



Center for Technology in Government

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## **New Models of Collaboration *A Guide for Managers***

### **IRS E-File: Electronic Tax Administration in the United States**

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## **Introduction**

The Internal Revenue Service (IRS), a branch of the Department of Treasury, is the United State's tax collection agency. Its main role is to carry out the Internal Revenue Code enacted by the United States Congress in 1862.

The electronic filing of income tax returns, or the *e-file* program, began with a partnership between the IRS and H&R Block in 1985 and has since grown to include a large number of tax preparers and individual and business taxpayers. Electronic filing, a method for sending tax returns instantly via computer, began as a pilot project in 1986, processing about 25,000 returns. Since that time, the number of electronic returns has grown into millions per year. The partnerships have also been extended including Intuit for tax software, the Certified Public Accountant community, the software industry and professional tax organizations. Currently, (January 2002) the IRS lists eight tax preparation partners for free online filing of taxes; 24 *e-file* partners for taxpayers use; fourteen *e-file* partners for tax professionals.; and, four partners for business filing of tax documents.

The IRS Restructuring and Reform Act of 1998 (RRA) was signed into law on July 22, 1998 by President Clinton with a major objective of promoting e-file usage. The Act directs the IRS to reorganize from its then current structure into one that is more customer-focused, serving groups of taxpayers with similar needs. The development of the e-file is a work in progress.

## **The Environment**

Last year(2000), 40 million Americans filed their tax returns electronically, 2 million short of the initial IRS goal. For tax year 2001, the IRS had set a target of 46 million electronic tax returns and expects to possibly surpass that goal because an increasing number of taxpayers may turn to electronic filing as a result of the anthrax mail scares.

Currently, IRS Commissioner Commissioner Charles O. Rossotti, is involved in the IRS's largest and most complex modernization effort in the past 50 years. The modernization is a direct result of the 1998 IRS Restructuring and Reform Act (RRA). The organizational realignments that are occurring reflect the IRS intent to increase the satisfaction of their customers and to provide the American taxpayer with top quality service and information.

This is no small chore in light of the IRS's customer base. They deal with more Americans than any other organization, public or private. They are also the largest creator of information in the federal government, and some say the world. They have been seen as one of the world's most efficient tax collection organizations. In tax year 2000, the IRS collected more than \$2 trillion in revenue. They processed 22.6 million tax returns, with a total cost to the taxpayer of 39-cents for each \$100 collected. This represents their lowest cost/collection ration since tax year 1954.<sup>1</sup>

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<sup>1</sup> Statistical information on the IRS activities is available at their website, [www.irs.gov](http://www.irs.gov)

To successfully implement the *e-file* program, IRS enlisted a complex group of stakeholders including the:

- US Public
- US Congress
- Department of Treasury
- ETA Advisory Board
- Council for Electronic Revenue Communication Advancement
- Private sector partners
- Tax Preparers
- Certified public accountants
- Professional accounting organizations
- Tax software publishers
- Tax statement electronic transmitters

Throughout the history of *e-file*, these stakeholder groups were more or less supportive of the program, depending on a range of external factors. Funding was seen as one of the largest impediments to getting the development and implementation accomplished. While Congress wanted a paperless government, it was not willing to allocate sufficient funding to meet all of the project needs.

With the passage of the RRA in 1998, the IRS was required to develop a strategic plan with measurable goals and objectives. To date, these goals have not been met on an annual basis. But IRS officials are confident that by 2007, the main goal of having 80% of all tax returns filed electronically will be satisfied.

