher e-file rate for business returns.

Detailed recommendation

Recommendation 1: The IRS should implement initiatives to remove barriers to e-filing for small businesses, to increase the electronic filing of employment tax returns. Such efforts include taxpayer outreach, industry engagement, and review and update of published materials on IRS.gov.

Detail on this recommendation:

ETAAC has previously provided substantive ideas on this topic that have yet to be implemented; therefore, we refer the IRS to the 2011 and 2012 ETAAC reports. Here are some important ideas from those reports:

The IRS should increase its efforts in education and outreach, and work with industry partners to promote the electronic filing of Form 94x series returns.[2]

The IRS should engage with taxpayers and software and service providers to review the Form 94x e-file process from end to end. The IRS should identify easy-to-implement improvements by identifying and eliminating unnecessary and burdensome requirements that serve as barriers to e-filing Forms 94x.[3]

The IRS should review and update its website, forms and publications related to the Form 94x series. This would be a low-cost way for the IRS to better educate filers about e-file capabilities for Forms 940 and 941. Specifically, the IRS should update the 94x fillable forms available on IRS.gov that do not currently reference or explain how to complete these documents and file the forms electronically.

The following are other areas the IRS should update on IRS.gov, previously highlighted in the 2012 ETAAC report[4]:

- IRS.gov homepage
- The Newsroom
- Hot Topic
- Electronic Filing Options for Business Returns
- E-File for Large and Mid-Size Corporations
- Business e-file Partners
- Business e-file Providers
- Headliner
- Small Business and Self-Employed Community
- E-File for Business and Self-Employed Taxpayers
- Approved IRS e-file for Business Providers
- Service-wide Key Messages for Tax Professionals
- E-news and SSA/IRS Reporter

Conclusion

Over the past several years, ETAAC has recommended initiatives that would improve the electronic filing index (EFI) for employment tax returns. Unless the IRS takes action on these recommendations and removes barriers for small businesses, the IRS goal of achieving an 80% e-file rate for the Form 94x series cannot be achieved. ETAAC is encouraged by the formation of a newly dedicated team created to review the barriers to e-filing for small businesses and the economic results of paper tax returns. ETAAC will monitor the progress of the team going forward.

[2] http://www.irs.gov/pub/irs-utl/Pub3415_6_2012.pdf, page 14, and http://www.irs.gov/pub/irs-prior/p3415--2011.pdf, page 26
[3] http://www.irs.gov/pub/irs-prior/p3415--2011.pdf, page 27
[4] http://www.irs.gov/pub/irs-utl/Pub3415_6_2012.pdf, page 28

KEY OUTCOME 2

ENHANCEMENTS TO THE FOREIGN FINANCIAL INSTITUTION REGISTRATION PORTAL

Key Outcome 2: Increased efficiency and accuracy of the foreign financial institution (FFI) registration portal

Recommendations for this outcome:

Recommendation 2: The IRS should improve FFI registration portal functionality to minimize data-integrity issues, reduce the potential for registration errors, and provide greater ease of use for registrants.

Recommendation 3: In anticipation of future Global Intermediary Identification Number (GIIN)-matching requirements, the IRS should implement functionality to allow for the downloading of real-time FFI lists.

Background on Key Outcome 2

In 2010, Congress enacted the Foreign Account Tax Compliance Act (FATCA) to ensure compliance by U.S. taxpayers using foreign accounts. FATCA, which goes into effect July 1, 2014, requires foreign financial institutions (FFIs) to report information to the IRS about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

One of the first steps for FFIs as part of the FATCA compliance process is registering on the IRS portal to, among other things, obtain a Global Intermediary Identification Number (GIIN), which will be used on Forms W-8 and Forms 1042-S. It is anticipated that there will be hundreds of thousands of FFIs registering on the IRS portal. The IRS has invested millions[5] of dollars in developing the portal, and will need to continue investing in future enhancements as the IRS and global financial community implement FATCA.

Detailed recommendations

Recommendation 2: The IRS should improve FFI registration portal functionality to minimize data-integrity issues, reduce the potential for registration errors, and provide greater ease of use for registrants.

Detail on this recommendation:

The IRS FFI portal includes a four-part registration process that all registrants must complete:

- Part 1: Basic identifying information
- Part 2: Identification of all member financial institutions (FI)

[5] 2013 TIGTA Report, Reference Number 2013-20-118: http://www.treasury.gov/tigta/auditreports/2013reports/201320118fr.pdf

- Part 3: Information on Qualified Intermediaries (QI), Withholding Foreign Partnerships (WP), or Withholding Foreign Trusts (WT)
- Part 4: Responsible Officer (RO) certification

Current programming limitations will diminish the usefulness of information collected in the registration process. ETAAC recommends the following changes that would eliminate these complications:

Expand the character limit for FI legal names

The field provided for the Legal Name of the Financial Institution (Box 2) is limited to 40 characters. The help link adjacent to this data field states that registrants must enter the complete legal name of the FFI.[6] This 40-character limit will likely cause data-integrity issues, including the following:

- For many institutions with legal names longer than 40 characters, the current registration field fails to capture the full legal name.
- For funds and multinational financial institutions, the character restriction could create confusion for other registrants within their expanded affiliated group (EAG).
- Multiple entities sharing the initial 40-character portion of their legal entity names would register separately and acquire unique GIINs, while sharing the same stored name. The impossibility of distinguishing among these registrants on future published IRS FFI lists would compromise the reliability and accuracy of GIIN matching for these FFIs.

ETAAC recommends that the IRS increase the current character limitation to a minimum of 180 characters to ensure that registrants can provide complete legal names, as required.

Eliminate state/region/province as a required mailing address field

Currently, the portal requires that registrants complete the state/province/region fields to proceed with the registration process.[7] For multiple European countries[8] and island nations[9], the customary mailing address format does not include a state, region or province. For institutions in these countries, this requirement will impede registration or lead to the storage of extraneous information[10] and "dummy" data in IRS databases. This could cause mail delivery problems if the data is used to generate addresses on FFI-related correspondence. Therefore, ETAAC recommends that the IRS change this field from required to optional for all address fields.[11]

Improve ability to edit specific data fields without re-entering entire section

Currently, if a registrant makes an error or wants to update information in the Point of Contact (POC) field (Box 11B), the registrant is required to manually re-enter all data in the POC field. The IRS should improve the editing capabilities of the POC fields to allow for easier updating by registrants to increase the likelihood that POCs will keep their information current as required.

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[6] The portal requires the "name the FI uses in official incorporation or organization documents, or the name otherwise recognized by the residence country government as the FI's official name."

[7] These fields appear in Part 1, in the My Information section, for the following areas: Mailing Address of Financial Institution (Box 5), Provide Information about the Responsible Officer (Box 10), and Responsible Officer (RO) for the Financial Institution (Box 11B).

[8] For example, Luxembourg, Switzerland, France, Netherlands, etc.

[9] For example, Bermuda, Jersey, Guernsey, etc.

[10] For example, registrants might provide the names of neighborhoods, suburbs or other unofficial regional descriptions, or terms such as "none" or "not applicable."

[11] The IRS should employ a common standard across all platforms. Additionally, with the impending Common Reporting Standard (CRS) initiative for the Model 1, there should be consistency between the CRS and the registration details.

Provide file upload functionality at the start of the registration process

Currently, FFIs are required to manually enter all text into each registration field, resulting in a process that is time-consuming and potentially subject to error. While the FFI registration process requires attention to detail and specific information from each FFI, the IRS should consider implementing file-upload functionality to prepopulate registration fields[12] from registrant-provided files. This improvement would allow much of the registration experience to shift away from manual entry to approval (and editing, if necessary) of populated data. Consequently, this functionality would simplify and expedite the FFI registration process, particularly for organizations registering multiple FFIs.

Introduce features to assist with multiple FFI registrations

To expedite the registration process for organizations registering multiple FFIs, the IRS should provide alternative methods to allow for faster entry of registration information, such as:

- Copying and pasting of information shared by FFIs in the same EAG[13]
- Bulk upload functionality to allow for data extraction from external files

Although registrants would still need to review each FFI's prepopulated information for accuracy, these automated features would significantly expedite the overall registration process.

Add "test" FFI functionality to educate registrants before they register

In light of the complexities of FATCA and its terminology, ETAAC believes that there would be significant benefit to providing more user-assistance guides and help features. The IRS has already partially addressed this concern by setting up a soft launch period for the portal, prior to January 1, 2014, to allow FFIs to explore the portal's features, and by providing FAQs and an Online Registration User Guide within the site to further explain the registration fields. However, the overall registration experience still produces multiple unanswered questions.

In the current setup, registrants can generate a new account and browse the information required during the registration process.[14] However, a test FFI registration tool would be a quicker and more intuitive way for registrants to preview the portal's features and view the information that will be required of each FFI in Parts 1 through 4. Test functionality would reduce uncertainty about the extent or nature of registration questions and make it easier for FFIs to register.

Review website capacity to support more concurrent users

It is expected that at least 260,000 financial institutions will undergo the online FFI registration process in anticipation of FATCA,[15] a number that many industry experts see as significantly understated. As the registration timeline established by Notice 2013-43 looms ahead for the publication of the first list of registered FFIs on June 2, 2014, it can only be anticipated that an additional surge of registering FFIs will rush to complete this process to be included on first IRS FFI list. Accordingly, the IRS should evaluate the current capacity of the portal to handle an influx of registrant website traffic prior to the end of 2014[16] (and any successive surges in registration traffic), to assess whether adjustments need to be made to the

[12] Data from the uploaded file should prepopulate registration fields in Parts 1 through 3, as applicable (or, at minimum, in Part 1).

[13] By expanding copy/paste functionality to entire FFI profiles, affiliated FFIs or member entities could automatically populate registration fields with data copied from a previously registered FFI, for Parts 1 through 3, in subsequent registrations.

[14] Currently, to explore the registration process, the registrant must take the time to create an artificial entity and populate each required field with mock information to determine how the process works and any additional questions that may arise. For the IRS, these false accounts require a backend process to eliminate dummy information that may be saved in its databases.

[15] "U.S. Treasury Submission for OMB Comment Request," 78 Fed. Reg. 20389 (Apr. 4, 2013)

[16] The original April 25, 2014, date was moved to May 5, 2014, per IRS Announcement 2014-71. However, many FFIs in Model 1 IGA jurisdictions may not register until the end of 2014.

portal's bandwidth and user capacity.[17] Failure to recognize and address any user-volume restrictions or data-transfer constraints could prolong or prevent successful FFI registrations.

