
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Multiple Channels Are Used to Provide
Information to Small Business Taxpayers,
but More Information Is Needed to
Understand Their Needs*

December 30, 2010

Reference Number: 2011-40-010

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax return/Return Information



HIGHLIGHTS

MULTIPLE CHANNELS ARE USED TO PROVIDE INFORMATION TO SMALL BUSINESS TAXPAYERS, BUT MORE INFORMATION IS NEEDED TO UNDERSTAND THEIR NEEDS

Highlights

**Final Report issued on
December 30, 2010**

Highlights of Reference Number: 2011-40-010 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Small Business/Self-Employed (SB/SE) Division serves approximately 57 million taxpayers. It supports the Internal Revenue Service's (IRS) goal to improve customer service by educating and informing these taxpayers of their tax obligations, developing educational products and services, helping them understand and comply with applicable laws, and protecting the public interest by applying the tax law with integrity and fairness to all.

WHY TIGTA DID THE AUDIT

The IRS attributes \$148 billion (43 percent) of the tax gap to unreported income earned by unincorporated businesses and the associated unpaid self-employment tax. The first goal in the 2009-2013 IRS Strategic Plan is to improve service to make voluntary compliance easier. This audit was initiated to determine whether the services provided by the SB/SE Division to its customers will assist the IRS in achieving its customer service goals.

WHAT TIGTA FOUND

Research is needed to identify the needs and preferences of small business taxpayers. The IRS is conducting research on individual taxpayers to incorporate taxpayer needs in making service improvement decisions, but it has only begun to devote sufficient resources to conduct comparable research to determine the needs of the small business taxpayer.

The IRS is taking steps to improve customer service to small business and self-employed taxpayers. Outreach to small business taxpayers is based on multiple sources and delivered through a variety of channels. The SB/SE Division's Communications, Liaison, and Disclosure function has developed a process to help the IRS determine what services and information to provide these taxpayers. This allows it to extend outreach and education and to deliver information and materials through various channels.

The Communications, Liaison, and Disclosure function maintains the Issue Management Resolution System and the Outreach Initiative Database to track significant issues and identify trends. However, the Issue Management Resolution System is not complete because employees do not always appropriately enter issues, and the System does not help the IRS identify industry needs because the impacted industry was identified for only 25 percent of the national issues submitted in Calendar Year 2009. Further, 14 percent of the records were missing from the Outreach Initiative Database.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS (1) evaluate the effectiveness of the industry codes in the Issue Management Resolution System and (2) ensure that sufficient preventive controls are activated for the Outreach Initiative Database to provide an adequate audit trail to record changes or deletions as well as the associated reasons.

The IRS agreed with the recommendations. It plans to perform a review of industry selections to identify the need to add/modify the existing selections and determine if the Industry field should become a required field. Concerning the second recommendation, during the initial development of the Outreach Initiatives Database, SB/SE Division Web technicians deleted some unused views as part of the testing and refinement process. This action created some confusion and the practice of deleting views has been discontinued. All views now being created remain in either the active or the archived database.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 30, 2010

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Alan R. Deane

FROM: For Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Multiple Channels Are Used to Provide
Information to Small Business Taxpayers, but More Information Is
Needed to Understand Their Needs (Audit # 201040026)

This report presents the results of our review to determine whether the services provided by the Small Business/Self-Employed Division to its customers will assist the Internal Revenue Service in achieving its customer service goals. This audit was included in the Treasury Inspector General for Tax Administration's Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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Abbreviations

IMRS	Issue Management Resolution System
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
U.S.	United States



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Background

The first goal listed in the 2009-2013 Internal Revenue Service (IRS) Strategic Plan is to improve service to make voluntary compliance easier. To accomplish this, the IRS states it will:

Objective 1: Incorporate taxpayer perspectives to improve all service interactions.

Objective 2: Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS.

Objective 3: Provide taxpayers with targeted, timely guidance and outreach.

Objective 4: Strengthen partnerships with tax practitioners, tax preparers, and other third parties in order to ensure effective tax administration.

The Small Business/Self-Employed (SB/SE) Division serves approximately 57 million SB/SE Division taxpayers, roughly one-third of the overall taxpayer base. Its mission is to provide customers top-quality service by educating and informing them of their tax obligations, developing educational products and services, helping them understand and comply with applicable laws, and protecting the public interest by applying the tax law with integrity and fairness to all.

The SB/SE Division's Communications, Liaison, and Disclosure function (the SB/SE

Communications function) is responsible for developing and implementing communication strategies and plans and delivering communications for SB/SE Division internal and external stakeholders. The mission of the SB/SE

Communications function is to develop and deliver integrated strategic communications and educational products to SB/SE Division employees and taxpayers; partner with key stakeholders in tax administration, including Federal, State, and local governmental agencies, practitioners, and industry groups; develop and execute strategies designed to enhance voluntary compliance; and ensure that Federal tax information is protected by those agencies that receive it.

This review was performed at the SB/SE Division's Communications, Liaison, and Disclosure Headquarters in Washington, D.C., during the period March through September 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our

The SB/SE Division serves approximately 57 million taxpayers:

- 41 million self-employed persons and supplemental income earners.
- 9 million small business corporations and partnerships with assets of less than \$10 million.
- 7 million filers of employment, excise, estate, gift, and fiduciary returns.



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findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Research Is Needed to Identify the Needs and Preferences of Small Business Taxpayers

The IRS attributes \$148 billion (43 percent) of the tax gap¹ to unreported income earned by unincorporated businesses and the associated unpaid self-employment tax. Further, IRS data indicate that well over one-half of the individual underreporting tax gap came from understated net business income (e.g., unreported receipts and overstated expenses).

Although the IRS is conducting research on individual taxpayers to incorporate taxpayer needs in making service improvement decisions, it has only begun to devote sufficient resources to conducting comparable research to determine the needs of the small business taxpayer. In addition, the IRS has conducted only limited research on the impact of customer service on taxpayer compliance. As the IRS redirects taxpayers to electronic and self-help services, it needs to know what services taxpayers, including the small business taxpayers, most need or want and if the anticipated cost savings and efficiencies will result in an increase in taxpayers' burden as they try to remain or become compliant.

Outreach to small business taxpayers presents certain difficulties. These taxpayers may not be members of trade organizations that provide their members education and services. Moreover, rather than having an ongoing relationship with a tax practitioner throughout the year, small business taxpayers may prepare their own tax returns or visit their tax practitioners only once a year to obtain assistance in filing their tax returns. Therefore, they may have little contact with the IRS which directs much of its outreach to trade organizations and tax practitioners.

Analysis of the accounts of approximately 19 million taxpayers who filed at least 1 U.S. Individual Income Tax Return (Form 1040) Profit or Loss From Business (Schedule C) for the period January 1 through July 24, 2010, showed that more than 17 million (90 percent) had Schedule C net profit/loss² of \$25,000 or less. Almost 5 million (25 percent) of these taxpayers reported a net loss on their Schedules C. Figure 1 shows the range of net profit/loss for these approximately 19 million taxpayers.

