

**INTERNAL REVENUE SERVICE
RESTRUCTURING AND REFORM ACT OF 1998:
A TEST OF NEW PUBLIC MANAGEMENT**

A Dissertation

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ABSTRACT

The enactment of the 1998 Internal Revenue Service (IRS) Reform Act resulted directly from perceived lapses in the federal taxation administration, which was publicly highlighted in Congressional hearings. Congress reacted by fundamentally altering the IRS's implementation of the Internal Revenue Code (for the first time since 1952). The Joint Committee on Taxation noted that the overall objective of the 1998 IRS Reform Act was to have "a well-run IRS [which] is critical to the operation of our tax system."

From a public administration paradigm, the IRS moved from a traditional tax management methodology to a New Public Management (NPM) methodology. Traditional tax management focused on efficiency and effectiveness typically measured by tax collections per dollar spent. NPM focuses on "performance based" activities emphasizing the responsiveness to the needs of taxpayers. Ultimately, the IRS's core function remains the annual collection of nearly \$2 trillion in taxes.

The effects of the 1998 IRS Reform Act on the IRS's administration were assessed within the context of this paradigm shift in management. Partial replication of the IRS's 1990 Taxpayer Opinion Survey showed taxpayers' perceptions of the IRS have not improved. In fact, the IRS's receipt of top quality service evaluations universally decreased. Analysis of selected enforcement/compliance data showed that the number of IRS auditors is inversely related to the annual tax gap. The data of this dissertation, however, indicated that the 1998 IRS Reform Act resulted in better taxpayer compliance. Examination of the IRS's personnel data shows that IRS executives have not received private pay parity, and the IRS strategically misrepresented §1203 employee termination violations in 2003.

CHAPTER 1. INTRODUCTION

The enactment of the Internal Revenue Service Restructuring and Reform Act of 1998 (hereafter, the 1998 IRS Reform Act) transpired as a direct result of perceived lapses in the administration of federal taxation. Major failures in almost all areas of tax administration and enforcement posture were publicly highlighted in Congressional hearings leading up to the 1998 IRS Reform Act. At the time, the IRS was publicly portrayed as no less than “evil”¹ in televised Congressional hearings. Congress subsequently passed the 1998 IRS Reform Act with overwhelming majorities of 402-8 in the House and 96-2 in the Senate. Significantly, the last major reform of IRS administration occurred 46 years earlier in 1952.

The objective of the ensuing legislation was to improve the overall tax administration with an emphasis on taxpayer responsiveness. To achieve this legislative mandate for reform, Congress required the IRS to change its mission statement. The Joint Committee on Taxation (JCT) observed that the IRS subsequently established three strategic goals of providing “top quality service to each taxpayer,” providing “top quality service to all taxpayers” (enforcement), and “providing IRS employees with a quality work environment” to facilitate the required changes (JCT 2003, 1).

The objective of this research project is to examine U.S. tax administration before and after the 1998 IRS Reform Act within the theory of New Public Management (NPM). This theory is modeled under a governmental system that was mandated to shift from a rigid bureaucratic structure to a more responsive system. The 1998 IRS Reform Act resulted in the IRS shifting existing resources to customer services from

¹ Former IRS Commissioner Donald C. Alexander (1973 to 1977), *National Tax Journal* Symposium 1998, 35).

enforcement. An examination of this legislation from a tax policy perspective generates the following central research questions:

What were the actual effects of the “landmark” 1998 IRS Reform Act? Has the Act resulted in an overall positive, negative, or no change in U.S. tax administration from both a public perception and an internal taxation administration perspectives?

As the JCT (1998, 1) observed, “a well-run IRS is critical to the operation of our tax system.” The degree of progress or deterioration since the 1998 IRS Reform Act can be assessed empirically. An evaluation of these changes can assess whether the IRS is moving towards, away from, or is unchanged in achieving the overall aim of “a well-run IRS.”

Three main sets of hypotheses focus on pre- and post- enactment on the changes to the:

- Public’s perception of the IRS (1990 compared to 2004)
- IRS’s enforcement posture (1981-2003)
- IRS’s personnel environment (1998-2003)

In 1990, the IRS commissioned a comprehensive nationwide survey of taxpayers to obtain their overall perception of its administration of the U.S. tax system. NPM-related questions from this survey were re-asked to taxpayers to determine any potential changes in response patterns. Enforcement data that centers on the Bureau of Economic Analysis - Adjusted Gross Income Gap (BEA-AGIG) was analyzed for any potential effects on taxpayers’ compliance. Internal IRS personnel data reported in mandated annual Congressional Reports on the effect of the 1998 IRS Reform Act was examined to assess the potential changes in the IRS’s work environment.

These sets of diverse information sources were utilized to proxy for the IRS's administration and enforcement postures to determine whether a transformation in the quality of tax administration, either constructive or unconstructive, has occurred since 1998 (allowing for a triangulation of data sources and measurements).

Watts and Zimmerman (1986, 14) asked, "Why is accounting and auditing practice like it is?" This dissertation in a broad sense asks, "Why is taxation administration like it is?" The objective is to "explain and predict the phenomena" of a tax system's movement from a traditional management approach towards an NPM approach (i.e., test of NPM). U.S. tax administration was comprehensively examined through the lens of a tax policy framework.

1.1 1998 IRS Reform Act

On July 22, 1998, President Clinton signed into law the 1998 IRS Reform Act. This Act marked the end product of a three-year effort to Congressionally overhaul the administration of the IRS. Momentum for the Act occurred during Congressional tax hearings, and new significant provisions for taxpayers were a direct result of these proceedings. Hevrdejs (1998, 1) noted that the "fundamental tenets of tax law procedure" were altered in the areas of:

- "Shifting the burden of proof"
- "Extending attorney-client provision to accountants and enrolled agents"
- "More liberal compromise procedures"
- "Interest, penalties and innocent spouse relief"

Hevrdejs observed that the battlefield between taxpayers and the IRS on the most basic level was altered, and the "IRS is likely to be an organization in transition for some

time.” See Appendix I for a listing of major provisions contained in the 1998 IRS Reform Act.²

Former Democratic Senator J. Robert Kerrey and Republican Representative Rob Portman initiated this semi-bipartisan legislation. Relative to his view that the IRS was unfair to taxpayers, Senator Kerrey stated, “We have changed the law to change that perception” (Donmoyer 1998). The Act was historical, as the IRS (2000, 1) observed:

The Internal Revenue Service was established in its current form in 1952, in the wake of corruption scandals and a Presidential Commission. The objective was to create an agency that would collect federal taxes according to the law without political or corrupt influence. The IRS mission statement, written in the 1960s and in effect until 1998, reflected the way the agency saw itself and was seen by the public. Its operative words were “collect the proper amount of tax.”

The fundamental reform effort underlying the 1998 IRS Reform Act is reflected in the requirement that the long-standing mission statement of the agency be abandoned. Congress specifically called upon the IRS to change its mission statement in §1002 to emphasize the importance of serving taxpayers. The IRS subsequently eliminated any mention of collections in its revised statement and importantly called for “top quality service.” The new IRS Mission Statement reads (IRS 2000, 1):

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

In stark contrast, the prior IRS mission statement focused on “collecting the proper amount of tax” and read as follows (JCT 1998, 16):

² This Act was massive in scale and covered provisions other than those directly related to reform. This dissertation focuses on Title I through Title IV of the 1998 IRS Reform Act that the IRS addressed with its three stated goals (taxpayer service, enforcement, and IRS work environment).

The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity and fairness.

The dynamics of the 1997 and 1998 Congressional tax hearings that led to the 1998 Tax Reform Act (which mandated fundamental changes in the collection activities of the IRS) resulted in the IRS reacting in a predictable fashion. As Bergin and Brown (2003) observed, the “message” to the IRS was to “back off enforcement” and “enforcement statistics” clearly show that the IRS got the message. They observed that the new IRS mission statement does not even mention the core IRS function of collecting taxes.

The political process inherent in taxation results in the convergence of competing interests in a dramatic fashion. This competition for favorable tax treatment is a time-honored fabric of the political reality. The 1998 Tax Reform Act resulted from anti-IRS sentiments/forces coming together, and this Act fundamentally affected the IRS’s collection enforcement posture. However, from an economic standpoint, “the reliable tenacity of the tax collector” is often assumed. The question thus becomes, “is this assumption valid, given the current state of the tax system?” Additionally, how have the changes mandated in the 1998 IRS Reform Act affected taxpayer service and IRS personnel?

1.2 Symposium of IRS Commissioners

The *National Tax Journal* in May 1998 held a tax symposium on the then upcoming tax legislation. A panel of four former IRS Commissioners was convened to

discuss different aspects of the existing legislative environment.³ Questions centered on the possible deficiency in the then current legislative proposals, the potential influence on enforcement/compliance, the prior data collection methods of the IRS,⁴ the effect on IRS employees, and the overall role of the IRS (among other issues).

Relative to the alleged IRS orientation “that the IRS culture views taxpayers as the enemy,” former IRS Commissioner Goldberg replied (*National Tax Journal* Symposium 1998, 425):

To a great extent we have a system that does view the taxpayer as the enemy. I believe that perspective is more all-pervasive than we want to acknowledge in public conversation. I believe that perspective is not a function of the workforce; I believe it is a function of the message the workforce has been given.

Former Commissioner Alexander observed that the IRS was “demonized” mainly for political expediency.

Ex-commissioner Richardson asked whether it was “the system created by Congress or the system created by the IRS.” The IRS mission was noted to be highly complex, and she argued that “the regime has gotten out of control.” Former Commissioner Goldberg stated, “They’re being asked to administer a tax system that is largely incomprehensible.” The Commissioners observed within this environment that it

³ Former IRS Commissioners Donald C. Alexander (1973 to 1977), Fred T. Goldberg (1989 to 1992) and Margaret M. Richardson (1993-1997) were discussants. Former Commissioner Lawrence B. Gibbs (1986 to 1989) submitted written comments.

⁴ Specifically mentioned were the interrelated Taxpayer Compliance Measurement Program (TCMP) and Discriminant Information Function (DIF). The TCMP was a line-by-line audit utilized by the IRS to compile compliance data. The TCMP was last conducted in 1988. The DIF assigns a numerical weight to a tax return, the higher the DIF score the greater probability of an audit [under §6103(b)(2) the score is specifically protected from public disclosure]. The panelists noted one effective product of the TCMP was a change that required the reporting of Social Security numbers for dependents in 1986. A year after institution approximately 7 million out of 77 million dependents disappeared from the U.S. tax system. In 2002, the National Research Program (NRP) was initiated, with some claiming it is a resurrection of TCMP. The first stage of the NRP is currently under way (Bonacum and Allen 2002, and Alexander 2003).

was amazing the system functioned “as well as it did.” Former Commissioner Richardson stated (*National Tax Journal Symposium 1998, 434*):

One my biggest disappointments about the hearings in the fall and again this spring is that there really has been no balance and no sense of perspective, and no effort to bring it to bear or very little effort, I should say.

Former Commissioner Goldberg noted, “The hearings were political theater” and the corresponding process was politicized “to show how really evil [the] IRS is and how it preys on people and destroys their rights and their liberties.”

Former Commissioner Richardson observed that the heightened political nature of the taxation process at the time was affecting the orientation of the tax legislation. She observed it was “the political system, not just the tax system” that was demanding changes.

The future effect of the Internal Revenue Code (IRC) on enforcement was identified as an area of concern. Former Commissioner Alexander predicted that the “grey area” between tax avoidance and evasion would be expanded with more taxpayers willing to take more aggressive positions. He also expressed concern about preserving a sufficient amount of tax compliance, and openly asked if this situation was “a race to the bottom.” Former Commissioner Alexander noted that “still [the] IRS needs to have a strong, effective, and responsible compliance component to make the system work.” Relative to shifting the burden of proof to the IRS, former Commissioner Goldberg noted (*National Tax Journal Symposium 1998, 419*):

I think the problem with it is that it can provide certain incentives to the IRS that are going to cause the agency to act in a manner very different from the way I think Congress is expecting.

This potential for unintended consequences was an area of concern. Former Commissioner Richardson observed the continual conflict that the IRS faces in administering tax laws. She reflected on Congressional demands that were polar opposites. She stated (*National Tax Journal* Symposium 1998, 416):

I testified one week before a committee that was very concerned about why the IRS was not collecting every last dollar and, at least two members told me they wanted-they expected-every last dollar that was owed to be collected. And the next week, I appeared before a different committee in which a number of members, and particularly one I'll never forget, expressed the view: "what's a couple of billion dollars worth of fraud? You should be much less concerned about collecting money and more concerned about providing better taxpayer service." Clearly, a very schizophrenic approach to what we should be doing.

The 1998 IRS Reform Act mandated that the IRS fundamentally adjust its mode of operations. The overall effect of these changes (either positive, negative, or neither) can be modeled within the context of a tax system changing to NPM methodology. The effects of 1998 IRS Reform Act are thus empirical questions.

1.3 Reallocation of IRS Resources

The IRS's mode of operations was fundamentally changed as a result of the 1998 IRS Reform Act. In 1997, the IRS audited a total of 1.7 million individual and corporate returns, and in 2002, the total dropped over 50 percent to 827,000 (an even more dramatic decline occurred if one looks at 2000 compared to 1997). In other words, the enforcement of the IRC was fundamentally altered as reflected in Table 1.

Table 1
IRS Enforcement Activity

Fiscal Year	Audits	Audit Technical Staff	Full Time Employees
1997	1,728,122	16,657	101,703
1998	1,362,643	15,760	98,036
1999	1,228,406	14,991	98,729
2000	715,915	14,252	97,074
2001	815,057	13,018	97,707
2002	826,979	12,388	99,901

This table reflects a year by year analysis of the number of IRS audits and IRS personnel staffing. While total full time employees have remained relatively constant, the number of audits and the number of full time auditors have declined materially since 1997. The source of this data was the JCT's 2003 (7, 39 and 43) data request.

Congressional supervision, IRS's internal management, electronic filing, and taxpayers' rights were all legislatively affected.

Tax administration within the U.S. is a massive undertaking. The sheer scope and size of IRS operations is reflected in Table 2.

Table 2
Quantifying IRS Scope of Operations

2003 Projections	Numbers (in millions)
Total returns	175
Individual returns	132 (75%)
Individual refunds	104
Direct Deposit of refund	30
Simultaneous e-filing of federal & state returns	18
Taxpayers who utilized automated telephone service	27
Taxpayers who utilized walk-in assistance	4.53

This table shows the enormity of IRS operations. The source of this data is the JCT (2003, 5 and 6) data request.

The JCT's 2000 Annual Review observed that "face-to-face audits" were down 40 percent since 1998. It observed that "the IRS attributes this decline to continued decline in staff due to budget constraints and a substantial increase in the amount of time required per case due to provisions in the IRS Reform Act" (JCT 2000, 9). From 1998 to

2002, average time spent on an individual return audit increased from 22 hours to 28.4; for larger corporations, the time increased from 140 hours to 232 hours. Combined, these measures indicate decreasing enforcement coupled with growing complexity (JCT 2003, 106).

The 1998 IRS Reform Act mandates that the IRS fundamentally adjust its mode of operation. It is hypothesized that the IRS's reaction was to back off the resources devoted to compliance activities. Those resources were diverted to taxpayer services and to overall yearly tax management (advance payments in the 2002 and 2003 Tax Acts). Table 3 highlights the decrease in direct audit staff between 1997 and 2000.

Table 3
Audit Technical Staff

Audit Technical Staff	1997	2002	% Decline
Revenue agents	13,647	11,176	18%
Tax compliance officers	2,113	1,212	43%

This table focuses on the decline of key IRS audit personnel since the 1998 IRS Reform Act. The source of this data is the JCT (2003, 7) data request

A confounding factor is that from 1998 to 2003, Congress has passed nearly 300 code provisions. These constant changes have necessitated over 400 modifications to forms and instructions. The current system of taxation has resulted in 127 various individual tax forms (JCT 2003, 6 and 8).

The JCT noted that former IRS Commissioner Rossotti observed the declines in the following basic enforcement activities from 1992 to 2001 (JCT 2003, 5 direct quotes):

1. Document matching decreased from 33.1 percent of cases to 9.1 percent;
2. Correspondence exams (not including the earned income credit) decreased from 4 to 1.2 percent;
3. In-person exams of individuals fell from 5.8 percent to 1.5 percent;

4. Exams of pass-through entities decreased from 5.1 percent to 2.9 percent.

Indicative of these trends is the fact that currently 60 percent of all identified tax deficiencies are not pursued. Nearly 80 percent of non-filers, abusive shelters, and matches of “under-reporters” are not pursued (JCT 2003, 35).

Audit rate percentages have declined in nearly all major areas of audit enforcement. In 1992, individual returns were audited .92 percent of the time compared to .57 percent in 2002. Large corporate audit closures fell from 12,972 in 1992 to 8,443 in 2002 (an over 30 percent decline). The JCT (2003, 10) observed that a major contributor to this decrease was the erosion in assigned enforcement personnel that was “attributed to an increased workload and unbudgeted costs.”

In July 2003, the IRS once again announced the delay of the implementation of its massive computer upgrade; in 1995, the IRS essentially abandoned a previous \$4 billion attempt (Dooren and McWilliams 2003). This situation has been an area of chronic GAO audit concern. The IRS’s main taxpayer records are still based on tape-driven technology from the 1960s and 1970s. The JCT in 2003 stated (JCT 2003, 55):

One significant example, the Customer Account Data Engine will transfer individual filers from the 1960’s magnetic tape-based system for recording taxpayer information to a modern database, and will create applications for daily posting of taxpayer tax account and return data.

The effects of these resource reallocations and potential deficiencies are of fundamental importance for this dissertation. Important relevant questions are:

- Did the reallocation mandated in the 1998 IRS Reform Act improve taxpayer perceptions of the IRS?
- Were enforcement collections affected?
- What was the effect on IRS personnel?

CHAPTER 2. NEW PUBLIC MANAGEMENT (NPM)

Within the paradigm of public administration, researchers can apply managerial, political, or legal theories to examine government operations. Within the managerial perspective, there are two subsets: 1) the traditional (orthodox) approach and 2) the reform approach (NPM). Starting in the 1980s, NPM was advocated as a means to achieve greater governmental responsiveness to public demands. Under NPM, governmental agencies seek to become effective and responsive to constituents. In contrast, under traditional management, individuals are treated impersonally and the bureaucracy takes a rational (cost-benefit) mentality in serving the public. Appendix II highlights differences between these two managerial approaches to public administration.

Public administration in the United States (U.S.) traces its roots to President Woodrow Wilson's (1887) seminal work, "The Study of Administration." In this work, Wilson called for a science of administration to occur with the "utmost possible efficiency." This bureaucratic orientation of government is based on the work of Max Weber and Frederick Taylor. While centered on economy, efficiency and effectiveness, traditional management comes at the cost of impersonal rules. Structure and strict adherence to rules are central tenets under the theory of traditional public administration.

Movement towards NPM in the 1980s was motivated by public demands for improvement in the performance of the public sector. Public anger was directly focused toward systems of taxation (an often cited initial example is the 1978 voter-initiated California Proposition 13 property tax revolt).

Bagby and Franke (2001) observed that NPM views the science of "public administration" more as "public management." Often, an "attitude of customer service"

is seen as an appeal of this “liberation management model.” Relative to the IRS, Bagby and Franke (2001, 626) specifically observed:

At the IRS, accessibility and accountability encompassed in a new “customer friendly” feel have replaced the bureaucracy’s previously remote and authoritative style.

The reform within the IRS was cited as coming from Former Vice President Al Gore’s “National Performance Review” (NPR). This NPR was “the Clinton administration’s manifestation of the NPM approach” as described by Osborne and Gaebler (1992). Bagby and Franke (2001) observed that while NPM calls for a difference in management, the real issue is whether NPM makes for a better functioning governmental agency. (Importantly, the degree to which the IRS did or did not accomplish this legislative mandate utilizing the NPM orientation is a central motivation of this dissertation.)

Denhardt and Denhardt (2000) observed that governance involves a “complex set of interactions” and “complex value conflicts.” They advocate viewing the general public as citizens, not as customers. They contend that while NPM is the “dominant paradigm,” it needs to have a broader and longer-term perspective. Frederickson (1996) argued that NPM was the work of “scholars, theorists, and researchers” and a potential risk was the decreased ability to “implement policy.” Hatry (1999) observed that results and efficiency were key attributes of agency performance under NPM. Wise (2002, 556) observed that three competing drivers within NPM are:

- Social equity (fair treatment),
- Democratization (engaging citizens in bureaucracy), and
- Humanization (employee focus).

These areas broadly parallel the three goals (service, enforcement, and IRS work environment) that the IRS adopted to implement the mandates of the 1998 IRS Reform Act. Importantly, Wise observed that an NPM paradigm could be utilized in assessing administrative reform initiatives.

From an accounting political perspective, Watts and Zimmerman (1979) observed the effect of high information costs, heterogeneity of interests, and how organizational costs affect the “equilibrium outcome.” The appearance of solving a problem is part of the political process. Economic theories apply to proposed regulations, as well as existing regulations. Government action (or lack thereof) is part of an “asymmetric loss function” occurring due to high information costs.

