

Office of Management and Budget Clearance Package

IRS Offer in Compromise (OIC) Program Customer Satisfaction Survey for Fiscal Year 2008

**Internal Revenue Service
Small Business/Self-Employed (SB/SE) Research – Ft. Lauderdale/Greensboro
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Introduction

Background

Section 7122 of the Internal Revenue Code (IRC) gives the Internal Revenue Service (IRS) the authority to settle or “compromise” tax liabilities in some circumstances by accepting less than full payment from the taxpayer. An Offer in Compromise (OIC) is an agreement between a taxpayer and the IRS that resolves the taxpayer’s tax debt. The Internal Revenue Manual (IRM) on offers (IRM 5.8.1.1.2(2),) establishes the following three reasons that the IRS may legally compromise the tax liability: doubt as to liability, doubt as to collectibility, and promotion of effective tax administration.¹

The IRS’ OIC program manages these tax cases. The goal of this program is to promote compromises that are in the best interest of both the taxpayers and the IRS. The OIC program offers the taxpayer a fresh start towards compliance and creates an expectation of continued compliance. It is a specialized and valuable service that is available to taxpayers as a last resort to help them become compliant. As such, it is a high profile program, receiving oversight and scrutiny from Congress, the National Taxpayer Advocate, the Government Accountability Office (GAO), the Treasury Inspector General for Tax Administration (TIGTA), and the practitioner organizations that partner with IRS to deliver better taxpayer service.

The OIC program has undergone many improvements since 1998 as a result of internal and external oversight. A major milestone for the OIC program was the Restructuring and Reform Act of 1998, which included a new criterion for qualifying taxpayers for an offer – promotion of effective tax administration. GAO and TIGTA have reviewed the program extensively and offered recommendations on program administration and on treatment of taxpayers. The National Taxpayer Advocate and tax professional organizations also offered recommendations and partnered with the OIC program in 2004 to revise the application form. The application was changed substantially to help taxpayers determine their eligibility and more easily complete the application process. The IRS has implemented changes to make case processing more efficient and to reduce taxpayer burden in the offer process.

Another major milestone for the OIC program was the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). TIPRA was signed into law by the President on May 17, 2006 and created significant changes to the OIC program by amending IRC 7122. TIPRA, Section 509, amends IRC 7122 by creating a new subsection (c) entitled, “Rules for Submission of Offers-in-Compromise.” The new subsection (c) requires that offers submitted on, or after July 16, 2006 (and not subject to the waiver with respect to low-income taxpayers or offers filed under doubt as to liability only), must be accompanied by partial payments of the proposed offer amount. The form of these partial payments

¹ If promotion of effective tax administration is the reason for an offer, there is no doubt that the assessed tax is correct and no doubt that the amount owed could be collected. However, the taxpayer has demonstrated that collection of the tax would create an economic hardship or would be unfair and inequitable.

depends on the taxpayer's proposed offer and its terms.² The law also establishes a time period after which an offer would be deemed accepted by the IRS.³ In 2004, the Form 656 package (application for offer) was revised to help taxpayers correctly and completely prepare an offer and reduce the chances of the offer being returned for omissions. In February 2007, the new Form 656 (Revision 2/2007) retains the taxpayer burden reduction features while adding significant changes related to lump sum offers, periodic payment offers, and a determination as to when an offer is accepted. Also, the impact of TIPRA caused the IRS to change its processability criteria for offer submissions.⁴

The Collection function within the IRS' Small Business/Self-Employed (SB/SE) operating division is faced with several challenges. Collection must continually monitor the OIC program and the impact of changes to it and must also identify more ways to improve the program, if necessary, for small business taxpayers and for the IRS. Clear communication, timeliness, and fair and courteous treatment of taxpayers are critical components of good customer service in the OIC program. Collection is faced with the problem of determining whether taxpayers who have submitted an offer in compromise feel that they have received good customer service. Understanding the taxpayers' perspective on whether the OIC program is working well for them is essential to Collection for deciding whether forms, instructions, letters, or procedures should be changed to better serve small business taxpayers.

