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Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

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TAX ADMINISTRATION

IRS Efforts to Improve Forms and Publications

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The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This is the second of two reports in response to your concerns regarding the accuracy and clarity of Internal Revenue Service (IRS) forms and publications. Providing taxpayers with tax guidance that is readable and understandable is one way of promoting voluntary compliance, the cornerstone of the federal income tax system.

In our first report, which examined the clarity and accuracy of a group of commonly used forms and publications, we made specific suggestions to improve the clarity of 12 forms and 2 publications.[1] We did not identify any instances in which these documents did not conform with current legal requirements or IRS guidance. As agreed with the Subcommittee, this report presents our evaluation of IRS' forms and publications development and revision process, identifies IRS' efforts to improve this process, and identifies IRS' initiatives to increase taxpayers' involvement in this process.

Results in Brief

Providing taxpayers with easy-to-read tax forms and publications is a difficult task. IRS must strike a balance between the need for these documents to accurately reflect a highly complex tax code and the need to make these documents understandable and easy-to-read. Finding this balance is an ongoing process as the tax code is frequently revised, necessitating corresponding changes in forms and publications. Other factors, such as the wide range of taxpayers' reading abilities, further complicate IRS' task.

IRS' process for developing and revising its forms and publications appears reasonable in that it provides for: clear lines of responsibility and accountability, specific timeframes, adequate management oversight, sufficient opportunities to evaluate suggestions from internal and external sources, and appropriate strategies for coping with sudden tax law changes.

[1]Tax Administration: Selected IRS Forms, Publications, and Notices Could be Improved (GAO/GGD-93-72, Apr. 30, 1993).

Many forms and publications are revised annually, often under short time constraints, and in response to tax law changes. IRS periodically reviews these documents and, when appropriate, schedules them for revision. IRS' procedures provide for incorporating tax law changes into the revision process so that accurate forms and publications are available to taxpayers in time for the filing season. IRS' procedures also include consideration of comments from taxpayers regarding clarity improvements. Such comments are typically received from professional organizations representing such interests as tax preparers, payroll professionals, accountants, and lawyers.

In an effort to further improve its forms and publications, IRS has initiated several special projects to enhance their clarity. For example, IRS' Compliance Research Division is studying 10 factors affecting taxpayers' comprehension of tax documents. IRS intends to use this information to prepare forms and instructions that taxpayers will find easier to understand. Another effort emanates from IRS' recently issued Business Master Plan. Under this plan, simplification teams are to be established with staff from IRS field offices. These teams will be charged with taking a fresh look at selected forms each year and offering specific recommendations to the Tax Forms and Publications Division. These and other projects attest to the agency's stated interest in continuous improvement.

Despite IRS' process for developing forms and publications and its stated ongoing commitment to improvement, IRS recognizes that it has no systematic way to determine what individual taxpayers specifically find confusing about forms and publications. While IRS has established a dialogue with professional organizations regarding their concerns with these tax documents, IRS is still trying to find a way to readily identify the specific concerns of individuals. We believe IRS may already have data that could help it identify areas that individual taxpayers are specifically having difficulty understanding. These potential sources of data include information from IRS' toll-free telephone assistance program and field personnel such as auditors and customer-service representatives.

Background

To implement a changing and highly technical tax code, IRS publishes approximately 400 tax forms and accompanying instructions each year. More detailed guidance is provided in approximately 100 different publications. Frequent changes to the tax laws necessitate revisions to both forms and publications. The development and revision of tax forms

and their accompanying instructions and publications are the responsibility of IRS' Tax Forms and Publications Division. This division is made up of two branches, the Forms Branch and the Publications Branch.

Tax forms and instructions are written by tax law specialists in the Forms Branch. Proposed new forms are reviewed by IRS' Tax Forms Coordinating Committee (TFCC), which represents all major organizational units in IRS. TFCC provides a forum for all key IRS functions to help ensure that forms meet the overall needs of the agency without placing excessive burden on taxpayers. All new forms and major revisions to existing forms must be approved by TFCC. IRS' Chief Counsel must also approve the forms to ensure their technical accuracy and consistency with laws and regulations. The Office of Management and Budget (OMB) is responsible for reviewing each tax form once every 3 years. The purpose of OMB's review is to assess IRS' compliance with the Paperwork Reduction Act. Among other things, this law compels OMB to evaluate the extent of burden imposed by IRS forms and to ensure that the federal paperwork burden for individuals is minimized. As a consequence, all new forms and major revisions to existing forms must also be reviewed by OMB.