- To the extent possible, insure that all returns prepared electronically can be also filed electronically for taxable years beginning after 2002
- To reduce the electronic transaction cost to less than \$2
- To achieve 99% integrity and accuracy in all transactions
- To achieve 90% taxpayer satisfaction
- To achieve 90% distributor satisfaction

The RRA of 1998 also put the Congressional seal on the creation of the Electronic Tax Administration (ETA), an organization seen as critical to the overall mission of the IRS. The Electronic Tax Administration, mandated by the IRS Restructuring and Reform Act of 1997, organizationally represents the two-way electronic exchange of information the IRS has with all taxpayers—individual or business, taxpayer representatives, tax practitioners, and other government entities. The ETA also provides a range of mechanisms for taxpayers, tax preparers, tax practitioners, and other partners in filing tax returns, making tax payments, exchanging correspondence with the customer groups, and in the retrieval of forms, publications, and other information from the IRS with a minimum reliance on paper. The agenda for ETA is a clear one—eliminate paper from the processing of tax returns, payment transactions, and information dissemination activities.

The IRS also has a culture that espouses ways of working. These are their guiding principles, which include:

- Understand and solve problems from the taxpayer's point of view
- Expect managers to be accountable – knowledgeable and responsible
- Align measures of performance to all organizational levels
- Foster open, honest communication, and
- Insist on total integrity

They also have articulated five critical areas where they need to implement change in order to continue to meet the needs of the taxpaying public. These include:

- Revamped business practices
- Customer focused operating divisions
- Management roles with clear responsibility
- Balanced measurement of performance
- New technology

The technical and social environments, as well as the legislative environment, have created conditions in the recent years to make the implementation and success of *e-file* more realistic. The technical and social factors are directly tied to Internet technology and the rapid diffusion of this phenomenon in the U.S. population. As the public becomes more comfortable with using the Internet, it is expected that they will move to the next stage of diffusion in transacting business on the Internet. This climate will be favorable to the *e-file* program. The laws are discussed below.

## **The Project**

As noted above, *e-file* is not a new project for the IRS. It is one that has been evolving over the past 16 years, responding to advances in technology and social acceptance of both computing and the Internet as a tool for business. This is in congruence with the overall nature of the project, which participants' characterized as deliberately slow and cautious. The IRS, in dealing with public tax dollars, was not eager to appear revolutionary or hasty as it migrated to the Internet. Public scrutiny of this highly visible agency demanded that the agency fully think through issues around technology platforms, public acceptance, privacy and security, and intense Congressional attention.

## **The legal environment**

There are two components to the relevant legal environment that affects the *e-file* program; and tax reform law and information policy in the United States. First, the tax law. . The IRS RRA of 1998 (Public Law 105-206) was a major piece of legislation affecting the management and processes of the IRS vis the taxpayer. This act was signed into law on July 22,1998 by President Clinton. One of the key components of the RRA was the objective of making *e-file* a routine business process. The Act directs the IRS to reorganize from its then current structure into a

structure that serves groups of taxpayers with similar needs—a customer orientation, in line with the Clinton administration initiative to transform government via the National Partnership for Reinventing Government (formerly the National Performance Review). The NPR had an overarching goal of service to the citizens and customers of the U.S. federal government, and strongly promoted the use of information technology (IT) to create a fast, free, seamless information and business environment with the federal agencies.

The RRA was a significant piece of tax reform legislation. The key sections of the RRA that affect the *e-file* program are:

Section 2001c – Promotion of Electronic Filing.

Congress has determined that there is a need for the implementation of a comprehensive strategy which will actively encourage the use of electronic filing in the tax paying and tax preparation communities. This provision authorizes the use of mass communication, such as radio, television, and print media and other means to promote e-filing by focusing on the benefits or such a program.

Section 2003d – Internet Availability.

While the IRS had already made provisions for access to some publication at its web site, this provision of the RRA requires a more robust attention to Internet access to documents. In specific, after December 31, 1998, the IRS must ensure that all tax forms, publications, guidance, and instructions for taxpayers must be contained in a publically searchable electronic database. This most occur in conjunction with the issuance of any paper products

Section 2003e – Procedures for Authorizing Disclosure Electronically.

This section covers the authorization from tax preparers to communicate with the IRS regarding all electronically filed returns. This requires that the IRS have a full disclosure and consent process for taxpayers to enable approved third parties to discuss their tax returns.