***Ninety percent of Schedules C
filed in Calendar Year 2010
reported net profit/loss of
\$25,000 or less.***

¹ The tax gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

² Gross receipts or sales from the business minus expenses.



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Figure 1: Range of Schedule C Profit/Loss for Taxpayers Who Filed a Schedule C From January 1 Through July 24, 2010³

Range of Net Income	Number of Taxpayers	Percentage
Greater than \$100,000	304,017	1.60
\$75,001 to \$100,000	157,198	0.83
\$50,001 to \$75,000	338,080	1.78
\$25,001 to \$50,000	1,095,768	5.78
\$0 to \$25,000	12,355,549	65.21
Less than \$0	4,695,633	24.78
Total	18,946,245	99.98

Source: Our analysis of taxpayer accounts from the Return Transaction File.

Most small business taxpayers received income from other sources. Of the approximately 19 million taxpayers who filed a Schedule C, a majority also reported wage income or other income such as Social Security or a pension. See Figure 2 for the types of income reported by these taxpayers.

Figure 2: Types of Income Reported by Taxpayers Who Filed a Schedule C From January 1 Through July 24, 2010

Category	Number of Taxpayers	Number of Taxpayers With Total Income of \$25,000 or Less
Taxpayers who reported only Schedule C profits or losses	2.5 million (13%)	2.3 million (92%)
Taxpayers who also reported other income (but no wage income)	3.2 million (17%)	1.7 million (54%) ⁴
Taxpayers who also reported wage income and other income	13.3 million (70%)	3.4 million (26%)
Total	19 million	7.4 million (39%)

Source: Our analysis of taxpayer accounts from the Return Transaction File.

Schedule C is also used by taxpayers to report self-employment income or income from a taxpayer acting as a subcontractor.

It is difficult to determine the types of businesses operated or professions practiced by taxpayers who report their income on Schedule C.⁵ The name of the business is reported on the Schedule C but is not transcribed and can be found only by reviewing tax returns. The taxpayer should also

³ Percentages do not total 100 percent due to rounding.

⁴ Percentage does not calculate to 54 percent due to rounding.

⁵ A separate Schedule C must be used for each business.



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enter a six-digit code designating the principal business or professional activity in which he or she is engaged. There are 20 categories. The six-digit code is based on the North American Industry Classification System.⁶ However, almost 5 million (24 percent) of the approximately 21 million Schedules C analyzed had invalid codes. For the Schedules C with valid codes, more than one-half fell into the following categories:

- Construction – 1.7 million (10.6 percent).⁷
- Health Care and Social Assistance – 1.5 million (9.4 percent).
- Other Services (except Public Administration) – 2.6 million (16.1 percent).
- Professional, Scientific, and Technical Services – 2.4 million (14.8 percent).
- Retail Trade – 1.6 million (9.8 percent).⁸

The National Taxpayer Advocate has expressed concern that the IRS is not conducting sufficient outreach and education to important taxpayer groups, including small businesses. The Advocate recommended that the IRS provide specialized face-to-face services for small businesses. To adequately assist the small business taxpayer base in complying with tax obligations, the Advocate recommended that the IRS increase the SB/SE Communications function staffing and develop a 5-year strategic plan based on the services and delivery channels that small business taxpayers need and prefer.

The SB/SE Division's Research function is working with the Wage and Investment Division to address issues with small business taxpayers and tax practitioners and has initiated several projects and other related research on the characteristics and needs of small business taxpayers. It has also contacted the National Taxpayer Advocate to conduct a joint research project on the low-income segment of the small business community.

Tax practitioner and government agency partners suggested improvements

Our discussions with four organizations⁹ that partner with the SB/SE Communications function showed the majority of the partners believed IRS services provided are positive. For example, participants believed that:

- IRS e-Services and toll-free telephone lines are vital service channels to tax practitioners.

⁶ The North American Industry Classification System is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the United States (U.S.) business economy.

⁷ Percentages are calculated based on the 16 million accurate codes used.

⁸ Percentages do not total 16.1 percent, 14.8 percent and 9.8 percent due to rounding.

⁹ The American Institute of Certified Public Accountants, the National Association of Enrolled Agents, the National Small Business Association, and the Small Business Administration.



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- The IRS does a good job of keeping them informed or alerting them to changes in the tax law.
- Local practitioner/liaison meetings are very beneficial.
- The IRS public Internet site, IRS.gov, is a good source of information and is written in plain language. They stated that *Your Federal Income Tax For Individuals* (Publication 17) is very helpful.

However, the partners also offered the following suggestions on how service might be enhanced or improved if adequate funding becomes available:

- Fine-tune IRS.gov to improve navigation through the voluminous information. The search option usually returns so much information, much of which may not be relevant. The small business owner or self-employed taxpayer who does not have as much experience researching tax issues may find it difficult to locate the information they need.
- Increase staffing for the toll-free telephone lines to reduce the number of busy signals.
- Provide a current copy of the Internal Revenue Code on IRS.gov.
- Enhance the ability to resolve issues online, including a chat feature.
- Include the Internal Revenue Bulletin in the subscription services so the information is delivered directly to the tax practitioner.

The IRS is unable to determine the effectiveness of its outreach and education efforts because it has been unable to measure the impact of its customer service

One of the difficulties the IRS faces in measuring its customer service (e.g., to determine customer service's effect on voluntary compliance) is its ability to follow up on the compliance of the taxpayers. This is true for both individual and business taxpayers. The IRS may be unable to identify the taxpayers seeking assistance or receiving services or outreach. This is particularly true for taxpayers who call the IRS's toll-free telephone number to ask a tax law question or use one of the IRS's self-assistance options. In addition, the IRS provides much of its assistance and outreach through collaboration with other organizations focused on groups of taxpayers.

The SB/SE Communications function continues to work with industry to develop new tools and deliver business impacts. It is also working with other IRS business units to use surveys of their customers to better gauge the service to small business and self-employed customers. Surveys are a good way to identify the success of customer service.

Without knowledge of the characteristics and needs of small business taxpayers and the effect of its outreach on voluntary compliance, the IRS cannot ensure it is meeting the needs of all SB/SE Division taxpayers to improve voluntary compliance. Because the IRS is taking steps to



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identify the small business population and develop outcome measures, we are making no recommendations at this time.

Outreach to Small Business Taxpayers Is Based on Multiple Sources and Delivered Through a Variety of Channels

The IRS is taking steps to improve customer service to small business and self-employed taxpayers. The SB/SE Communications function has developed a process to help the IRS determine what services and information to provide these taxpayers. This allows the IRS to extend outreach and education and to deliver information and materials through various channels.