Within the boundaries of the total federal budgetary process, Rosenbloom and Kravchuk (2002, 332) observed:

Whatever course is taken in the future, however, one thing is certain – budgeting will remain an area of controversy for public administrators, elected officials, political executives, interest groups, commercial interests, and the public at large. The way in which budgetary questions are framed has a great deal to do with the outcome of contests for public dollars.

CHAPTER 3. TAX POLICY LITERATURE

The focus of this research project is the internal administration of U.S. tax policy centered on the 1998 IRS Reform Act. Crumbley (1973) observed that the behavioral aspects of taxation are typically disregarded in the passage of tax laws, although their implications for tax policy are significant in terms of keeping “social and economic systems under reasonable control.” The following objectives of U.S. tax policy were recognized by Crumbley (1973, 759 direct quotes):

1. Raising revenue
2. Encouraging growth
3. Stabilizing the economy
4. Redistributing income and wealth
5. Preaching morality
6. Fulfilling morality

Crumbley observed that accountants were ideally situated to conduct cost/benefit assessments of tax policy. Crumbley (1973, 760) noted:

The accounting profession is in a strategic position to undertake such analyses. But so far, accountants have been left at the starting gate by economists (and to some extent by the finance discipline) with respect to research on the behavioral aspect of tax laws.

The potential erosion of tax principles based on substance over form and business purpose needs full and critical examination. Importantly, within the area of tax avoidance,⁵ some of society’s most talented individuals are engaged in attempting to obtain tax privileges. Accountants are ideally suited to the task of analyzing tax policy.

⁵ Tax avoidance is the legal avoidance of taxation, as opposed to tax evasion, which is illegal. Almost all major accounting firms have had suspect tax shelters exposed in 2002/2003. For example, KPMG’s capital gains shelter highlights that the distinction between tax avoidance and tax evasion is not always

Drawing upon Crumley's (1973) call for accounting research in the behavioral implications of tax policy, Porcano (1984) evaluated tax policy through an experiment utilizing business school faculty and graduate business students. Porcano observed the importance of "distributive justice" (fairness). The study indicated a need for a balance of competing goals, and a regrettable facet of taxation is that it is "discriminatory by nature." If taxpayers do not perceive horizontal or vertical equity,⁶ then they potentially react through "tax evasion." As the late Senator Russell B. Long⁷ succinctly stated, "Don't tax you, don't tax me, tax that other fella behind the tree."

Within a context of public choice models, Poterba (1998, 396) examined the relative lack of direct tax policy research in the area of tax reform, and he stated there is a need for "explaining why major tax reforms occur, why they occur when they occur, and why they take the forms that they do." Through a study of actual tax policy reforms, Birnbaum (1998) observed that while fundamental tax reform receives vocal support, the reality is that major reforms rarely occur (i.e., vocal support for reform is often no more than political rhetoric). The effects of California's Proposition 13 tax policy initiative and other states' subsequent property tax reforms are subjects of numerous empirical examinations on pre- and post- enactment bases (see, for example, McGuire, 1999 and Sexton, Sheffrin, and O'Sullivan, 1999).

dichotomous. Despite internal objections, KPMG decided not to register the tax shelter due to a cost/benefit assessment, a revenue culture, and a lax regulatory climate (Bryan-Low 2003). Even Myron S. Scholes (Nobel Prize winner in Economics and co-author of the seminal *Taxes and Business Strategy*), in governmental questioning over his investment in Long-Term Capital Management's tax schemes, declared, "I'm being trapped here" in regards to the contention of "no business purpose." (Johnston 2003).

⁶ Under horizontal equity, taxpayers with similar incomes pay similar taxes; under vertical equity, taxpayers with higher incomes pay higher percentages of taxes.

⁷ Former Senator Long served from 1948 to 1986. Fifteen of those years he was the Chairman of the Senate Finance Committee. He was considered such a master of tax legislation that Wall Street considered him the "fourth branch of government" (Donlan 2003).

Within this broad framework, Richardson and Hildreth (1998) observed that taxation is a “political process,” but an economic framework can be used to assess a tax structure. They recognized the five central attributes of a viable tax structure as having/being “reliable, predictable growth of revenue,” “broad base and low rates” (were the goals of the 1986 Tax Reform Act), “economic development and growth,” “equitable and fair,” and “tax simplicity.”

In a commentary, Shevlin (1999) observed that the three main areas of tax research are tax policy, tax planning, and tax compliance. Tax planning is the main focus of empirical accounting research and often involves a corporate focal point. Shevlin described tax policy as more descriptive within the “spirit of the positive approach.” He observed that tax policy research could potentially have the greatest effect from a social standpoint. However, this dichotomy is incomplete. Tax policy can be and is examined from an empirical perspective.

Shackelford and Shevlin (2001), in an extensive summation of accounting empirical income tax research, stated that corporate tax shelter schemes have taken “aggressive interpretations of the tax law,” and they observed the decline in corporations’ share of the percentage of total tax paid. They called for tax policy empirical research into this apparent phenomenon.

Utilizing a three stage empirical model (complexity → unfairness→ evasion), Forest and Sheffrin (2002) examined the IRS’s 1990 Taxpayer Opinion Survey from an economic perspective to gauge the effect that tax simplification would have on compliance [the article counters the Michael Graetz (1997) call for simplifying taxation]. An outside consulting firm administered the IRS’s 1990 Taxpayer Opinion Survey

nationwide. Nearly 1,800 taxpayers were interviewed (resulting in 1,194 usable surveys). The survey lasted approximately 30 minutes and had two versions (80% of the questions were identical in the two surveys). Forest and Sheffrin contend that the critical attribute for compliance was found to be the perception of fairness, not the effect of complexity per se. From an NPM paradigm, highly relevant parts of the article were that findings from the survey included (Forest and Sheffrin, 2002, 80 and 82):

- Taxpayers in 1990 perceived the chance of an audit at a relatively high 15 percent.
- Taxpayers sought outside help 52 percent of the time.

This survey has been obtained from the National Archives, and questions with an “NPM-related” focus were re-asked of taxpayers to gauge their perceptions.

Through an examination of state and local revenue streams, Tannenwald (2002) observed that from a public finance perspective there is an awareness of a potential decline in the overall systems of taxation on the state and local level. He called for the evaluations of long-term trends in tax policy administration, which are directly relevant to the federal level. In a study centered on the effect of a single tax act, Mackie (2002) assessed the effect of the 1986 Tax Reform Act⁸ in terms of capital income taxation through effective tax rate analysis. He observed the “complexity involved in tax policy analysis” and focused on the implications of tax policy changes occurring in one year.

Tax policy was analyzed by Harmelink and VanDenburgh (2002) through utilization of General Accounting Office (GAO) reports, Treasury Inspector General of Tax Administration (TIGTA) reports, and an internal IRS study. An internal IRS study, obtained under a Freedom of Information request, showed that “only 19% of tax law

questions were answered correctly” by the IRS in 2000/2001.⁹ In contrast, Hite (2002) utilized an IRS conducted survey to document an audit process system with an 85 percent positive rating among audited taxpayers in 1998. It is important to note that the survey that Hite used was limited to a sample of taxpayers audited by the IRS in 1998 and was directly administered by the IRS. In contrast, the IRS’s 1990 Taxpayer Opinion Survey was a nationwide survey of randomly selected taxpayers and was conducted/administered by an outside consultant. Hite concluded that “negative reports – should be weighed cautiously against these positive reports.” The directly conflicting Hite and Harmelink/VanDenburgh studies were cross-sectional in nature.

Extending this literature stream that focuses on the IRS’s administration, Harmelink, Porcano, and VanDenburgh (2003) utilized GAO reports on the IRS for the calendar year 2002 and documented a tax system with potentially chronic problems. The GAO appeared to present the ongoing modernization efforts in a favorable light, but the details contained within the reports indicated otherwise.

In summary, the limited available research indicates that tax administration is a complicated endeavor involving conflicting trade-offs. Various methodologies have been utilized in examining the effect of tax policy changes. An assessment of the 1998 IRS Reform Act from an accounting and public administration tax policy perspective adds to this sparse literature stream and to the understanding of tax administration. The 1998 IRS Reform Act was a unique event in that the IRS’s methodology to taxation was altered for the first time since 1952. Importantly, the prior literature called for or

⁸ The 1986 tax reform did not center on IRS administration changes, but was meant to simplify the U.S. tax code (the goal was for a “broad base and low rates”).

⁹ Later, a 2003 TIGTA audit found that the IRS incorrectly prepared tax returns 83 percent of the time when anonymous TIGTA auditors had returns prepared at Taxpayer Assistance Centers.

highlighted the need for the examination of tax policy reforms. This dissertation assesses the implications of legislatively mandated changes to U.S. Tax Administration (radically transitioned from traditional management to NPM).

CHAPTER 4. RESEARCH DESIGN: HYPOTHESES AND TESTING

This research project assesses whether the IRS has been successful in moving towards accomplishing the legislative mandate of the 1998 IRS Reform Act (i.e., “a well-run IRS”). This research contributes to the examination of U.S. tax policy and administration by partitioning IRS administration outcomes into pre- and post- enactment of the 1998 IRS Reform Act. As the GAO observed in May 2003 (GAO 2003, 1):

Congress established the National Commission on Restructuring IRS in 1995 and passed the Restructuring Act in 1998, which increased Congress’s oversight of the agency. In passing the Act, Congress set two basic goals for IRS: improve service to taxpayers while continuing to enforce compliance with the tax laws.

Importantly, the consequences of the 1998 IRS Reform Act now can be measured and the progress towards an NPM approach can be assessed.

Partial replication of the IRS’s 1990 Taxpayer Opinion Survey combined with analyses of the Bureau of Economic Analysis estimates of individual “tax misreporting,” the JCT’s annual assessments of the 1998 IRS Reform Act, and supplemental IRS data provided the foundation for empirically testing the following hypotheses. Survey results and analyses of tax compliance and IRS personnel data were utilized to test the effects of an NPM approach on U.S. tax administration. This approach is in contrast to prior studies that utilized data in cross-sectional designs, survey-only, and anecdotal evidence. Initial employment of univariate statistics identifies underlying patterns. This study was supplemented with multivariate analyses (modeled using the available data).

4.1 Taxpayer Service

A driving motivation behind the 1998 IRS Reform Act was the perception that the IRS's treatment of taxpayers was "evil."¹⁰ This perception resulted in an NPM orientation being legislatively mandated. Specifically, §1002 of the Act reads:

§1002. Internal Revenue Service Mission To Focus On Taxpayers' Needs.

The Internal Revenue Service shall review and restate its mission to place a greater emphasis on serving the public and meeting taxpayers' needs.

Taxpayers' perceptions of the IRS are thus a major outcome variable of interest from the 1998 IRS Reform Act. In assessing potential changes in taxpayers' perceptions of the IRS, the following hypothesis was tested.

H1: There is no change in taxpayers' perceptions of the IRS since the 1998 IRS Reform Act.

This hypothesis was tested by re-asking selected questions from the IRS's 1990 Taxpayer Opinion Survey (a nationwide survey).¹¹ The IRS's 1990 Taxpayer Opinion Survey, data set, and written report have been obtained from the National Archives and Records Administration. The goal of the survey was "to gauge the public's mood after the 1986 Tax Reform Act and to gather trend data on issues of concern to the IRS." Questions with an NPM-related focus were re-asked of taxpayers to determine potential differences in responses from 1990. Additionally, four independent questions were asked centering on the overall fairness of the tax system, use of outside help, perceived audit potential, and type of tax form filed.

¹⁰ Supra note 1.

¹¹ This survey elicited taxpayers' views on the IRS and U.S. Tax Administration from September through November of 1990 (Schulman 1991). It employed "Refusal Conversion Letters" to encourage a high response rate (response rate of 63 percent was achieved). Sample units were drawn based on housing units utilizing a cluster design.

Several questions were re-asked to allow for an assessment of differences between the 1990 responses and the 2004 responses. A major goal of the 1998 IRS Reform Act was to favorably change taxpayers' perceptions of the IRS's level of taxpayer service, while maintaining compliance. In fact, the IRS's first stated goal is to provide "top quality service to all taxpayers."

Differences or no differences in response patterns indicate the degree to which reforms were or were not successful, as well as indicate if any unintended consequences occurred. A two-tail t-test for differences between two sample responses was conducted based on each individual sample question (method of compared comparison).

$$t = \sum_{i=1}^n (x_1 - x_2) / s/n^{1/2}$$

It is assumed that the two populations of taxpayers are approximately normally distributed.

Any response differences based on Louisiana filers (62 percent of those surveyed) versus other state filers, date of survey (April 15 versus later), and tax forms filed were analyzed for any potential biases. The information on which tax forms were filed approximately segments taxpayers based on their income¹² and reporting characteristics.

Lower and upper income taxpayers were selectively targeted by altering survey locations. Besides broadly classifying taxpayers by income information on which tax form was utilized provides insight to taxpayers' income and deductions. To file 1040-EZ, a taxpayer must (instructions for 1040-EZ):

- Not have income over \$50,000
- File single or jointly (not head of household or married filing separately)

- Not claim exemptions
- Only have wages, taxable scholarships/grants, unemployment compensation or Alaska Permanent Fund Dividends
- Have under \$1,500 in interest income
- Not have advance earned income credit payments (EIC)
- Not have deductions or credits (other (EIC)

To file 1040-A, taxpayers must have under \$50,000 in income and can report limited sources of income. Additionally, only certain income items can be reported. Credits and adjustments are also limited. Further, one cannot itemize; thus, the home interest deduction cannot be taken, among others items. Differences in responses among the different tax filers were analyzed for any potential changes.

A short introduction explaining the purpose (PhD Dissertation) and subject (tax policy) of the survey was utilized to initiate the survey process. A high voluntary participation rate was easily obtained. See Appendix III for the actual survey instrument.¹³

4.2 Taxpayer Compliance

In conjunction with improving taxpayer service, the 1998 IRS Reform Act required that the IRS maintain taxpayers' compliance with the IRC. When the 1998 IRS Reform Act was passed, Congress believed that voluntary compliance would be enhanced when "public confidence" in the federal system of taxation was "restored" (JCT 1998, 19). In May 2003, the GAO observed, in mandated Congressional testimony, that the second major goal of the 1998 IRS Reform Act was for the IRS to maintain compliance

¹² In 2003, a taxpayer had to have under \$50,000 in income to utilize either the 1040EZ or 1040A.

¹³ Optimal sample size calculations indicated a sample size of 168 surveys.

(GAO 2003, 1).¹⁴ The second hypothesis addresses this aspect of the 1998 IRS Reform Act:

H2: There is no change in taxpayers' compliance since the 1998 IRS Reform Act.

Internal IRS data (pre- and post- 1998) was utilized to test for changes in the IRS's compliance posture. The proxy for taxpayers' tax compliance is the Bureau of Economic Analysis - Adjusted Gross Income Gap (BEA-AGIG, 1958-2002). The BEA compares its annual estimate of personal income to the income actually reported to the IRS to estimate the tax reporting gap (Park 2003, Ledbetter 2004A, and 2004B). A series of modifications are made by the BEA to both their income estimate and to the AGI reported by the IRS to obtain comparability.

The use of data contained in the Congressionally mandated annual JCT studies of the 1998 IRS Reform Act, in conjunction with the Bureau of Economic Analysis' estimates of the AGI-Gap allowed for testing for any potential effects the 1998 IRS Reform Act had on compliance. In April 2003, the JCT (2003, 69) requested that the Acting IRS Commissioner furnish information for the "Joint Review of the IRS Strategic Plans and Budget" as required under §8022(f)(3) of the IRC. This information centered on key internal measures of the IRS's enforcement posture.

An exploratory multivariate linear regression model examined the IRS's enforcement posture pre- and post- 1998. The model consists of 6 independent variables¹⁵ drawn from variables identified in the JCT's 2003 study of the 1998 IRS Reform Act:

¹⁴ The "fifth and final" joint congressional review of this Act occurred in 2003. (GAO 2003, 1).

¹⁵ This data was obtained from the JCT studies (2000, 2001, 2002, 2003, and 2004) of the 1998 IRS Reform Act along with supplemental internal IRS data and Syracuse University's Transactional Record

$$GAP = \beta_0 + \beta_1 ADT + \beta_2 LIT + \beta_3 HRS + \beta_4 CHG + \beta_5 R98 + \beta_6 A86 + \beta_7 A90 + e$$

Where:

GAP = BEA calculation of the yearly annual tax gap (expressed in terms of the percentage of total revenue);

ADT = the number of IRS audit personnel;

LIT = the number of returns the IRS successfully litigates;

HRS = the average number of hours an IRS auditor spends auditing a return;

CHG = the number of returns with changes after the IRS completes an audit;

R98 = a dummy variable for the 1998 IRS Reform Act (1 if 1998 or beyond, 0 otherwise)

A86 = the 1986 Tax Act control variable for tax complexity/changes;

A90 = the 1990 Tax Act control variable for tax complexity/changes; and

e = a normally distributed error term.

The dependent variable (gap) is based on the BEA calculation of the yearly annual tax gap. The annual tax gap estimates are quantified in terms of the percentage of AGI-GAP (BEA-AGI minus IRS AGI) over total AGI as derived by the BEA. Expressing the AGI-Gap as a percentage controls for inflationary effects. The tax income gap is estimated on an annual basis back to 1958. A central question/issue of this dissertation is the effect, if any, the 1998 IRS Reform Act had on “tax-return misreporting.”

Based on the language contained in the JCT’s data request, certain independent variable signs can be predicted. Further, after the well-publicized 1998 IRS Reform Act,

Access Clearinghouse data. Models that incorporate lag variables were utilized as sensitivity tests to verify potential results. The Tax-Changes variable is incorporated into later models and is actually two separate Tax Acts.

a new perception on audit risk was likely created. Prior to 1998, taxpayers' perceptions of their overall audit potential, as the IRS's 1990 Taxpayer Opinion Survey indicated, were higher than their actual audit potential (15 percent versus less than 5 percent actual overall).

The first independent variable (ADT) is the number of IRS audit personnel. It is predicted to be negatively related to the annual tax gap. An increase in the number of audit personnel is expected to decrease the tax gap; conversely, a decrease in audit personnel is expected to increase the tax gap. The second independent variable (LIT) represents the number of returns the IRS litigates (disputes that the IRS initiates). A negative relationship is expected with the tax gap, as less IRS-initiated litigation results in an expected increase in the tax gap.

The third independent variable (HRS) represents the number of hours spent auditing a return. It is expected that the more hours needed to audit a return will increase the tax gap, as IRS personnel will be less productive in terms of the total number of audits completed due to greater taxpayer protection procedures (check lists, supervisory reviews, and overall greater sensitivity to taxpayers' issues after the 1998 IRS Reform Act). The fourth independent variable is the number of returns that have changes after an IRS audit (CHG). CHG represents the number of audits the IRS completes where there are changes in taxes due. It is predicted to be negatively related to the tax gap. This variable is a proxy for the IRS's audit aggressiveness.

The effect of the 1998 IRS Reform Act (R98), the key variable of interest, is assessed with a dummy variable (1 if 1998 or beyond, 0 otherwise).¹⁶ While the prior

¹⁶ The model was also calculated by alternating the year of the 1998 IRS Reform Act variable (1997 or 1998).

independent variables reflect changes resulting from the 1998 IRS Reform Act, their effect will only decrease the likelihood of finding a statistically significant relationship. If a positive relationship is detected, it may indicate that one of the unintended consequences of moving from a traditional management focus to an NPM focus is a decline in tax compliance.

The number of tax law changes (Tax-Changes) in a given year are expected to proxy for the growing tax complexity and is a control variable. The major tax reform acts of 1986 and 1990 are utilized as proxies for any potential effect tax complexity/change has on the above model. Smith, Harmelink and Hasselback, in a listing of Tax Acts since 1913, observed the following about these Acts (1-17 and 1-18):

The Tax Reform Act of 1986: The IRC was re-titled the Internal Revenue Code of 1986. This tax act was the single most comprehensive and complex change in the history of U.S. taxation.

Revenue Reconciliation Act of 1990: Many significant changes including the establishment of a three-rate structure of 15 percent, 28 percent and 31 percent. A preferential capital gains rate of 28 percent was instituted.

The 1986 Tax Act legislated a systematic change in tax policy (broad base and low rates). While many Code sections were simplified, many complex provisions such as passive activity loss rules and private activity bond rules came into existence for the first time. The 1990 Act began the initial undoing of many of the 1986 changes. In 1988, the JCT (1998, 142) observed that Congress was aware that growing complexity strains the IRS's and taxpayers' abilities to comply.

The model is run in various forms due to data restrictions (data for audit hours and change-returns is available only back to 1992) and to control for possible serial correlation. When utilizing time series data sets, serial correlation is often present. If

serial correlation is present, the assumption of independent error terms (i.e., residuals are correlated with their lag values) is violated, and an unadjusted regression model is an inappropriate model specification. To test for the presence of serial correlation, Durbin-Watson test statistics were calculated.¹⁷ When serial correlation is present, the first difference technique is used to alleviate the problem.

4.3 IRS's Personnel Environment

The third hypothesis addresses the degrees to which the IRS has made changes to the working environment within the IRS (as called for in "Subtitle C-Personnel Flexibilities" of the 1998 IRS Reform Act). The JCT's 2003 annual review requested data on the IRS's executive compensation and employee termination. The following hypothesis was tested.