Section 2005 – Online Access to Account Information.

By December 31, 2007, the IRS must make available to tax payers the ability to review their accounts with the IRS, online. All necessary safeguards to privacy must be insured by the IRS.<sup>2</sup>

In the area of information policy, a number of laws, including the Paperwork Reduction Act of 1995 (Chapter 35 of Title 44, U.S.C.), the Clinger-Cohen Act of 1996 (P.L. 104-106), and the Government Paperwork Elimination Act of 1999 (P.L. 105-277, Title XVII), have had influence on the creation, development and deployment of the *e-file*. A major influence government-wide for the management of information resources is the Paperwork Reduction Act of 1995 (PRA); a lengthy and wide-ranging law, first enacted in 1980. It was revised in 1986 with some changes, and then underwent major revisions in 1995. The PRA was enacted to reduce the paperwork burden on private citizens and businesses that interact with the government. It emphasizes the effective and efficient use of IT to achieve paperwork reduction.

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<sup>2</sup> For a more complete look at the RRA and its implications, access the IRS website at [www.irs.gov](http://www.irs.gov), and connect to the “tax regulations” page.

The U.S. Congress signed the Government Paperwork Elimination Act (GPEA)(P.L. 105-277 Title XVII) into law October 1998. The defining features of this piece of legislation included the following:

- SEC. 1702. Authority of OMB to provide for acquisition and use of alternative information technologies by executive agencies;
- SEC. 1703. Procedures for use and acceptance of electronic signatures by executive agencies;
- SEC. 1704. Deadline for implementation by executive agencies of procedures for use and acceptance of electronic signatures;
- SEC. 1705. Electronic storage and filing of employment forms;
- SEC. 1706. Study on use of electronic signatures;
- SEC. 1707. Enforceability and legal effect of electronic records; and
- SEC. 1708. Disclosure of information<sup>3</sup>.

In short, GPEA enables citizens to file and receive information electronically with the federal government. By 2003, the federal agencies must provide alternatives for electronic public access to their documents with electronic filing of documents by the public also in place. Thus, GPEA creates a framework for the acceptance of electronic records as legal, valid and enforceable. It encourages federal agencies to promote electronic recordkeeping, filing, maintenance, submission, and archiving. This opens up a wide array of possible types of electronic information interactions including those of a transactional nature.<sup>4</sup>

Another law that helped set the stage for electronic government and cross-agency partnerships is the Information Technology Management Reform Act of 1996 (later renamed the Clinger-Cohen Act). As introduced by Senator Cohen, the intent of the Act was to be:

A bill to facilitate, encourage, and provide for efficient and effective acquisition and use of modern information technology by executive agencies; to establish the position of Chief Information Officer of the United States in the Office of Management and Budget; to increase the responsibility and public accountability of the heads of the departments and agencies of the Federal Government for achieving substantial improvements in the delivery of services to the public and in other program activities through the use of modern information technology in support of agency missions; and for other purposes. (S.946)

Coincident with the passage of the Clinger-Cohen Act was Executive Order 13011, “Federal Information Technology” of July 16, 1996. This policy integrates provisions of the Clinger-Cohen Act of 1996, the Paperwork Reduction Act of 1995, and the Government Performance and Results Act of 1993. More importantly, it put the Presidential “seal of approval” on the value and importance of information and its attendant technologies to government. This Executive

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<sup>3</sup> Government Paperwork Elimination Act; October 15, 1998. *Congressional Record*—Senate; S12627.

<sup>4</sup> Government Paperwork Elimination Act; October 15, 1998. *Congressional Record*—Senate; S12627.

Order is but one of many information-focused policies created during the Clinton Administration. The creation of the National Performance Review on March 3, 1993 (later renamed the National Partnership for Reinventing Government) represented the Administration's visible intent to use information technology to create a more responsive and fast-acting government.