Various methods and sources are used to determine what information and services to provide small business and self-employed taxpayers

To help ensure the IRS has sufficient information and develops appropriate educational materials, the SB/SE Communications function:

- **Seeks input from other IRS offices and functions.** During the annual planning process, the SB/SE Communications function seeks input from other IRS offices and functions about topics or issues that may need emphasis or development of educational materials. The resulting SB/SE Division strategic plan is updated and monitored throughout the year for accomplishment of the stated goals.
- **Collaborates with the SB/SE Division Research function.** When requested by other SB/SE Division offices and functions, the Research function explores and obtains information about the small business and self-employed taxpayer as a whole.
- **Establishes relationships with tax professionals and industry organizations through Stakeholder Liaisons.** The SB/SE Communications function's Stakeholder Liaison unit consists of a Headquarters Office with up to 35 analysts and 12 Area Liaison offices with up to 153 stakeholder liaisons. These liaisons reach out to stakeholders at the national, State, and local levels, and hold an annual tax practitioner/liaison meeting as well as monthly meetings with numerous practitioner groups, industry partners, and governmental agencies to determine what services, information, or materials are needed. Stakeholder liaisons at the local and national level work to establish partnerships with tax professionals, industry organizations, and government agencies representing small business and self-employed taxpayers. They provide information about the policies, practices, and procedures the IRS uses to ensure compliance with the tax laws. The stakeholder liaisons identify concerns raised by these partners regarding preparing a tax return, starting a small business, or managing a business throughout the year. The SB/SE Communications function reviews the issues identified by these interactions and determines if additional materials or outreach are needed.



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- **Conducts annual surveys of tax professionals and individual business owners.** The IRS provides its tax professional and small business taxpayer bases the opportunity to provide feedback on a broad range of customer service issues through annual surveys. The surveys are designed to help the SB/SE Division 1) understand who its practitioners and taxpayers are; 2) recognize how practitioners and customers interact with the IRS—who they contact in the IRS and their success using the different methods; 3) develop new strategies for improving practitioners’ and taxpayers’ effectiveness, ease, and satisfaction when dealing with the IRS; and 4) develop new strategies to address the IRS Strategic Plan.

In addition, the SB/SE Communications function supports the Small Business Regulatory Enforcement Fairness Act¹⁰ Program by participating in hearings across the country to identify the burdens being placed on small businesses and what makes them unable to meet their regulatory compliance obligations. The Small Business Regulatory Enforcement Fairness Act Program is administered by the Small Business Association and works to ensure there are no undue burdens on small business taxpayers from any Federal Government agency.

The IRS also annually hosts the Nationwide Tax Forums in six cities for tax practitioners. The Tax Forums offer 3 days of seminars with the latest information from IRS leadership and experts in the fields of tax law, compliance, and ethics. As part of the Nationwide Tax Forums, the IRS also holds focus groups that allow practitioners to provide feedback to the IRS on various topics.

IRS Nationwide Tax Forums for tax practitioners are held in six cities annually and provide the latest information from IRS leadership and experts in the fields of tax law, compliance, and ethics.

From the information gathered from all sources, the SB/SE Communications function prioritizes the issues to ensure its outreach is focused on those topics of most interest and value to the SB/SE Division taxpayer. It publishes its list of priorities quarterly. See Appendix V for a list of those priorities for the period April 1 through June 30, 2010.

Two management information systems are used to capture and track significant issues and to ensure consistent messages are used with all external audiences regarding SB/SE Division programs

The SB/SE Communications function maintains two databases, the Issue Management Resolution System (IMRS) and the Outreach Initiative Database. These databases allow the SB/SE Communications function to track significant issues identified by stakeholders, to identify trends when issues are widespread, to elevate stakeholder issues to Stakeholder Liaison Headquarters for resolution, and to ensure consistent messages are used with all external audiences regarding SB/SE Division programs.

¹⁰ Pub. L. 104-121, March 29, 1996 (As Amended by Pub. L. 110-28, May 25, 2007).



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The IMRS

The SB/SE Communications function established the IMRS to facilitate stakeholder issue identification, resolution, and feedback. The IMRS is used by stakeholder liaisons to capture, develop, and respond to significant national and local stakeholder issues. When stakeholders notify their local stakeholder liaison of concerns about IRS policies, practices and procedures, the local stakeholder liaison researches and responds to the issues.

The IMRS facilitates identification of nationwide trends in reporting, filing, and paying requirements that may necessitate changes to IRS processes and procedures. Progress on the resolution of stakeholder issues is monitored to assure proper response and communication to the initiating stakeholder and all affected stakeholders.

The IMRS provides three reports that allow local stakeholder liaisons to track various issues.

- Hot Issues contains IMRS issues and other current items of interest.
- The IMRS Industry Issues Quarterly Report provides a quarterly summary of IMRS issues of particular interest to small businesses.
- The IMRS Monthly Overview contains an update of issues opened and closed each month.

Using the IMRS, the IRS is able to track the issues, the resolutions, and how many days the issues remain open until resolution. For example:

- ***** 1 *****

- ***** 1 *****



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- *****1*****

Figure 3 shows that in Calendar Year 2009, the IRS tracked 187 national issues and closed 153 (82 percent). The issues were open an average of 98 calendar days. There were 357 local issues during the same year, of which 337 (94 percent) were closed. The local issues were open an average of only 26 calendar days. For January 1 through April 13, 2010 the IRS tracked 69 national issues and closed 28 (41 percent). The issues were open an average of 33 calendar days. There were 177 local issues during the same period, of which 143 (81 percent) were closed. The local issues were open an average of only 19 calendar days.

Figure 3: Analysis of the IMRS for January 1, 2009, Through April 13, 2010

	National Issues		Local Issues	
	January 1 – April 13, 2010	January 1 – December 31, 2009	January 1 – April 13, 2010	January 1 – December 31, 2009
Number of Issues	69	187	177	357
Number of Missing Issues	4 (6%)	4 (2%)	3 (2%)	18 (5%)
Number of Issues Closed	28 (41%)	153 (82%)	143(81%)	337 (94%)
Average Calendar Days to Closure (for Local Issues – From Identification to Submission)	33 (54% more than 30 days)	98 (38% more than 90 days)	19 (14% more than 30 days)	26 (28% more than 30 days)

Source: IMRS for January 1, 2009, through April 13, 2010.

The IMRS is an effective tool for tracking issues, but its functionality could be enhanced by consistently using the industry field. Further, employees should input all issues promptly, ensuring relevant information is entered and recorded appropriately into the IMRS.

During Calendar Year 2009, 4 (2 percent) of 187 national issues and 18 (5 percent) of 357 local issues were missing from the IMRS. This happened because employees did not always appropriately enter issues.

In addition, the IMRS does not help the IRS identify industry needs. For the national issues submitted in Calendar Year 2009, the affected industry was identified for only 47 (25 percent) of the 187 issues. For local issues submitted to the IMRS database in Calendar Year 2009, the affected industry was identified for only 27 (8 percent) of the 357 issues. Although it is not



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currently a required input field, its use could help the IRS focus its efforts on those industries with the most small business owners or on those issues facing a specific industry.