The IRS is urged to regularly review any traffic limitations with anticipated portal visitors, in addition to assessing current setup and capacity within the FFI registration process. Ensuring a smooth registration process begins with guaranteeing a seamless technical experience within the portal itself.

Recommendation 3: In anticipation of future Global Intermediary Identification Number (GIIN)-matching requirements, the IRS should implement functionality to allow for the downloading of real-time FFI lists.

Detail on this recommendation:

One of the many benefits of online registration is the electronic capture of FFI registrants' data and subsequently issued GIIN numbers in the new FATCA environment. The resulting list of collected GIINs will constitute vital information for U.S. withholding agents and financial institutions now required to verify GIIN information against claimed FATCA statuses. This information will be available for public review in a monthly publication of the IRS FFI list. However, to ensure maximum efficiency with these compliance efforts, the IRS is encouraged to take full advantage of its projected electronic database of GIIN information by providing updated FFI lists in real time.

ETAAC strongly recommends that the IRS develop functionality within the FATCA portal to allow for the extraction of an updated digital FFI list upon request. In theory, this functionality would provide FATCA portal visitors with the ability to search active registered FFIs in good standing with the IRS. It would also allow visitors to generate a list of valid GIINs and corresponding FFI legal names and country information provided at the time of registration.[18] These generated lists would capture real-time information, including all newly registered or recently inactivated FFIs, and would minimize the operational impact of visitors having to wait for updated lists. Withholding agents and FFIs would also have direct access to up-to-date GIIN information as of the time of their request and would avoid the propensity for false positives or negatives when verifying FATCA statuses. Overall, adding functionality for real-time FFI list downloading would be a crucial part of ensuring an accurate and simplified GIIN-matching process for FATCA compliance.

Conclusion

The development and introduction of the FFI registration portal have paved the way for the effective registration of hundreds of thousands of financial institutions required to register for FATCA. By improving current programming limitations and developing functionality aimed at improving the speed and efficiency of the registration process, the IRS can help ensure maximum FFI participation and further encourage compliance with FATCA.

[17] This testing is especially important as new countries sign Inter-Governmental Agreements (IGAs), or, if the IGA status is eliminated altogether. IRS Announcement 2014-71 stated that the IRS will treat 19 countries that have not yet signed a FATCA Intergovernmental Agreement as having an IGA in effect. Additionally, there are a number of countries that have not signed IGAs that may in the months and years ahead.
[18] Ideally, additional features the IRS could provide to maximize ease of use of real-time FFI lists would include the extraction of data into an Excel file format for simplified searching, or into a PDF format for easier file transferability.

KEY OUTCOME 3

E-SIGNATURES STANDARDIZED WITH A CONSOLIDATED AUTHENTICATION PROCESS

Key Outcome 3: One IRS-issued Personal Identification Number (PIN) as the authentication component of an e-signature, with increased security and expanded usage

Recommendations for this outcome:

Recommendation 4: The IRS should implement one Universal PIN (U-PIN) as the authentication component of an electronic signature, to replace the multiple methods currently used and to make this the secure standard for future e-signature activity.

Recommendation 5: The IRS should strengthen the authentication process for individuals to obtain the U-PIN.

Recommendation 6: The IRS should expand the acceptance of the U-PIN to all form types requiring an electronic signature.

Background on Key Outcome 3

E-signature options for individual returns

When electronically filing a Form 1040 series individual return[19], taxpayers have several options for proving their identity to the IRS and signing the return. These choices vary based on whether the taxpayer filed a return the prior year, whether the taxpayer has certain information available to verify identity, and whether the return is filed by the taxpayer or a return preparer.

As evidenced in part by the current reject rates for electronically filed individual returns, there is confusion among taxpayers and tax preparers about how the signature process works. IRS Publication 17, Your Tax Return (2013)[20], is definitive and provides a detailed description of the steps for authenticating and electronically signing a tax return. As explained in detail in Publication 17, the electronic signing of an individual return is composed of two parts:

1. The signature mark, made with a Signature PIN

Taxpayers sign an electronic return by providing a Signature PIN, which is a five-digit number that the taxpayer chooses or that the authorized tax preparer or software selects for the taxpayer. The taxpayer must consent and attest to the accuracy of the return using this Signature PIN for all electronically filed returns, regardless of who prepared the return.

[19] Individual returns, or Form 1040 series returns, include Form 1040, *US Individual Income Tax Return*; Form 1040A, *US Individual Income Tax Return*; Form 1040EZ, *US Individual Income Tax Return*; Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*; and Form 9465, *Installment Agreement Request*.

[20] http://www.irs.gov/pub/irs-pdf/p17.pdf

2. Identity verification

For a self-filed individual return, taxpayers verify identity by entering at least one of the following four authentication factors (explained in detail below):

- Prior-year adjusted gross income (AGI)
- Prior-year Signature PIN
- Electronic Filing PIN (E-File PIN)
- Identity Protection PIN (IP PIN)

Prior-year AGI and prior-year Signature PIN

Taxpayers can enter information from their prior-year return to authenticate their identity to the IRS when filing a current-year return. Because of the personal and specific nature of this information, the IRS has reasonable assurance that the taxpayer who provides one of these two values on the return is actually the person filing the return.

E-File PIN

The E-File PIN, which can be used by most taxpayers[21], is an annually issued number delivered on a secure page at IRS.gov or by telephone.[22] This online service asks the taxpayer to submit information that the IRS has on record from the prior-year tax return, including basic demographic details (name, address, etc.), as well as the taxpayer's Social Security Number, date of birth, and prior-year filing status. The IRS verifies this information against the prior-year tax return, and, upon successful verification, the E-File PIN is issued and displayed on-screen to the taxpayer. The taxpayer can then use the PIN to authenticate and e-file the return (by self-filing or through a paid preparer, if the preparer allows the E-File PIN method). For Married Filing Joint returns, an E-File PIN is required for both taxpayers.

IP PIN

In processing year 2011, the IRS introduced the IP PIN to combat identity theft. Once a taxpayer has a confirmed case of identity theft, the IRS mails the taxpayer a six-digit IP PIN via the U.S. Postal Service. The taxpayer is required to provide this number on his or her tax return, regardless of who prepared the return and how it is submitted. Once enrolled in this program, the taxpayer must use a new IP PIN, mailed to the taxpayer by the IRS every year, on his or her tax return.

In 2014, the IRS began a pilot program[23] in certain states[24] that allows all taxpayers – even those who are not the victims of identity theft – to obtain an IP PIN to use when electronically filing their tax return. Participating taxpayers do not have to prove they were subject to identity theft. Instead of receiving this PIN through the mail, taxpayers have to correctly answer online "out-of-wallet" questions[25] using third-party (non-IRS) data to authenticate their identity and receive the IP PIN.

[21] According to IRS Publication 1345, exceptions are taxpayers who have been the victim of identity theft, who filed their prior-year returns at the end of the year (generally after mid-November), or who are younger than 16 (who are generally not eligible).
[22] http://www.irs.gov/Individuals/Electronic-Filing-PIN-Request
[23] http://www.irs.gov/uac/Newsroom/2014-Identity-Protection-PIN-%28IP-PIN%29-Pilot
[24] Florida, Georgia, and the District of Columbia
[25] Out-of-wallet information is personal information (such as a former address, school or car) that an individual would know, but that is not easily accessible by a third party, even if the third party had access to the individual's wallet.

Identity verification when the return is e-filed by a paid preparer

Self-Select with Practitioner PIN method
For an individual return completed by a paid tax preparer, identity verification can be accomplished using the same process as a self-filed return. However, the taxpayer must physically enter one of the four authentication factors listed above into the tax software. Because this process can be awkward in the operations of the business, return preparers typically prefer to use Form 8879, *IRS e-file Signature Authorization*.[26]

Practitioner PIN method (Form 8879)
Form 8879 shows a summary of the return as prepared, and the taxpayer is required to review the form to ensure it matches information on the tax return.

Typically, the preparer manually enters a Signature PIN in the tax return software, and the PIN is also shown on the printed Form 8879 for review by the taxpayer. The Form 8879 must be signed by the taxpayer and the preparer. By doing so, the preparer asserts that he or she has confirmed the taxpayer's identity, and the taxpayer's pen-and-ink signature serves as the identity verification component of the e-signature.[27, 28] The signed Form 8879 must remain on record with the electronic return originator, who may also be the return preparer, for three years.

E-signature options for business returns

Similar to the individual return process, paid preparers can use Form 8879 to verify their clients' identity for business returns.[29]

In contrast to the individual return process, the e-signature method for self-filed business returns is more cumbersome. In Recommendation 1, ETAAC identifies the complicated nature of this process as a barrier to e-filing for small business.

To gain proper context for the distinction, it is important to understand that even though business and entity returns are filed on behalf of an organization, an individual acting as corporate officer or responsible party is still responsible for signing the return and asserting under penalty of perjury that the information is complete and accurate to the best of the *individual's* capacity.[30]

When the IRS began accepting business returns electronically, the only authentication factors available for identity verification were the prior-year AGI or the prior-year total tax amounts for an individual, such as the corporate officer or responsible party. Because business returns are often seen by more than one individual, privacy concerns arise by placing one individual's personal information on a business return.

[26] http://www.irs.gov/pub/irs-pdf/f8879.pdf
[27] IRS Publication 1345, page 22, e-signature guidance for Form 8879
[28] For returns completed by a tax preparer, the preparer can enter the taxpayer's Signature PIN into the software before obtaining the taxpayer's signature on Form 8879. However, the tax preparer must obtain an actual pen-and-ink signature on the Form 8879 before electronically transmitting the return.
[29] Business returns, in general, are those not included in the individual returns listed above. They include the Form 94x Employment Tax series, Form 1120 Corporate Income Tax series, Form 1041 Estates and Trusts series, and Form 1065 Partnership return series.
[30] From the 2013 Form 1120, *U.S. Corporation Income Tax Return*, "Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge."

Form 8453, *U.S. Individual Income Tax Transmittal for an IRS e-file Return*
For taxpayers who self-prepare business tax returns, there is no electronic identity-verification process available. In the current practice, taxpayers must print, sign, scan, and upload Form 8453 for eventual transmission to the IRS.