Tax law specialists in the Publications Branch write and revise publications. Some publications are designed to accompany specific forms, while others provide general information relating to a variety of forms. Because publications supplement information on forms and instructions, they are not subject to TFCC review or OMB approval. Publications are also periodically revised to reflect changes to the tax laws or forms. Each year, some publications are substantively revised through an intensive review by a team that includes tax law specialists, writer-editors, and technical reviewers associated with the publication's subject matter. These publications are subjectively selected on the basis of circulation and the need for text revision. The objective of this revision is to make a major improvement in the quality and usefulness of the publication.

In 1978, we issued a report citing the tension between IRS' conflicting responsibilities to develop forms that are technically accurate, yet clear and readable.[2] In that report, we noted that writer-editors and graphic experts played a limited role in the development of only a few forms and that, as a result, technical accuracy was favored at the expense of clarity. While acknowledging the importance of being accurate, we reported that

[2]Further Simplification of Income Tax Forms and Instructions Is Needed And Possible (GAO/GGD-78-74, July 5, 1978).

the readability of these documents needed improvement. Our report recommended that IRS institutionalize a broader mix of writing and graphics design experts in a continuous review of forms and instructions. Since then, IRS has made greater use of its writer-editors and included more graphics in its forms and publications.

Objectives, Scope, and Methodology

Our objectives were to (1) evaluate IRS' forms and publications development and revision process, (2) identify IRS' efforts to improve this process, and (3) identify IRS' initiatives to increase involvement of taxpayers in this process.

To assess IRS' process for developing and revising forms and publications, we examined the agency's written procedures and discussed them with representatives from IRS' Tax Forms and Publications Division, the unit with primary responsibility for issuing these documents. We also selected four forms and two publications and tracked their progress through the development and revision phase. We included forms and publications used by individuals and businesses as well as newly created forms and existing forms undergoing revision. To verify IRS' written procedures and information obtained from IRS officials, we identified the actual steps taken in producing these documents and compared these activities to established procedures.

To evaluate the reasonableness of IRS' process for developing and revising forms and publications, we considered whether its procedures provided for clear lines of responsibility and accountability, specific timeframes, adequate management oversight, sufficient opportunities to evaluate suggestions from internal and external sources, and appropriate strategies for coping with sudden tax law changes. We also interviewed IRS officials involved in preparing these documents and asked them to discuss the development and revision process.

To identify IRS' efforts to improve the process and to increase taxpayers' involvement in it, we interviewed IRS officials. In addition, we met with OMB officials to discuss OMB's role in reviewing tax forms for compliance with the Paperwork Reduction Act. We also met with representatives from external professional organizations, which are concerned with the clarity and accuracy of IRS forms and publications. Our discussions with these groups focused on their perceptions of IRS' willingness to hear their views and to maintain a professional dialogue on matters affecting IRS forms and publications. Appendix I lists these organizations. We also discussed

agency initiatives to improve the clarity of tax forms and publications with various IRS officials involved in managing these activities.

We did our work at IRS' National Office in Washington, D.C., from August 1993 to April 1994 in accordance with generally accepted auditing standards. We presented a draft version of this report to appropriate IRS officials including the Chief of Strategic Planning and Communications and the Director of the Tax Forms and Publications Division and obtained oral comments from them on October 25, 1994. IRS' comments and our evaluation are on page 11 of this report.

IRS Faces Continuous Challenge in Keeping Forms and Publications Accurate and Readable

IRS' forms and publications are based on a complex and frequently changing tax code. Since 1980, Internal Revenue Code sections have been amended more than 100 times, resulting in numerous modifications to existing forms and the development of nearly 100 new ones. This combination presents a great challenge to IRS, which is expected to issue documents that are not only technically accurate but readable. IRS is responsible for responding to changes in the tax law by modifying forms and publications and issuing forms on a timely basis.

