

Office of Management and Budget Clearance Package

IRS Offer in Compromise (OIC) Program Taxpayer and Practitioner Satisfaction Survey for Fiscal Year 2009

**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 has reviewed the program extensively and offered recommendations on program administration and on treatment of taxpayers. The National Taxpayer Advocate and tax professional organizations have 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 which 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 depends on the taxpayer’s proposed offer and its

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.

terms.² The law also establishes a time period after which an offer would be deemed accepted by the IRS.³ Whereas, the Form 656 package was previously revised in 2004 to help taxpayers correctly and completely prepare an offer and reduce the chances of the offer being returned for omissions, the new Form 656 (Revision 2/2007) retains the taxpayer burden reduction features while adding significant changes as it relates 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

At the present, and in light of the recession, numerous taxpayers are experiencing economic difficulties. Most recently, the IRS is taking steps to help taxpayers who owe back taxes. A couple of changes that affect the OIC program include the following:

Additional Review for Offers in Compromise on Home Values⁵: An Offer in Compromise (OIC), an agreement between a taxpayer and the IRS that settles the taxpayer's tax debt for less than the full amount owed, may be a viable option for taxpayers experiencing economic difficulties. However, the equity taxpayers have in real property can be a barrier to an OIC being accepted. With the uncertainty in the housing market, the IRS recognizes that the real-estate valuations used to assess ability to pay may not be accurate. So in instances where the accuracy of local real-estate valuations is in question or other unusual hardships exist, the IRS is creating a new second review of the information to determine if accepting an offer is appropriate.

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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 explained below.

- 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

⁵ IRS News Release, *IRS Begins Tax Season 2009 with Steps to Help Financially Distressed Taxpayers; Promotes Credits, e-File Options*, IR-2009-2 (Jan. 6, 2009), <http://www.irs.gov/newsroom/article/0,,id=202244,00.html>

Prevention of Offer in Compromise Defaults⁵: Taxpayers who are unable to meet the periodic payment terms of an accepted OIC will be able to contact the IRS office handling the offer for available options to help them avoid default.

For your reference, OMB approved the 2005 survey on 8/10/2005 (OMB Clearance Package # 05-018) and the 2008 survey on 1/11/2008 (OMB Clearance Package # CS-07-073).

Objectives

The objectives of this project 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 FY 2008 through our prior customer satisfaction survey.

Methodology

Overview

This project is a follow-up to the OIC Customer Satisfaction Survey for Fiscal Year 2005 conducted 11/2005- 3/2006 by SB/SE Research – Fort Lauderdale/Greensboro (Project ID: FTL0023) and our OIC FY 2008 Project (Project ID: FTL00068). One of our recommendations in the 2005 report was that our customer requests a follow-up survey in the future. Thus, we were asked to conduct this survey again. At this point in our planning cycle, we expect that the methodology, survey content, and survey administration method will be similar to (if not the same as) the FY 2005 and FY 2008 research projects.

A survey will be administered to the population of taxpayers who had their offers closed during the second and third quarter of FY 2009, 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 Taxpayer and Practitioner Satisfaction Survey) contains the survey that was used for FY 2008. We will use the same survey for FY 2009, with appropriate updates for the form number and OMB number⁶, 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 second and third quarter of FY 2009. 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.

⁶ Note: The previously assigned OMB number (1545-1432) is displayed in the upper right hand corner of the data collection instrument as required.

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 2008 notification is included in Appendix B (Survey Pre-notification Letter). The FY 2009 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 the completed survey will be mailed with the actual survey questionnaire. A copy of the FY 2008 cover letter is included in Appendix C (Survey Cover Letter). The FY 2009 cover letter will be the same, with necessary modifications for date, manager name, manager signature, form number, revision date, and catalog number.

Contact 3: Within 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 2008 follow-up postcard is included in Appendix D (Survey Follow-up Notice). The FY 2009 postcard will be the same, with necessary modifications for form number, revision date, and catalog number. Also, the word “confidential” will be changed to the word “private”.

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, 2009, to avoid any additional burden for taxpayers and their practitioners during the filing season. We will also leave additional time for the Media and Publications contacts to solicit bids and hire a vendor to perform the mailout. The surveys will be mailed no later than August 25, 2009. Experience with other surveys indicates that the receipt of significant numbers of surveys should stop approximately 6-8 weeks after they are mailed. Survey collection will end on October 30, 2009. The contact number and anticipated dates of mailing are listed below.

Contact Number	Anticipated Mailing Date
1. Prepare and Mail Pre-Survey Notification Letters	08/18/2009
2. Prepare and Mail Surveys and Cover Letters	08/25/2009
3. Prepare and Mail Follow-up Thank You/Reminder Postcards	08/28/2009
4. Prepare and Mail Second Survey to Non-Respondents	09/03/2009
Data Acquisition Complete for Returned Surveys	10/30/2009

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 2008 survey and report similarities and differences to the customer.

Non-response Analysis

If the response rate 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.⁷

⁷ 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.

Costs

Summary of Project Costs

Summary of Project Costs Type of Cost	FY 2009 Costs	FY 2010 ⁸ Costs	Total Project Costs
SB/SE Research Staff	\$27,786	\$52,492	\$80,278
OIC Customer Staff	\$5,912	\$684	\$6,596
Media and Publications (M&P)	\$3,600		\$3,600
Single Point of Contact (SPOC)	\$3,760		\$3,760
Non-staff costs	\$10,000		\$10,000
TOTAL	\$51,058	\$53,176	\$104,234

As shown in the table above, the estimated cost of this research project is \$104,234. This includes \$80,278 for the SB/SE Research staff; \$6,596 for the OIC staff, including customer involvement; \$3,600 for the M&P staff; \$3,760 for the SPOC staff; and \$10,000 for vendor contract costs through Media and Publications for survey administration.

Stipend

No monetary incentive will be provided to survey participants.

⁸ Federal Salary Tables for FY10 have not been released yet. Therefore, we used FY 2009 Salary Tables for the FY 2010 computations.

Expected Response Rate

The survey is expected to yield at least a 50% response rate for FY 2009. 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. (We are currently compiling our FY 2008 responses and have a response rate of 48.8% as of 1/22/09.)

Estimates of the Burden of the Collection of Information

The collection will involve 8,000 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	4,000
Estimated time to complete survey	0.05 hours
Estimated respondent burden.....	200 hours

Privacy, Security, and Disclosure 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.

Special Tallies and Other Information

We will provide a report on the survey results to the IRS' Statistics of Income Division's (SOI) Statistical Support Team (SSS), 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 information⁹.

- 1) **SOI Control # (Not OMB #):** (This number allows us to associate the report with the package. You will find the number on the approval notification or other e-mail communication regarding the package)
- 2) **Title of Study:**
- 3) **Purpose:**
- 4) **Findings:** (Provide a brief summary (one or two paragraphs) of significant (important) findings that were evidenced in the survey results)
- 5) **Actions taken or lessons learned:** Provide a brief summary (one or two paragraphs) of any actions taken or lessons learned as a result of the survey findings.
- 6) **Total Number** (such as 842) **of requests** (surveys sent) **or attempts for taxpayer participation:**
- 7) **Total Number** (such as 326) **of questionnaires returned or participants in focus group, etc.:**
- 8) **Date the data collection began** (date only):
- 9) **Date the data collection ended** (date only):
- 10) **Response Rate:**
- 11) **Actual Burden Hours:** (Grand Total in hours only)
- 12) **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).

⁹ SOI OMB 10 Step Presentation updated 11-2006, Attachment E, Follow up Summary Report, Page 14.