The current Bush Administration is also on record to facilitate the move to an electronic federal government. The President's Management Agenda of 2001<sup>5</sup> has electronic government as a major administration objective. The 2003 Budget of the United States places new and more thorough attention on information technology and the implementation of electronic government projects.

### **Other oversight mechanisms**

As part of the governance structure overseeing the results of the *e-file*, the RRA created an oversight board to monitor the program and make sure it is organized and operates in a manner that facilitates meeting the mission of the IRS and the ETA. An additional governance layer for *e-file* is the Congress. The RRA requires the IRS to report annually to Congress on their progress toward developing a return-free tax system for appropriate taxpayers.

The Electronic Tax Administration Advisory Committee (ETAAC) is a private sector advisory body established by Congress to assist the IRS in meeting its primary goal of 80% of all tax returns filed electronically by the year 2007. ETAAC was established in 1998 and submits annual reports to Congress as mandated under the RRA. In its advisory capacity, ETAAC also provides programmatic advice to the IRS, makes recommendations to Congress that it believes the IRS should follow, and identifies to Congress the main risks, opportunities, and challenges the IRS in a given tax year.

The Council for Electronic Revenue Communication Advancement (CERCA) is another oversight group created in 1994 as a non-profit organization. Its membership includes a broad array of private and public sector organizations that are committed to advancing the use and practice of electronic filing. CERCA provides advice and information to the ETA, giving them up-to-date stakeholder feedback on key electronic revenue issues. Its board members and officers come from a range of organizations including Intuit, H&R Block, Jackson Hewitt, CSC, TRW, Household Finance, Bank of America, and the South Carolina Department of Revenue.

Some of the public sector members of CERCA include the South Carolina Department of Revenue, New York Department of Tax and Finance, and the Social Security Administration. Private sector members range from banks and financial institutions (Bank of America, Bank One, Mellon Bank, American Express), computer technology and service companies (ADP, CSC, EDS, IBM, Microsoft, UNISYS), to tax return providers ( Peoples IncomeTax, Refunds

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<sup>5</sup> See the [Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003](http://www.whitehouse.gov/omb/budget/fy2003/index.html) and the Exhibit 53s (<http://www.whitehouse.gov/omb/budget/fy2003/index.html>) and the [The President's Management Agenda](http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf) (<http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf>).

Now, Official Payments Now), to the tax return industry (Jackson Hewitt, Intuit, H&R Block)<sup>6</sup>. There are five standing committees for CERCA:

- Electronic Filing
- Electronic Commerce
- Business E-Filing
- Electronic Government
- Systems Modernization

### **The technology environment**

The *e-file* program relies on a combination of technologies at the present time: the telephone for the Telefile component, the Internet for electronic retrieval and submission of tax documents, and the approved software partners, e.g. Quicken, TaxACT, or TaxWise, to use in the tax preparation and submission process. Another piece of the technology picture is composed of the providers of online tax preparation services such as Taxcite.com, Tax-engine.com, Taxbrain.com, among others. For a complete list of these partners, see [http://www.irs.gov/elec\\_svs/partners.html](http://www.irs.gov/elec_svs/partners.html).

An examination of a high level architecture for the Revenue Accounting Process indicates a high degree of system complexity. The Revenue Accounting Process consists of 84 systems with 195 projects. The information collection aspect of the IRS also contributes to the system complexity. The annual information collection burden for the Department of Treasury is 6156.8 millions of hours. This is considered a statistical outlier in the Information Collection totals, with the Department of Labor having the next highest collection burden at 181.59 millions of hours. The IRS contributes most of the burden hours that Treasury reports to the Office of Management and Budget.

Some technical issues did come up in the development of the program. There was a need to make some major changes to the legacy system used by IRS. At the back end of processing, changes had to be made to accommodate credit card payments, and electronic authorizations. There was also the need to create an interface with the customer that was “friendly” and easy to use.