H3: There is no change in the IRS's employee work environment since the 1998 IRS Reform Act.

Examination of the information furnished as to the effect of §1201 (IRS executive compensation) and §1203 (IRS employee termination) was utilized in testing this hypothesis. Questions were specifically asked about the authority granted to the IRS to better compete for top executives under "streamlined critical pay authority." Under §1201, "Improvements In Personnel Flexibilities,"

The Secretary of the Treasury may, for a period of 10 years after the date of enactment of this section, establish, fix the compensation of, and appoint individuals to designated critical administrative, technical, and professional positions needed to carry out the functions of the Internal Revenue Service.

These "critical pay positions" were created in the 1998 IRS Reform Act to allow for greater compensation than authorized under the civil service system. A comparison of

¹⁷ A Durbin-Watson (DW) statistic greater than 2.5 or less than 1.5 would generally indicate serial

the compensation of recently hired IRS executives to their most recent salaries was conducted to partially test hypothesis three.¹⁸ A two-tailed *t*-test for differences between IRS and private salaries was calculated to determine whether the differences were significant.

Questions were asked concerning the ten conditions under which an IRS employee could be dismissed, established under the 1998 IRS Reform Act (and several prior Acts). These conditions dealt with seizure procedures, providing false information, violation of constitutional and civil rights, altering documentation, abusing a taxpayer, lack of adherence to formal policy, misleading congressional inquires, failure to file a proper return, intentionally understating a tax liability, and threatening a taxpayer. This section was enacted, in large part, as a direct result of Congressional hearings that centered on public outrage over the irony of IRS employees pursuing non-filers when certain IRS employees themselves were, in fact, not filing. Employee personnel termination decisions under this Act were examined to determine the overall effect. In 2003, the IRS asked Congress to rescind certain aspects of this code section in its 2003 budget request because it contended it caused more administrative problems than it was worth. However, in 2004, the IRS, when confronted with an employee filing scandal, apparently had second thoughts.

The Congressional intent of this termination provision is indicated in that only the Commissioner can override termination for violations (non-delegable). As the 1998 IRS Reform Act states ((§1203(C)(2) and (3)):

correlation. A DW statistic of 2.0 indicates no serial correlation.

¹⁸ The Congressional reviews of the 1998 IRS Reform Act collected data on IRS executives' prior salaries and their current IRS salaries. For example, IRS executives hired in 2002 had their immediate prior salaries compared to their new IRS salaries.

The exercise of authority under paragraph (1) shall be at the sole discretion of the Commissioner of Internal Revenue and may not be delegated to any other officer. ... Any determination of the Commissioner of Internal Revenue under this subsection may not be appealed in any administrative or judicial proceeding.

Section §1203 of the 1998 IRS Reform Act is often referred to as the “10 deadly sins” because it called for the termination of IRS employees if they are violated. Both personnel termination and executive compensation changes were major administrative provisions of the 1998 IRS Reform Act.

CHAPTER 5. DATA, RESULTS, AND INITIAL IMPLICATIONS

Sections 5.1 (Taxpayer Service), 5.2 (Taxpayer Compliance), and 5.3, (IRS Personnel Environment) use various research methodologies to assess the effect of the 1998 IRS Reform Act. Taxpayer service is assessed with a partial replication of a 1990 Taxpayer Opinion Survey. Taxpayer compliance is analyzed by regressing the BEA-AGI gap on key enforcement measures as identified by the JCT. The IRS personnel environment is examined by comparing IRS executive salaries to their prior private sector pay and legislatively mandated employee terminations. Initial implications of the data results are contained within each section and then an overall comprehensive implication chapter follows.

5.1 Taxpayer Service

The first hypothesis predicts no change in taxpayer perceptions of the IRS resulting from the 1998 IRS Reform Act. NPM-related questions were selected from the IRS's 1990 Taxpayer Opinion Survey and re-asked of taxpayers to determine if there were any differences in responses.¹⁹ Additionally, several questions were asked to determine whether taxpayers surveyed in 1990 and 2004 were comparable. Four independent questions on general taxation issues were also asked. The results of the 2004 survey were then compared to 1990 survey results. The results of comparing the surveys were then analyzed in the context of NPM. The 2004 survey responses were then partitioned based on state of residence, date of filing, and type of form filed to determine any potential biases in survey results (generally, there were none).

Taxpayers surveyed in 1990 and 2004 were statistically measured on the use of a third party to help in preparing returns (almost identical results). Similar results were

also obtained with the type of tax form filed and taxpayers' perceived audit potential. These similarities indicate comparable taxpayers were surveyed in both 1990 and 2004. In 1990 and 2004, taxpayers were asked whether they sought help in filing tax forms in the last couple of years. The question was:

During the past few years, how often have you completed your tax forms yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do, or never do them yourself?

The U-shaped frequency distribution of responses is nearly identical for the 1990 and 2004 surveys as shown in Figure 1 (which is an indication that similar taxpayers were surveyed in 1990 and 2004).

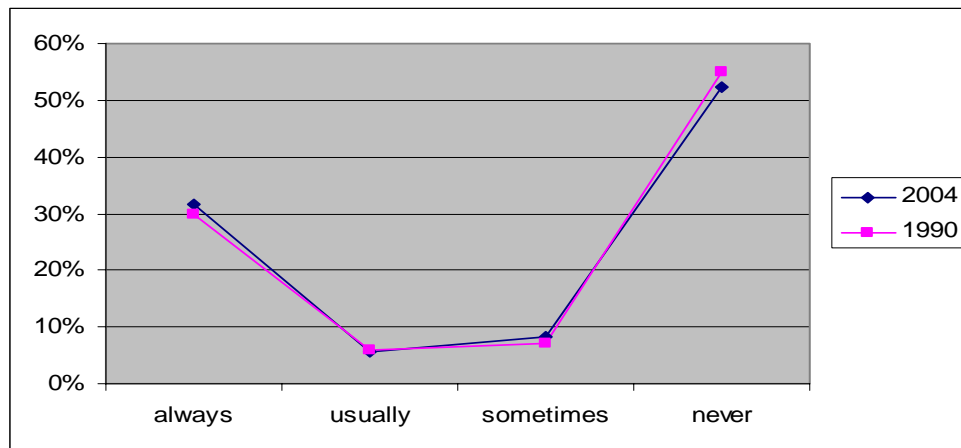


Figure 1

Use of a Third Party by Taxpayers to Prepare Tax Returns

Taxpayers were asked if they had outside help in filing their tax forms. There were 239 usable observations for this question in the 2004 survey. For three respondents, no response was obtained.

Taxpayers in 1990 and 2004 were asked which tax form they filed. This question enabled respondents to be broadly classified by their income (1040EZ and 1040A can only be filed if taxpayers had under \$50,000 in income in 2003). The frequency distribution in Figure 2 shows that a broad range of taxpayers were surveyed and that

¹⁹ Surveys were collected from a variety of locations, including U.S. post offices, airports, bus and train terminals, offices, conferences, and school events.

taxpayers were highly similar on tax forms filed when comparing those surveyed in 1990 and 2004.

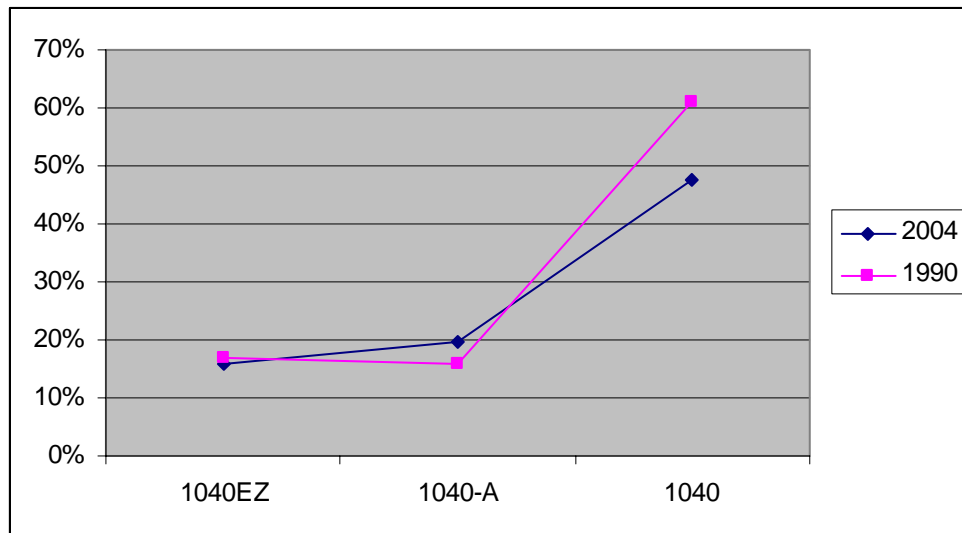


Figure 2
Forms Filed by Taxpayers

Taxpayers were asked which tax forms they had filed (1040-EZ, 1040-A or 1040). There were 203 usable observations for this question in the 2004 survey. Thirty one respondents were unsure which tax form they filed.

The decline in 1040 filers is likely due to the “not sure” response rate of 17 percent in 2004, which is considerably higher than the 6 percent in 1990. In the 1990 survey, taxpayers were shown blank copies of tax forms; this was not done in 2004 based on the pilot study results (which showed that administration would not be cost-beneficial).

Overall, Figures 1 and 2 reflect that there was homogeneity in the populations sampled and tested; thus, the results of the two surveys are comparable. The question on use of a third party preparer and which tax form was filed enables taxpayers to be broadly classified and they are a good indication of whether similar taxpayers were interviewed when comparing those surveyed in 1990 to 2004.

Taxpayers were asked, “Have you already filed a federal income tax return for last year – that is 2003 – or are you planning to file an income tax return?” The responses to this question are reflected in Table 4.

Table 4
Is a Taxpayer Planning to File a Return?

Filed	Frequency	Valid Percent
Yes	217	93.53%
No	15	6.47%

Taxpayers were asked if they plan to file a return. There were 232 usable observations for this question in the 2004 survey. Twelve respondents were not sure whether or not they would file a return.

Of taxpayers surveyed, nearly 94 percent had filed a return and 6 percent were not planning to file (taxpayers under certain income levels are not required to file returns). For purposes of simplicity and because all persons in the U.S. pay some taxes (for example, sales taxes), respondents to the survey are referred to as taxpayers in the dissertation, regardless of their intent to file a tax return for tax year 2003.

Taxpayers were asked a set of questions directly centering on the IRS. These questions dealt specifically with NPM-related issues (a central focus of this dissertation). These questions were re-asked and scaled in exactly the same manner and order as they were asked in the 1990 IRS Taxpayer Opinion Survey. When taxpayers were asked the questions, they could respond based upon the following 6 point scale:

- 1 strongly agree
- 2 agree
- 3 somewhat agree
- 4 somewhat disagree
- 5 disagree

- 6 strongly disagree
- 7 not sure (in the following figures, this category is not reflected; the number of usable observations, however, is reflected below the figures)

Thus, the lower the score, the better the IRS is perceived by those surveyed (this is the exact methodology that was in the original IRS 1990 Taxpayer Opinion Survey). The higher the score, the less favorable opinion the taxpayer has of the IRS.

Table 5 reflects the mean scores of the respondents and compares the 2004 responses to the 1990 responses.

Table 5
Mean Scores to NPM-Related Survey Questions

NPM-Related Survey Questions	2004 Mean Score, (Standard Deviation, and n)	1990 Mean Score, (Standard Deviation, and n)	Mean Difference	t-stat. and P-Value	Direction of Change
1. IRS employees are just as knowledgeable as any private tax expert.	3.38 1.486 204	3.50 1.647 854	-0.12	-1.040 0.2986	Not Significant
2. I am confident that the IRS would never try to take more money from me than they should.	3.83 1.511 232	3.40 1.739 881	0.43	3.716 0.0002	Worse
3. You can depend on the IRS to keep accurate tax records.	3.49 1.424 234	3.34 1.684 863	0.15	1.345 0.1789	Not Significant
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.80 1.489 185	3.07 1.620 810	0.73	5.875 0.0001 (less than)	Worse
5. Employees who work for the IRS display a high degree of honesty and integrity.	3.28 1.339 205	3.13 1.396 827	0.15	1.452 0.1468	Not Significant

Table Continued

6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	3.53 1.445 225	3.46 1.521 863	0.07	0.668 0.5043	Not Significant
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This first set of questions focused directly on NPM-related issues. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

The IRS was perceived as performing significantly worse in the areas of correctly assessing taxpayers’ obligations (“take more money”) and “investigating their own people” (both P-values under .001) Overall, Table 5 reflects that taxpayers’ perceptions of the IRS have not improved in four NPM-related areas and in two NPM-related areas the IRS scored statistically worse. Failure to find any improvement in conjunction with two significant evaluations (P-values under .001) of perceived decreases in taxpayer service strongly implies that there has been no improvement and perhaps an overall decline.

Figure 3 shows a comparison of the frequency distribution of responses from 1990 to 2004 relative to the first NPM-related question (whether “IRS employees are just as knowledgeable as any private tax expert”). Notably, taxpayers who strongly agree with this statement declined from 15 percent in 1990 to 8 percent in 2004, which indicates a decrease in taxpayers’ perceptions of the IRS from the standpoint of receiving a “top quality” response.

The IRS in 2004 generally received more favorable evaluations on this IRS employee knowledge question in 1990 in the other five categories (“agree” through “strongly disagree”). The IRS had higher positive responses for “agree” and “somewhat agree” and lower responses for “somewhat disagree,” “disagree,” and “strongly disagree.”

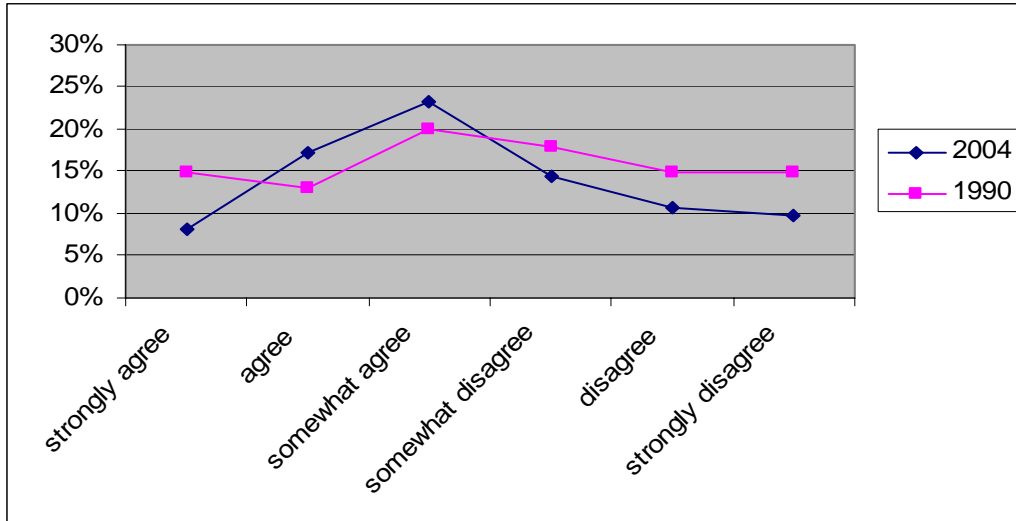


Figure 3
IRS Employees' Knowledge

Taxpayers were asked if “IRS employees are just as knowledgeable as any private tax expert.” There were 204 usable observations for this question in the 2004 survey. Forty respondents were unsure as to the IRS employees’ knowledge.

The second NPM-related question asked whether the subject was “confident that the IRS would never try to take more money from me than they should.” Taxpayers “strongly agreed” with this statement nearly 20 percent of the time in 1990. In 2004, less than 5 percent agreed with this statement. Conversely, 20 percent of taxpayers disagreed with the statement in 2004. In 1990, only 11 percent disagreed. The frequency distribution of taxpayers’ responses is shown in Figure 4.

The third NPM-related question in this set inquired as to taxpayers’ opinion on whether they could “depend on the IRS to keep accurate tax records.” In 1990, 17 percent of those surveyed strongly agreed with this statement. In 2004, only 5 percent strongly agreed. The IRS did receive more “agree” and “somewhat agree” evaluations in

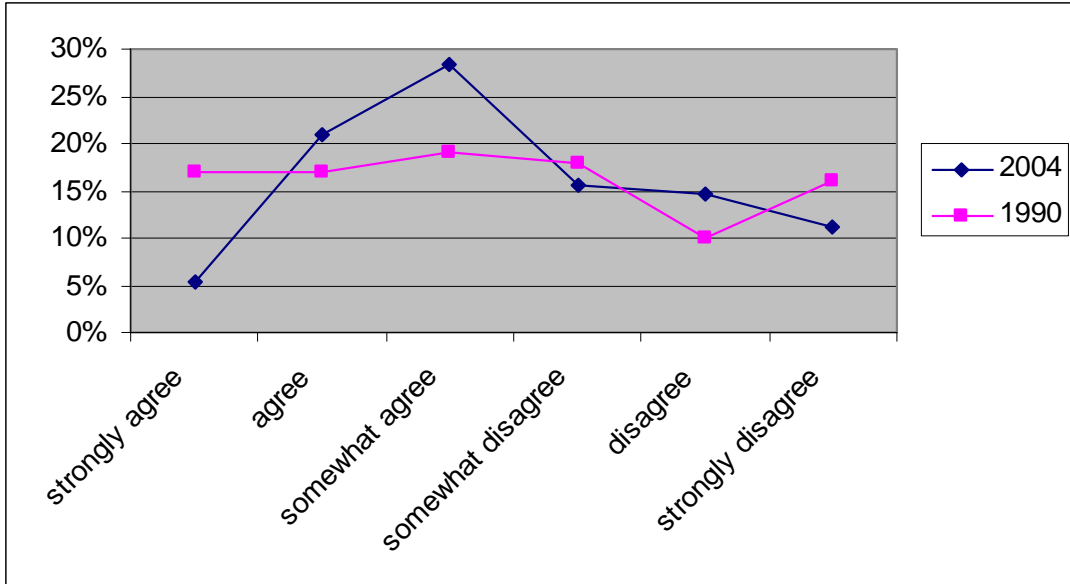


Figure 4
IRS and Taxpayers' Money

Taxpayers were asked, "I am confident that the IRS would never try to take more money from me than they should." There were 232 usable observations for this question in the 2004 survey. Twelve respondents were unsure on this point.

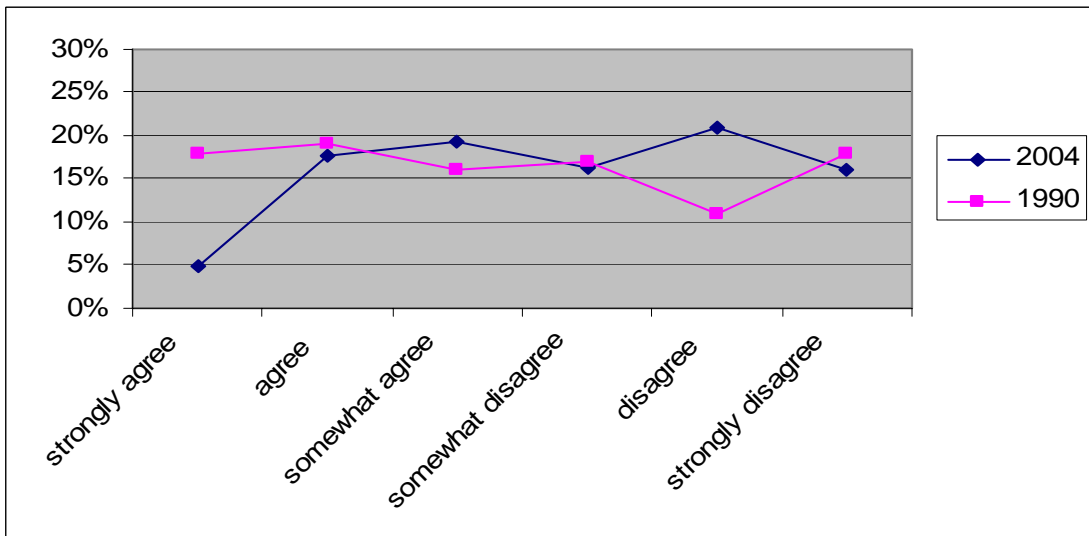


Figure 5
IRS Record Keeping

Taxpayers were asked, "You can depend on the IRS to keep accurate tax records." There were 234 usable observations for this question in the 2004 survey. Ten respondents were unsure on this point.

2004. The response categories “agree,” and “somewhat disagree” were similar in 1990 when compared to 2004. The frequency distribution of answers is shown in Figure 5:

The fourth NPM-related question asked, “When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.” On this question, taxpayers graded the IRS less favorably on “strongly agree,” “agree,” and “somewhat agree” and higher on “disagree” and “strongly disagree.” (See Figure 6.)

