

OMB Clearance Package
2009 Survey of Taxpayers
Who Were Audited in FY2007 and Requested Audit Reconsiderations
Small Business/Self-Employed Campus Compliance

Introduction

The Taxpayer Advocate Service 2007 Annual Report to Congress, Volume One stated that “The IRS’s goal to reduce cycle time, which stemmed from the Internal Revenue Service (IRS) Strategic Plan for FY2005-2009 could only be accomplished by placing new cases in the pipeline or closing existing cases more quickly.” It also stated that case closures and cycle time were both key performance measures in Examination, driving management and front line examination activity which ultimately impacted taxpayers. To reduce the number of tax assessments that generated audit reconsiderations, the Taxpayer Advocate Service reported that the IRS must address the practices and procedures that lead to post-audit disputes. Specifically, they stated:

- IRS Internal Guidance that encourages early closure but does not encourage solving the taxpayer’s problem leads to poor customer relations.
- Use of the ‘Combo’ letter shortens response time, leading to incomplete examinations.
- Lack of telephone contact to resolve issues increases the likelihood of rework.
- Lack of address searches beyond internal IRS data lessens the chance of establishing contact with the taxpayer.

The Small Business/Self-Employed (SBSE) Laguna Niguel Research office set forth to study the market segment of taxpayers with audit reconsideration cases that closed in Campus Compliance. Any significant root causes of audit reconsiderations identified might be useful in the development of treatments to reduce the number of audit reconsiderations.

The audit reconsideration closures for this study consist of taxpayers who were selected for and underwent correspondence audits of their Form 1040 tax returns and subsequently requested an audit reconsideration.

Background

The Taxpayer Advocate Service 2007 Annual Report to Congress identified audit reconsiderations as a “Most Serious Problem”. This report stated that audit reconsiderations generally stemmed from five assessment sources including Area Office, Office of Appeals, Automated Substitute for Return, Correspondence Audits and the Automated Underreporter Unit.

One of the recommendations made by the National Taxpayer Advocate was that IRS conduct a study to identify the root causes of why taxpayers request audit reconsiderations in Campus Compliance. The IRS mission is to provide all taxpayers top quality services by helping them

understand and meet their responsibilities. To accomplish this, the Laguna Niguel research office is conducting this study and proposes to determine WHY the initial audit process failed. This information can then be used by Campus Compliance Services to develop treatments to reduce the number of audits that result in audit reconsiderations.

Research Objective

Our objective is to determine why the initial audit process failed.

Efforts Not to Duplicate Research

This effort is the first time surveys have been administered to obtain quantitative data from taxpayers who were audited and requested an audit reconsideration. The survey responses will help SB/SE Research develop operational priorities and improvement projects to better assist the IRS in meeting the needs of taxpayers and reduce the number of audit reconsiderations.

Methodology

SBSE Laguna Niguel Research will administer a survey to a random selection of 1000 taxpayers which is based on archived historical data for Fiscal Year (FY) 2007 audit closures and subsequent audit reconsiderations. This timeframe was based on customer's time and resources and not on any statistical preference and we consider that the process is in 'statistical control'. The survey consists of solicitation of taxpayer's levels of satisfaction with nine statements of satisfaction and one question that would best form the basis to lead to the root causes of audit reconsiderations. Together, these ten survey questions will uncover the reasons behind requests for audit reconsiderations.

SBSE Laguna Niguel Research will administer the survey to the sample group of taxpayers who were audited through correspondence and had subsequently requested audit reconsiderations. The table below illustrates the four stages of the survey and our target dates:

Survey – Four Waves	Wave Description	Target Dates
Wave I	Pre-Notification Letter	7/10/09
Wave II	Survey Questionnaire	7/27/09
Wave III	Reminder letter to Non-responders	8/5/09
Wave IV	Re-mail survey to Non-responders	8/17/09

The Laguna Niguel Research office will administer the survey over a period of eight weeks. The pre-notification is sent 10 days prior to the survey and the timeframes for the remaining "Waves" will be two weeks.

The cost of this study will be approximately \$6,940, which includes postage and survey mailing material.

Data to be Collected and Data Collection Date:

SBSE Research identified taxpayers that requested audit reconsiderations for this study using reports from the Audit Computerized Information System (ACIS) and the Campus Examination Automation System (CEAS). The lists were screened to ensure that the records met our criteria. Any that did not meet our criteria were excluded.

Laguna Niguel Research will design a survey using MS Word and will generate survey statements based on institutional knowledge and experience in those areas that would best form the basis to lead to the root causes of audit reconsiderations. The data to be collected will come from the 1000 completed¹ surveys that the Laguna Niguel Research office will receive from taxpayers; however, we realize that we will not achieve a 100% response rate. The completed surveys will be converted into an electronic format in order to conduct our survey analysis.