This project continues to be under intense Congressional scrutiny as well as the subject of many U.S. General Accounting Office audits. The IRS was on the “high risk” list of federal agencies, promulgated by the GAO. The *e-file* was one component of a much larger modernization project of the IRS, a project that was over budget, over time, and not yet completed.

An important note here regarding the technology environment of the IRS is that its history was troubled and there were few IT implementation successes.

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<sup>6</sup> This list of members is not exhaustive. For a complete list see [www.cerca.org/members](http://www.cerca.org/members)



The IRS website, the newly revamped *Digital Daily* (January, 2002), is another active technology component of *e-file*. The web site (launched December, 1997) received more than 1.5 billion hits from January through April 16, 2001, a 57 percent increase from the past years hit rate. Web site visitors spent an average of 11 minutes on the *e-file* site, with most users going to the page for electronic tax filing. Another feature of the web site is the ability to download forms and documents published by the IRS. The number of these downloaded through February 2001 was 103 million; double the number of forms and documents downloaded over the same period last year. The transactions offered at the IRS web site include government-to-business, government-to-citizen, and government-to-government.

## **The Partnership**

The main players initially involved in the implementation of *e-file* included the Internal Revenue Service, Intuit, H&R Block, Jackson Hewitt, and Computer Sciences Corporation. These original partners represent a mix of public and private sector organizations, and today the approved partner list has grown to include tax preparers, other tax software vendors, a volunteer service to provide tax assistance to the elderly, and credit card companies.

The participants in the *e-file* program described themselves, and each other, to be organized and methodical, legalistic, and willing and insistent on thinking “out-of-the-box.” This last characteristic is especially noteworthy given that the IRS is a “risk averse organization.” Yet, without the ability and the freedom to think in an unconstrained manner, project participants believed that the project would not have been successful.

What the IRS brought to the partnership was a tremendous market opportunity for the tax preparation and filing community. This was an untapped source of revenue. This also created tension throughout the project however, as many perceived that the IRS was itself, going into the tax preparation and filing business. The major vendors, H&R Block and Jackson Hewitt were very careful to make sure that the IRS was not going to take over their market. It is important to mention that these tax preparation business account for 55% of all returns filed. Another asset of the IRS portion of the partnership was their commitment to the success of the *e-file* project. As they were allowed to work outside of the more bureaucratic structure of the IRS, they could convert their commitment and enthusiasm to being entrepreneurial and innovative.

A characteristic of the private sector partners was that they were “itching for a change” in the tax preparation and filing process. It was cumbersome, complex, and paper-intensive. They saw *e-file* as an opportunity to reengineer the process, making it simpler, faster, and error free. Other characteristics that the partners brought to the partnership were their knowledge in product development, their ability to promote the service, their ability to know who the right business partners would be for *e-file* and then put together coalitions that served everyone’s needs, and they had a very keen understanding of IRS policies and the tax environment.

One partner group, however, was not especially satisfied with the process. The “second tier” providers felt left out of the loop; they perceived the process of becoming an IRS certified partner to be rigged. The relationship between the IRS and this community was seen as “tense.”

The IRS acknowledged that due to the complexity and pressure of this particular project, some stakeholders were (unintentionally) left out at the beginning, but they agreed that they have since made every effort to involve as many stakeholders as are relevant. The IRS continued however on its initial path, asking for “forgiveness rather than permission” as they proceeded with the implementation.

There is a distinction to be made between the initial *e-file* development partners and the subsequent partnership model developed to become a certified *e-file* partner with the IRS. The initial partners were the IRS ETA group, the two major tax preparation businesses (Jackson Hewitt and H&R Block), the tax transmitter group (these businesses put the completed IRS forms into the IRS-acceptable format), and interested tax software vendors, Intuit being the prime partner here. Today there are many more certified partners, ones who have successfully completed the intense IRS review process to receive the IRS imprimatur. Under Solicitation Number TIRNO-01-R-00034, ETA’s Electronic Payment for Taxpayers, there is a formal application process to be a certified partner, one that stipulates meeting all the IRS requirements to prepare taxes, file taxes, or take credit card/debit payments. There are currently some 90,000 authorized *e-file* practitioners and 50 to 60 certified tax transmitters.<sup>7</sup>

## **The Collaboration Process**

This collaboration represented all new territory for the IRS, and as mentioned earlier, territory that had a high potential for profit, and thus, was very sensitive to the vendor community. The IRS adopted the private sector concept of exchange values, without the actual exchange of monetary value to the IRS.