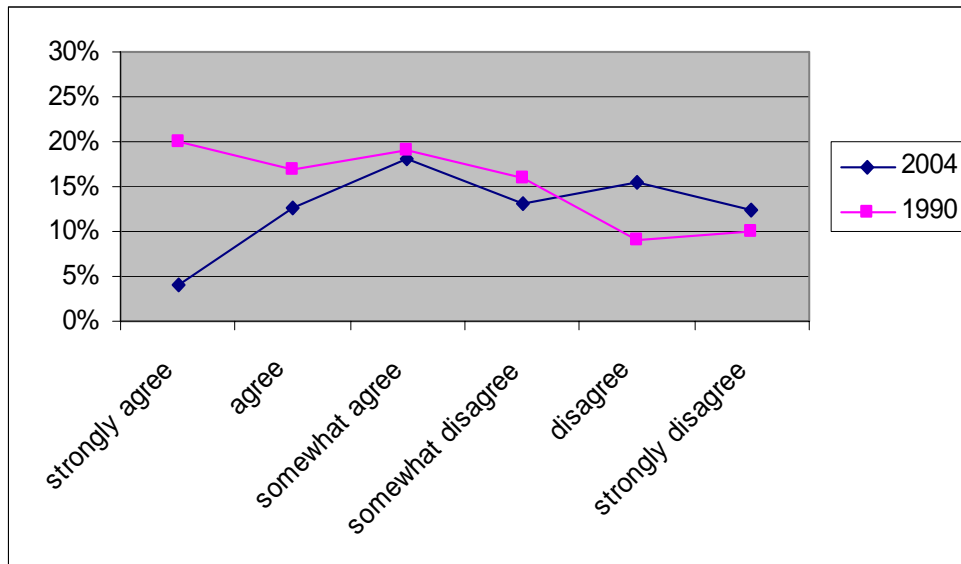


Figure 6
Investigating Their Own People

Taxpayers were asked, “When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.” There were 185 usable observations for this question in the 2004 survey. Fifty-nine respondents were unsure as to this issue. This category had the highest number of “unsure” responses.

The fifth NPM-related question in this set asked, “Employees who work for the IRS display a high degree of honesty and integrity.” Taxpayers in 1990 strongly agreed with this statement 12 percent of the time. In 2004, this percentage dropped nearly in half to 6.5 percent of the time. On the other potential responses, the IRS had nearly identical percentages in 1990 and 2004. (See Figure 7.)

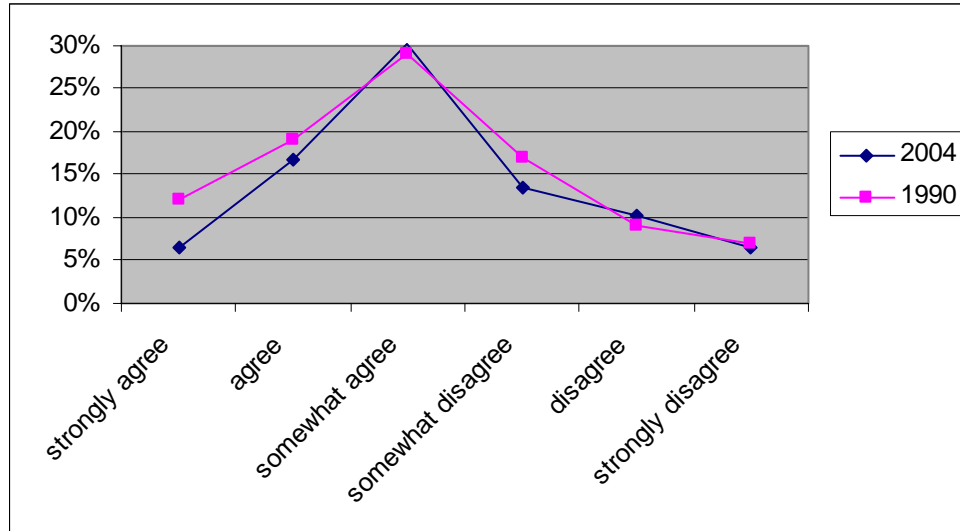


Figure 7
IRS Employees' Honesty and Integrity

Taxpayers were asked, “Employees who work for the IRS display a high degree of honesty and integrity.” There were 205 usable observations for this question in the 2004 survey. Thirty-nine respondents were unsure on this issue.

From the standpoint of changes mandated by the 1998 IRS Reform Act, this question and the following question are particularly strong measures of Congressional desires in passing the 1998 legislation.

The last NPM-related survey question asked whether “IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.” Once again, taxpayers were less likely to strongly agree with this statement when comparing results from 2004 to that of 1990. For the rest of the responses, taxpayers responded similarly when comparing the two years (IRS tended to score slightly better in 2004). (See Figure 8.)

Table 6 reflects a consistent trend of a lower score on the “strongly agree” response (most favorable to the IRS) for all six questions centering on NPM. This strongly implies that taxpayers’ perceptions of the IRS have decreased relative to the IRS’s strategic goals of providing “top quality service to each taxpayer,” which was the

first stated IRS goal after the 1998 IRS Reform Act. The reason for universal decrease is unclear, but it is plausible that the 1998 IRS Reform Act did not increase taxpayers' rating of the IRS most favorable response category when comparing 2004 survey results to the 1990 IRS survey results.

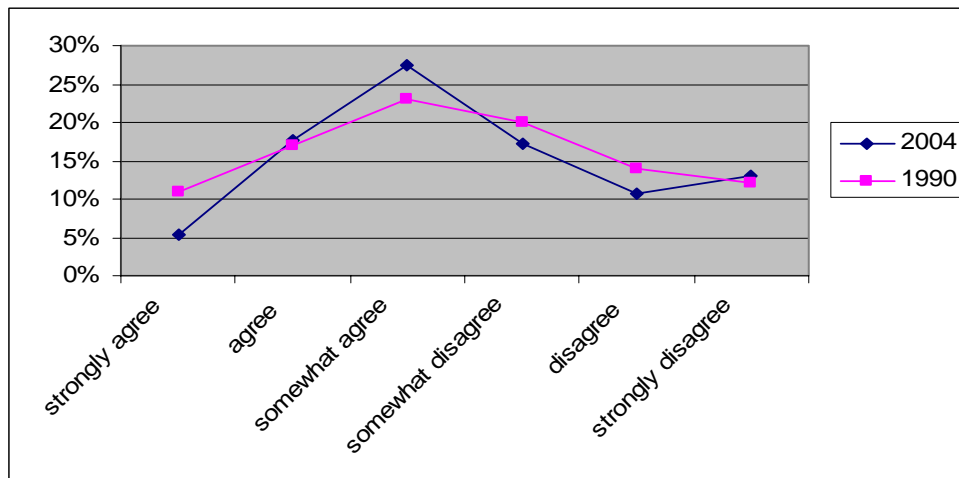


Figure 8
Fairness of IRS's Procedures and Practices

Taxpayers were asked, "IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers." There were 223 usable observations for this question in the 2004 survey. Twenty-one respondents were unsure on this issue.

Table 6
Universal Decrease in Strongly Agree Responses By Taxpayers

NPM-Related Questions	2004 Strongly Agree	1990 Strongly Agree	Decrease
1. IRS employees are just as knowledgeable as any private tax expert.	8%	15%	-7%
2. I am confident that the IRS would never try to take more money from me than they should.	5%	18%	-13%
3. You can depend on the IRS to keep accurate tax records.	5%	17%	-12%
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	4%	20%	-16%
5. Employees who work for the IRS display a high degree of honesty and integrity.	7%	12%	-5%
6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	5%	11%	-6%

The IRS’s intent to provide taxpayers with high quality service is reflected additionally in its opening statements in the annual 1040 instructions (included since 1998 in the 1040 instructions). Specifically, IRS annually inserts the IRS mission (2003 1040 instructions, 2):

The IRS Mission: Provide America’s taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

After the initial six questions (which focused on NPM-related issues), four broader independent questions also were asked (also from the original 1990 survey). A question dealt with taxpayers’ overall perceptions of the tax system. Taxpayers were asked:

How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people?

Here taxpayers had much more favorable views of the U.S. tax system than they had in 1990. Almost 50 percent of taxpayers surveyed in 2004 viewed the system favorably compared to only 35 percent in 1990. Additionally, the 2004 trend of a more favorable view held over all categories of responses. (See Figure 9.)

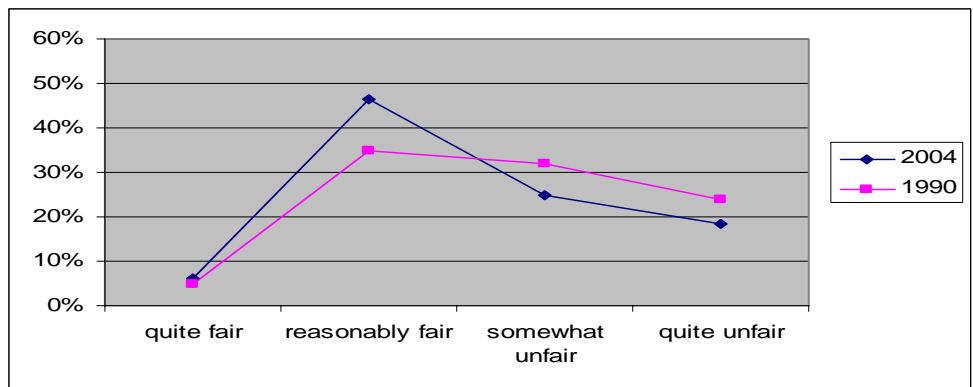


Figure 9

Taxpayers’ Perceptions of Overall Fairness of System

Taxpayers were asked their perception on the overall fairness of the taxation system. There were 234 usable observations for this question in the 2004 survey.

The JCT observed in 1998 (JCT 1998, 19):

The Congress believed that a well-run IRS is critical to the operation of our tax system. Public confidence in the IRS must be restored so that our system of voluntary compliance will not be compromised. The Congress believed that most Americans are willing to pay their fair share of taxes, and that public confidence in the IRS is key to maintaining that willingness.

Despite a general decrease in taxpayers' favorable perceptions of the IRS, their overall perception of the U.S. tax system improved markedly. Evidently, factors other than taxpayers' perceptions of the IRS affect their view of U.S. taxation, e.g., tax rates which declined from 1990 to 2004. A stated goal of the 1998 IRS Reform Act was to increase the public's favorable perception of the overall federal taxation process and this goal has been achieved according to those surveyed. The extent to which the 1998 IRS Reform Act is affecting this view is debatable, based on the decline in taxpayers' perceptions of the IRS, as reflected in the previous six questions.

An audit question was asked in the survey. The question was shortened based on pilot testing of the original two-page survey. It was condensed to make the survey flow better, make it clearer to those surveyed, and to format the survey on one page. The question centered on taxpayers' perceptions of their audit potential. In the 1990 survey the question read:

As you may know, an *audit* is when you have to go to an IRS office or they come to your house or business or they may correspond with you, and you are asked to prove your deductions or answer questions about your tax return. The question I have is: out of every 100 taxpayers at your income level, how many or what percent do you think were *audited* last year? (Scale on percentage basis.)

The 2004 survey question was shortened to:

An *audit* is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100

taxpayers at your income level, what percent do you think were *audited* last year? (Scale on percentage basis.)

In 1990, taxpayers on average perceived their audit potential at 16 percent.²⁰ In 2004, taxpayers perceived this potential as increasing to 18 percent. In 1990, taxpayers had under a 5 percent chance of actually being audited; in 2003, the actual number of returns audited had in fact decreased to less than one percent of returns filed. Table 7 shows the frequency distribution of the perceived audit potential in 2004.

Table 7
Taxpayers' Perceived Percentage of IRS Audits

2.5% or lower	20%
Over 2.5% to 5%	11%
Over 5% to 10%	12%
Over 10% to 20%	12%
Over 20% to 30%	22%
Over 50%	5%

Taxpayers were asked their perceived IRS audit potential. There were 199 usable observations for this question in the 2004 survey. Forty-five respondents stated they were unsure of the audit rate.

Taxpayers correctly perceived their audit potential at “2.5 percent or less” 20 percent of the time. Clearly, the IRS Commissioner and the IRS enforcement division would contend that this gross over-assessment of audit potential is highly favorable. The IRS would likely contend it is an intended consequence of selective high profile enforcement action. For example, the IRS routinely targets high profile enforcement action around the annual April 15 filing deadline. Additionally, the IRS often holds press conferences concerning new enforcement initiatives during the beginning of the year.

5.1.1 Survey Results in the Context of NPM

Senator J. Robert Kerrey and Representative Rob Portman, chief architects of the 1998 IRS Reform Act, observed that this legislation was enacted to change the public's

²⁰ The 1990 survey only provided the raw percentage response to this survey category.

view of the IRS's unfairness to taxpayers. The survey results in the current study overall indicate that this principal goal of the 1998 IRS Reform Act has not been achieved. In two of the six NPM-related areas surveyed, the IRS performed statistically significantly (P-values of less than .001) worse, and in no case did the IRS perform better. Importantly, in the question that centered directly on "confidence" in the IRS, there was a statistically significant decline (P-value of .0002). Additionally, the IRS received universal decreases on the "strongly agree" response across all NPM-related survey questions. ("Strongly agree" is the most favorable response for the IRS.)

NPM requires that individuals be treated as customers, not as impersonal parts of the process. The IRS, in adopting the legislative mandate of an NPM orientation, specifically incorporated as part of its radically revised mission statement that taxpayers receive "top quality service." Bagby and Franke (2001 at 262) observed that the IRS's goal was to achieve a "new customer friendly feel." Survey results strongly indicate that this central tenet of an NPM methodology was not achieved. From an accounting perspective, Watts and Zimmerman (1986) observed that an "asymmetric loss function" was part of the political process, and often legislation was enacted that in the end analysis only appeared to solve the problem. Based on this survey, this conclusion can be reasonably asserted as occurring in the 1998 IRS Reform Act. Thus, the IRS implementation of an NPM methodology is unsuccessful from a taxpayer's perspective, a key outcome measure.

5.1.2 Sensitivity Analysis

The 2004 results are further analyzed based on the state of residence (Louisiana versus non-Louisiana), date of survey (April 15 versus non April 15) and type of tax form filed (1040EZ, 1040A and 1040). In general, the partitioned results were similar, and

differences that were found tended to support (or strengthen) the overall implications of the survey.

5.1.3 Partitioning Respondents by State of Residence

The state of residence of the respondents is reflected in Table 8:

Table 8
Taxpayers' State of Residence

State	Frequency	Percent
Louisiana	160	67.23%
Texas	16	6.72%
Tennessee	14	5.88%
Utah	10	4.20%
Mississippi	9	3.78%
California	9	3.78%
Florida	7	2.94%
Other states	16	6.60%

This table shows the state of residence for taxpayers surveyed. Other states had three or fewer observations. There were 241 usable observations for this question in the 2004 survey. Three respondents did not give their state of residence.

Of those surveyed, 67 percent resided in Louisiana; the remaining taxpayers came from a variety of states (18 different states other than Louisiana in total). With the majority of taxpayers residing in Louisiana a bias in the results could potentially occur. Therefore, in order to assess any possible bias, the survey responses were recalculated based on results from Louisiana residents versus non-Louisiana residents. Table 9 shows that the results of the NPM-related questions were not significantly different across home states. Taxpayers' perceptions of the IRS's taxpayer service do not improve when splitting the sample based on Louisiana versus other states. This result would reflect little or no bias as a result of having a Louisiana dominated survey.

Table 9
Mean Scores to NPM-Related Questions,
Partitioning Respondents by State of Residence

NPM-Related Questions	Louisiana Mean Score, (Standard Deviation, and n)	Non-Louisiana Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-Value
1. IRS employees are just as knowledgeable as any private tax expert.	3.308 1.436 133	3.507 1.576 71	-.199	-0.886 0.3767
2. I am confident that the IRS would never try to take more money from me than they should.	3.822 1.447 152	3.838 1.634 80	-.016	-0.069 0.9450
3. You can depend on the IRS to keep accurate tax records.	3.448 1.348 154	3.563 1.566 80	-.115	-0.553 0.5808
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.718 1.459 131	3.981 1.560 54	-.200	-1.062 0.2896
5. Employees who work for the IRS display a high degree of honesty and integrity.	3.229 1.375 140	3.40 1.260 65	-.171	-0.878 0.3810
6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers	3.461 1.379 152	3.685 1.571 73	-.224	-1.041 0.2990

This first set of questions focused directly on NPM-related issues partitioned by taxpayers' state of residence. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

The next four questions center on the fairness of the system, propensity to obtain outside tax preparation assistance, audit potential, and the type of tax form filed. As before, the results are not significantly different (as shown in Table 10). The non-Louisiana audit rate potential perception of 16.6 percent is similar to the 1990 survey result of a perceived audit rate potential of 15.9 percent. However, none of the results were significantly different statistically. Tables 10 and 11 strongly indicate that there is no bias by having a majority of Louisiana residents in the survey.

Table 10
Mean Scores to Independent Survey Questions,
Partitioning Respondents by State of Residence

Independent Questions	Louisiana Mean Score. (Standard Deviation, and n)	Non-Louisiana Mean Score. (Standard Deviation and n)	Mean Difference	t-statistic and P-value
1. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people? (Scale: 1 = quite fair, 2 = reasonably fair, 3 = somewhat unfair, 4 = quite unfair)	2.561 .846 155	2.65 .956 80	-0.089	-0.703 0.4828
2. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself? (Scale: 1 = always do yourself, 2 = usually do, 3 = sometimes do, 4 = never do them yourself)	2.868 1.341 159	2.79 1.429 81	0.078	0.408 0.6836
3. An <i>audit</i> is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were <i>audited</i> last year? (Scale on a percentage basis)	.195 .202 131	.166 .203 68	0.029	0.958 0.3392
4. Which of the following forms did you use the last time you filed? a. 1040-EZ b. 1040-A c. 1040 (long form) d. 1040 (long form, plus) e. Don't remember (Scale: 1 = 1040-EZ, 2 = 1040-A, 3 = 1040)	3.095 1.286 158	3.200 1.453 80	-0.105	-0.547 0.5665

These were the last four questions asked of taxpayers and they are independent of each other.
Mean scores, significant t-statistics, and significant P-values are bolded.

The non-Louisiana audit rate potential perception of 16.6 percent is similar to the 1990 survey result of a perceived audit rate potential of 15.9 percent. However, none of the

results were significantly different statistically. Tables 10 and 11 strongly indicate that there is no bias by having a majority of Louisiana residents in the survey.

5.1.4 Partitioning Respondents by Date Surveyed

A total of 244 taxpayers were surveyed in the months of April (61 taxpayers), May (150 taxpayers), and June (33 taxpayers). Potentially, taxpayers could respond differently when they are in the process of filing a return than when they are not. When partitioning the first set of NPM-related questions by date of survey, similar results were obtained on the first four questions. On the final two questions, significantly negative differences were obtained (P-values of .0158 and .0631). These differences on IRS employees' honesty and integrity and IRS's practices would indicate that the IRS fares worse with taxpayers in these two areas after the April 15th filing season.

Table 11
Mean Scores to NPM-Related Questions,
Partitioning Respondents by Date Surveyed

NPM-Related Questions	April 15 Mean Score, (Standard Deviation, and n)	After April 15 Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic And P-Value	Better/ Worse
1. IRS employees are just as knowledgeable as any private tax expert.	3.347 1.601 49	3.390 1.457 154	-0.043	-0.167 0.8675	Not Significant
2. I am confident that the IRS would never try to take more money from me than they should.	3.862 1.492 58	3.827 1.519 173	0.035	0.154 0.8777	Not Significant
3. You can depend on the IRS to keep accurate tax records.	3.456 1.364 57	3.494 1.450 176	-0.038	-0.180 0.8573	Not Significant
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.571 1.458 49	3.881 1.502 134	-0.310	-1.265 0.2075	Not Significant
5. Employees who work for the IRS display a high degree of honesty and integrity.	2.925 1.238 53	3.417 1.353 151	-0.493	-2.433 0.0158	Worse

Table Continued

6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	3.242 1.454 60	3.649 1.430 164	-0.408	-1.868 0.0631	Worse
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Taxpayers' responses were split based on the dates they were surveyed (April 15, or later). This first set of questions focused directly on NPM-related issues. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

The overall implications that have been discussed for the NPM-related questions hold when the survey data is partitioned based on date of survey. As in the prior tables, the split results only strengthen the implications that taxpayers' perceptions of the IRS have not improved since the 1998 IRS Reform Act. In the areas of IRS employee honesty and IRS practices, the IRS was rated statistically worse (P-values of .0158 and .0631) by those surveyed after April 15.

The next four questions centering on the fairness of system, outside tax preparation help, audit potential, and type of tax form had similar results, as reflected in Table 12. Only the question on perceived audit potential was significantly different (P-values of .0585).