Because Form 8453 is a scanned copy of the paper form, the IRS has little or no ability to electronically validate the signature. To verify that a form is signed, the IRS must open the submission and manually view the completed Form 8453. Without a prior taxpayer signature on file, the IRS also faces challenges determining whether the pen-and-ink signature actually belongs to the individual who completed and signed the return. Although there are more cases of identity theft on individual returns than business returns, this is still a concern, especially because the IRS is legally responsible under its business requirements for knowing who in an organization signed the return.

From a technical perspective, the addition of this scanned Form 8453 PDF attachment adds to the file size of the return transmitted to the IRS. Larger file sizes increase bandwidth requirements, as well as the time and cost of return transmission. This becomes a concern considering the high volume of transactions that occur near the tax-filing deadline.

Detailed recommendations

Recommendation 4: The IRS should implement one Universal PIN (U-PIN) as the authentication component of an electronic signature to replace the multiple methods currently used and make this the secure standard for future e-signature activity.

Detail on this recommendation:

ETAAC recommends that the IRS consolidate certain features of existing PINs into one common PIN to be used as the authentication component of an e-signature. Consolidating the process into the issuance of one PIN would cause considerably less confusion for taxpayers, who now face six allowed options for signature and authentication.[31] It would also reduce IRS burden in helping taxpayers understand and comply with existing requirements.

For the purpose of this document, we will refer to this conceptual PIN as the Universal PIN (U-PIN). The U-PIN would feature the ease of use and wide accessibility of the E-File PIN, and would be issued only after an identity-validation process similar to the IP PIN pilot program. The IRS should provide the U-PIN based on the risk level for the particular transaction and the individual.

ETAAC is not recommending that the existing Form 8879 identity verification process used by paid preparers and other signature options for entity returns be removed.

[31] Self-select PIN, Practitioner PIN, IP PIN, E-File PIN, prior-year Signature PIN, prior-year AGI (see Background section for detail on each PIN)

Recommendation 5: The IRS should strengthen the authentication process for individuals to obtain the U-PIN.

Detail on this recommendation:

Identity theft continues to significantly impact tax administration. The Federal Trade Commission estimates that as many as 75% of stolen identities in the United States are used to improperly obtain some type of government benefit, such as an individual income tax refund.[32] The IRS has shifted significant resources to resolving identity theft cases that impact taxpayers. Unfortunately, this shift has come at the expense of the compliance and taxpayer service functions.[33] To reduce taxpayer burden and IRS costs, the IRS must improve identity verification as part of the e-filing process.

E-File PIN

Year over year, taxpayers have increasingly utilized E-File PINs, as shown in the table below. Considering that the E-File PIN is mostly used by self-filers, the percentage of that group who used the E-File PIN in 2013 may be in excess of 35%.[34]

Table 4: E-File PIN Usage

Calendar Year	Number of E-File PINs
2011	10,013,331
2012	12,328,103
2013	16,224,253

The current E-File PIN authentication method relies on the entry of basic personal information to confirm identity. To obtain an E-File PIN, taxpayers must provide their Social Security Number, name, address, date of birth, and filing status.[35] These data elements can be easily compromised by those attempting to commit fraud. Even before the IRS implements a U-PIN, the IRS should strengthen the authentication process for the existing E-File PIN.

IP PIN pilot program

The IP PIN pilot program's Web-based issuance process provides significantly stronger identity protection than the E-File PIN-issuance process. The pilot program requires participating taxpayers to correctly answer out-of-wallet questions to authenticate their identity and receive an IP PIN.

ETAAC recommends that the proposed U-PIN include the ease of use of the E-File PIN, plus the additional pre-issuance identity protection of the IP PIN pilot program.

ETAAC acknowledges that there is no perfect method of identity verification. It is conceivable that, in the future, information used for out-of-wallet verification may be more easily compromised by criminals, necessitating additional identity-verification methods.[36] However, the more effectively the IRS can validate identity before issuing a U-PIN and accepting a tax return, the more effective the agency

[32] http://blog.credit.com/2013/03/12-6-million-reasons-why-identity-theft-matters/
[33] http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources
[34] http://www.irs.gov/uac/More-than-122-million-Returns-eFiled-in-2013
[35] http://www.irs.gov/Individuals/Electronic-Filing-PIN-Request
[36] Further, information sent from the taxpayer's computer over the Internet may be modified (or spoofed) by a criminal prior to the data being sent to the service provider or the IRS.

will be at stopping identity theft. In addition, because all information sent online could be falsified, it is necessary for the IRS to regularly review its identity-verification processes and strengthen them as needed.

U-PIN implementation
If the IRS adopts Recommendation 7, taxpayers could authenticate their identity and receive a U-PIN when they register for an online account at IRS.gov. Once authenticated, taxpayers could use a login and password to access account services and request a new U-PIN inside the account.

Before adopting Recommendation 7, the IRS could implement the U-PIN concept by simply moving the E-File PIN-issuance process behind the existing taxpayer authentication for the Get Transcript application or the pilot IP PIN application. Then, the IRS could strategically leverage existing technology used to validate the E-File PIN in the Modernized e-File (MeF) platform across all form types as a common e-authentication practice.

Recommendation 6: The IRS should expand the acceptance of the U-PIN to all form types requiring an electronic signature.

Detail on this recommendation:

One of the principal advantages of the U-PIN concept is that no data from a prior-year return or other personally identifiable information would be required to submit an Individual or business return. During the identity-verification process on IRS.gov or by phone, any sharing of personal information would be completed to obtain the U-PIN. The IRS can determine the risk associated with the issuance of a U-PIN and conduct the necessary identity verification prior to the U-PIN issuance.

ETAAC believes that adding the U-PIN option to business returns will reduce taxpayer burden in electronic filing and increase the e-filing rates for these forms, which have traditionally lagged in comparison to other form types. The current, more commonly used method requires printing, signing, scanning, and uploading the signature document, which increases taxpayer burden when filing electronically. Because the signature document may be easier to print, sign, and mail, as indicated in Recommendation 1, currently, the taxpayer incentive to e-file is especially low with simple returns such as Form 941.

To enable an improved electronic signature process, the IRS would need to add fields for a Signature PIN and a U-PIN on the electronic records for business returns. The IRS must ensure consistent processing in the MeF platform by accepting these two new fields and validating the U-PIN. This would be similar to the treatment already in place for individual return processing. This recommendation assumes that the IRS would take advantage of MeF system functionality already in place for identity verification.

If the IRS extends the U-PIN to other form types, there are operational implications that will arise. The IRS should consider the following ideas for U-PIN implementation:

- A valuable enhancement to U-PIN standardization would be the ability to assign roles to the issued U-PINs. For example, an individual could request a U-PIN and then select functions for the U-PIN (such as allowing the U-PIN to be used for signing Form 1040 and Form 990, but not for other forms). The IRS should consider developing a single database where taxpayer U-PINs and their allowed roles would reside.

- The IRS should consider the period of validity for a U-PIN. It could be for one-time use (like the E-File PIN), or it could have a period of validity, during which the individual could use the U-PIN to sign any number of different tax return filings.
- The submission of a tax return is often an annual process. This differs significantly from online banking and other e-commerce interactions that may occur weekly or daily. It is appropriate for the IRS to keep this difference in mind as it builds taxpayer-facing systems for the issuance and management of the U-PIN.
- Without removing the existing Form 8879 option, ETAAC encourages use of the U-PIN for returns completed by tax return preparers as a way to reduce fraudulently filed returns. For return preparers to adopt the U-PIN, they must be able to help taxpayers obtain a U-PIN, and the preparers' software must accept the U-PIN. Prior ETAAC reports have suggested leveraging IRS.gov to programmatically integrate with tax return preparation software to increase user adoption of services offered. This functionality would be no different; if the IRS adopts and expands use of the U-PIN, the IRS should work with the tax preparation industry and tax software developers to provide the most benefit and reduce barriers to electronic filing.

Conclusion

Today, taxpayers are faced with managing multiple PIN options to complete the identity-verification component of an e-signature. To streamline this process, the IRS should consolidate multiple PINs into one U-PIN to serve as the authentication component of an e-signature. The IRS should encourage tax software programs to accept the U-PIN, while emphasizing the continued availability of Form 8879 as a reliable identity-verification option for paid preparers assisting their clients.

The IRS should strengthen identity-validation procedures for taxpayers obtaining the U-PIN, similar to the IRS IP-PIN pilot program and the Get Transcript online transcript delivery system. Additionally, because there is currently no e-signature option for taxpayers who self-prepare business returns, the IRS should expand its acceptance of the U-PIN to these form types to increase e-file rates for business returns.

Creating a single, secure, IRS-issued U-PIN that can be used as the authentication component of an e-signature would reduce taxpayer and tax preparer confusion, proactively combat the proliferation of identity theft and tax fraud, and boost e-filing rates across all major return types.

KEY OUTCOME 4

IMPROVING THE TAXPAYER AND TAX PROFESSIONAL EXPERIENCE THROUGH ONLINE ACCOUNTS

Key Outcome 4: Secure, personalized online IRS account for individual and business taxpayers and tax professionals that increases voluntary compliance, decreases burden, lowers IRS customer service costs, and encourages e-filing

Recommendations for this outcome:

Recommendation 7: In its next strategic plan, the IRS should commit to creating a single, comprehensive online account for both individual and business taxpayers to provide taxpayers with broad capabilities to obtain tax and account information, manage their tax accounts, and interact with the IRS on account-related and compliance issues. To encourage broad taxpayer adoption, the IRS should allow taxpayers to create their secure online account when preparing their tax returns using tax preparation software.

Recommendation 8: In its next strategic plan, the IRS should commit to creating a single, comprehensive online service account for tax professionals to assist their clients. To encourage broad adoption, the IRS should develop a registration process that allows both Circular 230 practitioners and unenrolled return preparers access to tax professional online service account features.

Recommendation 9: As part of its development efforts for online IRS accounts, the IRS should include the ability for taxpayers and tax professionals to execute and file authorizations electronically so that tax professionals can immediately represent their clients and/or receive information on behalf of their clients.