Collection initiated a process in conjunction with SB/SE Research in 2005 to help them determine taxpayer satisfaction with their service. At that time, Research completed the first customer satisfaction survey for the OIC program. Collection wants to continue to identify problems with their service, so that they can resolve them and ensure customer satisfaction. They also want to understand and document – over time – how well the program meets customer needs and what problems may be occurring. They are committed to an on-going process to determine customer satisfaction and make changes to improve the program.

For your reference, OMB approved the 2005 survey on 8/10/2005 (OMB Clearance Package # 05-018).

² TIPRA established that taxpayers filing offers (excluding doubt as to liability offers) would have to specify whether they are filing a lump sum or periodic payment offer. The two options are:

- A taxpayer filing a lump sum offer must pay 20 percent of the offer amount with the application (IRC 7122(c)(1)(A)). A lump sum offer means any offer of payments made in five or fewer installments.
- A taxpayer filing a periodic payment offer must pay the first proposed installment payment with the application and pay additional installments while the IRS is evaluating the offer (IRC section 7122(c)(1)(B)). A periodic payment offer means any offer of payments made in six or more installments.

³ IRC 7122(f) as amended by TIPRA will cause the IRS to deem an offer "accepted" which is not withdrawn, returned, or rejected within 24 months after the IRS receipt date. If a liability included in the offer amount is disputed in any judicial proceeding, that time period is omitted from calculating the 24 month timeframe.

⁴ Offers will be deemed unprocessable and returned back to the taxpayer along with the \$150 application fee in the following situations:

- Taxpayer is in bankruptcy
- Taxpayer does not submit the \$150 application fee, or a signed Form 656-A, Income Certification for Offer in Compromise Application Fee and Payment
- Taxpayer does not submit the 20% payment, or portion thereof, with the lump sum offer, or a signed Form 656-A
- Taxpayer does not submit the initial payment with the periodic payment offer, or a signed Form 656-A

Objectives

The objectives of this customer satisfaction survey for FY 2008 are:

- to determine the current level of customer satisfaction with the OIC program;
- to determine whether there is a difference in satisfaction based on the final disposition type of the offer (as defined by whether the offer was accepted, rejected, or withdrawn for any reason); and
- to determine if the current level of customer satisfaction has changed from the level of satisfaction determined in Fiscal Year 2005 through our prior customer satisfaction survey.

Methodology

Overview

As we stated in the Background section, this project is a follow-up to the OIC Customer Satisfaction Survey for Fiscal Year (FY) 2005 conducted by SB/SE Research (Ft. Lauderdale/Greensboro-Project ID: FTL0023) from 11/2005 through 3/2006. One of our recommendations in that report was that our customer conduct a follow-up survey in the future. The methodology, survey content, and survey administration method for this FY 2008 survey are similar to the FY 2005 research project.

A survey will be administered to the population of taxpayers who had their offers closed during the first six months of FY 2008, to gather opinions about the OIC Program. Since many of these taxpayers employ a tax practitioner to submit their offer, this research may also impact the tax practitioners who will represent these taxpayers. Tax practitioners experience the OIC program with (or sometimes for) the taxpayers. Therefore, the surveys will be administered to either the taxpayer or their tax practitioner, if the practitioner submitted the offer as a taxpayer's Power of Attorney. Each taxpayer or practitioner will receive only one survey, regardless of how many offers were closed.

The survey will be conducted using self-administered questionnaires on paper that will be mailed to participants. The key survey topics were determined by the customer (OIC policy experts), and were reviewed briefly as one of several topics in focus groups on the OIC Program that were conducted at the FY 2005 IRS Nationwide Tax Forums. Appendix A (Offer in Compromise Customer Satisfaction Survey) contains the survey that was used for FY 2005. We will use the same survey for FY 2008, with appropriate updates for the form number and OMB number, if these change.

The final survey forms will be developed using Cardiff's Teleform Elite software. The surveys will be formatted in a manner in which the participant will clearly understand the questions and the possible responses. The completed and returned surveys will be scanned, allowing all response data to be maintained electronically.