Table 12
Mean Scores to Independent Survey Questions,
Partitioning Respondents by Date Surveyed

Independent Questions	April 15 Mean Score, (Standard Deviation, and n)	After April 15 Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-value
1. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people? (Scale: 1 = quite fair, 2 = reasonably fair, 3 = somewhat unfair, 4 = quite unfair)	2.508 .878 59	2.623 .888 175	-0.114	-0.860 0.3907

Table Continued

2. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself? (Scale: 1 = always do yourself, 2 = usually do, 3 = sometimes do, 4 = never do them yourself)	2.883 1.367 60	2.821 1.374 179	0.062	0.304 0.7614
3. An <i>audit</i> is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were <i>audited</i> last year? (Scale on a percentage basis)	0.240 .25 50	0.167 .182 148	0.073	1.903 0.0585
4. Which of the following forms did you use the last time you filed? a. 1040-EZ b. 1040-A c. 1040 (long form) d. 1040 (long form, plus) e. Don't remember (Scale: 1 = 1040-EZ, 2 = 1040-A, 3 = 1040)	3.017 1.527 58	3.162 1.281 179	-0.145	-0.652 0.5150

Taxpayers' responses were split based on the dates they were surveyed (April 15 or later). These were the last four questions asked of taxpayers and they are independent of each other. Mean scores, significant t-statistics, and significant P-values are bolded.

An interesting result was that taxpayers perceived the potential of a tax audit much higher around April 15 than afterwards. Taxpayers perceived a 24 percent potential of an audit on April 15, whereas later this perceived audit potential dropped to 17 percent. This 30 percent decline is both practically and statically significant (P-value of .0585). The IRS in the days leading up to April 15 has historically used the public media to emphasize its enforcement efforts (for example, announcements of high profile tax litigation). These efforts appear to heighten taxpayers' awareness of the potential for IRS audits of tax returns and thus are likely successful.

Overall, results are similar, regardless of when taxpayers were interviewed. Implications of total survey results are only strengthened when data is split, based on

state of residence or by date surveyed. Taxpayers' perceptions of the IRS's taxpayer service hold, regardless of the prior two data partitions.

5.1.5 Partitioning Respondents by Tax Form Filed

In order to evaluate whether taxpayers' responses varied by their income, the results were broken down by the tax forms that they filed (taxpayers must use one of three filing forms: 1040-EZ, 1040-A, or 1040). Taxpayers could only file the 1040-EZ and 1040-A if they have under \$50,000 in Adjusted Gross Income in 2003. Additionally, taxpayers are limited by what types of income and deductions that can be reported on forms 1040-EZ and 1040-A.

The difference between 1040-EZ and 1040-A is the first partition. On the first six NPM-related questions, there are no significantly different results as reflected in Table 13.

Table 13
Mean Scores for the NPM-Related Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040-EZ and 1040-A

NPM-Related Questions	1040-EZ Mean Score, (Standard Deviation, and n)	1040-A Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic And P-Value
1. IRS employees are just as knowledgeable as any private tax expert.	3.250 1.459 32	2.829 1.263 41	0.421	1.297 0.1988
2. I am confident that the IRS would never try to take more money from me than they should.	3.737 1.571 38	3.326 1.550 46	0.411	1.200 0.2336
3. You can depend on the IRS to keep accurate tax records.	3.444 1.501 36	3.234 1.386 47	0.210	0.653 0.5156
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.656 1.619 32	3.825 1.551 40	-0.169	-0.449 0.6548

Table Continued

5. Employees who work for the IRS display a high degree of honesty and integrity.	3.176 1.314 34	3.372 1.381 43	-0.196	-0.636 0.5267
6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	3.397 1.324 34	2.922 1.243 45	0.475	1.620 0.1093

This first set of questions focused directly on NPM-related issues. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

The three independent questions (overall system of taxation, degree of return assistance, and audit potential) are not significantly different as reflected in Table 14. 1040-A taxpayers perceived their audit potential at 18 percent as opposed to 1040-EZ filers who perceived a 26 percent rate (likely insignificant due to smaller sample sizes).

Table 14
Mean Scores to Independent Survey Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040-EZ and 1040-A

Independent Questions	1040-EZ Mean Score, (Standard Deviation, and n)	1040-A Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-value
1. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people? (Scale: 1 = quite fair, 2 = reasonably fair, 3 = somewhat unfair, 4 = quite unfair)	2.541 .869 37	2.277 .772 47	0.264	1.451 0.1506
2. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself? (Scale: 1 = always do yourself, 2 = usually do, 3 = sometimes do, 4 = never do them yourself)	2.923 1.306 39	2.521 1.368 39	0.402	1.398 0.1662

Table Continued

3. An <i>audit</i> is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were <i>audited</i> last year? (Scale on a percentage basis)	0.261 .281 30	0.178 .188 39	0.083	1.396 0.1673
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These three questions are independent of each other. Mean scores, significant t-statistics, and significant P-values are bolded.

The 1040 and 1040-EZ taxpayers' survey results were split (see table 15). On the last question, there was a significant (P-Value of .067) difference on whether taxpayers viewed IRS procedures as fair and reasonable (all other differences were insignificant). Taxpayers filing a 1040 had more negatively inclined opinions of the IRS. A possible reason for a difference could be that higher-income taxpayers (1040 filers) would be more critical than lower-income taxpayers (1040-EZ filers) because they would pay a greater amount of taxes. In the other five questions, the IRS's mean scores remained above 3.0 ("somewhat agree") and thus are negative, and all were not significantly different.

Table 15
Mean Scores to NPM-Related Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040 and 1040-EZ

NPM-Related Questions	1040 Mean Score, (Standard Deviation, and n)	1040-EZ Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-Value
1. IRS employees are just as knowledgeable as any private tax expert.	3.686 1.502 102	3.250 1.459 32	0.436	1.465 0.1453
2. I am confident that the IRS would never try to take more money from me than they should.	4.054 1.464 111	3.737 1.571 38	0.317	1.093 0.2762

Table Continued

3. You can depend on the IRS to keep accurate tax records.	3.661 1.414 115	3.444 1.501 36	0.216	0.765 0.4455
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.839 1.430 87	3.656 1.619 320	0.183	0.563 0.5737
5. Employees who work for the IRS display a high degree of honesty and integrity.	3.327 1.365 101	3.176 1.314 34	0.150	0.571 0.5690
6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	3.891 1.486 110	3.397 1.324 34	0.494	1.845 0.0671

This first set of questions focused directly on NPM-related issues. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

On the questions regarding fairness of the system and outside tax preparation help, similar results were obtained (Table 16). There is a statistically significant difference (P-value of .0257) in perceived audit potential. Taxpayers who file 1040's saw their audit potential as 14 percent, as opposed to 1040-EZ taxpayers who perceived their audit potential as 26 percent.

Table 16
Mean Scores to Independent Survey Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040 and 1040-EZ

Independent Questions	1040 Mean Score, (Standard Deviation, and n)	1040-EZ Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic And P-Value
1. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people? (Scale: 1 = quite fair, 2 = reasonably fair, 3 = somewhat unfair, 4 = quite unfair)	2.688 .881 112	2.541 .869 37	0.147	0.889 0.3755

Table Continued

2. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself? (Scale: 1 = always do yourself, 2 = usually do, 3 = sometimes do, 4 = never do them yourself)	2.698 1.416 116	2.923 1.306 39	-0.225	-0.911 0.3637
3. An <i>audit</i> is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were <i>audited</i> last year? (Scale on a percentage basis)	0.141 .141 99	0.261 .281 30	-0.120	2.257 0.0257

These were the last four questions asked of taxpayers and they are independent of each other. Mean scores, significant t-statistics and significant P-values are bolded.

The final partition compares taxpayers who file 1040 versus 1040-A (Table 17). Here there were significant differences (P-values of less than .01) on three of the six questions (IRS knowledge, IRS and money, IRS’s ability to keep accurate tax records, and IRS procedures). However, the IRS only received marginally positive ratings (mean scores below 3.0) by 1040-A filers in two categories (IRS knowledge and IRS procedures) and on the other four categories the IRS’s ratings were marginally negative. In other words, despite these two slightly different results, the implication that taxpayers do not perceive “top quality service” holds. From an overall tax administration perspective, 1040 filers make up the vast majority of taxpayers and revenue contributors. Thus, their less favorable evaluations only add to the implications of a failure of the IRS to provide a high level of service.

On the individual question concerning the overall tax system’s fairness, 1040 filers’ responses were significantly worse (P-value of .0038) than 1040-A filers’

responses. On the other two questions, the results were not significantly different, as reflected in Table 18.

Table 17
Mean Scores to NPM-Related Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040 and 1040-A

NPM-Related Questions	1040 Mean Score, (Standard Deviation, and n)	1040-A Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-Value
1. IRS employees are just as knowledgeable as any private tax expert.	3.686 1.502 102	2.829 1.263 41	0.857	3.469 0.0007
2. I am confident that the IRS would never try to take more money from me than they should.	4.054 1.464 111	3.326 1.550 46	0.728	2.722 0.0072
3. You can depend on the IRS to keep accurate tax records.	3.661 1.414 115	3.234 1.386 47	0.427	1.769 0.0788
4. When it comes to investigating their own people, the IRS is as thorough as they are with everyone else.	3.839 1.430 87	3.825 1.551 40	0.014	0.048 0.9618
5. Employees who work for the IRS display a high degree of honesty and integrity.	3.327 1.365 101	3.372 1.381 43	-0.045	-0.180 0.8574
6. IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.	3.891 1.486 110	2.922 1.243 45	0.969	4.154 0.0001 (less than)

This first set of questions focused directly on NPM-related issues. They were scaled identically on a six point scale (1=strongly agree, 2 = agree, 3 = somewhat agree, 4 = somewhat disagree, 5 = disagree, and 6 = strongly disagree). The lower the score, the more favorable it is to the IRS. Mean scores, significant t-statistics, and significant P-values are bolded.

Taxpayers' perceptions of their audit potential varied in a uniform pattern. Taxpayers with generally higher reporting requirements rated their audit potential the lowest and taxpayers with the least reporting requirements had the highest perceived audit potential. From a tax compliance standpoint, one could argue that it is beneficial for the IRS that taxpayers perceive the audit potential to be greatly in excess of the actual rate. Figure 10 reflects this pattern.

Table 18
Mean Scores to Independent Survey Questions,
Partitioning Respondents by Tax Form Filed Comparing 1040 and 1040-A

Independent Questions	1040 Mean Score, (Standard Deviation, and n)	1040-A Mean Score, (Standard Deviation and n)	Mean Difference	t-statistic and P-Value
1. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people? (Scale: 1 = quite fair, 2 = reasonably fair, 3 = somewhat unfair, 4 = quite unfair)	2.688 .881 112	2.277 .772 47	0.411	2.935 0.0038
2. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself? (Scale: 1 = always do yourself, 2 = usually do, 3 = sometimes do, 4 = never do them yourself)	2.698 1.416 116	2.521 1.368 39	0.177	0.748 0.4556
3. An <i>audit</i> is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were <i>audited</i> last year? (Scale on a percentage basis)	0.141 .141 99	0.178 .188 39	-0.037	-1.125 0.2626

These were the last four questions asked of taxpayers and they are independent of each other. Mean scores, significant t-statistics, and significant P-values are bolded.

Taxpayers with the least revenue perceived their audit potential at greater than 25 percent. Conversely, taxpayers with the greatest revenue potential perceived less of an audit potential (15 percent). In all cases, the perceived audit potential is not reflective of the current audit potential of about 1 percent. The IRS's audit activity is publicly perceived as much more prevalent than it actually is. This vast overestimation of audit rates by taxpayers was seen in both 2004 and in 1990.

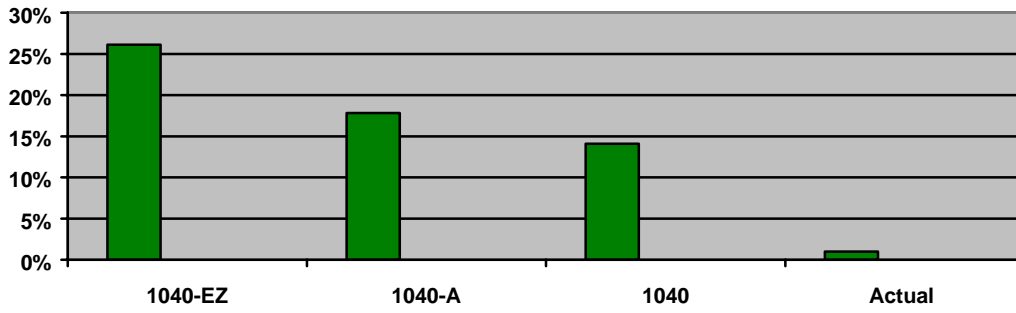


Figure 10

Taxpayers' Perceived Differentiation in Audit Potential Versus Actual Audit Rate

The above Figure reflects the perceived audit potential of taxpayers by the tax forms they file and compares their audit perception to their actual chance of getting audited.

5.2 Taxpayer Compliance

Both within and outside the IRS, many assume that taxpayer compliance has decreased due to the IRS's diversion of resources from its audit function into taxpayer service. Treasury Secretary John Snow's Congressional testimony from May 2004 reads in part (U.S. Department of Treasury 2004, 2):

In past years, IRS's focus has been on improving customer service. We believe that we have been successful in that effort and are committed to further enhancing customer service for the vast majority of American taxpayers who do their best to pay their fair share. For those who do not, fundamental fairness requires that our enforcement efforts in FY 2005 continue moving us towards a tax system in which everyone is complying with the tax laws. Our FY 2005 request, which includes a net increase of \$300 million, will focus our resources toward enforcement initiatives designed to curb abusive tax practices, end the proliferation of abusive tax shelters, improve methods of identifying tax fraud, identify and stop promoters of illegal tax schemes and scams, and increase the number and effectiveness of audits to ensure compliance with the tax laws.

However, the JCT, in its 1998 year-end analysis²¹ of the 1998 IRS Reform Act predicted that adoption of a customer service orientation by the IRS would "have no effect on Federal fiscal year budget receipts" (JCT 1998, 18).

In order to empirically test the effect of the 1998 IRS Reform Act on taxpayer compliance, the tax gap measure of the Bureau of Economic Analysis (BEA) was studied in conjunction with major IRS enforcement measures that the JCT subsequently identified as key areas of concerns in its annual reviews of the 1998 IRS Reform Act. These variables include the number of tax auditors, successful IRS tax litigation, hours the IRS agents spent auditing returns, and no change rate (percentage of audits where the IRS accepts the return as filed). The 1998 IRS Reform Act (the key variable of interest) is included as a binary variable in the model.

The proxy variable for taxpayer compliance is the BEA estimate of the Adjusted Gross Income Gap (AGI) from 1981 to 2001. The AGI-Gap is converted to a percentage basis (BEA-AGI minus the IRS-AGI divided by the BEA-AGI, see Appendix IV). Figure 11 shows the AGI-Gap from 1981 to 2001.

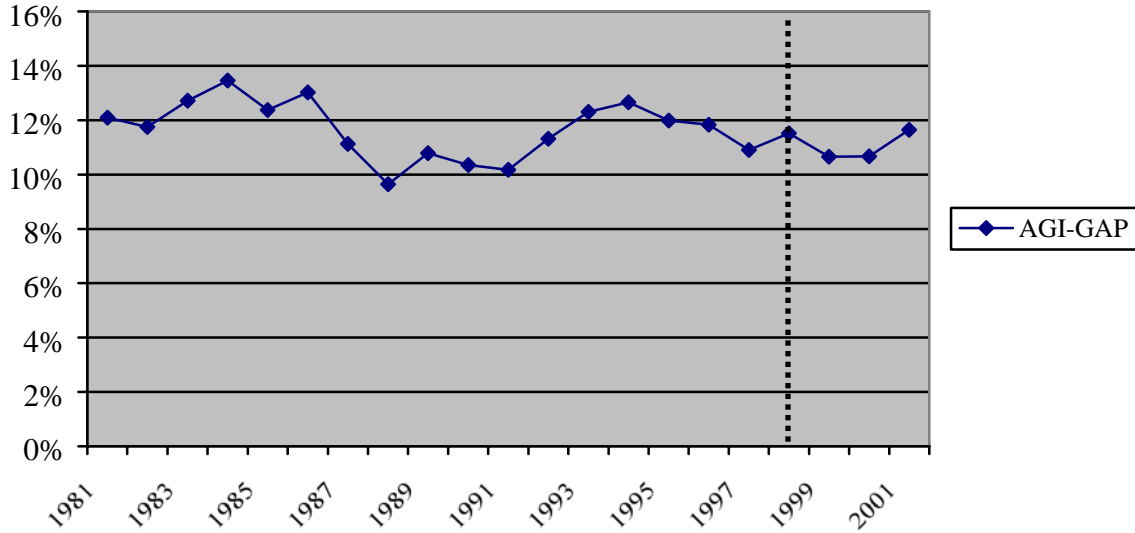


Figure 11
Bureau of Economic Analysis' Adjusted Gross Income – Gap
From 1981 to 2001

The above Figure shows the BEA-calculated Adjusted Gross Income Gap (AGI-Gap) as a percentage of total BEA-AGI (BEA-AGI minus the IRS-AGI divided by the BEA-AGI). Utilizing a percentage basis overcomes inflationary influences. A line is superimposed for year 1998. See Appendix IV for the data (BEA-AGI, IRS-AGI, BEA-Gap and BEA Gap percentage) in table form.

The increase for 1998 could likely reflect that IRS enforcement activities were coming under intense public scrutiny in Congressional hearings and taxpayers reacted with a short-term decrease in compliance behavior. The upward movement of 2001 could possibly reflect the growing perception of a lax enforcement environment by at least

²¹ Within the tax profession, this year-end analysis by the JCT is commonly referred to as the “Blue Book” because of the color of its cover. The JCT at year-end provides guidance/insight as to Congressional intent relative to tax laws enacted during the year. This guidance is often considered authoritative.

some taxpayers (in the 2004 survey, 20% perceived the audit rate as 2.5 percent or lower) – a more long term effect.

The IRS, in carrying out the mandates of the 1998 IRS Reform Act, reallocated direct audit personnel positions to other positions and divisions. The total number of IRS personnel has remained fairly constant since 1997 at approximately 100,000 employees, as reflected in Figure 12.

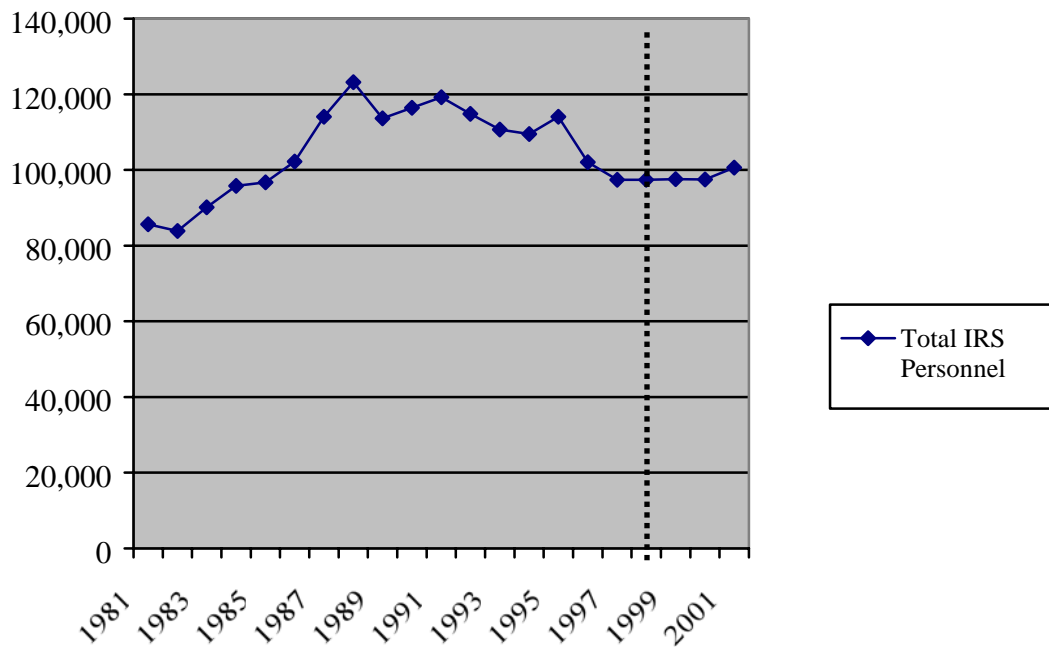


Figure 12

IRS's Total Personnel from 1981 to 2001

This figure reflects the total IRS personnel including audit personnel on an annualized basis. A line is superimposed for year 1998. See Appendix V for data in table form.

While total IRS employees remained constant from 1997 to 2002, the total number of IRS audit agents and auditors fell from 16,935 to 13,510 (a 20 percent decrease). Additionally, audit personnel peaked in 1988 and 1989 when there were nearly 20,000 total audit personnel. This is reflected in Figure 13.