In 60 (91 percent) of the 66 closed national and local issues reviewed for the period January 1, 2009, though April 30, 2010, the IRS took steps to resolve the issues. For 3 (5 percent) of the 66 issues, the IRS business unit did not respond to the SB/SE Communications function's inquiries, the IRS opted to take no action due to the sensitive nature of the issue, or the practitioner decided to use alternative methods to resolve the issue. For the remaining three issues:

- 1 was declined and closed because it was related to another previously closed issue and corrective actions had been taken.
- 1 did not indicate whether any action was taken.
- 1 involved a national issue; however, the business unit did not respond, so the SB/SE Communications function assisted the practitioner in resolving the issue locally.

The Outreach Initiative Database

The Outreach Initiative Database provides a consolidated summary of SB/SE Division initiatives. It contains reference material, key messages, and communication products approved for use in external outreach. This Database is managed by the SB/SE Communications function and is primarily for Stakeholder Liaison and Governmental Liaison employees' use. However, other IRS employees may also rely on its contents to ensure a consistent message on SB/SE Division and selected IRS program topics.

SB/SE Communication function analysts add topics to the Database by:

- Providing a brief description of the initiative, including the key messages and strategic goal supported.
- Identifying the tentative time period, audiences, and products.

As the initiative evolves, SB/SE Communication function analysts are responsible for updating the Database information, adding products as they become available, and specifying target delivery dates agreed upon by IRS business owners.

For example, a recent initiative, Outreach Initiative 353 (Benefits of the Qualified Joint Venture Filing Option), was opened in response to a March 17, 2010, Treasury Inspector General for Tax Administration report.¹¹ The report found that many potentially qualified individuals were not

¹¹ *Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option* (Reference Number 2010-40-034, dated March 17, 2010).



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aware of the Qualified Joint Venture filing option.¹² The SB/SE Division worked Outreach Initiative 353 with the Wage and Investment Division. The recommended timing for the delivery of the initiative message was April through September 2010. The IRS developed several explanatory documents for external use, including:

- Husband and Wife Business.
- Election for Husband and Wife Unincorporated Businesses.
- Benefits of Qualified Joint Ventures for Family Businesses.
- Simplified Reporting for Family Businesses.
- Qualified Joint Venture Talking Points.

The IRS also issued a stakeholder headliner on April 7, 2010, entitled “The Benefits of Qualified Joint Ventures for Family Businesses.” It updated IRS.gov with information on the Election for Husband and Wife Unincorporated Businesses. A news article for small businesses was made available March 31, 2010, which featured the reasons a husband and wife might not be treated as a partnership. The SB/SE Division also prepared a presentation and talking points about the topic for presentations to small business owners and IRS partners.

As of May 20, 2010, there were 377 initiatives in the Database. Figure 4 shows the status of the initiatives and the volume of initiatives for each status in the Database.

Figure 4: Status of Outreach Initiatives

Initiative Status	Number of Initiatives
Cancelled	12
Deleted	35
Missing	52
New – Unassigned	0
Outreach Complete	157
Products Available	108
Products in Development	13
Total	377

Source: Outreach Initiative Database as of May 20, 2010.

¹² The Qualified Joint Venture option allows taxpayers to bypass the filing of U.S. Return of Partnership Income (Form 1065) and the associated Supplemental Income and Loss (Schedule E) and file only two Schedules C and two Self-Employment Tax (Schedule SE) with their Form 1040. Married individuals filing a single Schedule C may allocate the Schedule C income. Thus, both individuals receive Social Security credit.



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We found that 52 records (14 percent) were missing from the Database, but there was no audit trail to determine why the records were missing. The IRS could not explain why these records were missing and stated the following possibilities:

- 1) If an initiative was initially submitted/entered, the Database could have assigned it an identification number. At a later date, the analyst/co-analyst could have found that the record contained errors and requested that an administrator delete the record and a new record/issue be submitted.
- 2) The records never contained any information at all.

When capturing information on an automated system or database, it is important to have a complete record for all items on the database. This record of items is sometimes referred to as an audit trail or audit log and is a valuable internal control tool for automated systems. The use of audit trails allows administrators to accomplish several security-related objectives such as intrusion detection, problem analysis, individual accountability, and reconstruction of events that occurred on the system that was compromised. When these controls are missing, the reliability of the data becomes questionable.

Many channels are used to deliver outreach and assistance to SB/SE Division taxpayers

The SB/SE Communications function expands its outreach by working in partnership with tax practitioner groups, industry organizations, and governmental agencies to maximize the number of SB/SE Division taxpayers it is able to reach. Through these partnerships, the SB/SE Communications function is able to provide services, information, and educational materials to small business owners and self-employed taxpayers using a variety of methods and delivery channels, including the organizations' own newsletters, web sites, and local events. Because approximately 80 percent of the SB/SE Division's tax returns are prepared by tax practitioners, much of the SB/SE Communications function's outreach is focused on practitioners.

The toll-free telephone lines offer both SB/SE Division taxpayers and their practitioners the opportunity to call the IRS with questions on tax law or tax accounts

Each year, millions of taxpayers contact the IRS by calling the various toll-free telephone assistance lines to seek help in understanding tax laws and meeting their tax obligations. Telephone assistance for businesses is available Monday through Friday from 7:00 a.m. through 10:00 p.m. local time. There is also a 24-hour recorded assistance line. From October 1, 2009, through June 30, 2010, almost 4 million calls were made to the toll-free telephone number that



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taxpayers call to ask business account or tax law questions (1-800-829-4933). The IRS achieved a 75 percent Level of Service and 570-second Average Speed of Answer.¹³

The toll-free telephone assistance lines are further subdivided into categories called “applications,” each of which is staffed with a group of assistors who have received specialized training to assist taxpayers with specific tax issues. Assistors answer taxpayer questions involving tax law and tax account conditions such as refunds, balance-due billing activity, and changes to the amount of tax owed. For example, if a business taxpayer calls to find out the taxes due on a business account, the call would be routed to an assistor who handles balance-due questions for business taxpayers.

Accuracy on the business applications is generally high. The accuracy rate reported by the IRS for the 8 business account applications ranged from 94 percent to 98 percent. For the 2 business tax law applications, the accuracy rates were 91 percent for Application 125 - Small Business and 96 percent for Application 123 - Business Issues.

Tax professionals can also call the Practitioner Priority Service telephone number (1-866-860-4259) to obtain assistance for their clients. From October 1, 2009, through June 30, 2010, more than 1 million calls were made to the Practitioner Priority Service telephone number. The IRS achieved a Level of Service of 81 percent and 569 seconds for the Average Speed of Answer. The accuracy rate for the Practitioner Priority Service business accounts application was 95 percent. There is no tax law application for the Practitioner Priority Service number.