Survey Participants – Population (In Lieu Of Sample Design)

A sampling plan is not required for this project. We will be surveying the **population** of taxpayers who have had their offer in compromise case closed by the IRS during the first six months of FY 2008. If the offer was managed by a Power of Attorney (POA) for the taxpayer (e.g., by a tax practitioner), then the POA contact will be the survey recipient. The data required for identifying potential survey participants will be obtained from the Automated Offer in Compromise (AOIC) application, which is the IRS official system of records for Collection's offer program.

The population is being surveyed since ensuring sufficient sample sizes for the strata requested by the customer and then over-sampling would result in nearly the total population for the six month period, based on our 2005 experience. The customer wants the analysis stratified by the current configuration of their organization which is five geographic areas (Brookhaven, Memphis, South Atlantic, Gulf-States, and California) and three offer disposition types (accepted, rejected, and withdrawn offers). This will result in fifteen separate strata.

Data To Be Collected

The data to be collected consists of the responses to the survey. Appendix A shows the 15 questions the participants will answer.

Method To Maximize Response Rate

To encourage taxpayer participation and minimize non-response, we will use the following four-step contact sequence:

Contact 1: A pre-survey notification letter will be sent to the taxpayers to be surveyed encouraging them to participate. This pre-survey notification will be sent seven days prior to the mailing of the actual survey. A copy of the FY 2005 notification is included in Appendix B (Survey Pre-notification Letter). The FY 2008 notification will be the same, with necessary modifications for date, manager name, manager signature, form number, revision date, and catalog number.

Contact 2: A cover letter explaining the purpose of the survey and an enclosed envelope for returning completed surveys will be mailed with the actual survey questionnaires. A copy of the FY 2005 cover letter is included in Appendix C (Survey Cover Letter). The FY 2008 cover letter will be the same, with necessary modifications for date, manager name, manager signature, form number, revision date, and catalog number.

Contact 3: Seven days after the survey mailings, a follow-up postcard will be mailed, thanking those who have responded and asking non-respondents to complete and return the survey. A copy of the FY 2005 follow-up postcard is included in Appendix D (Survey Follow-up Notice). The FY 2008 postcard will be the same, with necessary modifications for form number, revision date, and catalog number.

Contact 4: A second survey with cover letter will be sent to the non-respondents approximately six weeks after the initial survey is mailed.

Data Collection Dates

We have agreement with our OIC customer that the survey administration will commence after April 15, 2008, to avoid any additional burden for taxpayers and their practitioners during the filing season. The surveys will be mailed no later than May 12, 2008. Experience with other surveys indicates that the receipt of significant numbers of surveys should stop approximately 4 weeks after they are mailed. Survey collection will end on July 31, 2008. The contact number and anticipated dates of mailing are listed below.

| Contact Number | Anticipated Mailing Date |
|--|---------------------------------|
| 1. Prepare and Mail Pre-Survey Notification Letters | 5/5/2008 |
| 2. Prepare and Mail Surveys and Cover Letters | 5/12/2008 |
| 3. Prepare and Mail Follow-up Thank You/Reminder Postcards | 5/27/2008 |
| 4. Prepare and Mail Second Survey to Non-Respondents | 6/23/2008 |
| Data Acquisition Complete for Returned Surveys | 7/31/2008 |

Who Is Conducting The Research?

The IRS' SB/SE Research office in Ft. Lauderdale/Greensboro will be conducting the research. The survey responses will be mailed directly to the SB/SE Research location in Ft. Lauderdale, FL. Each of the surveys and cover letters will contain a unique control number that will be assigned to each participant; this number will only be used to assist in non-response analysis.

As survey forms are returned, we will scan them using the Cardiff's Elite software and export the raw data into Statistical Package for the Social Sciences (SPSS) software data files in preparation for analysis.

How Will The Data Be Analyzed?

The data will be analyzed at the nationwide level, and by centralized sites (Brookhaven and Memphis individually), centralized sites combined, field sites individually (South Atlantic, Gulf-States, and California), and field sites combined.