Background on Key Outcome 4

Consumer demand for a comprehensive online experience
Since the emergence of the Internet and the mass adoption of new online communication methods, virtually all large-scale financial service providers have shifted from person-to-person interaction to comprehensive online service capabilities. This approach has advantages for businesses and their customers. Businesses can reduce costs while providing scalable, efficient delivery models. Customers benefit from convenient, immediate access to information and expanded real-time capabilities to interact and transact with their service provider, without having to call, write or visit an office.

To gain broad adoption and customer satisfaction, successful financial services companies take a comprehensive approach to the online customer experience. Online banking and shopping are good examples of growing consumer preference for broad online customer and account capabilities. According to the Pew Research Center, in 2013, 51% of Americans used Internet banking.[37] In fact,

[37] http://www.pewinternet.org/2013/08/07/51-of-u-s-adults-bank-online/

according to a 2014 survey conducted by Bankrate.com, one out of three[38] consumers has not physically visited their bank in the past six months. The effect is positive for consumers and the banking industry, with greater convenience for consumers and cost savings for banks as they reduce brick-and-mortar locations.[39]

Online sales growth continues to consistently outpace traditional brick-and-mortar retail sales.[40] Large-scale financial institutions and retailers, as well as many other industry sectors, provide customers with a comprehensive, personalized online experience to manage their accounts, make transactions, and interact without ever visiting an office or store. Technology also enables online providers to tailor the customer experience to the customer's profile, buying habits and prior interests – all of which provide a highly engaging, effective service delivery model.

Consumer demand for online services from the IRS

Now that 85% of Americans report regular use of the Internet[41], the demand for seamless online service delivery will continue to grow in all sectors, including tax. In fact, data shows that each year, taxpayers increasingly prefer interacting online with the IRS, consistent with other consumer experiences. For example:

- In 2013, IRS.gov received 457 million visits[42] and 198 million uses of its top two interactive tools[43], compared with 109 million phone contacts.
- Visits to IRS.gov are up 23.8% from 2012 and 56.5% from 2008.[44]
- The rate at which taxpayers e-file their returns has also increased every year, up to 81% in 2013.[45] The e-file rate reflects the most common annual taxpayer transaction with the IRS and demonstrates that taxpayers are more than willing to interact online, especially when the filing process is greatly simplified by tax software.
- The IRS Oversight Board 2013 Attitude Survey showed that, in 2012, 37% of taxpayers contacted the IRS for an issue other than the filing of their tax return.[46] The Oversight Board also found that 60% of taxpayers wanted a way to interact with the IRS via email, and 70% wanted the ability to get information online.[47]

To achieve high taxpayer adoption and satisfaction, ETAAC believes that the IRS should provide taxpayers with a comprehensive, customized online experience – at the same standard expected of today's retailers and financial service providers.

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[38] http://blogs.wsj.com/economics/2014/03/24/one-in-three-of-americans-hasnt-been-to-the-bank-in-at-least-6-months/

[39] There are cost-savings when consumers use online transactions versus face-to-face transactions. A study from financial research firm Javelin Strategy & Research estimates that the average cost of an in-branch transaction is $4.25. The same transaction performed with a mobile device costs $0.10: www.cutimes.com/2013/07/02/how-to-modify-mobile-banking-behaviors-to-maximize

[40] Wall Street Journal reporting on a United Parcel Service study: In 2013, e-commerce grew seven times the growth rate of total U.S. retail spending. http://online.wsj.com/news/articles/SB10001424127887324063304578523112193480212

[41] http://www.pewinternet.org/2013/08/07/51-of-u-s-adults-bank-online/

[42] http://www.irs.gov/PUP/newsroom/12-27-2013.pdf

[43] In its 2013 Tax Filing Season study, the Government Accountability Office (GAO) reported that taxpayers used the "Where's My Refund?" tool 193 million times and used the Electronic Filing PIN request tool 15 million times: http://www.gao.gov/assets/660/659777.pdf

[44] The Taxpayer Advocate Service (TAS) reported 457 million visits to IRS.gov in 2013: http://www.irs.gov/pub/tas/nta_testimony_houseppprops_oversight_022614.pdf ; GAO reported 292 million visits to IRS.gov in 2012, and 297 million visits in 2008: http://www.gao.gov/assets/660/659777.pdf

[45] For the 2013 filing season, individual taxpayers e-filed 119.5 million (81%) of the total 148.2 million Forms 1040 filed. http://www.irs.gov/PUP/newsroom/12-27-2013.pdf

[46] http://www.treasury.gov/irsob/reports/2014/IRSOB~TAS%202013.pdf

[47] http://www.treasury.gov/irsob/reports/2014/IRSOB-E-File%202013.pdf

IRS resource constraints demand a strategy to deliver effective online customer service

For the IRS, the importance of shifting customer service online has never been more apparent, in light of consistent budget reductions that erode its ability to serve taxpayers and tax professionals. From 2010 to 2014, IRS funding was reduced by almost $1 billion – a 7% decrease – while the total number of tax returns filed increased by 4%.[48]

Even if the IRS wanted to sustain person-to-person customer service as the norm, it could not. In 2013, with limited resources, the IRS answered only 61% of the phone calls it received, and addressed only 47% of its correspondence in a timely manner.[49] Since 2010, the IRS has decreased its workforce by 10,000.[50] In fact, for the 2014 tax filing season, the IRS announced that it would no longer provide tax law assistance to taxpayers by phone and would also decrease services offered at walk-in offices. Instead, the IRS will continue directing taxpayers to self-service options at IRS.gov (tax publications and interactive tax tools), community-based tax clinics, and tax law help sections included in tax software programs.[51]

Budget and personnel constraints have pushed the IRS to its lowest level of service[52], necessitating that the IRS develop more scalable, cost-effective electronic tax administration capabilities.[53]

Prior efforts

From April 2006 to December 2008, the IRS was developing an IRS account for taxpayers called MyIRSAccount (MIRSA). According to a 2009 Treasury Inspector General for Tax Administration (TIGTA) study that examined the project, MIRSA would have provided taxpayers with a way to securely view their tax account and tax return information online, as well as self-service tools. However, before MIRSA's completion, the IRS abandoned the project. The TIGTA report provided insight on why the project was terminated:[54]

> *The first release of the MIRSA project, which would allow taxpayers to view their tax account information online, was developed and near deployment when the IRS decided to terminate the project. The IRS Strategic Plan for 2009-2013 was presented at the same time the MIRSA project was being readied for deployment, and IRS executives decided to reexamine the project for its ability to fully meet both taxpayer and IRS strategic needs. As a result, to ensure that a long-term strategy was in place before proceeding with the MIRSA project or other online projects, the IRS approved the termination of the MIRSA project in December 2008, near the project's scheduled deployment date.*

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[48] See IRS commissioner testimony before the House Appropriations Committee on Feb. 26, 2014, at page 12: http://docs.house.gov/meetings/AP/AP23/20140226/101771/HHRG-113-AP23-Wstate-KoskinenJ-20140226.pdf

[49] The IRS defines timeliness as responding to the taxpayer within 45 days of receiving the taxpayer's correspondence. See page 4 of the GAO 2013 Tax Filing Season report: http://www.gao.gov/assets/660/659777.pdf. For IRS overage correspondence data, see page 9 of TAS testimony: http://www.irs.gov/pub/tas/nta_testimony_houseppprops_oversight_022614.pdf

[50] See IRS commissioner testimony before the House Appropriations Committee on Feb. 26, 2014, at page 13: http://docs.house.gov/meetings/AP/AP23/20140226/101771/HHRG-113-AP23-Wstate-KoskinenJ-20140226.pdf

[51] http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources

[52] http://www.taxpayeradvocate.irs.gov/userfiles/file/2013FullReport/IRS-BUDGET-The-IRS-Desperately-Needs-More-Funding-to-Serve-Taxpayers-and-Increase-Voluntary-Compliance.pdf

[53] Developing improved electronic capabilities makes sense from revenue-production and cost-savings perspectives. The IRS commissioner reports that for every $1 in budget cuts, the U.S. Treasury loses $4 in revenue. See http://www.irs.gov/uac/Newsroom/Prepared-Remarks-of-Commissioner-of-Internal-Revenue-Service-John-Koskinen-before-the-National-Press-Club-2014. In addition, using electronic tools is shown to produce cost savings. In February 2014, the IRS Oversight Board reported a five-year savings of $69 million as a result of the increase in e-filing over paper filing. See page 9: http://www.treasury.gov/irsob/reports/2014/IRSOB-E-File%202013.pdf

[54] http://www.treasury.gov/tigta/auditreports/2009reports/200920102fr.pdf

At the termination of the project, the IRS did not formally develop a reactivation plan for MIRSA. Because the IRS is at a strategic inflection point with regard to taxpayer service, ETAAC believes that now is the time to re-engage the project within the context of a long-term strategy for electronic customer service.

The Office of Online Services (OLS) is currently working on a taxpayer account, and ETAAC applauds IRS efforts in this area. Currently, these plans are tactical, with potential features identified in a "notional" roadmap for a taxpayer online account. This project does not currently appear on any IRS strategic plan.

Current taxpayer experience

IRS.gov provides several interactive tools across its website[55] to help with common tax questions for individuals, as well as four online tools for taxpayers to get information on their tax account: the Get Transcript tool for tax account information, "Where's My Refund?" status tool, "Where's My Amended Return?" status tool, and the First-time homebuyer lookup tool.

To use any of the electronic tools on IRS.gov, taxpayers must know that the tools exist, where to find them, and how they will help the taxpayer's particular situation. The tax preparation software industry and tax preparation firms have helped promote the "Where's My Refund?" tool, and it has experienced widespread adoption. Contributing to the popularity of this application is that most taxpayers receive a refund consistently approaching almost $3,000 a year.[56]

Released in 2014, the IRS Get Transcript tool has also experienced high initial taxpayer adoption rates.[57] Taxpayers can use this tool to set up a limited online account to immediately access and download PDF copies of their IRS transcripts for recent tax years.

When it comes to electronic tools for tax and compliance issues, taxpayers have limited options. Taxpayers can use an online payment agreement (OPA) tool to set up an IRS installment agreement or an extension to pay on balances owed.[58] This tool has not experienced widespread adoption. Consider that in 2013, taxpayers entered into about 3 million[59] new installment agreements and extensions to pay with the IRS, most of which could have been completed using the OPA tool,[60] but only about 98,000[61] were completed online. Contributing factors to the low adoption of the OPA tool are likely the complexity of the tool and its lack of integration with the taxpayer's specific account information.[62]

To interact more substantively with the IRS or respond to the myriad of other account or compliance issues, taxpayers must call, write or visit an IRS office location. A comprehensive single taxpayer online account, with tools and information customized to the taxpayer's situation and capabilities to interact

[55] http://www.irs.gov/uac/Tools

[56] The average refund for 2013 and 2012 was $2,755 and $2,803, respectively. http://www.irs.gov/PUP/newsroom/12-27-2013.pdf

[57] According to the OLS, taxpayers downloaded more than 3.2 million transcripts from the Get Transcript tool in its first two months of availability.