In addition to revisions caused by changes in tax law, IRS reviews all forms for possible revision on a periodic basis. Many forms, such as the Form 1040, "U.S. Individual Income Tax Return," are for use during a particular tax year and must be updated annually. Other forms, such as the Form 709, "United States Gift (and Generation Skipping Transfer) Tax Return," may have an extended period of use. IRS automatically considers all forms for revision every 3 years before sending them to OMB for review under the Paperwork Reduction Act. According to IRS officials, the agency currently publishes approximately 400 forms of which about 80 percent are revised each year.

Factors beyond IRS' control may complicate its ability to provide clear forms and publications. Its role as a data gatherer for research purposes may have a direct bearing on form clarity. Some forms may include lines requesting information unrelated to computation of the tax. This information may be gathered for valid statistical or research purposes, but the information may have no bearing on tax liability. These lines may also be intended to aid an IRS examiner conducting an audit. Although these data collection efforts may bear no relationship to tax liability and may actually increase taxpayer burden, they may also serve valuable purposes justifying their presence. In addition, the varying literacy levels of

taxpayers, the many forms and publications and their relationships to each other, and the sheer number of annual changes, even those adopted for the sake of clarity, can further contribute to general confusion among taxpayers.

Components of IRS' Process for Developing and Revising Forms and Publications Appear Reasonable

We found that IRS' process for developing new forms and publications and revising existing ones is composed of reasonable components. For example, its procedures (1) establish well-defined roles and responsibilities for staff, clear lines of accountability, and specific timeframes for drafting these documents and (2) ensure sufficient management oversight. In addition, the procedures provide steps to accommodate the passage of legislation late in the calendar year. IRS officials involved in this process identified no major problems with agency procedures that would hamper their ability to create and revise forms and publications, and the officials were generally satisfied with the procedures. Representatives from the professional organizations we interviewed also were generally satisfied with IRS' process. Our tracking of four forms and two publications also indicated that IRS' procedures were followed and proved reasonable.

IRS has taken steps to build greater readability into its development and revision process since we issued our prior report in 1978. Greater use is now being made of writer-editors. While writer-editors were rarely used at the time of our previous report, they now play an integral role in simplifying language and assisting in the development of suitable graphic presentations intended to enhance readers' understanding.

As part of its annual revisions process, IRS obtains suggestions for improving both the accuracy and clarity of its forms and publications from a variety of internal and external sources such as organizations representing tax professionals and tax preparers, taxpayers, and employees. All suggestions are to be referred to an appropriate tax law specialist for consideration during a document's next scheduled revision.

IRS has established an ongoing dialogue with some of these organizations and addresses many of their concerns during meetings or through written responses. Some of these organizations, such as the American Institute of Certified Public Accountants, annually submit written suggestions to IRS. Others, such as the National Association of Enrolled Agents, prefer to provide occasional suggestions on an as-needed basis. These groups sometimes hold conflicting opinions, and IRS must balance their views

along with many other factors in making revisions. Although no organization has all of its suggestions implemented, most of the ones we spoke with expressed satisfaction with IRS' accessibility and the process itself.

IRS Efforts to Improve Forms and Publications Continue

IRS recognizes that more efforts need to be devoted to enhancing readability, and the agency is taking steps consistent with its mission of improving customer service and informing and educating taxpayers. The agency's new Business Master Plan for 1995 through 2001 has identified maximizing customer satisfaction and reducing taxpayer burden as one of its objectives. One of the steps IRS plans to take to achieve this objective is the establishment of form simplification teams. Comprised of IRS field personnel, these teams will be charged with performing in-depth reviews of selected forms and simplifying at least four each year. This effort is to be modelled after an earlier forms improvement project that IRS officials considered successful. Simplified versions of approximately 25 high-volume forms were drafted by field personnel during that previous project. IRS officials expect that these new teams will meet with similar success.

A major effort stems from IRS' realization that taxpayers have difficulty understanding its forms and publications, even when the reading level of these documents is relatively low. IRS' Compliance Research Division is studying factors influencing taxpayer's comprehension of tax documents. IRS has concentrated its efforts on how the following 10 factors affect reader comprehension: readability, if-then statements, references to other documents, tax vocabulary, abbreviations and acronyms, arithmetic complexity, headings, text, negative terminology, and graphic usage. On the basis of these factors, selected passages of the Form 1040 and Form 1040EZ instructions were rewritten and tested to see if comprehension improved. IRS is now validating its methodology for this study. Ultimately, IRS hopes to improve taxpayer comprehension by using the study's findings to develop training for staff involved in writing forms and publications.