We will compute the proportions of responses to each response choice, for each question. We will categorize the responses to the open-ended question, providing a summary of key issues and suggestions. We will compare the responses to those from the FY 2005 survey and report similarities and differences to the customer.

Non-response Analysis

If the response is relatively low (i.e., below 70%), we will conduct a non-response analysis. Specifically, we will test for significant differences between responders and non-responders on key demographic characteristics present in the population data. The characteristics are geographic area and entity type (i.e., taxpayer or tax preparer).

We will compute the proportions for these characteristics for the population and for the survey respondents. We will then compare the corresponding proportions of the two groups. If the proportions are not different between the groups, then we will assume that our sample is representative of the population and there is no non-response bias. If the proportions of the respondents and non-respondents are different, we will assume that the non-response bias exists.

To account for the non-response bias, we would then weight the survey responses of each stratum relative to the population proportions. If data is missing, we will proceed with the information that we

have. We will also look at the correlation between the responses of early responders and late responders, as another technique to identify non-response bias.⁵

Stipend

No monetary incentive will be provided to survey participants.

Expected Response Rate

The survey is expected to yield at least a 50% response rate for FY 2008. We received a 50% response rate for this project in FY 2005, and hope to achieve the same or better response rate, based on the volume of comments received last year in favor of requesting taxpayer opinion.

Estimates of the Burden of the Collection of Information

The collection will involve 12,000 participants. The survey is expected to yield a 50% response rate. The estimated time to complete the survey is 3 minutes (0.05 hours).

| | |
|---|------------|
| Estimated number of respondents | 6,000 |
| Estimated time to complete survey | 0.05 hours |
| Estimated respondent burden..... | 300 hours |

Privacy, Security, Disclosure and Confidentiality Requirements

SB/SE Research will ensure the privacy of those who participate in the survey and will ensure that security requirements are followed regarding the data obtained from the survey. SB/SE Research will follow security requirements according to the Internal Revenue Manual (IRM) and applicable federal guidelines, including the Federal Information Security Management Act of 2002 (FISMA). The data will be stored on the SB/SE Research computer system located in a secured area. The data will be maintained in a restricted access folder, so that only those researchers conducting the analysis will have access to the data (either on paper or electronically). The paper surveys will be stored in locked cabinets in the secured Research Office.

The data SB/SE Research obtains from the survey will be used only for this project. Once the project is complete, the data will be archived for one year and then destroyed.

Compliance with research data standards has been certified by the Chief, SB/SE Research (Ft. Lauderdale).

Research will apply fair information and record-keeping practices to ensure protection of privacy of all respondents. The criteria for disclosure, as specified in the Privacy Act, the Freedom of Information Act, and Section 6103 of the Internal Revenue Code, provide for the protection of taxpayer information as well as its release to authorized recipients. SB/SE Research will ensure adherence to these standards.

⁵ Most researchers view non-response bias as a continuum, ranging from fast responders to slow responders (with non-responders defining the end of the continuum). Applying this approach, we would use late responders as a proxy for the non-responders.

Cost:

The estimated cost of this study is \$88,000

Special Tallies and Other Information

We will provide a report on the survey results to the IRS' Statistics of Income Division, as required for their subsequent reporting to OMB on survey accomplishments. We will submit the report within the 60 days after the close of the survey data collection operations and it will contain the following:

1) Purpose:**2) Findings:**

Provide a brief summary of significant (important) findings that were evidenced in the survey results.

3) Actions taken or lessons learned:

Provide a brief summary of any actions taken or lessons learned as a result of the survey findings.

4) Number of requests or attempts for taxpayer participation for surveys, focus groups or Collection method:**5) Number of questionnaires returned or Number of focus group participants:****6) Date the data collection began:****7) Date the data collection ended:****8) Response Rate:****9) Actual Burden Hours:****10) Cost:**

Include reproduction costs, travel, overtime payments, stipends, and any other costs incurred as a direct result of the survey (do not include regular salaries of IRS employees or those of contractors).