There was further, a clash between commercial and public sector values. The IRS wanted to reach out to the low income population, enabling them to file at the lowest cost with the quickest return; a value not embraced by the private sector partners who are in the business to make a profit. This issue was ultimately resolved with the development of the Quicken Tax Freedom application, free filing for low income tax payers (gross income less than \$25,000). Today, there are eight approved partners offering free Internet filing of taxes for qualifying tax payers.

In developing the project, there was a range of issues that the partners needed to collaborate on and resolve. First was the delivery method, whether to go with *e-file* software or use the third party tax vendors. Convenience and efficiency were also problems; each transaction required three separate processes, with paper still being required for a legal signature. The IRS ETA and legal counsel staff had to negotiate for the development of a secure authentication process that could be used by the tax submitters to eliminate the need for a paper signature. Security of the personally identifiable information also presented concerns. It was important for the IRS to be sure that on its part, the data submitted by the taxpayer was protected under the Privacy Act. Finally, fraud was a major potential problem with an electronic system. The tax preparers were solicited for suggestions for remediating these problems. The IRS saw it as a benefit that the tax preparers teamed together to bring propositions to IRS to solve these problems. This type of

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<sup>7</sup> See [http://www.irs.gov/elec\\_svs/partners.html](http://www.irs.gov/elec_svs/partners.html) on the World Wide Web for a partial listing of certified partners.

collaboration was seen as successful by the IRS staff. The tax preparers were able to make a number of recommendations to enhance the program as well. One suggestion they came up with, which was put in to practice, was enabling credit card payments over the Internet as a value-added to the program.

The IRS realized that as a federal government agency, it could not officially endorse specific tax preparer businesses. What they were able to offer were “privileges” to certified partners, such as having their name, services, and a web address link to the business home page included on the Digital Daily web site. Thus, the IRS was able to say, we cannot endorse these vendors, but we suggest you go to their websites and see how they can help you *e-file*.

### **Critical success factors**

In talking with project participants it was clear that strong championship, leadership, and willingness to take risks, on the part of the ETA Assistant Commissioner and the ETA Director, were major factors in the success of the *e-file* implementation. This was noted consistently. The Assistant Commissioner for the ETA was awarded a 2000 “Federal 100”<sup>8</sup> for his pioneering work on *e-file*.

Other factors were the partner’s willingness to take some risk as well, as this was an untested market. The all around experience of the partners was another critical success factor. There were smart, knowledgeable, and committed people involved. The ability to take advantage of innovative procurement processes, coupled with constant legal advice, was also noted as critical to the good outcome of *e-file*. Finally participants felt that this was a huge untapped market of opportunity, and that the market conditions were right for an electronic transaction process. These two factors combined also were critical to the project’s success.

A number of other factors surfaced when exploring this area. It was noted by some that other behaviors that helped urge the project on were:

- The ETA staff was not reluctant to use intimidation, begging, or cajoling
- The ETA staff never took **no** for an answer; if they received a no, they asked “why?”
- The willingness of all the partners to work on both sides of the fence (public and private)
- The partners had agreed-upon business goals and evaluation criteria, and
- Everyone knew what was wanted and was committed to achieving the goals of the project.

An interesting and novel success factor for the *e-file* was the ability of the IRS to actually go out and market its product *e-file*. This is not a common activity or budget line for federal agencies. But the RRA of 1998 specifically addressed the need to enhance the visibility of this new program and appropriated funds to do so. The ETA group received their first marketing budget for tax year 1999. Through a series of innovative and attention-getting advertising vehicles, along with the use of the award winning Digital Daily web site, the IRS was able to increase the visibility of *e-file* among tax payers and potential tax preparer partners.