Another development that may improve the quality of the forms and publications is the possible reorganization of the Tax Forms and Publications Division. Currently under consideration, this reorganization would result in tax law specialists' becoming responsible for preparing related forms and publications. Presently, Forms Branch staff are not involved in the development of publications. Similarly, Publications

Branch staff do not prepare forms. According to IRS officials, if implemented, the reorganization would merge staff into two new branches, one addressing individual tax issues and the other addressing business tax issues. Tax law specialists would be assigned one or more forms and accompanying publications. IRS is considering whether such a reorganization would make forms and publications more readable for taxpayers by improving staff expertise and achieving greater consistency in language between the forms and publications among other things. According to IRS officials, the decision on this reorganization has been postponed pending completion of IRS' broader internal review of its processes.

IRS Needs Data to Better Identify Concerns of Individual Taxpayers

While IRS gets information on the clarity of forms and publications for individual taxpayers from several sources, IRS officials acknowledge that there is not a systematic way for obtaining input from the many individual taxpayers not represented by particular interest groups or associations. These officials told us that IRS has not met with the same success in obtaining the views of individual taxpayers as it has attained among the business community and organizations of tax professionals, but the agency has several efforts underway that may help to improve this situation.

To obtain the views of individual taxpayers on such matters as the clarity of forms and publications, IRS solicits written comments from taxpayers, holds periodic town meetings where taxpayers can discuss their concerns, distributes customer satisfaction surveys, and conducts focus group sessions on selected forms revisions. However, IRS officials said that these sources generally do not yield many substantive insights as to what specifically confuses individual taxpayers. IRS officials have told us that the concerns expressed by individuals in these forums have not presented a precise view as to what individuals find wrong with the forms. According to these officials, they also do not generally result in useful suggestions for revising the forms. However, the officials said that while focus groups generally provide better results, the groups are costly to conduct. Because of this cost factor, only a limited number of focus groups are held. Also, focus groups do not cover a broad base of taxpayers and only address one or two forms each year.

Nonetheless, officials told us that IRS hopes to find new ways of identifying the concerns of individuals. In an effort to better capture these concerns, the Publications Branch will resume its annual interviews with the agency's telephone assistors, who respond to questions from taxpayers on

the toll-free telephone system. Conducted at the end of the filing season to discuss commonly asked questions and points of confusion, these interviews were previously used to identify and clarify passages in forms and publications for future revisions. Publications Branch staff claim that these interviews yielded hundreds of specific suggestions that were ultimately adopted. These interviews were discontinued several years ago due to budgetary constraints. IRS recently decided to resume these interviews in the spring of 1995, after the next filing season. This approach may be one way to tap into existing sources of information.

IRS plans to introduce an additional new feature to its toll-free telephone system in January 1995. A new line will be dedicated to taxpayers who wish to leave recorded messages with the agency. Also, the annual "Message from the Commissioner," which will be included in the 1994 tax packages, will invite taxpayers to call IRS with their ideas for making the forms simpler. IRS hopes these actions will make it easier for taxpayers to comment on forms and publications and will generate more suggestions.

IRS may already possess critical information that could provide insights into what areas taxpayers are specifically having difficulty in understanding. For example, IRS' existing toll-free telephone system may be a source of information as to what taxpayers find confusing. Tracking specific questions at routine intervals may identify specific sections of forms and publications that taxpayers have difficulty understanding. IRS does limited monitoring of the nature of these calls but information captured is too broad to provide specific guidance for form revision. At least one state relies on call-tracking as an indicator that certain passages in its state tax forms are confusing and uses this information to make appropriate changes to these documents.

Taxpayers could also benefit from improved use of observations from IRS employees. One potential source of information may be errors made by taxpayers and discovered by IRS during audits. While some errors are inevitable and others may be indicators of intentional noncompliance, some frequently made errors may point to ambiguities in forms and publications, leaving the taxpayer open to an honest mistake.