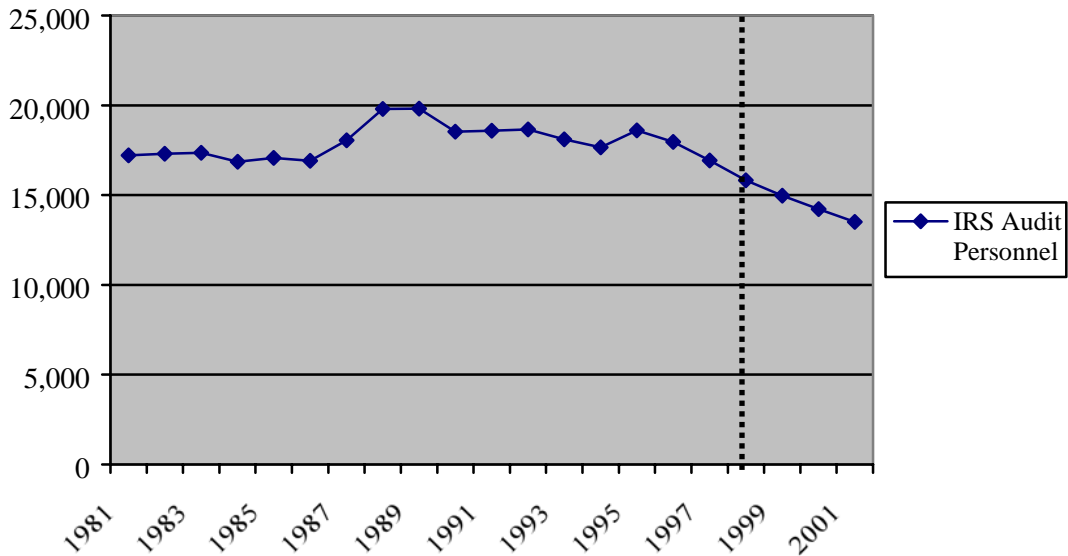


Figure 13
IRS Audit Personnel from 1981 to 2001

The Figure reflects the total number of IRS auditors on an annualized basis. A line is superimposed for year 1998. See Appendix V for data in table form.

The previous two Figures reflect that as a result of the 1998 IRS Reform Act a significant reallocation of resources occurred within the IRS. Enforcement personnel were reallocated within the IRS to customer service positions. As the JCT (1998, 33) observed, “The Commissioner announced a broad outline of a plan to reorganize the structure of the IRS in order to help make the IRS more oriented toward assisting taxpayers and providing better taxpayer service.” The reality is that without an increase in total IRS personnel the IRS had to reassign personnel.

This major realignment of resources within the IRS is likely to have affected other enforcement efforts. The number of successful IRS tax litigation cases is hypothesized by the JCT to be related to the 1998 IRS Reform Act. Figure 14 shows the number of successful tax litigation cases from 1981 to 2001, with a significant decline after the 1998 IRS Reform Act.

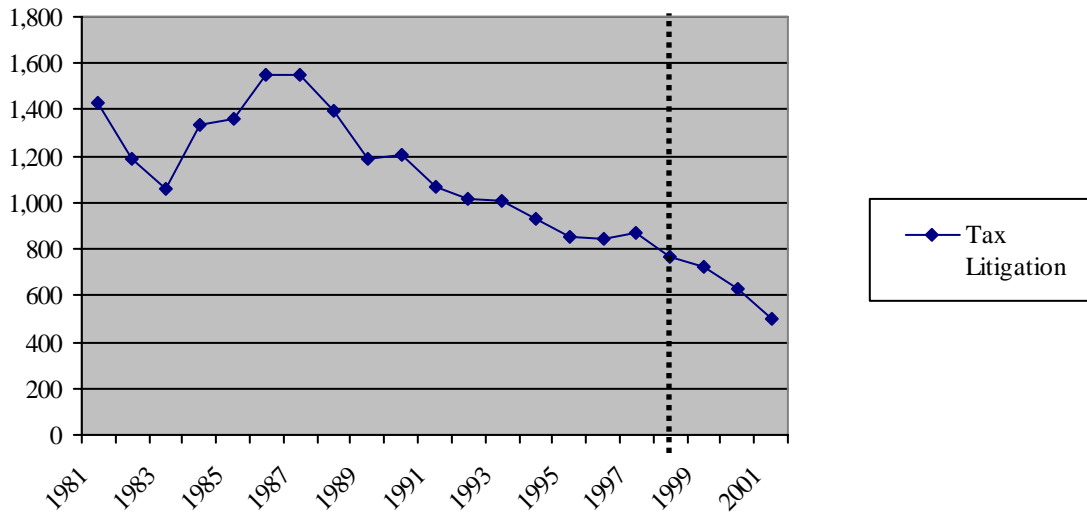


Figure 14
Successful IRS Tax Litigation Cases from 1981 to 2001

This figure reflects the total number of successful IRS tax litigation cases on an annualized basis. A line is superimposed for year 1998. See Appendix V for the above data in table form.

While the number of successful litigations has declined since mid-1985, after the 1998 IRS Reform Act this decreasing trend accelerated. The year axis in Figure 14 is difficult to decipher. More specifically, in 1997 there were 873 successful IRS prosecutions (a 3% increase from 1996) and in 1998 there were only 766 (a 14% decline from 1997). See Appendix V for total IRS prosecutions from 1981 through 2001. Other factors, besides the reallocation of IRS audit personnel, were part of the environment. After 1998, the IRS claims it was faced with mounting frivolous challenges when pursuing tax litigation. The JCT (2003, 87) observed:

The IRS Reform Act added several due process provisions that increased taxpayer rights during the collection process, such as pre-lien and pre-levy hearings and judicial review of such hearings.

After the 1998 IRS Reform Act, successful tax litigation cases dropped nearly in half (as reflected in Figure 14).

The average time spent auditing a return was identified as an area of concern by the JCT in its review of the 1998 IRS Reform Act and is shown in Figure 15 (1992 to 2001). Since 1998, there has been a dramatic increase in the number of hours spent auditing a return due to additional audit procedures that were put into place to better protect taxpayer rights. For example, extensive documentation requirements, checklists, and greater supervisory reviews were added after the 1998 IRS Reform Act to protect audited taxpayers’ rights. Overall, certain IRS agents would contend that this increase in “paperwork” hampers the IRS’s audit ability.

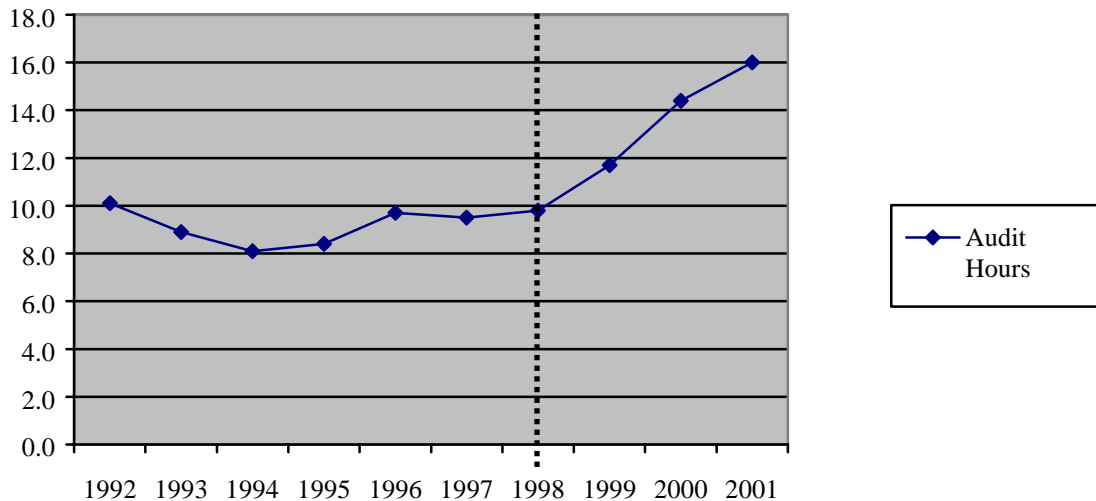


Figure 15
Time IRS Agents Spent Auditing a Return from 1992 to 2001

This figure reflects the number hours a typical IRS audit takes on an annualized basis. A line is superimposed for year 1998. See Appendix V for the above data in table form.

The number of audited tax returns with changes since 1992 is shown in Figure 16. Since 1998, there has been a dramatic decline in the number of audited returns with changes. The number of returns with changes is used as a proxy for the “no change” rate.

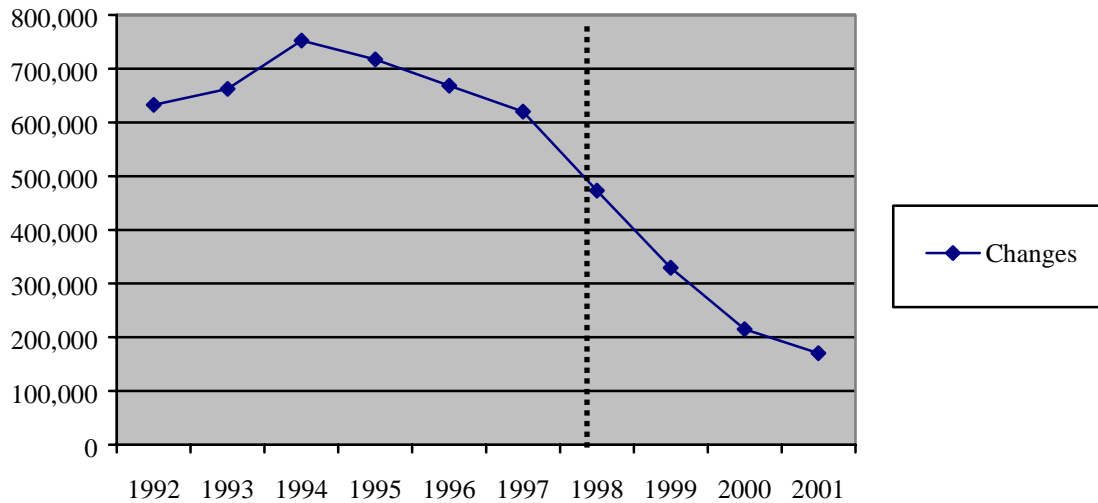


Figure 16
Audited Tax Returns with Changes from 1992 to 2001 This figure reflects the number of tax returns audited with changes on an annualized basis. A line is superimposed for year 1998. See Appendix V for data in table form.

After the 1998 IRS Reform Act, a dramatic decrease in the number of audits with changes occurred (this trend is nearly continuous). A likely factor in this change is a less aggressive audit posture on the part of IRS auditors. As the JCT observed in 2003, “IRS employees frequently report that fear of a Section 1203²² allegation causes reluctance to take appropriate enforcement actions” (JCT 2003, 45). A limitation in adding the audit hour variable and the variable on IRS audit changes is that the data is only available back to 1992.

Proxies for tax complexity and changes are the Tax Reform Act of 1986 (the magnitude of this Tax Act was so great that Congress re-designated the name of the tax code to the Internal Revenue Code of 1986) and the Revenue Reconciliation Act of 1990 (which expanded the number of different tax rates from two to three and initiated the

²² Section 1203 of the 1998 IRS Reform Act was titled, “Termination of Employment for Misconduct.” It established ten conditions that would result in expedited termination of an IRS employee. Audit personnel

undoing of many of the 1986 simplifications/changes). Both of these Acts are modeled as binary variables, as is the variable of interest, the 1998 IRS Reform Act.

In general, the effect from the above enforcement measures on the number of audit agents, tax litigation, time spent auditing a return, and no change rate are likely interrelated. The IRS is planning to focus on improving enforcement through a multi-step process incorporating these variables. As the JCT observed (2003, 63):

The IRS reports that the improvements will enable the IRS to increase the level of reporting and filing compliance, reduce “no-change” rates, and focus available resources on abusive trusts, shelters, and complex tax issues.

The following tables show correlations among these variables measured by the Pearson Correlation Coefficient (Table 19) and the Spearman Correlation Coefficient (Table 20). Pearson Product-Moment correlation coefficients are shown in the below table. Under the Pearson Correlation, a ratio scale is utilized (normality is assumed).

Table 19
Pearson Correlations

		R98	GAP	ADT	LIT	HRS	CHG
R98	Pearson Correlation	1					
	Sig. (2-tailed)						
	N						
GAP	Pearson Correlation	-0.224	1				
	Sig. (2-tailed)	0.330					
	N	21					
ADT	Pearson Correlation	-0.825	-0.173	1			
	Sig. (2-tailed)	0.000	0.452				
	N	21	21				
LIT	Pearson Correlation	-0.690	0.173	0.561	1		
	Sig. (2-tailed)	0.001	0.453	0.008			
	N	21	21	21			

Table Continued

with multi-year service with IRS were potentially highly threatened by this provision due to the possible direct loss of capital such as retirement benefits.

HRS	Pearson Correlation	0.761	-0.515	-0.881	-0.868	1	
	Sig. (2-tailed)	0.011	0.127	0.001	0.001		
	N	10	10	10	10		
CHG	Pearson Correlation	-0.914	0.621	0.957	0.891	-0.949	1
	Sig. (2-tailed)	0.000	0.055	0.000	0.001	0.000	
	N	10	10	10	10	10	

R98 = 1998 IRS Reform Act, GAP = BEA-AGI Gap, ADT = number of IRS Auditors, LIT = IRS successful tax litigation cases, HRS = number of hours spent auditing a return, and CHG = number of IRS audited tax returns with changes. Sig. = significance level, and N = number of observations. Significant P-values are bolded.

Only the number of audited returns with a “tax change” variable in this correlation table is marginally significant related to the tax gap (P-value less than .06). The 1998 IRS Reform Act variable is significantly related to all variables except for the tax gap (P-values less than .012). After 1998, there was a significant decrease in the number of auditors (P-value of .000), tax litigation cases (P-value of .001), and audited returns with changes (P-value of .000). The hours spent auditing a return increased significantly (P-value of .011). Overall, apparently, based on the above table, the JCT-identified IRS enforcement measures are interrelated and statistically significant to the 1998 IRS Reform Act.

In Table 20, the rank order of the variables is measured by utilizing the Spearman Correlation Coefficient. This coefficient assumes that the distribution is not normal; thus, a nonparametric statistic is calculated.

Table 20
Spearman Correlations

		R98	GAP	ADT	LIT	HRS	CHG
R98	Spearman Correlation	1					
	Sig. (2-tailed)						
	N						

Table Continued

GAP	Spearman Correlation	-0.280	1				
	Sig. (2-tailed)	0.218					
	N	21	21				
ADT	Spearman Correlation	-0.681	-0.268	1			
	Sig. (2-tailed)	0.001	0.241				
	N	21	21				
LIT	Spearman Correlation	-0.681	0.158	0.366	1		
	Sig. (2-tailed)	0.001	0.493	0.103			
	N	21	21	21	21		
HRS	Spearman Correlation	0.782	-0.709	-0.648	-0.685	1	
	Sig. (2-tailed)	0.008	0.022	0.043	0.029		
	N	10	10	10	10		
CHG	Spearman Correlation	-0.853	0.733	0.794	0.721	-0.915	1
	Sig. (2-tailed)	0.002	0.016	0.006	0.019	0.000	
	N	10	10	10	10	10	

Gap = BEA-AGI Gap, ADT = IRS Auditors, LIT = IRS successful tax litigation cases, HRS = number of hours spent auditing a return, CHG = number of IRS audited tax returns with changes, and R98 = 1998 IRS Reform Act. Rho = Spearman Correlation coefficient, Sig. = significance level, and N = number of observations.

Here, under a monotonic relationship, a statistically significant relationship is indicated between the tax gap, audit hours (P-value of .022), and number of audits with changes (P-value of .016). The statistically significant relationships (P-values of less than .01) between the 1998 IRS Reform Act and all of the independent variables holds as well (as seen in the prior table). The two previous correlation tables show that all of the dependent variable measures are correlated.

When the correlations were calculated based on the first difference technique,²³ the audit variable and the BEA-AGI Gap variable are significantly inversely related (P-value of .063). This result indicates that more auditors lead to a smaller tax gap; conversely, fewer auditors equate to a larger tax gap.

²³ When time series data is utilized, there is the potential for serial correlation data (residuals are correlated with their lag values) and the first difference technique can control for this.

Multivariate models were analyzed utilizing the above data sets.²⁴ When the above model is run without the audit hours and audit change variables, the data set goes back to 1981. This expanded data set in terms of years means that only 3 of the model's 20 degrees of freedom are used by the regression, and thus, the model has appreciably more data to calculate coefficients and significance levels. The resulting model is shown in Table 21.

Table 21
Modeling 1981 to 2001
GAP Regressed on Audit Hours, Tax Litigation, and the 1998 IRS Reform Act

R-Square	Adjusted R-Square	Std. Error of the Estimate	F-statistic	P-Value	Durbin-Watson
0.450	0.353	0.008057	4.638915	0.015142	1.932

Coefficients

	Coefficients	Standard Error	Standardized Beta	t-statistic	P-Values
(Constant)	.2394283829	.0366807379		6.527360	0.000005
ADT	-.0000068723	.0000019555	-1.117557	-3.514268	0.002660
LIT	.0000006568	.0000083293	0.019592	0.078859	0.938066
R98	-.0281729901	.0090512055	-1.131659	-3.112623	0.006331

This table regressed all variables with data back to 1981 on the BEA-GAP. The audit personnel (ADT) and 1998 IRS Reform Act (R98) variables are significantly related to the tax gap. Predictors: (Constant), audit personnel, successful IRS tax litigation, and the 1998 IRS Reform Act. The dependent variable is the BEA-GAP proxy.

A robust model is indicated in the above table (Table 21).²⁵ The Adjusted R-Square indicates that 35 percent of the variation in the model is being explained, and the F-Statistic is highly significant (P-value of .015). The Durbin-Watson (DW) test statistic

²⁴ Multivariate regression was run using the full data set. A limitation of this model is that two of the five independent variables (audit hours and audited tax returns with changes) only go back to 1992. Thus the regression uses 5 of the 9 degrees of freedom. Neither the model F-statistic nor the t-statistic achieves significance, most likely due to the low number of observations. However, this model with all variables had an adjusted R-square (.29), which indicates the model has some predictive value.

²⁵ A lag effect was modeled by regressing the prior year's BEA-AGI gap by the then current year's audits, litigation cases, and the 1998 IRS Reform Act variables. The model results remain highly constant; both the audit personnel and the 1998 IRS Reform Act variables remain statistically significant and negative (P-Values of .004 and .020 respectively).

(1.932) indicates that serial correlation is not present. A DW of 2.0 implies no serial correlation.

Both AUDIT and the 1998 IRS Reform Act coefficients (P-values of less than .01) indicate that the 1998 IRS Reform Act had an effect on tax compliance. The above model strongly indicates that the decrease in tax auditors resulted in an increase in the predicted tax gap. In other words, more tax auditors lead to a smaller adjusted gross income gap.

Conversely, the negative and significant coefficient for the 1998 IRS Reform Act coefficient (P-value of .006) indicates a smaller adjusted gross income gap after 1998.²⁶ This result implies that a possible effect of the comprehensive changes on tax administration is that tax compliance has been affected positively. Some in Congress argued that a fairer IRS would lead to greater voluntary compliance. The JCT, in its review of Congressional intent in passing the 1998 IRS Reform Act, stated that (JCT 1998, 35):

Public confidence in the IRS must be restored so that our system of voluntary compliance will not be compromised. The Congress believed that most Americans are willing to pay their fair share of taxes, and that public confidence in the IRS is key to maintaining that willingness.

The two indicator variables for tax complexity/changes (1986 and 1990 Tax Acts) were next incorporated into the model. The resulting model is shown in Table 22. The model's F-statistic remains significant, and the adjusted R-square explains over 31 percent of the variation in the model. Both the AUDIT and the 1998 IRS Reform Act coefficients remain negative and significant (P-values of less than .04). Serial correlation

²⁶ Running the model by altering the year (1997 or 1998) of the 1998 IRS Reform Act Variable did not significantly change the model.

is once again not indicated. The model has a DW statistic of 1.92 where a DW of 2.0 indicates no serial correlation.

Table 22
Modeling 1981 to 2001
With Tax Complexity Control Variables Added

R-Square	Adjusted R-Square	Std. Error of the Estimate	F-statistic	P-Value	Durbin-Watson
.486	.315	0.008293	2.836	0.054	1.923

Coefficients

	Coefficients	Standard Error	Standardized Beta	t-statistic	P-Values
(Constant)	.2311547010	.0464125281		4.980438	0.000164
ADT	-.0000057620	.0000024279	-0.937000	-2.373271	0.031422
LIT	-.0000058822	.0000145329	-0.175451	-0.404752	0.691373
A86	-.0039530154	.0069969768	-0.172227	-0.564960	0.580453
A90	-.0026444046	.0083578579	-0.133865	-0.316397	0.756061
R98	-.0252528234	.0110769049	-1.014361	-2.279773	0.037667

This table regressed variables with data back to 1981 on the BEA-GAP. The audit personnel (ADT) and 1998 IRS Reform Act (R98) variables are significantly related to the tax gap. The two tax complexity/changes variables 1986 Tax Act (A86) and 1990 Tax Act (A90) are not significant. Predictors: (Constant), audit personnel, successful IRS tax litigation (LIT), 1986 Tax Act, 1990 Tax Act and the 1998 IRS Reform Act. The dependent variable is the BEA-GAP proxy.

Overall, the above modeling indicates the 1998 IRS Reform Act likely had a positive effect on tax compliance initially. The 1998 IRS Reform Act indicator variable is both negative and highly statistically significant (P-value less than .01). This coefficient indicates that after the 1998 IRS Reform Act, the AGI reporting gap declined. In other words, there was better overall tax compliance after 1998. With more outer year data, these interesting results can be corroborated. This result is directly opposite of what would be expected based on current Congressional and IRS statements of what is perceived as erosion in tax compliance. However, the statistically significant negative relation of the audit variable (P-value of less than .01) to the tax gap indicates a strong

correlation between direct audit enforcement and adherence to correct income reporting to the IRS. These relationships imply that Congressional and IRS concerns are justified; however, the catalyst is not the 1998 IRS Reform Act but the decline in tax auditors. As reflected in Figure 13 the number of IRS audit personnel dropped from approximately 20,000 in the late 1980s to 17,000 in 1997 and to 13,500 in 2001.