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<sup>8</sup> See *Federal Computer Week* at <http://www.fcw.com/events/fed100/2000/intro.asp> for more information.

The staff at the ETA feels that the marketing campaign has been a major success. Based on their evaluations, they are now planning a five-year media and advertising campaign. They hope to increase the visibility of *e-file* to convince even more taxpayers to electronically file their tax returns.

## **Barriers**

On the reverse side, some factors were seen as barriers to be overcome, or the project would not succeed. The goals set in the ETA strategic plan for 2007 were seen as too high to achieve. They are still perceived to be above what the diffusion curve would predict. The paperbound infrastructure of the IRS was also seen as problematic. It required a formal process for managing change to get the buy-in from all the IRS processing staff. Protection of information privacy and security were seen as two high-visibility issues that could close the project down. An award winning privacy authentication was developed and implemented by the IRS to ensure privacy of personal information. This authentication procedure is noted as a best practice in the federal government.

## **Project Outcomes**

Electronically filed tax returns increased by 13 percent in tax year 2000. Although the tax return numbers represent a significant increase over past years, they continue to fall short of the IRS' projections. The IRS initially had set its 2000 annual goal at 42 million people filing electronically; however, earlier in the tax year, they had to revise the goal to 40 million.

According to their most recent annual report:

The IRS receives and processes electronic and paper tax returns and payments to collect approximately \$2 trillion dollars annually. In FY 2000, Submission Processing conducted another successful filing season processing 212 million primary returns and issuing 92 million individual refunds.<sup>9</sup>

Also noted in their annual report as an emerging trend was completing and filing personal tax returns on home computers through a third-party provider. There was a 104 percent increase in this practice. The use of the electronic payment options also continued to grow in use. Through September, 2000, there were a total of 237,000 direct debit payments made; a 212 percent increase over the prior tax year. Credit card payment of taxes due also increased, with 209,000 filers using this method of payment.

Other program benefits noted are the improved quality of the data on tax returns. Error checking on paper is a time-consuming and fault-intensive process and was traditionally done by the IRS staff. Through *e-file*, the errors are checked electronically early in the life cycle. It was found that the error rate for electronically filed tax returns was one percent, compared to a 20 percent error

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<sup>9</sup> Internal Revenue Service Annual Report Fiscal Year 2000. Available on the World Wide Web at <http://www.irs.gov/pub/irs-pdf/p3385.pdf>.

rate for paper returns. Faster cycle time for the entire process is also a benefit to the IRS, the tax payer, and the tax preparer community.

The Tax Advocate Service of the IRS monitors the pulse of IRS customers. It gets feedback on the income tax return process from citizen advocacy panels. Opinions on the process are solicited from the external stakeholder community, as well as from the internal IRS staff who are actively engaged in this process. The complexity of the tax law remains the number one complaint of the users of the system. This includes the complexity of both individual tax law and business tax law. The inability to access the IRS toll-free information number was also on the top twenty list of complaints.

The ETA is attempting to fix this last complaint by moving the help function to the web. They have increased the implementation and use of customer service technologies such as enabling tax payers to submit questions to Customer Service Representatives using email, receiving responses by email. The IRS found that the questions that are submitted electronically are very similar to those asked over the phone line help function. The ETA is also constantly enhancing the Digital Daily to provide more relevant and useful information before the tax payer even has a question. The web site has also been recently revamped so that the customers are no more than 3 clicks away from answers.

A final note here, again from the IRS annual report. The IRS participates in the University of Michigan Business School's National Quality Research Center's Index of satisfaction with U.S. government. The most recent Index shows that the score for the IRS has improved 11 percent from last year and 22 percent since 1999. The IRS believes that these high scores reflect the satisfaction among individuals preparing and filing tax returns electronically.