Another opportunity to simplify forms and publications frequently used by individual taxpayers may reside in the agency's annual process for proposing legislative changes to Congress. Each year the Department of the Treasury asks IRS to offer suggestions to improve tax administration that need legislative approval to be implemented. The Treasury

Department's ultimate objective is to provide Congress with a list of such proposals for its consideration. Simplification of tax forms is one area of tax administration that generates suggestions requiring legislative action. Tax law specialists told us that some forms contain line items or instructions required by law but no longer serving a useful purpose. Removing such line items and instructions could result in some simplified forms, but only could be accomplished by an act of Congress.

However, this process has been perceived by some staff in various units, including the Tax Forms and Publications Division, as not productive. As suggestions are forwarded to officials at increasingly higher levels within IRS, then the Treasury Department, and finally at OMB (which must approve the document before it is submitted to Congress), suggested proposals are eliminated through this process. In recent years, few, if any, suggestions have been forwarded to Congress. IRS managers are presently studying ways of revising the process to make it more useful to the Treasury Department and Congress. If improved, this process may encourage greater staff participation and provide a vehicle for conveying simplification ideas, among others, to Congress.

Conclusion

Although it faces many challenges in developing and revising forms and publications, IRS has instituted a process for doing so that includes reasonable components and is seeking opportunities for improvement. While IRS has established a dialogue with organizations representing tax professionals, it has had difficulty in identifying and responding to the needs of individual taxpayers who are not represented by any particular organization.

Because clear and understandable forms and publications help to promote voluntary compliance, readability is a continuous concern. Thus, IRS should continue to seek new ways of identifying what individual taxpayers find most difficult to understand. IRS should also explore the use of potentially helpful, but untapped, sources of information that may reveal points of taxpayer confusion and use existing information in new ways.

Recommendation to the Commissioner of Internal Revenue

We recommend that the Commissioner of Internal Revenue direct agency staff to make additional efforts to identify the specific concerns of individual taxpayers. Identifying these concerns may be accomplished in a variety of ways, including

- gathering information concerning the nature of taxpayer questions received through its toll-free telephone system and
- soliciting information from IRS field personnel including auditors, examiners, and customer-service representatives for the sole purpose of identifying common errors made by taxpayers that may be related to confusing passages in forms and publications.

Agency Comments and Our Evaluation

We provided a draft copy of this report to, and obtained oral comments from, appropriate IRS officials, including the Chief of Strategic Planning and Communications and the Director of the Tax Forms and Publications Division. These officials suggested several technical modifications that we incorporated in our final report.

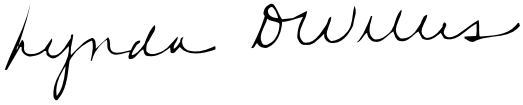
While they generally agreed with the facts contained in our report and the importance of identifying the specific needs of individual taxpayers, IRS officials did not think the recommendation we proposed was necessary. The officials stated that IRS is continuously seeking the views of individual taxpayers, receiving many employee suggestions to clarify forms and publications, and using available data to improve these documents. The officials noted that IRS has additional plans to enhance customer satisfaction with regard to forms and publications. For example, in response to a 1993 customer satisfaction survey, IRS intends to develop a learning, business, and communication strategy for making forms and instructions more readable. While acknowledging that improvement is always possible, the officials stated that its many current and planned efforts will meet taxpayer needs.

We agree that IRS has made efforts to improve its forms and publications. For example, IRS' efforts to identify factors influencing taxpayers' comprehension of tax documents was a positive step. We also consider its future plans to dedicate a telephone line to messages from taxpayers and to resume interviewing telephone assistors to be positive steps. However, we continue to support the need for IRS to obtain more specific information about what individual taxpayers find most confusing about forms and publications. We believe that implementing our recommendation will further clarify forms and publications, thus benefitting individual taxpayers.

We are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties.

Major contributors to this report are listed in appendix II. If you or your staff have any questions concerning the report, please call me on (202) 512-9110.

Sincerely yours,



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Organizations Contacted

American Institute of Certified Public Accountants, Washington, D.C.

American Payroll Association, New York

American Society of Payroll Management, New York

National Association of Enrolled Agents, Rockville, MD

National Taxpayers Union, Washington, D.C.

Tax Executives Institute, Washington, D.C.

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