[58] The OPA tool allows taxpayers to set up a direct debit streamlined installment agreement or an extension to pay their tax balance, if the taxpayer meets certain requirements.

[59] Sept 2013, Collection Activity Report (CAR) 5000-6, All, National, Taken by Total IAs, Line 1.1 Col (A)

[60] The OPA can be used to set up a streamlined installment agreement. In 2010, 94% of all IRS installment agreements were streamlined. See: http://www.treasury.gov/tigta/auditreports/2011reports/201130063fr.pdf

[61] Sept 2013, CAR 5000-6, line 1.1.16, Col (A) + line 1.1.17, Col (A)

[62] Successfully establishing an installment agreement using the OPA tool requires that taxpayers know and understand their tax information, including specific years and amounts owed. This information is not accessible using the tool. A significant improvement would be to include the OPA in a comprehensive taxpayer account integrated with the taxpayer's specific information.

with the IRS, would present a cohesive solution to the fragmented online experience that taxpayers currently have with the IRS.

Current tax professional experience

Tax professionals partner with the IRS in successful tax administration. With three out of five tax returns completed by a paid tax preparer[63], the tax professional experience is just as important as the taxpayer experience.

In 2013, the IRS retired two important online tools[64] that were part of the e-Services suite of products. These tools allowed authorized tax professionals to electronically file disclosure authorizations on behalf of their clients and resolve client account issues electronically. These tools have not yet been replaced; now, tax professionals must file authorizations by paper and address client account issues by phone, letter, or visiting a local IRS office. With these manual methods, tax professionals have experienced long call wait times and delayed processing, leading to backlogs in service delivery at the IRS.[65]

To improve electronic tax administration, the IRS should seek to build the capacity of tax professionals to address client tax issues and engage with the IRS by maintaining and enhancing online account management tools.

Development process recommendations

For several years, ETAAC has encouraged the IRS to provide electronic capabilities to taxpayers and tax professionals through a variety of online tools and resources. Again, this year, ETAAC reiterates those recommendations and proposes additional suggestions to provide a comprehensive online experience for taxpayers and tax professionals. These recommendations seek to decrease taxpayer and tax professional burden, improve voluntary compliance, and reduce IRS service delivery and fulfillment costs.

The IRS should consider the following points in regard to its development process:

- ETAAC recognizes that the IRS has created a "notional" roadmap for the development of online accounts. The IRS should turn this roadmap into a concrete plan and incorporate the plan into its overall strategic plan.[66]
- As the IRS develops a feature priority list, the IRS should involve taxpayers, tax professionals and tax software companies. These stakeholder groups should have early input on user experience standards and use-case development to help the IRS achieve a comprehensive and effective online experience.
- ETAAC recommends that the IRS develop a tax professional online account *in conjunction with* the taxpayer online account to lessen taxpayer and IRS burden and improve adoption for both groups.

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[63] In the 2009 IRS Return Preparer study, the IRS noted that 60% of all tax returns are prepared by a paid professional. See page 9: http://www.irs.gov/pub/irs-pdf/p4832.pdf

[64] http://www.accountingtoday.com/news/IRS-Postpones-Shutdown-Online-eServices-Apps-67707-1.html

[65] Authorizations are manually processed by the IRS CAF unit. IRS procedures call for processing within five days, but it can take much longer depending on IRS resources (http://www.irs.gov/pub/foia/ig/spder/WI-21-1113-1609[1].pdf). This manual process stands in contrast to the former IRS e-Services Disclosure Authorization tool, which offered instantaneous access for Circular 230 professionals. In July 2013, the Taxpayer Advocate Service (TAS) reported average Practitioner Priority Service phone line wait times of 40.7 minutes. See page 196: http://www.taxpayeradvocate.irs.gov/userfiles/file/2013FullReport/Volume-1.pdf

[66] The IRS has not released its next strategic plan.

- In the past, ETAAC has recommended that the IRS roll out tools on an individual basis rather than combining them into one large-scale launch of a taxpayer or preparer portal. This report is consistent with a phase-in approach, but emphasizes that the IRS should work toward a single, comprehensive account for taxpayers and tax professionals.

Detailed recommendations

Recommendation 7: In its next strategic plan, the IRS should commit to creating a single, comprehensive online account for both individual and business taxpayers to provide taxpayers with broad capabilities to obtain tax and account information, manage their tax accounts, and interact with the IRS on account-related and compliance issues. To encourage broad taxpayer adoption, the IRS should allow taxpayers to create their secure online account when preparing their tax returns using tax preparation software.

Detail on this recommendation:

ETAAC recommends that the IRS take a cohesive approach to developing a single, online account for taxpayers. A few states have developed a single taxpayer account.[67] The most complete online account is offered by the New York State Department of Revenue. New York has online account capabilities for individuals and businesses with the following comprehensive features:

Individual taxpayer account functionality:

- View tax bills and make payments
- View payment history
- Sign up for email to receive refund information, notices, bills, etc.
- Manage estimated tax account
- Respond to a notice

Business taxpayer account functionality:

- View corporate tax payment information
- Sign up for email to receive alerts about bills, filing reminders, etc.
- File and pay certain taxes
- Add employees as account users with different permissions
- Run user-permission reports
- View and pay tax bills
- Respond to a notice
- Change business address/phone number

In New York, tax professionals also have extensive capabilities for their clients, including the ability to respond to notices on behalf of their clients.

[67] New York, California, Oregon, Maryland, California and Illinois have online account offerings. As of March 1, 2014, New York had the most extensive capabilities for individuals and businesses, including the ability to respond to notices.

ETAAC recommends that the IRS develop a similar taxpayer online account (TOA), which would be the taxpayer's central source for information about his or her tax accounts, and would house online services specific to the taxpayer's needs. Rather than continuing to build multiple, decentralized tools that taxpayers must use to actively search for and determine applicability to their situation, the IRS should develop a single TOA that would provide tax account information and other features specific to the taxpayer profile under a secure, single-authentication sign-on.

ETAAC also has specific recommendations for features that should be included in the TOA:

- Taxpayers should be able to understand their tax accounts in a user-friendly manner. This should include electronic views, with descriptions, of transcript information.
- Taxpayers should have the ability to obtain their electronic filing authorization code (i.e., the E-File PIN or the U-PIN recommended in Key Outcome 3) through their account.
- Taxpayers should have the ability to view IRS notices received and to be contacted via email or other electronic communication when postings/alerts are made to the account, such as the issuance of a new notice or the posting of an estimated tax payment.
- Taxpayers should have the information and capabilities to resolve IRS account issues efficiently. The account could provide basic information about whether the taxpayer's case has been assigned to a specific IRS unit, as well as any contact information for an IRS employee assigned to the case.
- Taxpayers should also have the ability to upload responses to common IRS inquiries, such as the CP2000 underreporter notice, which would benefit taxpayers, condense response times, and reduce the imaging and routing costs of processing the 21 million pieces of mail the IRS receives annually.[68]
- Taxpayers should be able to view the status of their tax issue, which currently can be done only by phone. This feature would reduce taxpayer burden and IRS time spent fielding status and follow-up calls.
- Taxpayers should have the ability to address underpayment issues. They should be able to access unpaid account balances and payoff amounts, pay their taxes through an online portal, and address penalty issues directly.
- The account should provide tax law tools and a tax calendar that are specific to the taxpayer's profile. For example, individual low-income taxpayers would have an interactive tool for the Earned Income Tax Credit in their account, as well as an estimate of their premium tax credit based on last year's tax return. Small business taxpayers could have an estimated tax calendar and email reminders notifying them that an estimated tax payment is due for the quarter. Business taxpayers could be reminded of payroll filing and deposit obligations.
- The IRS should allow business entities to establish online accounts to access tax information and resolve tax issues. Businesses should have functional capabilities similar to individual taxpayer accounts, and should also be able to view information statements filed and received under their Employer Identification Number. Currently, the IRS does not allow business entities access to their transcripts online. As soon as it is feasible, the IRS should extend online transcript access to business entities. Improved access to information for small businesses would decrease taxpayer burden, increase reporting compliance and discourage business identity theft.[69]

[68] See table 3 of GAO 2013 Filing Season report: http://www.gao.gov/assets/660/659777.pdf

[69] Information transparency would reduce taxpayer burden by reducing the need for calling or writing to the IRS for information or to resolve problems. Presumably, an online account could increase reporting compliance by allowing taxpayers to easily discover and correct potential reporting discrepancies. For example, the IRS could use the online account to alert taxpayers to potential underreported income and request correction by filing an amended return, if appropriate. Because of the current IRS process of notifying taxpayers by mail, the IRS can contact only a small portion of taxpayers with potential underreported income. In 2010, the IRS automated underreporter program flagged 24 million

Continued

- Because taxpayers use tax professionals to file three out of five tax returns, the IRS should enable taxpayers to electronically initiate an authorization for their tax professional to represent them before the IRS or receive information from the IRS on their behalf. This would facilitate more accurate return filings and increased compliance. Taxpayers should be able to see who is authorized on their account and have the ability to revoke any existing authorizations.

To facilitate taxpayer adoption of online accounts, the IRS should encourage taxpayers, through software providers, to set up a secure online account when preparing their returns electronically. To encourage continued use, the account should be accessible to taxpayers through their tax software.

As mentioned above, TOA features could be released in phases. However, ETAAC believes that taxpayer and tax professional accounts should be strategically designed and developed from the user perspective. We recommend that the OLS and other internal stakeholders partner with taxpayers and tax professionals to develop a feature roadmap with the ultimate goal of providing one customized account that would facilitate tax administration through electronic tools, while providing the ideal taxpayer and tax professional experience.

Recommendation 8: In its next strategic plan, the IRS should commit to creating a single, comprehensive online service account for tax professionals to assist their clients. To encourage broad adoption, the IRS should develop a registration process that allows both Circular 230 practitioners and unenrolled return preparers access to tax professional online service account features.