The IRS.gov SB/SE Division webpage contains information for both small business owners and self-employed taxpayers

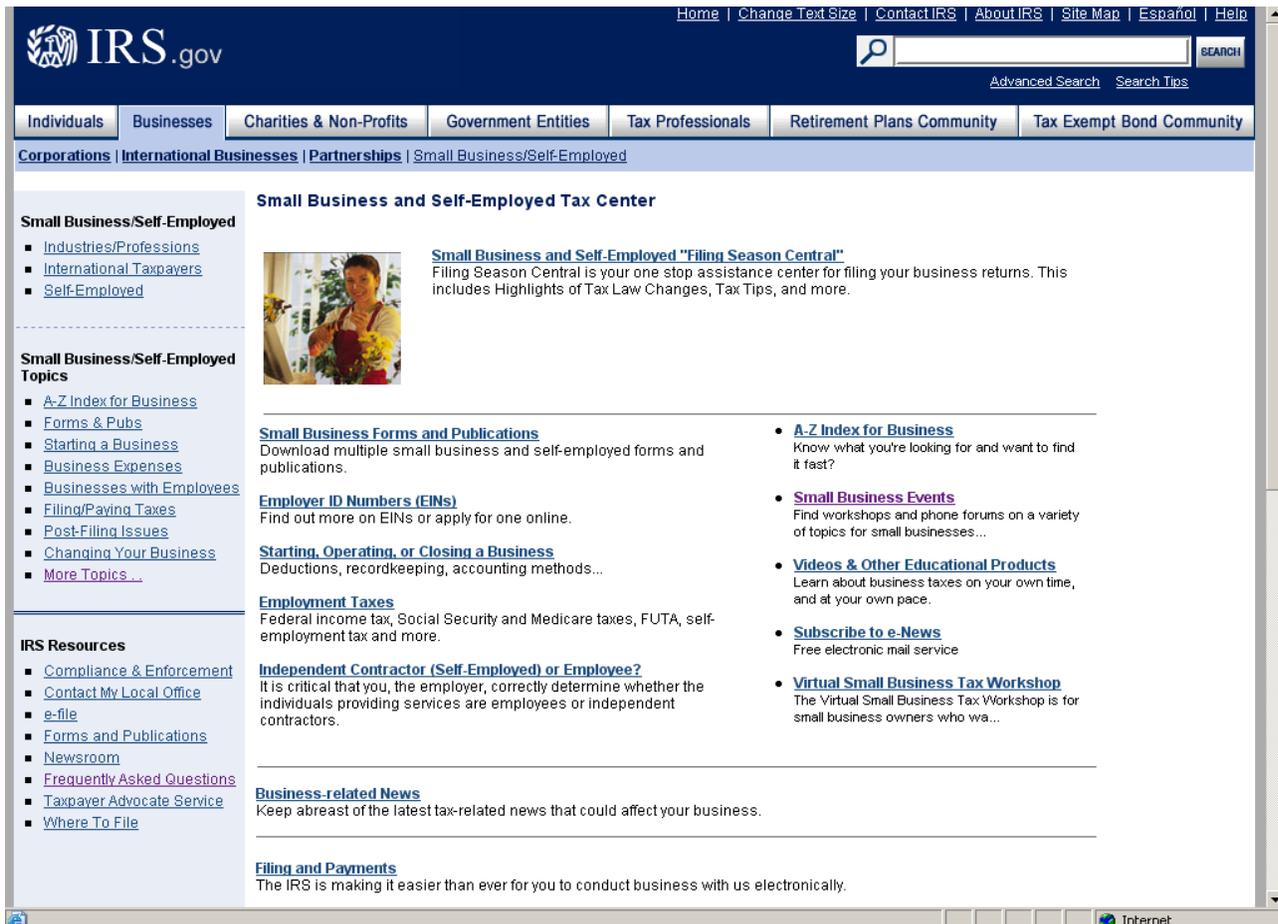
Figure 5 shows that the IRS provides SB/SE Division taxpayers with tax information on how to start, operate, and stop a business, as well as how to determine if individuals are employees or contractors.

¹³ Level of Service is the IRS’s primary measure of providing taxpayers with access to an assistor. Average Speed of Answer is the average number of seconds taxpayers waited in the queue (on hold) before receiving services.



Multiple Channels Are Used to Provide Information to Small Business Taxpayers, but More Information Is Needed to Understand Their Needs

Figure 5: SB/SE Division Webpage



Source: IRS.gov.

In addition, through IRS.gov, the IRS offers a Virtual Small Business Tax Workshop. It is an interactive resource to help small business owners learn about their Federal tax rights and responsibilities. This educational product, available online and on compact disc, contains nine stand-alone lessons that can be selected and viewed in any sequence. A bookmark feature makes it possible to leave and return to a specific point within the lesson.

The Virtual Small Business Tax Workshop is the first of a series of video products designed exclusively for small business taxpayers. The IRS is planning a new series called “Your Guide to an IRS Audit” with plans for a Calendar Year 2010 launch.

Also available on the IRS webpage is the *IRS Tax Calendar for Small Businesses and the Self-Employed*¹⁴ that is available online or as a printable document. This 12-month wall calendar

¹⁴ Publication 1518, Catalog Number 12350Z.



Multiple Channels Are Used to Provide Information to Small Business Taxpayers, but More Information Is Needed to Understand Their Needs

is filled with information on general business taxes, IRS and Social Security Administration customer assistance, electronic filing and paying options, retirement plans, business publications and forms, and common tax filing dates. Each page highlights different tax issues and tips that may be relevant to small business owners.

The IRS also provides a webpage for tax professionals with links to tools professionals can use to help with their clients' accounts and to electronically file tax returns. For example, the webpage also includes information on:

[Proposed New Requirements for Tax Return Preparers](#)

Learn about the new requirements for tax return preparers, including registration, testing, and continuing education.

[The American Recovery and Reinvestment Act of 2009¹⁵ Information Center](#)

Update on the new economic stimulus legislation.

[Disaster Relief Resource Center for Tax Professionals](#)

Visit this resource center to learn how to re-establish your business after a natural disaster.

[IRS Live](#)

IRS Live is for the tax pro in the know. A live Webinar, IRS Live is a panel discussion among IRS experts and industry professionals aimed at educating tax professionals on the most current and complex tax issues affecting them and their clients.

[Servicewide Key Messages for Tax Professionals](#)

Quarterly messages for the tax professional community, including publications and educational products.

[Tax Information on Donated Property](#)

How donors, charities, and tax professionals must report noncash charitable contributions.

[The Tax Gap](#)

This page provides information on the tax gap and efforts to reduce it as outlined in news releases, statistics, and technical fact sheets.

[The International Tax Gap](#)

Find resources on this page pertaining to the international tax gap — the difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time. The tax gap can also be thought of as the sum of noncompliance with the tax law.

[Interactive Tax Assistant](#)

The Interactive Tax Assistant is a new resource that provides consistent answers to a limited number of tax law questions using a probe and response process. The Interactive Tax Assistant will guide you to accurate answers that are not readily addressed through simple Frequently Asked Questions.

¹⁵ Pub. L. No. 111-5, 123 Stat. 115.



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SB/SE Division taxpayers can subscribe to e-News for Small Businesses

The e-News is a free electronic mail service and is distributed every other Wednesday. The e-News includes:

- Important upcoming tax dates for SB/SE Division customers.
- What's new for small businesses on IRS.gov.
- Reminders and tips to assist the SB/SE Division taxpayer with tax compliance.
- IRS news releases and special IRS announcements that pertain to SB/SE Division customers.
- Tax-related information from other Federal agencies.