5.2.1 Taxpayer Compliance in the Context of NPM

Under a traditional management orientation to government operations, key attributes are economy, efficiency, and effectiveness. A rational (cost-benefit) approach is taken to budgeting in this traditional bureaucratic structure. The inverse relationship between auditors and the tax reporting gap indicates, from a compliance perspective, that one cost of the IRS's adopting an NPM methodology was a decrease in the economy, efficiency, and effectiveness of tax enforcement. Importantly, Congress all but formally mandated this reallocation of resources by requiring the IRS to reorganize and focus on taxpayer service (specifically mandated in the first two sections of the 1998 IRS Reform Act) and Congress did not provide additional resources in terms of personnel. The IRS simply switched resources from enforcement to service. As Bergin and Brown (2003) observed, the IRS got the message.

The initial results of the 1998 IRS Reform Act resulting in better compliance are tentative and need to be verified with more data in subsequent years. If this result holds, it would indicate that a key NPM tenet of treating individuals as customers instead of impersonal actors resulted in a "better functioning government." As Bagby and Franke (2001) observed, this is a central outcome measure of whether an NPM orientation is successful.

5.3 IRS's Personnel Environment

The third goal of the 1998 IRS Reform Act was to provide “IRS employees with a quality work environment” and was called for in “Subtitle C-Personnel Flexibilities” of the 1998 IRS Reform Act. The third hypothesis predicts that there is no change in the IRS's work environment from this legislative change. This hypothesis is tested by analyzing data the IRS provided for the JCT's 2003 data request relative to salaries for critical pay positions (§1201) and IRS-mandated employee termination (§1203).

5.3.1 §1201 Critical Pay Authority

In general, the salary provision is in keeping with NPM's private market focus (other than it had an upper cap). The U.S. Treasury Secretary was delegated broad authority to institute a program to match private sector pay, but with a salary limitation of \$175,400.

The JCT (1998, 46) observed:

The Act provides OMB with authority to set the pay for certain critical pay positions requested by the Secretary under section 5377 of title 5 of the United States Code at levels higher than authorized under prior law. These critical pay positions are critical, technical, administrative and professional positions other than those designated under the streamlined authority. Under the Act, OMB is authorized to approve requests for critical position pay up to the rate of pay of the Vice President (currently, \$175,400).

Congress granted this critical pay authority with the intention of bringing in private sector talent that the IRS was lacking. The JCT observed (1998, 47):

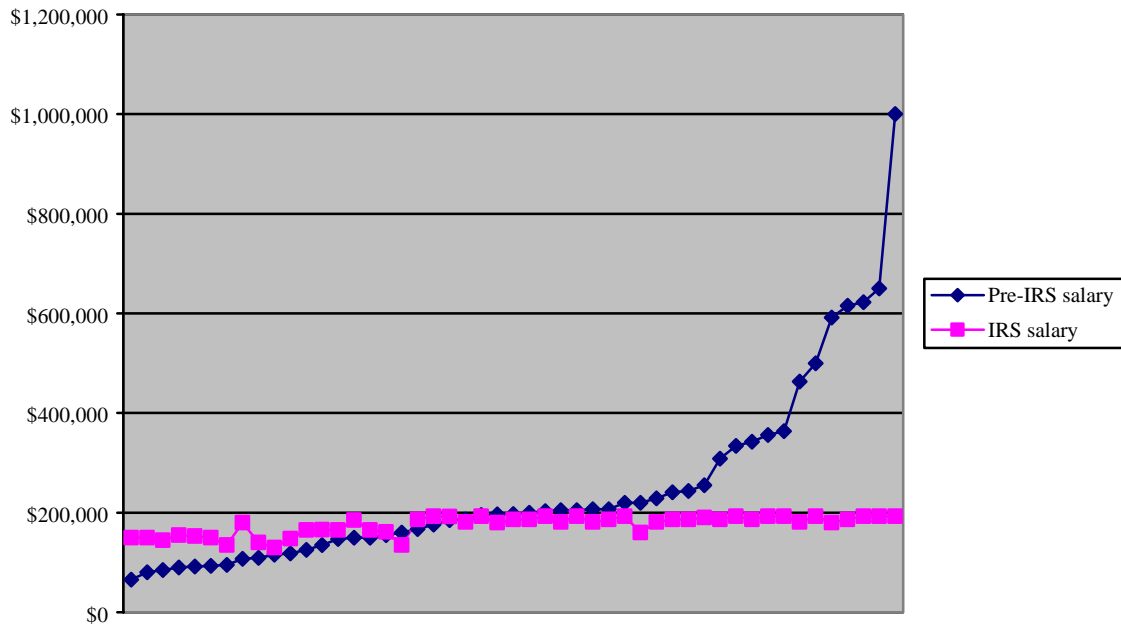
The Congress believed that as part of restructuring the IRS, the Commissioner should have the ability to bring in experts and the flexibility to revitalize the current IRS workforce. The current hiring practices often inhibit the ability of the Commissioner to change the IRS' institutional culture. Commissioner Rossotti has indicated that, in order to maximize efforts to transform the IRS into an efficient, modern and responsive agency, the ability to recruit and retain a top-notch leadership and technical team is critical.

The Congress believed the IRS needs the flexibility to recruit employees from the private sector, to redesign its salary and incentive structures to reward employees who meet their objectives, and to hold non-performers accountable.

Personnel and pay flexibilities are necessary prerequisites for larger fundamental changes in the IRS.

The majority of these created positions are paid near this cap (when their bonus is considered). The following figure shows the comparisons between the IRS executives' salaries and their prior private sector pay (actual salaries paid to individual IRS executives are shown in Appendix VI).

Figure 17
IRS Executive Pay Comparison



The above figure is from salary data provided by the IRS for the JCT's 2003 (132) data request. The IRS reported individual executive salaries and even specifically identified individuals and their salaries (prior to IRS employment and their IRS salary). See Appendix VI for data in table form.

Figure 17 and Table 23 convey the reality that private sector pay, in general, was not matched in most cases. However, the Treasury Secretary did provide the salaries nearly up to the established ceiling in almost all situations (as indicated by a nearly parallel line around \$200,000). The descriptive statistics and statistical comparison of the IRS executives' prior salaries to their IRS salaries are shown in Table 23 (Panel A and B).

Table 23
Panel A: IRS Executive Salaries Descriptive Statistics

Statistic	Prior Salary	IRS Salary	Difference	% Difference
Mean	\$248,092	\$174,978	-\$73,114	-29.47%
Standard Deviation	185,300.80	19,064.95	166,235.85	
Median	\$197,000.00	\$181,400.00	-\$15,600.00	-7.92%
Sample Variance	34,336,387,794	363,472,194	33,972,915,913	
Kurtosis	5.0418	-0.4734		
Skewness	2.0917	-0.9251		
Range	\$934,600	\$62,600	\$872,000	-93.30%
Minimum	\$65,400	\$130,000	-\$64,600	98.78%
Maximum	\$1,000,000	\$192,600	-\$807,400	80.47%
Sum	\$12,156,523	\$8,573,900	-\$3,582,623	-29.47%
Count	49	49		

This table shows a descriptive comparison of IRS employees' compensation immediately prior to employment at the IRS (Prior Salary) and their compensation at the IRS (IRS Salary). For the specific individuals and their salary comparisons, see Appendix VI.

Panel B: T-Test: Paired Two Sample for Means

Statistic	Prior Salary
Pearson Correlation	0.525424445
Hypothesized Mean Difference	0
Degrees of Freedom	48
t – Statistic	2.91
P(T<=t) one-tail	0.0028
t Critical one-tail	1.68
P(T<=t) two-tail	0.0055
t -Critical two-tail	2.01

This table statistically compares the salaries of IRS critical pay employees' salaries (IRS Salary) to what they received immediately prior to working for the IRS (Prior Salary). For the specific individual and their salary comparison, see Appendix VI.

On average, IRS Employees received \$73,114 (29 percent) less than their private sector pay, on a median basis of \$15,600 (8 percent less). In aggregate, those employed in the critical pay positions received \$12.2 million in private sector pay, but the IRS paid them only \$8.6 million. A t-test of the sample means reveals that the pay disparity is statistically significant at a P-value of less than .01 (two tailed).

Despite the greater pay authority provided in the 1998 IRS Reform Act, the IRS was still prevented from matching private sector salaries. A ceiling of \$175,400 was placed on the salaries and the IRS was actually paid \$174,978 (some salaries exceed this limitation through bonus awards).²⁷ In the private sector, these positions paid an average of \$248,092. This disparity is not surprising considering the high dollar stakes involved in matters of taxation.²⁸

There are clearly outliers in the data for IRS executives' private sector pay. However, excluding the six executives with salaries of \$500,000 or more does not change the overall implications of the results. Excluding these data points, the IRS still underpaid the private sector by over \$1.2 million (15 percent less). The average pay was \$28,000 (15 percent) less and the median pay was \$21,000 (11 percent) less. These salary differences are reflected in Tables 24 (Panels A and B). This difference is statistically significant at a P-value of less than 1.5 percent (two-tail).

Table 24
Panel A: IRS Executive Salaries - Descriptive Statistics
(Minus 6 highest paid executives prior to working for the IRS)

Statistic	Prior Salary	IRS Salary	Difference	% Difference
Mean	\$190,160	\$161,928	(\$28,232)	-14.85%
Standard Deviation	\$87,323	\$22,665	(\$64,658)	
Median	\$186,000	\$165,000	(\$21,000)	-11.30%
Sample Variance	\$7,625,372,991	\$513,715,393	(\$7,111,657,598)	
Kurtosis	\$1	-\$1		
Skewness	\$1	\$0		

Table Continued

²⁷ "Performance awards for senior executives" were included in the data analysis. The 1998 IRS Reform Act provided for these bonuses.

²⁸ As noted in footnote 5, Myron S. Scholes (Nobel Prize winner in Economics and co-author of the seminal *Taxes and Business Strategy*) was caught in a high stakes tax avoidance scheme.

Range	\$397,600	\$67,600	(\$330,000)	
Minimum	\$65,400	\$125,000	\$59,600	91.13%
Maximum	\$463,000	\$192,600	(\$270,400)	-58.40%
Sum	\$8,176,862	\$6,962,900	(\$1,213,962)	-14.85%
Count	43	43		

This table shows a descriptive comparison of IRS employees' compensation immediately prior to employment at the IRS (Prior Salary) and their compensation at the IRS (IRS Salary) excluding the six highest paid employees (prior IRS salary). The data was provided as part of the 2003 JCT data request. (For the specific individuals and their salary comparisons, see Appendix VI.)

**Panel B: T-Test: Paired Two Sample for Means
(Minus 6 highest paid executives prior to working for the IRS)**

Statistic	Prior Salary
Pearson Correlation	0.7464
Hypothesized Mean Difference	0.0000
Degrees of Freedom	42.0000
t – Statistic	2.5711
P(T<=t) one-tail	0.0069
t Critical one-tail	1.6820
P(T<=t) two-tail	0.0138
t Critical two-tail	2.0181

This table statistically compares the salaries of IRS critical pay employees' salaries (IRS Salary) to what they received immediately prior to working for the IRS (Prior Salary). For the specific individuals and their salary comparisons, see Appendix VI.

Based on the prior salary analysis, the IRS is still lacking in its ability to match private sector pay in critical executive positions. One could argue that high-level executives within the U.S. government can be motivated by factors other than compensation (i.e., a human relations orientation versus a scientific management approach). For example, one may be inspired to promote public good or one may be motivated by the greater job security that is often present in the governmental sector. However, this potential factor is controlled for, in part, by excluding the highest salaries. The remaining executives are likely to be highly motivated by the remaining salary

differential of nearly \$30,000 when they have an average IRS salary of \$161,928. Likely offsetting the public good component for some of these employees is their ability to benefit from their high-level IRS positions upon re-entering the private sector. The JCT observed (2003, 48):

From the passage of the IRS Reform Act in July 1998 through March 31, 2003, the IRS has hired 49 Streamlined Critical Pay executives, 32 of which currently are working for the IRS. Through March 31, 2003, 17 Streamlined Critical Pay executives have left the IRS. Average tenure of the executives who have left is 21 months, with some staying as few as five months and others as long as 42 months.

Currently, these critical pay positions have an attrition rate of 35 percent. If pay parity were actually achieved, it is highly conceivable that a lower turnover rate would occur; at the least, there would be less of a compensation motivation.

5.3.2 §1203 IRS Employee Termination

Under “Subtitle C-Personnel Flexibilities,” the IRS was directed to terminate employees who violated provisions that were viewed by Congress as grievous. The JCT observed (1998, 50):

The Act requires the IRS to terminate an employee for certain proven violations committed by the employee in connection with the performance of official duties.

Of the 3,970 potential §1203 violations, nearly 40% were deemed to have some degree of merit. There were 490 substantiated violations (12 percent) and 1,034 serious misconduct violations, but not to the level of §1203 violations (26 percent). Nearly 60 percent were deemed not to be substantiated. These numbers are reflected in Table 25, which categorizes potential §1203 violations.

**Table 25
Potential §1203 Violations**

§1203 Violations	§1203 Misconduct	Other Misconduct	Not Substantiated	Totals
Seizure Without Approval	1	2	13	16
False Statement Under Oath	1	3	17	21
Constitutional & Civil Rights issues	1	14	265	280
Falsifying or Destroying Documents	10	22	36	68
Assault or Battery	1	6	5	12
Retaliate or Harass	6	126	1,633	1,765
Misuse of §6103	0	0	3	3
Failure to File a Federal Tax Return	386	362	250	998
Understatement of Federal Tax Liability	71	476	175	722
Threat to Audit for Personal Gain	13	23	49	85
Totals	490	1,034	2,446	3,970
	12.34%	26.05%	61.61%	

This table reflects potential §1203 violations and is a modification of an IRS table provided as a result of 2003 JCT (156) data request. The IRS strategically focused attention on the fact that only 490 actual §1203 violations occurred. This overlooks the other 1,034 violations that resulted in considerable administrative action (in most cases).

The IRS actually titled the above columns §1203 misconduct, §1203 non-misconduct (re-titled above as other misconduct) and not-substantiated. This labeling was strategic in that §1203 non-misconduct still involved instances of substantial transgressions.

A total of 203 employees were removed or left (resigned /retired) because of these serious §1203 violations. In over 45 percent of the cases, the penalty resulted in IRS employees no longer working for the IRS. The violations and the resolutions are reported in Table 26. Tables 25 and 26 reflect that the majority of cases involved some type of return filing violations over 90 percent of the time (failure to file or understatement of tax).

Table 26
Substantiated §1203 Violations

§1203 Violations	Removal	Resigned or Retired	Probation or Separation	Removal (other)	Penalty Mitigated	In Review	Total	%
Seizure	0	0	0	0	0	1	1	0.2%
False Statement	0	1	0	0	0	0	1	0.2%
Constitutional & Civil	0	0	0	1	0	0	1	0.2%
Falsifying or Destroying	3	5	1	0	0	1	10	2.0%
Assault or Battery	1	0	0	0	0	0	1	0.2%
Retaliate or Harass	1	4	0	1	0	0	6	1.2%
Misuse of 6103	0	0	0	0	0	0	0	0.0%
Failure to File	60	92	13	15	175	31	386	78.8%
Understatement of Tax	11	16	1	1	18	24	71	14.5%
Threat to Audit	5	4	2	1	1	0	13	2.7%
Totals	81	122	17	19	194	57	490	
%	16.53%	24.90%	3.47%	3.88%	39.59%	11.63%		

Of 490 substantiated §1203 violations cases, over 40 resulted in IRS employees' removal from service (one way or another). This table is a modification of an IRS table provided as a result of a 2003 JCT (157) data request.

Table 26 does not reflect the total universe of potential §1203 violations because a separate table reported claims that were deemed, after investigation, not to reach the level of §1203 violations, but which, in most cases, resulted in serious administrative action (including terminations). In Table 27, these violations (although not technically §1203 violations) are listed in order of severity of the resolution disposition:

Table 27
Disposition of Violations
(Not technically §1203 Misconduct)

§1203 Violations	Total	%	Cumulative
Removals	15	1.45%	1.45%
Separation	25	2.42%	3.87%
Suspension	55	5.32%	9.19%
Reprimand	116	11.22%	20.41%
Counseling Written	339	32.79%	53.19%
Counseling Oral	62	6.00%	59.19%

Table Continued

Administrative	162	15.67%	74.85%
Retired	80	7.74%	82.59%
Other	180	17.41%	100.00%
Total	1,034	100.00%	

The IRS contends that §1203 violation costs (employee morale, employee enforcement aggressiveness and management implementation) are not worth the cost for only 409 violations; however, this IRS portrayal severely understates the true number. An additional 1,034 employees received disciplinary action within the context of this code section. This table is a modification of an IRS table provided as a result of a 2003 JCT (158) data request.

Table 26 shows that in addition to the censure of 409 employees under §1203 violations, another 1,000 plus received some form of disciplinary action (ranging from removal to oral counseling).

Congressional passage of §1203 was a clear product of Congressional hearings that highlighted IRS auditors aggressively pursuing taxpayers (particularly non-filers) when IRS employees themselves were not filing. Adding substantial weight to this authority, the 1998 IRS Reform Act clearly states that only the IRS Commissioner can mitigate termination under this section, and his decision is non-delegable.

The IRS in 2003 highlighted that only 409 employees have actually been fully censured under §1203 and strongly implied that certain parts of this section have costs that clearly outweigh the benefits. The IRS stated in a JCT data request (2003, 147):

The overall objective of §1203 was to ensure that employees who commit serious misconduct are removed from Federal employment. The discretion of IRS managers was limited, as was the employee's ability to have a third party review the penalty determination. The §1203 penalties have been applied most frequently in cases involving employee tax compliance— fewer than 7% of the substantiated allegations involve the other eight §1203 provisions. ... Seventy-five percent of the tax compliance cases result in mitigation of penalty ... The effectiveness of the law is compromised by overly broad language in the law that encompasses these cases.

The IRS in its 2003 budget request sought to have revisions made to the filing section violations (among other §1203 changes). The JCT stated (2003, 48), “According to the IRS, such changes are necessary because §1203 is negatively affecting employee morale and effectiveness.” These sub-sections call for employee termination, and they specifically read (1998 IRS Reform Act, §1203):

(8) Willful failure to file any return of tax required under the Internal Revenue Code of 1986 on or before the date prescribed therefore (including any extensions), unless such failure is due to reasonable cause and not to willful neglect;

(9) Willful understatement of Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect;

Ironically, as the IRS was seeking to modify these sections, over 800 of its employees were identified as potentially taking inappropriate Schedule C deductions. This scam came to light in an initial review of 25 returns in which a systematic pattern of inappropriate deductions was identified.

Evidently the IRS is backing off its request for modifications of §1203 as its January 2, 2004 new release is titled, “IRS Strengthens Employee Tax Compliance Program.” The release observed that the 1998 IRS Reform Act requires termination of employees who misreport or do not file a return. A direct quote from IRS Commissioner Mark Everson indicates a change in position, and it states (IRS 2004, 1):

I am disappointed that a small but unacceptable number of our employees have generated false business deductions to reduce their taxes. We have a zero tolerance standard for abuse of the tax laws by employees. As administrators of the tax system, our employees must maintain the absolute highest standards when it comes to their own taxes.

Paradoxically, the original Congressional intent of §1203 now appears to be the IRS company line. Americans do indeed deserve and expect IRS employees to have the

“highest standards when it comes to their own taxes,” not a scaled down version, as the IRS was seeking in 2003.

IRS Personnel Environment Results in the Context of NPM

Adoption of a new NPM requires an agency organizational structure to become more competitive and business-like. In other words, a private market focus is to be incorporated in the organization. When Congress passed the 1998 IRS Reform Act, it specifically recognized this issue relative to top IRS management compensation, and thus gave the U.S. Treasury Secretary broad authority in setting compensation levels for senior level management. Unfortunately, it also arbitrarily capped compensation to no more than the U.S. Vice President’s compensation. This restriction means that IRS senior level management is underpaid by 15 percent as compared to the private sector. This compensation deficiency no doubt adds to retention problems for the IRS. For example, senior IRS management hired under this initiative have a 35 percent attrition rate. The cost of this failure to match private sector compensation has a meaningful impact on IRS administration. For example, the IRS’s core taxpayer computer files (over 175 million in 2003) are still maintained on a “1960 magnetic tape based system” and the IRS contends that its inability to hire and/or retain high level information technology managers is a primary cause of its inability to upgrade its core computer system.

The 1998 IRS Reform Act sought to increase the IRS’s responsiveness to taxpayers, in part, by requiring IRS employee termination when grievous treatment of taxpayers by an IRS employee occurred. In 2003, the IRS portrayed this employee termination provision as problematic and indicated that it resulted in little direct action but consumed an enormous amount of management resources. However, analysis of the IRS supplied data showed that this provision did have a greater effect both directly and

indirectly than the IRS portrayed. In 2004, the IRS reversed course on this provision when an IRS filing scandal was uncovered and the IRS observed the importance of this provision. NPM dictates that agency constituents see a responsive agency that treats individuals fairly. An analysis of “Subtitle C-Personnel Flexibilities” indicates that the provision that requires high standards for all IRS employees has affected IRS personnel decisions more than the IRS portrayed to Congress in 2003.