Detail on this recommendation:

Currently, taxpayers can allow tax professionals to receive information from the IRS on their behalf and to represent them before the IRS, depending on the practitioner's professional designation. For the 2010 tax year, 57.5 million individual taxpayers designated a third party to be able to discuss processing of their Form 1040 with the IRS. Most of these were likely part of the 81 million returns filed by paid preparers, who were designated through the check-box authorization on the tax return.[70] As mentioned above, three out of five taxpayers use a tax preparer to complete a tax return on their behalf.

For effective electronic tax administration, the IRS should provide tax professionals with a single, secure online account to obtain authorized client information and conduct authorized transactions on behalf of their individual and business clients. The tax professional should have similar informational and functional capabilities as their clients, plus these additional capabilities:

- Tax professionals should have the ability to finalize signatures and submit authorizations on behalf of their clients.[71] Authorized Circular 230 professionals (mainly attorneys, CPAs and enrolled agents) should be able to initiate an authorization to be signed by the taxpayer, receive

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returns with discrepancies between income reported on the return and information statements on file with the IRS. However, the IRS investigated only 5.3 million (22%) of these discrepancies (http://www.gao.gov/assets/660/655020.pdf - page 12). Within an online taxpayer account, the IRS could send "soft notices" to the additional 19 million taxpayers, including many small businesses, to alert them to potential underreporting. Taxpayers could also be alerted to potential tax identity theft through online notifications of returns filed or transactions made under their Taxpayer Identification Number.

[70] 2010 Form 1040 line count data (2011 did not report the number of third-party designees), at page 15: http://www.irs.gov/pub/irs-soi/10inlinecount.pdf

[71] Tax professionals generally file two types of disclosure authorizations: Form 2848, *Power of Attorney and Declaration of Representative*, to represent clients before the IRS, and Form 8821, *Tax Information Authorization*, to access client information from the IRS. The main difference between the two is that the Form 2848 allows a licensed tax professional (usually an attorney, CPA or enrolled agent) the ability to advocate their client's position, especially to an IRS compliance unit such as Examination, Collection, or Appeals.

the signed authorization from the taxpayer through the online account, complete their signature, and submit the authorization for immediate approval by the IRS Centralized Authorization File (CAF) unit.

- Tax professionals should have the ability to view a complete listing of all authorizations currently in effect, taxpayers for whom they are authorized, years and forms authorized, and the expiration dates of the authorizations. Tax professionals currently have no immediate access to a listing of their authorizations in effect with the IRS, nor do they receive confirmation when the IRS CAF unit has validated and recorded an authorization they submitted, or withdrawn an authorization they requested to be withdrawn. In fact, to obtain a listing of all authorizations in effect, tax professionals currently have to file a Freedom of Information Act request with the IRS Disclosure Office.[72]
- Tax professionals should have the ability to electronically withdraw an authorization. The current, manual process for withdrawing an authorization with the CAF unit is neither timely nor effective for tax professionals or the IRS. Tax professionals should be able to electronically withdraw an authorization, have the withdrawal immediately recorded by the CAF unit, and obtain confirmation that the authorization has been withdrawn – all of which are impossible in today's current manual process.
- Tax professionals should have tools to interact with the IRS on behalf of their clients. Tax professionals should be able to view client notices, understand client tax account transactions, and respond on behalf of their clients for account-related and compliance issues, such as responding to a CP2000 underreporter notice or requesting penalty abatement for their client. Tax professionals should be able to upload responses directly to the IRS employee assigned to their client's case or the IRS function responsible for their client's issue.

There are currently more unenrolled tax preparers than licensed tax professionals who prepare tax returns.[73] To achieve broad adoption of online accounts across the entire tax professional community, the IRS should extend access to certain features of the account to unenrolled tax preparers who have successfully passed an IRS approval process. Approved unenrolled preparers could access account information with a valid Form 8821 or for a limited time through a third-party designation on tax returns for specific tax years.

Extending online account capabilities to tax professionals would particularly benefit small businesses. The majority of unincorporated small businesses (71%) use a tax professional to prepare their tax returns[74], and 93% of S corporations and partnerships (most of which are small businesses) use a tax professional to assist with tax compliance.[75] The National Small Business Association reports that 84% of small-business owners pay an external practitioner to handle their taxes.[76] In addition to filing taxes, tax professionals help small businesses with many other year-round transactions, including payroll and estimated tax deposits, payroll compliance and information statement reporting – all of which require that tax professionals have improved access to their clients' information. The IRS should prioritize the

[72] This request is called the CAF77 listing request. See the sample client CAF listing FOIA request procedures at: http://www.irs.gov/uac/Freedom-of-Information-Act-(FOIA)-Guidelines

[73] IRS Return Preparer Office Federal Tax Return Preparer Statistics: http://www.irs.gov/Tax-Professionals/Return-Preparer-Office-Federal-Tax-Return-Preparer-Statistics. As of April 1, 2014, the IRS reported 679,749 tax preparers (preparers who have a required Preparer Tax Identification Number, or PTIN). Of the PTIN holders, 290,319 (43%) were licensed as CPAs, attorneys, or enrolled agents/actuaries/retirement plan agents, and 57% were not licensed under Circular 230.

[74] See page 5 of the TAS 2010 Annual Report to Congress : http://www.taxpayeradvocate.irs.gov/files/MSP1_Tax%20Reform.pdf

[75] See the IRS 2009-2013 Strategic Plan, page 16: http://www.irs.gov/pub/irs-pdf/p3744.pdf

[76] 2013 NSBA Small Business Taxation Survey: http://www.nsba.biz/wp-content/uploads/2013/04/Taxation-Survey-2013.pdf

development of a tax professional account so tax professionals can partner with the IRS to enhance voluntary compliance.

Most importantly, the IRS should partner with tax professionals and the tax software industry in developing the tax professional account. Tax professionals can provide insight into usability and feature priority, resulting in increased adoption by their peers.

Recommendation 9: As part of its development efforts for online IRS accounts, the IRS should include the ability for taxpayers and tax professionals to execute and file authorizations electronically so that tax professionals can immediately represent their clients and/or receive information on behalf of their clients.

Taxpayers have a fundamental right to representation before the IRS. Manual input of disclosure authorizations interferes with this right, and also presents a burden for the IRS.[77] In September 2013, the IRS removed the ability for tax professionals to file Forms 2848 and 8821 through the e-Services Disclosure Authorization incentive product.

As a result, tax professionals must now fax or mail their authorizations before they are registered with the IRS as an authorized representative for the taxpayer. This fax/mail process does not allow for immediate confirmation that the IRS has accepted the authorization, leading to inefficiencies and delays in taxpayer representation.

ETAAC recommends that the IRS prioritize the ability for taxpayers to file Form 8821 and initiate Form 2848 online for their licensed representative to complete and submit online with the IRS.

Conclusion

In the face of increased demand and fewer resources, the IRS needs to develop a cohesive strategy to improve its manual, unsustainable customer service model. To achieve high adoption and satisfaction, ETAAC believes that each taxpayer and tax professional should have a comprehensive, customized online account with the IRS – at the same standard expected of today's financial service providers.

For the IRS to successfully shift toward more effective electronic customer service processes, ETAAC believes the IRS and Congress must take the following actions:

The IRS must commit, in its next strategic plan, to the planning and implementation of a comprehensive online account for taxpayers and tax professionals that is customized to the user's profile and that covers a wide range of fundamental informational and transactional tax needs.

The IRS must involve taxpayers, tax professionals and tax software companies in the design and development of online accounts to ensure an online experience that is consistent with users' expectations and that is designed to maximize adoption.

[77] According to the IRS CAF unit, the IRS manually processed 3.585 million authorizations with the CAF unit in FY 2013.

To effectively implement this long-term strategy, Congress must adequately and consistently fund IRS development efforts to create comprehensive online accounts for taxpayers and tax professionals.

If the IRS and Congress work together on these strategic and financial commitments, this investment would reduce burden, increase tax revenue through voluntary compliance, and present a sustainable solution to increasing IRS customer service challenges.

KEY OUTCOME 5

IMPROVING ACA ADMINISTRATION AND COMPLIANCE THROUGH ELECTRONIC TOOLS

Key Outcome 5: Increased accuracy and reduced taxpayer and tax professional burden in reporting advance payments of the premium tax credit (PTC) under the Patient Protection and Affordable Care Act (ACA)

Recommendations for this outcome:

Recommendation 10: For the 2015 filing season, the IRS should create an online lookup tool for advance payments of PTC that provides taxpayers with the amount of the tax credit they received under the ACA for the 2014 tax year.

Recommendation 11: Congress should give the IRS corrective authority to alert taxpayers to discrepancies in PTC advance payment amounts and provide taxpayers with the ability to adjust the amounts before the IRS accepts the return.

Background on Key Outcome 5

The Patient Protection and Affordable Care Act (ACA) provides low- to moderate-income taxpayers with the ability to obtain a tax credit to pay for health insurance purchased on federal or state health care marketplaces. This tax credit is referred to as the premium tax credit (PTC). The Congressional Budget Office estimated that 5 million individuals will receive the PTC in 2014, totaling $10 billion.[78] The IRS helps administer this program by providing tax and family size information to the marketplaces to estimate the amount of allowable PTC, and by requiring taxpayers to calculate and claim the correct amount of PTC on their annual tax return.

Taxpayers can receive the PTC in two ways:

1. Qualified individuals can elect to have some or all of the monthly credit sent directly to their insurance provider as an advance payment, to lower the taxpayer's monthly out-of-pocket costs.
2. Or, qualified individuals can elect to receive the credit when they file their tax return.

Regardless of the method chosen to receive the credit, individuals will be required to file a tax return claiming the correct amount of PTC. Any individuals who receive advance payments of PTC must also correctly report this amount on their return.