The IRS forms partnerships to reach more taxpayers

To maximize the number of small business owners and self-employed individuals it is able to reach, the SB/SE Division, through its stakeholder liaisons, expands its outreach by working in partnership with tax professional groups such as the American Institute of Certified Public Accountants, the National Association of Enrolled Agents, industry organizations such as the Chambers of Commerce and The National Federation of Independent Business, and governmental agencies such as the Small Business Association and State Revenue Departments. The liaisons focus on national and local engagement of the payroll and practitioner community and stakeholder organizations to provide information about IRS policies, practices, and procedures to ensure compliance with the tax laws, both by voluntary means and through enforcement programs. Liaisons also specialize as:

- Industry Liaisons – Identify priority organizations within the stakeholder communities of interest.
- Payroll and Practitioner Liaisons – Work with practitioner organizations to provide member tax practitioners with information about the policies, practices, and procedures the IRS uses to ensure compliance with the tax laws.
- Bank Secrecy Act/Special Programs Liaisons – Provide education and outreach to nonbank financial institutions about the reporting and record keeping requirements of Title 31, the Bank Secrecy Act.¹⁶

¹⁶ Pub. L. No. 91-508, 84 Stat. 1114 to 1124 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.). Regulations for the Bank Secrecy Act and other related statutes are 31 C.F.R. Sections 103.11-103.77 (2009).



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Through its partnership with the Small Business Administration, the SB/SE Communications function is able to provide information to a wide range of small business owners and self-employed taxpayers through various organizations, for example:

- **The Service Corps of Retired Executives Association** – a partner of the Small Business Association, is dedicated to entrepreneur education and the formation, growth, and success of small businesses nationwide. There are more than 10,500 Service Corps of Retired Executive volunteers in 374 chapters operating in more than 800 locations that assist small businesses with business counseling and training. The Service Corps of Retired Executive Association also operates an active online counseling initiative.
- **The Office of Small Business Development Centers** – provides management assistance to current and prospective small business owners. The Small Business Development Centers offer one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community, and Federal, State, and local governments and is an integral component of Entrepreneurial Development's network of training and counseling services. Entrepreneurial Development is helping small businesses start, grow, and compete in global markets by providing quality training, counseling, and access to resources.
- **United States (U.S.) Export Assistance Centers** – located in major metropolitan areas throughout the U.S., are one-stop shops ready to provide small- or medium-sized businesses with local export assistance. Businesses can receive personalized assistance by professionals from the U.S. Small Business Administration, the U.S. Department of Commerce, the U.S. Export-Import Bank, and other public and private organizations. It is a partnership that makes it easier to get the help businesses need to compete and succeed in the global marketplace.
- **Women's Business Centers** – represent a national network of nearly 100 educational centers designed to assist women to start and grow small businesses. The Women's Business Centers operate with the mission to level the playing field for women entrepreneurs, who still face unique obstacles in the world of business.

The SB/SE Communications function also offers free webinars and telephone forums throughout the year.

- **Telephone Forums.** Small business telephone forums enable the IRS to address issues involving small business owners or self-employed taxpayers without them having to leave their home or office. The programs are designed to provide presentations on key topics. The phone forums are free of charge. These forums can be held at either the local or national level and are archived on IRS.gov for later listening. Recent topics include



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“Small Business/Self Employed Campus Correspondence Audit Process and Resolution,” “Office of Professional Responsibility and Circular 230:¹⁷ Overview, Procedures and Priorities,” and “Making Authorizations Easier - Do’s and Don’ts of Forms 2848 and 8821.”¹⁸

- **Live Webinars.** Webinars are held to provide information on various topics to tax professionals. For example, *IRS Live* is a panel discussion among IRS experts and industry professionals aimed at educating tax professionals on the most current and complex tax issues affecting them and their clients. *IRS Live* is free and is broadcast bimonthly. Tax professionals are able to submit questions by email during the webinar. The programs are archived on IRS.gov for later viewing. Recent topics include “New Requirements for Tax Return Preparers,” “Tips on Tip Reporting,” and “Getting Ready for Filing Season – Individuals and Businesses.”

From October 2008 through February 2010, the IRS held 17 National Telephone Forum and Webinar events for which there were 41,207 participants.

The SB/SE Communications function provides outreach and education on new legislation, new procedures, and current events that affect SB/SE Division taxpayers

The IRS initiates outreach/educational campaigns to SB/SE Division taxpayers and their practitioners when there are new tax laws, IRS regulations, or events that occur and affect them. For example, the IRS has recently organized and initiated various activities on the health care law and the Gulf Coast oil spill.

Information on tax law changes is posted on IRS.gov and is distributed through the various *e-News* subscriptions, *IRS Newswire*, and *IRS Exempt Organizations Newsletter*. In addition, the IRS will send letters or mailouts to alert taxpayers of new tax laws, as it did the week of April 19, 2010, to educate small business taxpayers about the new Small Business Health Care Tax Credit.

The Small Business Health Care Tax Credit is part of the Patient Protection and Affordable Care Act.¹⁹ It helps small businesses and small tax-exempt organizations afford the cost of covering their employees and is specifically targeted for those with low- and moderate-income workers.

¹⁷ Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries, Enrolled Retirement Plan Agents, and Appraisers before the Internal Revenue Service, Treasury Department Circular No. 230 (Rev. 4-2008), Authority: Sec. 3, 23 Stat. 258, Secs. 2-12, 60 Stat. 237 et seq.; 5 U.S.C. 301, 500, 551-559; 31 U.S.C. 321; 31 U.S.C. 330; Reorg. Plan No. 26 of 1950, 15 FR 4935, 64 Stat. 1280, 3 CFR, 1949-1953 Comp., p. 1017.

¹⁸ Power of Attorney and Declaration of Representative (Form 2848) and Tax Information Authorization (Form 8821).

¹⁹ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of 18 U.S.C., 20 U.S.C., 21 U.S.C., 25 U.S.C., 26 U.S.C., 28 U.S.C., 29 U.S.C., 30 U.S.C., 31 U.S.C., 35 U.S.C., and 42 U.S.C.).



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The Small Business Health Care Tax Credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

On April 14, 2010, the IRS Commissioner testified before the House Small Business Committee that the IRS has taken steps to show more flexibility in dealing with taxpayers and small businesses that are having difficulty meeting their tax obligations. The Commissioner stated that the IRS has moved quickly during the last 15 months to implement the new tax law changes that are intended to help small businesses. On April 26, 2010, the SB/SE Division Commissioner participated on a panel to discuss the impact to small businesses of the new Small Business Health Care Tax Credit and advised that IRS.gov contains current information about the Credit.

The IRS has also provided outreach to help taxpayers affected by the Gulf Coast oil spill. The IRS.gov home page provides taxpayers with the following:



[Guidance, Help Available](#)

Special telephone line, other assistance available to affected taxpayers.

[Find Available Resources](#)

There are various resources for taxpayers affected by the oil spill.

[Questions About the Tax Impact?](#)

We have answers about the spill's tax impact on you or your business.