The 1000 taxpayer identification numbers are taken from a random sample of 67,990 audit reconsiderations derived from archived historical data for FY 2007 audit closures.

Target Group

SBSE and W&I taxpayers that request audit reconsiderations nationwide.

How Data Will Be Used

The data for this study will consist of the survey responses for each of the 1000 records.

Upon completion of administering the surveys, SBSE Laguna Niguel Research will provide the respondents' responses and analysis of these responses in a Survey Report. The survey contains nine statements of satisfaction and one question. SBSE Laguna Niguel Research will measure project success by our response rate and whether or not the responses address the project objective.

SBSE Campus Reporting Compliance did not specify formal action standards for this quantitative research project; however, they may use ideas and suggestions from the survey that will soon be administered to assess their operational priorities and procedures to help influence behaviors of taxpayers to reduce the number of audit reconsiderations.

Expected Response Rate

SBSE Laguna Niguel Research realizes that getting responses from this group of taxpayers may be difficult. After receiving all responses, SBSE Laguna Niguel Research plans on conducting non-response analysis to identify similarities between the taxpayers who responded and did not respond to the survey to predict what the non-responder responses could have been.

¹ By 'completed', we mean 80%, or 8 of 10 questions answered.

Methods to Maximize Response Rate

Typically mail surveys have been faulted for their low response rate; however SBSE Laguna Niguel Research will employ various methods to increase the response rate. Methods to increase the respondents' rate are to administer a multi-wave survey, provide a postage paid envelope and provide a fax number to facilitate their response. In addition, SBSE Laguna Niguel Research will contact the IRS Communications Office to see if the letters and surveys can be translated to Spanish.

Non-Response Analysis

The Laguna Niguel Research office will administer a four-wave survey and will apply three different techniques to help evaluate the extent to which respondents differ from non-respondents on characteristics relevant to the study. These techniques that require a data source (taxpayer characteristics such as: age, gender, location, etc. or filing characteristics such as: income, total tax, etc.) independent of the survey itself and will consist of:

1. A comparison of respondents (response to survey) and non-respondents (no response to survey).
2. A comparison of early respondents (Wave II), moderate (Wave II) and late respondents (Wave IV).
3. A comparison of late respondents (Wave IV) and non-respondents (no response to survey).

Estimated Burden Hours

SBSE Laguna Niguel Research will administer approximately 1000 pre-notification letters, 1000 surveys, 1000 thank you and reminder letters, and remain 500 surveys to the non-responders.

The total estimated burden hours to administer the survey are listed in the table below:

Survey – Four Waves	Wave Description	Quantity & Estimated Time	Estimated Minutes	Estimated Hours
Wave I	Pre-Notification Letter	1000 x 3 minutes	3,000	50 hrs (3,000/60)
Wave II	Survey Questionnaire	1000 x 7 minutes	7,000	116 hrs 40mins (7,000/60)
Wave III	Thank you & Reminder letter to Non-responders	1000 x 3 minutes	3,000	50 hrs (3,000/60)
Wave IV	Re-mail final letter and survey to Non-responders	500 x 7 minutes	3,500	58hs 20mins (3,500/60)
Total Estimated Burden Hours			16,500 minutes	275 hrs

Security, Anonymity and Disclosure

A anonymity statement that each participant reads will be included in all letters submitted to the taxpayers (Appendices A, B, C, D). We will inform each taxpayer that participation is voluntary and explain how their anonymity is maintained. Taxpayers will also be given the OMB Control number for this collection of data, which is 1545-1432 and will be given an address to which they may direct their comments.

Anonymity will be safeguarded. During the data collection and survey process, participants will be identified to IRS personnel by a record locator number. This number will be used in lieu of their social security number and will be used for control purposes only. In addition, no taxpayer names will be mentioned in the final report.

We will limit and control the amount of information we collect to those items that are necessary to accomplish the research objectives. We will carefully safeguard the security of data utilized as well as the privacy of the taxpayers being surveyed. We will apply the fair information and record-keeping practices to ensure protection of all taxpayers being surveyed.

The criterion for disclosure explained in the Privacy Act, the Freedom of Information Act, and section 6103 of the Internal Revenue Code provides for the protection of information as well as its releases to authorized recipients.

Special Tallies and Other Information

Within 60 days after the surveys have been administered (Wave IV), SBSE Laguna Niguel Research will provide the following information:

- 1) Findings.
- 2) Actions taken or lessons learned.
- 3) Number of surveys administered.
- 4) Number of attempts for taxpayer participation.
- 5) Date the data collection began.
- 6) Date the data collection ended.
- 7) Actual Burden Hours
- 8) Cost.