[78] The Congressional Budget Office (CBO) projects that 5 million individuals will receive subsidies for individual coverage purchased in 2014. The total estimated outlays for premium credits will be $10 billion in 2014. The CBO also projects that, by 2024, the number of individuals receiving the PTC will increase to 19 million, and the amount in PTC subsidies to taxpayers will increase to $95 billion. See the CBO's report on the Updated Estimates of the Effects of the Insurance Coverage Provisions of the ACA, April 2014, Table 1: http://www.cbo.gov/sites/default/files/cbofiles/attachments/45231-ACA_Estimates.pdf

In its testimony to the House Appropriations Committee on Feb. 26, 2014, the Treasury Inspector General for Tax Administration (TIGTA)[79] noted that there is a risk for improper payments with the PTC, much like other refundable credits.[80] To file an accurate tax return, individuals must know the total amount of advance payments of PTC paid on their behalf for the year. These amounts will be reported on Form 1095-A, *Affordable Insurance Exchange Statement*, which taxpayers should receive on or before Jan. 31 of the following year (similar to Form W-2 or Form 1099 information statements that report wages and income).

Filing errors are likely to occur when taxpayers submit their returns before receiving the Form 1095-A, or because they do not know the amount of advance payments of PTC made on their behalf. In fact, because advance payments of PTC are paid directly to insurance companies, some taxpayers may not even be aware that they are receiving the credit.

Detailed recommendations

Recommendation 10: For the 2015 filing season, the IRS should create an online lookup tool for advance payments of PTC that provides taxpayers with the amount of the tax credit they received under the ACA for the 2014 tax year.

Detail on this recommendation:

Taxpayers who purchase insurance through the federal marketplace can access their federal healthcare.gov account to obtain the amount of advance payments of PTC made on their behalf. However, looking for tax information in this portal may not be intuitive for taxpayers, and it presents an additional burden for tax professionals who want to verify PTC advance payment amounts to help their clients file accurate returns.

Taxpayers residing in states that have chosen to run their own marketplaces must contact their state marketplace to obtain information about advance payments of PTC. Whether taxpayers can access this information online or by phone is specific to each state-run marketplace.

Ultimately, taxpayers must access a non-tax-related source to look for PTC advance payment information needed to file an accurate return. This will likely lead to more return errors and increased compliance costs for the IRS and taxpayers.

For the 2015 filing season – the first filing season during which the PTC will be reported on tax returns – ETAAC recommends that the IRS provide taxpayers and tax professionals with an additional lookup tool on IRS.gov to help identify the amount of advance payments of PTC received. Tax professionals could also access this tool through an application programming interface (API) in their tax preparation software.

[79] http://www.treasury.gov/tigta/congress/congress_02262014.pdf

[80] Refundable tax credits are treated as payments to taxpayers and therefore are subject to an increased risk of fraud. The Earned Income Tax Credit is an example of a refundable credit that is susceptible to fraud and abuse. See http://www.irs.gov/uac/Newsroom/IRS-Releases-the-Dirty-Dozen-Tax-Scams-for-2013

The IRS has used similar lookup tools[81] in the past to help taxpayers avoid return errors. ETAAC believes that a lookup tool for advance payments of PTC would result in the reduction of many filing errors that otherwise would require post-filing notices and reactive intervention by the IRS to correct the returns. Ultimately, the IRS should provide the amount of advance payments of PTC received and a current-year PTC estimator in a customized online account for taxpayers and authorized tax professionals.

Recommendation 11: Congress should give the IRS corrective authority to alert taxpayers to discrepancies in PTC advance payment amounts and provide taxpayers with the ability to adjust the amounts before the IRS accepts the return.

Detail on this recommendation:

Real-time matching of advance payments of PTC reported on the return with the amount paid on behalf of the taxpayer is the most efficient method to ensure voluntary compliance and reduce taxpayer burden. However, according to the IRS, matching and correcting erroneous returns that incorrectly report advance payments of PTC prior to electronically accepting the return is not possible. The IRS states that it does not have the authority[82] to alert taxpayers that the claimed amount of advance payments of PTC is incorrect prior to accepting the return electronically. Instead, taxpayers with any PTC error will be notified, by notice, of the discrepancy after the return is filed. This reactive process will result in a significant number of post-filing compliance notices and contacts, which burdens taxpayers and strains already-limited IRS resources.

ETAAC recommends that Congress give the IRS math error authority to pre-emptively alert taxpayers to erroneous reporting of advance payments of PTC and allow them to correct the error at the time of filing. Without this authority, the IRS must ultimately interact with the taxpayer/tax preparer by phone and written correspondence to resolve the error. Providing corrective authority is a proactive approach that would reduce taxpayer burden and IRS customer service burden, and enhance voluntary compliance by enforcing accurate tax return filings.

A FY2015 Administration proposal to change math error authority is consistent with this recommendation.[83] In its proposal, the Administration suggests the tax code should be less restrictive on the IRS' ability to proactively correct errors on taxpayer returns. The proposed change would modify the IRS' math error authority to allow for a new category of "correctable errors," which would permit the IRS to fix errors when information provided by the taxpayer on the return does not match information contained in government databases. This change would broaden the IRS' authority by allowing it to pre-emptively alert taxpayers that they have reported an erroneous amount of PTC advance payments and allow taxpayers to correct the error prior to processing. As the Administration proposal points out, this

[81] In the past, the IRS has provided several tools for taxpayers to look up the amounts of stimulus credits received. The number of filing errors prevented with such tools is unknown, but the tools are believed to have had a significant impact on reducing errors. For example, the 2008 stimulus credit online lookup tool received 55 million visits in 2009. See Table 6 of the GAO report on the IRS 2009 Tax Filing Season performance: http://www.gao.gov/assets/300/299999.pdf

[82] Congress gives the IRS authority to analyze a return for accuracy prior to accepting the return under Section 6213 of the Internal Revenue Code (referred to as math error authority). However, current math error authority is specific and restrictive under Section 6213(g)(2) and does not include the ability to analyze returns for correct reporting of advance payments of PTC. To use information to check a return for PTC advance payment reporting accuracy prior to acceptance, the IRS must have expanded math error authority under Section 6213.

[83] The Administration's proposal is found in the "General Explanations of the Administration's Fiscal year 2015 Revenue Proposals" (also known more commonly as the Green Book) on pages 229-230: http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2015.pdf

change would benefit the IRS and taxpayers by appropriately balancing the efficient use of IRS resources and the maintenance of procedural protections for taxpayers.

Conclusion

ETAAC understands that there will likely be many issues related to the ACA and tax return compliance. For the 2015 filing season, ETAAC recommends adding an electronic lookup tool and expanding the IRS' corrective authority to check returns for accuracy in reporting advance payments of PTC. Providing filers with PTC advance payment amounts would improve the accuracy of returns, and correcting returns with inaccurate amounts would proactively increase voluntary compliance and eliminate much of the need for IRS notices and follow-up for compliance.

While ETAAC recommends that the IRS initially develop electronic and corrective tools to improve return accuracy, ETAAC also recommends that the IRS commit, in its next strategic plan, to developing other electronic tools and system capabilities that will reduce taxpayer burden and increase voluntary compliance related to the ACA.

APPENDIX A: ETAAC MEMBERS

Shaun Barry – Mr. Barry is a Principal in the Fraud & Security Intelligence practice at SAS Institute. He lives and works in Rockville Centre, NY, and is responsible for developing and implementing technology solutions that give government leaders the power to identify and manage tax compliance, fraud, and improper payments issues. Mr. Barry has 20 years of experience in working with government clients throughout the US, Canada, South America, Europe, and Asia to foster innovative and efficient operations through technology. He specializes in tax/revenue, healthcare, motor vehicle, and fraud/improper payments domains. Previously, Mr. Barry worked for the Ohio Department of Taxation, where he served as the Assistant to Tax Commissioner Roger W. Tracy. Mr. Barry earned a B.A. in American Studies from the University of Notre Dame, and a Master of Public Policy degree from Duke University.

Timothy Blevins – Mr. Blevins is an executive consultant with CGI's Tax, Revenue, and Collections Center of Excellence (CoE) and is from Mayetta, KS. He is responsible for providing expertise to clients to enhance their tax operations and collections management systems. Mr. Blevins serves as a business and technical solutions architect for the design of integrated tax solutions. He also helps in the development of State Medicaid Management System solutions. Mr. Blevins has over 30 years of experience in the implementation, management, and modernization efforts of government information technology solutions with the Kansas Departments of Transportation, Social and Rehabilitation Services (SRS), and Revenue, which includes the Divisions of Taxation, Property Valuation, Motor Vehicles, and Alcohol and Beverage Control. He was CIO for Kansas SRS for five years and the Kansas Department of Revenue for 11 years. Further, Mr. Blevins has a strong background in information system management security aspects of tax administration and tax software. He earned a B.A. in Management Information Systems from Washburn University and is a former Co-Chair of the Federation of Tax Administrators-Internal Revenue Service Tactical Advisory Group (FTA-IRS TAG).

Jim Buttonow – Mr. Buttonow of Greensboro, NC, is a CPA, author, and instructor in the field of tax controversy. Mr. Buttonow currently directs tax practice and procedure services for H&R Block. For 19 years, Mr. Buttonow worked at the IRS, serving as a large case team audit coordinator for 15 years. Since 2006, Mr. Buttonow has been in private practice and software development. He also writes numerous articles, develops and presents CPE series on IRS practice and procedure, and regularly speaks on compliance trends and post-filing practice efficiency strategies for CPA and accounting firms. He earned a B.S. in Accounting from the University of South Florida.

Mark Castro – Mr. Castro, CPA, is the Government/Industry Liaison for Petz Enterprises, Inc., from Woodinville, WA. He is responsible for working with the State tax agencies and IRS to help improve electronic filing and gather the most up-to-date state and federal tax information for the company. Mr. Castro, while working in the tax software industry, has been involved in all areas of electronic filing, including development, testing and customer support. Mr. Castro earned a BS in Business Administration (Accounting) from California State University, Northridge. He also serves on the board of the Council of Electronic Revenue Communication Advancement (CERCA) and as the Electronic Filing Committee Chairperson of the National Association of Computerized Tax Processors (NACTP).

Cyrus Daftary – Mr. Daftary, JD, LL.M., is the ETAAC Chairperson and a partner with Burt, Staples & Maner, LLP from Newton, MA. He is responsible for consulting with multinational corporations and financial institutions on their compliance in the IRS tax withholding and information return reporting rules. Mr. Daftary assists clients in obtaining a Memoranda of Understanding (MOU) from the IRS for the electronic W-8 software application. His experience includes developing and implementing tax software solutions for withholding and information return reporting, representing clients before the IRS under Form 1042 audits and Form 1042 voluntary disclosures, and designing an online course "Cyberlaw: Legal Research, Issues and Practice in Cyberspace." Mr. Daftary earned a B.A. in Economics from Indiana University, a Juris Doctorate from University of Dayton School of Law, and an LL.M. from Temple University in Tax.