In addition, on Saturday, July 17, 2010, the IRS opened walk-in offices, called Taxpayer Assistance Centers, in seven Gulf Coast cities to provide help to taxpayers affected by the oil spill. Individuals who had questions about the tax treatment of claim payments or who are experiencing filing or payment hardships because of the oil spill were able to work directly with IRS personnel at any of these locations.

The IRS has also dedicated a telephone line for victims of the Gulf Coast oil spill (1-866-562-5227). This special toll-free telephone line is open weekdays from 7:00 a.m. to 10:00 p.m. and was also opened to callers on Saturday, July 17, 2010, from 9:00 a.m. to 2:00 p.m. Central Time. In addition, the local stakeholder liaisons will include updated information during their meetings and events with practitioners and business organizations.

Recommendations

The Commissioner, Small Business/Self-Employed Division, should:

[Recommendation 1:](#) Evaluate the effectiveness of the industry codes in the IMRS in identifying trends in specific industries and determine if the industry code should be required.



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Management's Response: IRS management agreed with this recommendation. A team will perform a review of industry selections to identify the need to add/modify the existing selections and determine if the Industry field should become a required field.

Recommendation 2: To avoid the problem of missing records, ensure that sufficient preventive controls are activated for the Outreach Initiative Database to provide an adequate audit trail to record changes or deletions as well as the associated reasons.

Management's Response: IRS management agreed with this recommendation. During the initial development of the Outreach Initiatives Database, SB/SE Division Web technicians deleted some unused views as part of the testing and refinement process. This action created some confusion and the practice of deleting views has been discontinued. All views now being created remain in either the active or the archived database.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the services provided by the SB/SE Division to its customers will assist the IRS in achieving its customer service goals. To accomplish our objective, we:

- I. Determined if the SB/SE Division has a strategy for improving customer service for small business taxpayers by obtaining, reviewing, and discussing with appropriate IRS officials the strategy or plan for providing customer services to small business taxpayers.
- II. Identified how the SB/SE Division determines what services the small business taxpayer wants or needs and what services the IRS has identified as small business taxpayer needs.
 - A. Discussed with SB/SE Division management how they determine what services the SB/SE Division taxpayer needs and how they determine which services to provide.
 - B. Discussed with SB/SE Division management how they coordinate with other IRS functions, such as the Compliance function, to determine the issues facing small business taxpayers.
 - C. Obtained and analyzed the results of any surveys or other feedback obtained from SB/SE Division taxpayers, tax professionals, or partners and determined how those results are used.
 - D. Performed a statistical analysis of the IMRS to determine characteristics of the issues, such as the number of issues, the number closed, and the average days to closure. We also selected a statistical sample of 66 closed issues from a population of 661 closed issues on the IMRS for the period January 1, 2009, through April 30, 2010, to determine if actions were taken to resolve the issues. Our sample size was based on a 95 percent confidence level, a ± 5 percent precision level, and a 5 percent expected error rate. A statistical sample was taken because we wanted to estimate the number of items for which actions were taken to resolve the issue. We did not conduct an assessment of reliability because data were not available for comparison. This did not affect the audit objective.
- III. Determined what outreach/research initiatives are being conducted and how the SB/SE Division identifies what research initiatives are needed by analyzing the Outreach Initiative Database to identify the current initiatives and any initiatives that have been finalized. We determined how those initiatives are prioritized and how the results are used.



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- IV. Determined how the SB/SE Division selects what information is placed on IRS.gov, issued in Alerts, or provided in the Small Business workshops.
- V. Determined how the SB/SE Division identifies new tax law changes and how it notifies taxpayers of the impact of those changes.
 - A. Discussed with SB/SE Division management the process for identifying new tax law changes affecting the SB/SE Division taxpayer and assessing the effect of those changes.
 - B. Determined how the tax law changes and the effect of those changes are communicated to taxpayers.
 - C. Determined what information was developed for the Qualified Joint Venture Option and the Gulf Coast oil spill and how it was communicated to relevant taxpayers.
- VI. Obtained feedback from IRS partners by surveying the American Institute of Certified Public Accountants, the National Association of Enrolled Agents, the Small Business Administration, and the National Small Business Association to solicit feedback on the services the IRS provides to the small businesses and self-employed taxpayers.
- VII. Determined the characteristics of the small business taxpayer by analyzing a Master File¹ extract of all taxpayers that filed at least one Profit or Loss From Business (Schedule C) for the period January 1 through July 24, 2010. Validated the extracted data by comparing the data to the Integrated Data Retrieval System² data.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: SB/SE Division Communications function's policies, procedures, and practices for identification of taxpayer needs and the development and delivery of information and products to IRS partners and taxpayers. We evaluated controls by interviewing management and reviewing policies, reports, and procedures.

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Chief Financial Officer OS:CFO
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division SE:S:CLD
Director, Data Strategy Implementation Office, Small Business/Self-Employed Division SE:S:DSI
Director, Examination, Small Business/Self-Employed Division SE:S:E
Director, Strategy and Finance, Small Business/Self-Employed Division SE:S:SF
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Communications, Small Business/Self-Employed Division SE:S:CLD:C
Director, Policy and Strategic Planning, Small Business/Self-Employed Division SE:S:CLD:PSP
Director, Stakeholder Liaison Field Operations, Small Business/Self-Employed Division SE:S:CLD:SL:F
Director, Stakeholder Liaison Headquarters, Small Business/Self-Employed Division SE:S:CLD:SL:HQ
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Senior Operations Officer OS:CFO
 Director, Policy and Strategic Planning, Small Business/Self-Employed Division SE:S:CLD:PSP
 Manager, Policy and Strategic Planning, Small Business/Self-Employed Division SE:COM



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 52 of 377 records missing from the Outreach Initiative Database (see page 7).

Methodology Used to Measure the Reported Benefit:

We examined the Outreach Initiative Database that provides a consolidated summary of SB/SE Division initiatives to identify the current and finalized initiatives. As of May 20, 2010, there were 377 initiatives in the Database. Fifty-two records (14 percent) were missing from the Database, but there was no audit trail to determine why the records were missing. Because of the lack of internal controls, the IRS cannot rely on the information the IRS is reporting about the Program's operations.



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Appendix V

Outreach Priorities for the Period April 1 Through June 30, 2010

The SB/SE Division Communications function prioritizes issues to ensure its outreach is focused on those topics of most interest and value to the SB/SE Division taxpayer. The Outreach Initiative Database is used to track SB/SE Division initiatives. The following are outreach priorities along with the number of issues associated with each priority as shown in the Outreach Initiative Database for the period April 1 through June 30, 2010.

Practitioner Outreach

American Recovery and Reinvestment Act of 2009 and Worker, Homeownership and Business Assistance Act of 2009¹* – Issues 297, 299, 316, 334, and 339.

Bartering* – Issue 286.

Disguised corporate ownership – Issue 333.

Earned Income Tax Credit due diligence and compliance initiatives – Issue 330.

Economic challenges – Issue 290.

Field audit process – Issue 280.

Health Care – Issues 352, 368, 370, and 371.