Everard Lee Davenport – Mr. Davenport is Principal at Davenport Consulting and is based in Washington, DC. He works with nonprofit organizations, corporations, government agencies and Volunteer Income Tax Assistance (VITA) sites to create and deliver free income tax, financial empowerment and digital learning programs to underserved communities. Mr. Davenport has expertise in multipartner program development, implementation and communications strategies, and is the architect of MyFreeTaxes.com. Recently, he served as Vice President, Programs at One Economy Corporation. Prior to that, he managed the nation's largest free low-income tax preparation network at the Food Bank of New York City. Mr. Davenport has a B.A. in Psychology from University of Texas at Austin and a M.S. in Urban Policy/Nonprofit Management from the New School in New York City.

Steve Lewis – Mr. Lewis, EA, is Vice President of Online and Mobile Applications for Jackson Hewitt Tax Services from Sarasota, FL. He has over 15 years of experience in the tax industry and is responsible for the overall delivery of online tax solutions. Mr. Lewis oversees the development of the public website, mobile applications, and online tax software. He establishes processes and procedures for operational implementation of interactive and social media. Mr. Lewis earned his BS in Accounting and his MBA in Finance, both from Northeastern University. He is a member of the National Association of Enrolled Agents and the National Association of Tax Professionals.

Mimi Nolan – Ms. Nolan is the ETAAC Vice Chairperson, and is the director of Tax Forms Management with H&R Block, from Parkville, MO. She oversees the centralized process of procurement, distribution, and interpretation of all tax regulatory changes, as well as tests tax law changes for regulatory accuracy across products. She is responsible for a team that procures tax documents, monitors and analyzes changes to the federal and state income tax forms, publications, instructions, and tax notices. Ms. Nolan has directed system, product design and implementation of digital tax preparation solutions. Her experience also includes electronic filing and tax software development, tax forms management, quality assurance in systems development, and tax preparation. Ms. Nolan earned a B.S. in Computer Based Information Systems from Park University and an MBA from University of Missouri-Kansas City. She is a member representative to NACTP and serves as Chairperson of the Government Liaison Committee.

Timur Taluy – Mr. Taluy is chief executive officer and a founder of FileYourTaxes.com, from Oxnard, CA. He serves as the lead technical architect for the firm, responsible for the development of the user interface, the secure external interfaces, and high availability platform. He manages the development and enforcement of internal policies and controls regarding safeguarding, development, and testing of tax return and other data processing systems. Mr. Taluy oversees the process contributing to the reliability and accuracy of the final tax product. He earned a B.S. in Electrical Engineering from the University of Southern California. Mr. Taluy is a member of CERCA and NACTP.

Troy Thibodeau – Mr. Thibodeau is executive vice president of marketing, product and client operations for Convey Compliance Systems, Inc., from Minneapolis, MN. He works with industry filers of information returns. He is a former CPA with Price Waterhouse Coopers and has over 20 years of experience within the technology and finance industries. Mr. Thibodeau monitors federal and state regulatory rules, establishes technical direction of software development, and delivers operational and technical support to financial service and business firms around their tax information reporting responsibilities. Certification includes Six Sigma, Green Belt. Mr. Thibodeau earned a B.S. in Accounting and International Business from University of Indiana and an MBA in Strategy and Marketing from the University of Minnesota.

Blair Whitworth – Mr. Whitworth is the president of PRO-TAX, the Tax University, and Tax Business Management from Charlottesville, VA. His companies provide tax preparation services in the Mid-Atlantic and Southeast, online tax training, and management software for independent tax businesses. Along with his leadership roles, Mr. Whitworth is responsible for business development and technology strategy. He earned a BA from the University of North Carolina, a MA from the University of Virginia, and a MBA from the College of William & Mary.

APPENDIX B: EFI ANALYTICAL METHODOLOGY

This Appendix explains ETAAC's methodology for analyzing and projecting the Electronic Filing Index (EFI).

THE ELECTRONIC FILING INDEX

ETAAC has used several measures over the years to report and measure the electronic filing (e-file) rate. To create a consistent measure of this goal, standardize cross-year comparisons, and facilitate analysis, ETAAC developed the electronic filing index (referred to as EFI, or Index) for use in its annual report to Congress. The Index aggregates and assesses the electronic filing rates of a defined set of major tax returns and includes a methodology for projecting e-file rates based on season-to-date information about the main driver of electronic filing rates – the individual tax return.

The Index computes a specific electronic filing rate for each specified return family, as well as an overall composite rate representing the overall electronic filing rate for all major return families in the Index. Importantly, because certain information in IRS Publication 6186 (which is revised and published each fall) is estimated, ETAAC's Index may shift slightly from year to year as IRS updates its estimates with actual filing season results.

RETURN FAMILIES

The Index is computed using IRS Publication 6186's reported information for designated forms in six major return families:

Individual Income Tax
Forms 1040, 1040-A, and 1040-EZ

Employment Returns
Forms 940 and 940-PR, Forms 941 and 941-PR/SS, Forms 943 and 943-PR, Form 944, and Form 945

Corporation Income Tax
Forms 1120 and 1120-A Total
Form 1120-S

Partnership
Forms 1065/1065-B

Exempt Organizations
Form 990
Form 990-EZ

Fiduciary
Form 1041

Substantiation for the continued use and accuracy of the EFI methodology can be seen in results from the 2013 filing season. ETAAC's June 2013 report projected an e-file rate of 82.3% for the 2013 filing season for individual returns (Forms 1040, 1040-A, and 1040-EZ), and an EFI of 72.8% for all major returns. Based on IRS data for the 2013 filing season, published in October 2013, the actual e-file rate for individual returns was 83.3%, and the e-file rate for all major returns was 74.1%. Given the accuracy of the EFI methodology in projecting EFI rates, this 2014 ETAAC report uses the same projection methodology.

Table 5: 2013 EFI Projection vs. IRS Data

Type of Return	2013 EFI Projection vs IRS Data		
	EFI	IRS Data	Variance
Individual (Forms 1040, 1040-A, and 1040-EZ)	82.3%	83.3%	0.9%
Business (94x, 1120, 1065, 1041, 990 families)	39.8%	43.3%	3.5%
All Major Returns	72.8%	74.1%	1.3%

Source: IRS Publication 6186 (Rev. 10-2013) Table 2 and June 2013 ETAAC Annual Report to Congress

Estimating the Electronic Filing Rate

As noted above, the current-year filing season data contained in IRS Publication 6186 is estimated. However, based on prior-year filing results and data for the season at this point, we can extrapolate and make reliable estimates for all of 2014. Therefore, ETAAC has modeled a projection methodology to forecast the current-year Index based on two components.

Component 1: Individual returns (Form 1040 series)

ETAAC projects total filing season e-file rates for individual returns by extrapolating current filing season year-to-date information into full-year estimates, based on how the individual return e-file rate has historically trended in the May-October period.

Based on this methodology, ETAAC estimates that the e-file rate for individual returns will be approximately 84.1% for the entire 2014 filing season, translating to an overall Index of 75.4% for all major return types for the 2014 filing season.

ETAAC follows a four-step process to project the full-year electronic filing rate for individual returns.

Step 1: Estimate the actual current year-to-date e-file rate.

Determine the current year-to-date e-file rate for individual returns, based on actual return filing information through April 25, 2014.

Table 6: Individual Income Tax Returns – Actual Through April 25, 2014

	2014 filing season through 4/25/2014
Individual Income Tax Returns	**Number of Returns**
Total Filed	134,300,000
Efile	116,500,000
E-File %	**86.7%**

Source: Current- and prior-season filing statistics, as found at www.irs.gov/uac/2014-and-Prior-Year-Filing-Season-Statistics

Step 2: Estimate the historical e-file rate degradation through the remainder of the year.

Compare the e-file rate for the first four months of the year through end of April (primary filing season) with the actual e-file rate for the full-calendar-year filing season for 2012 and 2013. In both instances, the final e-file rate decreased approximately 3% after the initial April filing deadlines. The degradation rate during this period remains relatively steady from year to year. ETAAC will continue to monitor the degradation rate to note whether it has any significant year-to-year changes.

Table 7: Historical Partial-Season Data vs. Full-Season Data

Individual Income Tax Returns	2012			2013			2013 vs. 2012
	4/27/2012	12/28/2012	Change	4/26/2013	12/27/2013	Change	Change
Total Receipts	133,530,000	148,203,000	10.99%	132,601,000	148,035,000	11.64%	0.65%
E-File Receipts	111,395,000	119,560,000	7.33%	113,067,000	122,515,000	8.36%	1.03%
E-File Rate	83.42%	80.67%	-2.75%	85.27%	82.76%	-2.51%	0.24%

Sources: Current- and prior-season filing statistics, as found at http://www.irs.gov/uac/2014-and-Prior-Year-Filing-Season-Statistics

ETAAC uses the average degradation rate experienced over the past two years to forecast degradation for the current year. The 2014 e-file rate degradation is forecast to be 2.6%.

Step 3: Project the full-year e-file rate for individual returns.

Subtract the e-file rate degradation from the actual current year-to-date e-file rate. Using an April 25, 2014, cutoff, the projected full-year e-file rate for the individual tax return family is 84.1%.

Table 8: 2014 Individual Electronic Filing Rate Projection

Individual (Forms 1040, 1040-A, and 1040-EZ)	Through 4/25/2014		
	Current	Projection Rate	2014 Projection
Total Receipts	134,300,000		
E-File Receipts	116,500,000		
E-File Rate	86.7%	-2.6%	84.1%

Sources: Current- and prior-season filing statistics, as found at http://www.irs.gov/uac/2014-and-Prior-Year-Filing-Season-Statistics

Step 4: Project the full-year e-file volume for individual returns.

Multiply the projected e-file rate by the IRS' projected 2013 total individual return volume presented in IRS Publication 6186 – that is, 84.1% times 148,267,600 returns. Then, use this projected e-file return volume to calculate the overall Index rate for all major return types.

Component 2: Business returns (Form 94x, 990, 1041, 1065, 1120)

ETAAC relies on IRS data estimates from IRS Publication 6186, which is published in the fall of each year, to calculate the EFI for all business return families of forms.

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