Hiring Incentives to Restore Employment Act² – Issue 351.

Net operating losses – Issue 339.

Payment card and third-party payment transactions* – Issue 338.

Qualified Joint Venture – Issue 353.

Return Preparer Strategy – Issue 343.

Savings Bond initiative* – Issue 325.

Tax return preparer initiative* – Issues 344 and 354.

¹ Pub. L. No. 111-5, 123 Stat. 115; Pub. L. No. 111-92, 123 Stat. 2984.

² Pub. L. No. 111-147, 124 Stat. 71.



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Business and Industry Outreach

American Recovery and Reinvestment Act of 2009 and Worker, Homeownership and Business Assistance Act of 2009* – Issues 297, 299, 316, 334, and 339.

Bartering* – Issue 286.

Business or hobby (Internal Revenue Code Section 183)* – Issue 250.

Disguised corporate ownership – Issue 333.

Economic challenges – Issue 290.

Field audit process* – Issue 280.

Health Care – Issues 352, 368, 370, and 371.

Hiring Incentives to Restore Employment Act – Issue 351.

Qualified Joint Venture – Issue 353.

Savings Bond initiative* – Issue 325.

Tax Centers – Issue 183.

* - Federal, State, and/or Local Government Outreach.

Sensitive Issues (Restricted Access)

Federal Insurance Contributions Act Protective Claims - Severance Pay (April 5, 2010).

Mandatory *e-File* for Tax Return Preparers (November 10, 2009).

Association of Community Organizations for Reform Now (ACORN) (September 28, 2009).

IRS Test Matching (July 6, 2009).



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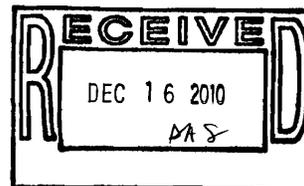
Appendix VI

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



December 15, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Christopher Wagner
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Multiple Channels Are Used to Provide Information to Small Business Taxpayers but More Information Is Needed to Understand Their Needs (Audit # 201040026)

We have reviewed your draft report, "Multiple Channels Are Used to Provide Information to Small Business Taxpayers but More Information is Needed to Understand Their Needs." We agree with the findings of the report and the recommendations.

We appreciate your recognition that the Small Business/Self-Employed (SB/SE) Division has developed a valuable process to help the IRS determine what services and information to provide taxpayers. Serving approximately 57 million taxpayers, SB/SE extends its outreach and education to small business and self-employed taxpayers and delivers information and materials to those taxpayers through various channels. We work to make the most of our resources, enhance voluntary compliance, and reduce preparer and taxpayer burden.

The IRS wants to ensure that taxpayers are aware of every credit, deduction, and exclusion for which they qualify and that they are advised of any legislative changes that may impact them. The SB/SE Communications, Liaison and Disclosure (CLD) function has a Stakeholder Liaison Field function which includes 12 area offices with approximately 153 stakeholder liaisons across the country. The CLD works with a vast network of stakeholders, including tax professionals, tax preparers, business groups, and industry organizations to raise taxpayer awareness about tax law changes. The CLD provides year-round assistance to millions of taxpayers by way of outreach and educational programs and participates in meetings, symposiums, and seminars attended by small business owners and tax professionals.

The CLD sponsors national and local Small Business Forums which provide an avenue for communication between IRS and trade and industry groups. Each year, they host two bi-monthly forums at the national level, one specifically for practitioners and tax stakeholders on current IRS policies, practices, procedures and tax law changes.



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2

These events enable the practitioner and industry communities to elevate issues directly to IRS subject matter experts and executives, providing a two-way exchange of information and ideas.

Our web based Tax Center includes many educational products as well as videos on various topics that allow users to learn at their own pace. We have archived versions of live panel discussions, webinars, video clips, as well as national phone forums on topics such as 1099-MISC Filing Requirements, Business Income, and Correspondence Examinations. Our Virtual Small Business Tax Workshops address a wide range of topics, including: how to make tax deposits; file payroll taxes using a computer; and set up a retirement plan. From October 1, 2009, to September 10, 2010, we held 1,815 Leveraged Small Business Workshops in all 50 states and participated in 97 Spanish Small Business Workshops.

In addition to the feedback we receive from small businesses, self-employed taxpayers, and tax professionals through our outreach programs, we use information from the Issue Management Resolution System (IMRS) and the Outreach Initiatives Database (OID). The IMRS was implemented to ensure that SB/SE is proactive in responding to stakeholder concerns. The IMRS application enables employees to track national and international issues, as well as significant local issues identified by stakeholders. The system provides trend information for determining when issues are widespread, and is used to elevate stakeholder issues to Headquarters for resolution. The OID provides a consolidated summary of SB/SE initiatives and contains reference materials, key messages, and communication products approved for use in external outreach. Many of the topics we address in our phone forums and webinars come from analyzing the information found in these two databases. From October 2008 through February 2010, the IRS held 17 National Phone Forums and Webinars with a total 41,207 participants.

In consultation with the Office of Program Evaluation and Risk Analysis and SB/SE Research, we have utilized surveys to obtain customer feedback regarding burden, our products, and outreach events. We are also investigating other methods to measure our outreach and products. We continually strive to improve our operations and services and recognize that we must be flexible to identify and adapt to emerging trends.

Attached is a detailed response outlining our corrective actions. If you have any questions, please contact me, or a member of your staff may contact Rob Wilkerson, Director, Communications, Liaison & Disclosure, at (636) 255-1371.

Attachment



Multiple Channels Are Used to Provide Information to Small Business Taxpayers, but More Information Is Needed to Understand Their Needs

Attachment

RECOMMENDATION 1

The Commissioner, Small Business/Self-Employed Division, should evaluate the effectiveness of the industry codes in the IMRS in identifying trends in specific industries and determine if the industry code should be required.

CORRECTIVE ACTION

We agree with this recommendation. A team will perform a review of industry selections to identify the need to add/modify the existing selections and determine if the Industry field should become a required field.

IMPLEMENTATION DATE

March 15, 2011

RESPONSIBLE OFFICIAL

Chief, GAO/TIGTA Legislative Implementation, Communications, Liaison & Disclosure, Small Business/Self-Employed Division

CORRECTIVE ACTION(S) MONITORING PLAN

The Chief, GAO/TIGTA Legislative Implementation will advise the Director, Policy & Strategic Planning, Small Business/Self-Employed Division of any delays in implementing this corrective action.

RECOMMENDATION 2

The Commissioner, Small Business/Self-Employed Division, should ensure that sufficient preventive controls are activated for the Outreach Initiatives Database to provide an adequate audit trail to record changes or deletions as well as the associated reasons.

CORRECTIVE ACTION

We agree with this recommendation. During the initial development of the Outreach Initiatives Database, Small Business/Self-Employed Web technicians deleted some unused views as part of the testing and refinement process. We acknowledge that this action created some confusion and we have discontinued the practice of deleting views. All views now being created remain in either the active or the archived database.

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIAL

Director, Communications, Communications, Liaison & Disclosure, Small Business/Self-Employed Division