CHAPTER 6. COMPREHENSIVE IMPLICATIONS

Through multiple research methodologies, the effects of the 1998 IRS Reform Act were assessed. Congressional intent was crystal clear in the passage of this legislation, in that the first two sections of the Act were titled, “Sec. 1001. Reorganization of the Internal Revenue Service” and the second section was titled, “Sec. 1002. Internal Revenue Service Mission to Focus on Taxpayers’ Needs.” Thus, the IRS was faced with a Congressional mandate that it adopt a NPM methodology, specifically the core values of “responsiveness to customers” and treating taxpayers as “customers” (Rosenbloom and Kravchuk 2002, 39).

Six years after the overwhelming passage of this Act, a full and comprehensive assessment of this landmark legislation is necessary. This dissertation has focused on the three strategic goals (service, enforcement, and the IRS’s personnel environment) that the IRS adopted to implement the sweeping Congressional mandate for fundamental reform. This dissertation is flowcharted from the commencement to the conclusion in Figure 18.

The three strategic goals of the IRS were directly implemented by the IRS with the radical adoption of an NPM methodology to the administration of the tax code. The IRS from 1952 to 1998 utilized a traditional management approach to tax administration.

The IRS (2000)²⁹ observed:

In the late 1990s, however, the IRS was the subject of intense scrutiny and criticism. A Presidential commission, Congress, and the Vice President's National Partnership for Reinventing Government looked closely into the way the IRS did its work. The overall finding was that the IRS was expected to do a far better job in serving the public, based on a much better understanding of the taxpayers' point of view.

²⁹ This cite is from the cover page on the IRS web site on Modernizing America’s Tax Agency, <http://www.irs.gov/irs/article/0.,id=98170.00.html>, on 9/16/04.

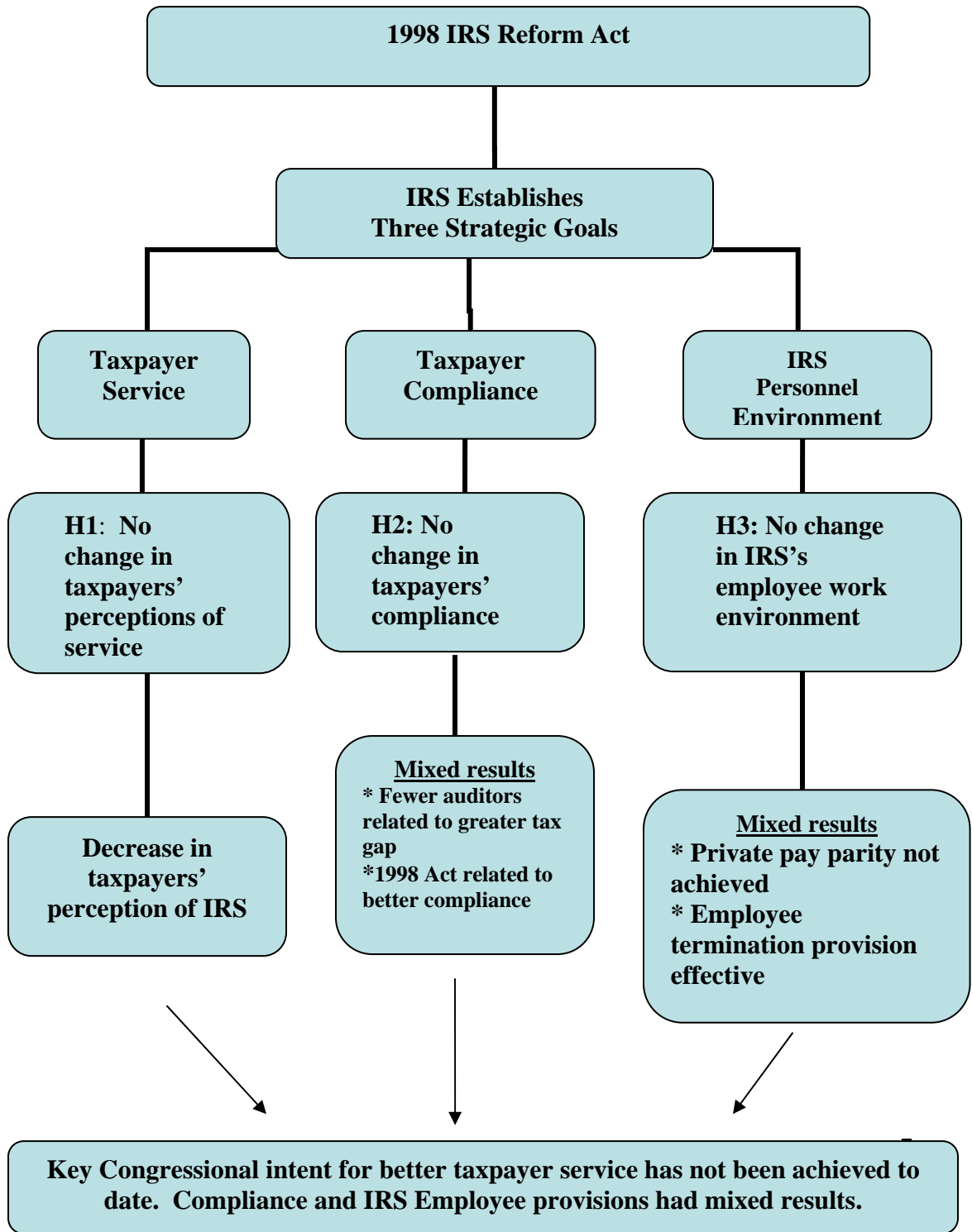


Figure 18
Summary Flowchart of the Dissertation

As observed in the NPM section of this dissertation, former Vice President Al Gore's National Partnership for Reinventing Government was "the Clinton administration's manifestation of the NPM approach." The implications of tax policy changes made under the framework of NPM can now be assessed.

Partial replication of the 1990 IRS Taxpayer Opinion Survey clearly indicates that taxpayers did not perceive they were receiving top quality service, as specifically called for in the IRS mission statement (radically transformed in 1998 to focus on service). In fact, the IRS received a universal decrease in the highest ratings categories and significantly decreased scores in two of the six categories mean scores that specifically evaluated the IRS's implementation of NPM methodology. Thus, the IRS's implementation of NPM is perceived as unsuccessful by those taxpayers surveyed (especially since the IRS established "top quality service" as its first strategic goal in response to the 1998 IRS Reform Act)

Interestingly, taxpayers rated the overall taxation system better in 2004 than in 1990. Taxpayers' perceptions of unrealistically high audit rates approaching 20 percent were recorded in both the 2004 and 1990 surveys. There appear to be different perceptions of the IRS based on the tax forms that survey respondents filed, and this indicated result would be an interesting avenue for further research. Overall, the results strongly indicate that the IRS is not perceived by the taxpayers to have successfully instituted NPM.

Taxpayer compliance was modeled utilizing the Bureau of Economic Advisors estimates of the Adjusted Gross Income (AGI) Gap. This income estimate was then compared to the AGI taxpayers actually report to the IRS. A varying gap of

approximately 11 percent was present from 1998 to 2001. There were significant correlations among the enforcement variables studied (audit personnel, tax litigation, audit hours and audit changes) and the 1998 IRS Reform Act. In subsequent multivariate modeling, both the audit variable (ADT) and the IRS Reform Act (R98) were significantly related to the income reporting gap. The audit variable (ADT) was negatively related to the tax gap indicating that fewer auditors lead to a greater reporting gap.

The opposite and interesting result was seen in the 1998 IRS Reform Act variable (R98). The 1998 IRS Reform Act was negatively related to the tax gap, indicating that the 1998 IRS Reform Act is related to a decrease in the tax gap. One implication is that Congressional concern over having a responsive IRS was justified, and the overall effect of the 1998 IRS Reform Act is better voluntary tax compliance on the part of taxpayers (notwithstanding the survey results). This result is interesting, in that taxpayers rated the overall tax system as fairer in the 2004 survey. With additional data points (which will become available in subsequent years), this result can be better measured and assessed. If this result holds, on the central NPM tenet of treating individuals as customers instead of impersonal actors has resulted in a “better functioning government” (Bagby and Franke).

IRS senior executives do not have pay parity with the private sector. A significant and practical difference in compensation remains, despite the 1998 IRS Reform Act specifically granting critical pay authority under §1201 to the Secretary of the Treasury. However, the Secretary of the Treasury utilized the provision to the full extent. Congress capped compensation levels so that they did not exceed the Vice President of the United States’ salary. The IRS, with a 1960’s information based

technology infrastructure, would seem in desperate need of private sector talent. Executives receiving the enhanced compensation still had a nearly 30 percent turnover rate. The failure to achieve compensation parity prevents full implementation of NPM (competitive market focus).

The 1998 IRS Reform Act directly resulted from Congressional hearings led by the late Senator William Roth, Jr. The IRS was heavily criticized because auditors forcefully went after non-filers when some IRS employees themselves were not filing tax returns. This paradoxical situation directly resulted in Congress enacting §1203. This section listed violations that IRS employees would be terminated for, barring direct intervention by the Commissioner of the IRS (at his or her “sole discretion”).

In 2003, the IRS portrayed the effect of part of this termination section as causing more problems than it was worth. However, assessing the IRS’s supporting data reveals that many violations that did not reach the §1203 threshold were nevertheless of a serious magnitude (the IRS downplayed this reality). Interestingly, the IRS has apparently reversed course on modifying §1203 (after revelations of an IRS employees’ filing scandal). As of 2004, the IRS appears to have come full circle back to the ideals of the 1998 IRS Reform Act that demanded that IRS employees have the highest reporting standards. Based on IRS supplied data, it is apparent that §1203 has been utilized to address employee misconduct more than the IRS portrayed in 2003. A central tenet for NPM is for an agency to treat individuals fairly and §1203 appears to accomplish this.

Overall, integrating these results shows that the 1998 IRS Reform Act has failed to improve taxpayers’ perceptions of the IRS. Taxpayer compliance, as measured by the BEA-AGI gap, appears to have improved since 1998, but the number of auditors has

materially declined. The IRS's personnel environment is still not at the level where Congress wanted. In summation, the IRS implementation of NPM has had mixed results, however on the central IRS's goal of providing "top quality service" the survey results strongly indicate that the IRS has been unsuccessful to date.

6.1 Limitations

Tax legislation is generally enacted on an annual basis. Thus, tax policy occurs in a highly charged political environment and any tax policy study is subject to this political reality. The present post-1998 IRS Reform Act survey replication is based on the 1990 IRS Taxpayer Opinion Survey. The 1998 IRS Reform Act was thus passed eight years after the initial survey. Ideally, the 1990 survey would have been conducted closer to 1998. However, if it had been conducted too close in time, the proximity in time would have caused problems as well (taxpayers likely would have had a heightened awareness of the IRS's transgressions leading up to the 1998 IRS Reform Act).

If a survey had been done in 1998, it may have shown higher taxpayer dissatisfaction with the IRS than was observed in 1990. Therefore, taxpayers' perceptions of the IRS could have improved since 1998 and this would not be reflected in the 1990/2004 comparison. Additionally, a further limitation is that the effects of the 1998 IRS Tax Reform Act may be longer term in nature and thus are not observable at this point in time. However, in the 2004 survey, the IRS received far from "top quality" service marks, and, in fact, had a universal decrease in the most favorable categories.

Taxpayer compliance data lacks complete data streams. Only four years of data after the 1998 IRS Reform Act are currently available. Additionally, the audit hour variable (HRS) and audit change variable (CHG) are only available back to 1992. The

IRS personnel environment hypothesis had only limited data to be tested although the results were statistically significant. The above factors limit the implications for this study, as well as most academic studies in tax policy. By utilizing several research methodologies, these limitations are mitigated to a good degree.

6.2 Contributions

The IRS, with nearly \$2 trillion in annual cash flow, has twice the aggregate revenue of the ten largest U.S. Corporations. Thus, in its own right, the degrees of the IRS's implementation of legislatively mandated changes in tax policy have major economic ramifications. In 2002, the IRS collected \$1.8 trillion in total tax revenue. The IRS officially estimated annual non-compliance on a tax revenue basis at a material \$250 to \$300 billion (GAO 2002B, 51), approximately 15 percent of total tax revenues. The implications of this "tax slippage" for a tax system built primarily on voluntary compliance should not be understated.

This study adds to the understanding of the implications of instituting tax policy changes made under the framework of NPM. The IRS bureaucracy, prior to the 1998 IRS Reform Act, was administered within a rigorous impersonal traditional management structure. The 1998 IRS Reform Act legislatively mandated the IRS to adopt an NPM orientation in administering the IRC in order to become more responsive to taxpayers (service oriented). Using different methodological approaches, this dissertation ascertained the effects on federal tax administration of switching from a traditional management approach to an NPM approach.

Investigating the aggregate effect of the momentous 1998 IRS Reform Act is in and of itself a meaningful contribution. The utilization of a partial replication of the

IRS's 1990 Taxpayer Opinion Survey allowed for long-term assessments of public perceptions on the IRS's administration. This dissertation contributes to an understanding of the process of taxation within the reality of a long-term political environment. The combination of these analyses with the legislative mandate for the IRS to track its progress in achieving the goals set forth in the 1998 IRS Reform Act provided for a rich data source.

The study is exploratory in nature, in that the data contained within the Congressional Reviews of the 1998 IRS Reform Act has mostly not been utilized in a tax accounting research context. Incorporating the Bureau of Economic Analysis - Adjusted Gross Income (BEA-AGI) Gap (as a measure of the tax-reporting gap) with the JCT-identified enforcement variables results in a unique data stream combination. The IRS often contends that there is no longer an updated long-term measure of tax compliance since the Taxpayer Compliance Measurement Program was terminated in 1988.³⁰

Often tax research focuses on a particular change in a particular year. However, that approach fails to address the overall dynamics of the taxation process, which is subject to a continuously changing environment. The testing of a governmental policy implemented under NPM will potentially affect forthcoming tax reform initiatives and allow for the prediction of effects of legislative changes (i.e., positive accounting theory). Overall, this research contributed to an examination of U.S. tax policy by centering on a unique event. Moving the tax system towards an NPM methodology was hypothesized to have materially affected U.S. tax administration. This dissertation found statistically significant results in all three areas that centered on the IRS's three strategic goals that were established to specifically implement the congressional mandate established in the

1998 IRS Reform Act. Utilization of different methodological approaches resulted in the triangulation of data results.

Passage of the 1998 IRS Reform Act and subsequent changes have not altered taxpayers' opinions within the context of the partial replication of the 1990 Taxpayer Opinion Survey. If taxpayers' perceptions of the IRS had improved, the change should have been detected in the 2004 survey. Analyses of tax compliance after the 1998 IRS Reform Act present a mixed picture. The 1998 IRS Reform Act appears significantly related to a decrease in the tax-reporting gap (more outer year data is needed to confirm these results). However, the number of tax auditors is significantly related to the tax gap (more auditors are related to better tax compliance). IRS senior executives do not receive private sector pay parity, despite the 1998 IRS Reform Act §1201 specifically addressing this problem. The intent for IRS employees to strictly adhere to filing tax returns, as mandated under the 1998 IRS Reform Act §1203, has proven reasonable, despite IRS calls in its 2003 budget request for §1203 modifications. Fortunately this call has apparently been rescinded.

6.3 Contributions from a NPM Perspective

From an NPM perspective, the IRS's implementation of this management paradigm has produced mixed results. Concerning the critical aspect of taxpayer service, the survey results clearly indicate that those taxpayers surveyed do not perceive that they are receiving "top quality service." Congress mandated that the IRS adopt a customer service focus in the second section of the 1998 IRS Reform Act (§1002 was titled "Internal Revenue Service Mission to Focus on Taxpayers Needs"). The IRS's first

³⁰ See supra, note 4.

strategic goal, after the 1998 IRS Reform Act was to provide “top quality service to each taxpayer” (JCT 2003, 1).

An analysis of the compliance data produced a mixed picture as to the IRS’s success in implementing NPM. After the 1998 IRS Reform Act, initial data indicates better tax reporting by taxpayers. Thus, a “better functioning government” may have occurred from a collection perspective. However, after the 1998 IRS Reform Act, the number of IRS tax auditors declined further and associated key enforcement measures continued to decline. The data indicated that the number of tax auditors is inversely related to the tax reporting gap.

From the IRS’s personnel environment perspective, the IRS continues to lack private pay parity. Under a NPM orientation, an organization should become “competitive” and more “firm like.” The 1998 IRS Reform Act mandated that IRS employees face expedited terminations if they infringed on taxpayers’ rights. From a “responsiveness to customers” perspective, this section has had considerably more impact than the IRS initially portrayed to Congress in 2003 (the IRS essentially recanted this assertion in 2004).

Overall, the IRS’s implementation of NPM can be considered unsuccessful to a great degree. Taxpayers do not perceive they are receiving “top quality service” and this was a fundamental objective of the 1998 IRS Reform Act. In fact, Congressional hearings, which were the catalyst for the 1998 IRS Reform Act, highlighted taxpayer abuse by the IRS. The IRS shifted resources as mandated in this Tax Act, resulting in continued and accelerated erosion of IRS enforcement activities as reflected in Figures 12 through 16.

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APPENDIX I MAJOR PROVISIONS OF THE 1998 IRS REFORM ACT

Title	Heading	Relevant Reform Provisions (From index, many direct quotes)
I	Reorganization of Structure & Management of the IRS	<ul style="list-style-type: none"> ▪ Change in mission ▪ IRS Oversight Board & Taxpayer Advocate ▪ IRS Commissioner tenure ▪ Treasury Office of Inspector General ▪ Executive branch influence & IRS personnel
II	Electronic Filing	<ul style="list-style-type: none"> ▪ E-filing of tax & information returns ▪ Paperless e-filing ▪ Return free tax system by 2007 ▪ Access to account information
III	Taxpayer Protection & Rights	<ul style="list-style-type: none"> ▪ Burden of proof <ul style="list-style-type: none"> ○ Fundamental element of prior IRC ○ Judicially, not legislatively created ○ Taxpayer needs credible evidence ▪ Taxpayers expanded proceedings ▪ Innocent spouse, interest & penalties relief ▪ Audit rights, examinations, and collections ▪ Studies
IV	Congressional Accountability for the IRS	<ul style="list-style-type: none"> ▪ GAO studies reviews ▪ Joint congressional oversight reports ▪ Y2K funding ▪ Tax law complexity analysis
V Through VIII	Additional Provisions, Technical Corrections (1997), etc.	<ul style="list-style-type: none"> ▪ Miscellaneous provisions ▪ Repeal 18 month holding period ▪ Child credit stacking changes, etc.

Source: JCT 1998.

**APPENDIX II MANAGERIAL PERSPECTIVES ON PUBLIC
ADMINISTRATION**

Characteristic	Traditional Management	New Public Management
Values	Economy, efficiency, effectiveness	Cost-effectiveness, responsiveness to customers
Organizational Structure	Ideal-typical bureaucracy	Competitive, firm-like
View of Individual	Impersonal case, rational actor	Customer
Cognitive Approach	Rational-scientific	Theory, observation, measurement, experimentation
Budgeting	Rational (cost-benefit)	Performance-based, market driven
Decision Making	Rational-comprehensive	Decentralized, cost-minimizing

This table adapted directly from Rosenbloom and Kravchuk (2002, 39).

APPENDIX III SURVEY INSTRUMENT

1. What is your state of residence_____
2. Have you already filed a federal income tax return for last year – that is 2003 – or are you planning to file an income tax return?
3. Below are a number of statements about the IRS. Please tell me how much you agree or disagree with each one. Just indicate the number that best describes your feelings.

1 Strongly Agree	2 Agree	3 Somewhat Agree	4 Somewhat Disagree	5 Disagree	6 Strongly Disagree	NS Not Sure
Score	Question					
	An IRS employee is just as knowledgeable as any private tax expert.					
	You can be confident that the IRS would never try to take more money from me than it should.					
	You can depend on the IRS to keep accurate tax records.					
	When it comes to investigating its own people, the IRS is as thorough as it is with everyone else.					
	Employees who work for the IRS display a high degree of honesty and integrity.					
	IRS procedures and practices are fair and reasonable ones that respect the rights of taxpayers.					

Circle the most appropriate answer

4. How do you feel about the federal income tax system as it applies to the 2003 tax return – do you feel it is quite fair to most people, or reasonably fair, or somewhat unfair, or quite unfair to most people?
5. During the past few years, how often have you completed your tax form yourself, instead of getting help from someone else? Would you say you always do them yourself, usually do, sometimes do or never do them yourself?
6. An *audit* is when the IRS asks you to prove your deductions or answer questions about your tax return (either in person or through the mail). Out of every 100 taxpayers at your income level, what percent do you think were *audited* last year?
7. Which of the following forms did you use the last time you filed?
 - a. 1040-EZ (short form)
 - b. 1040-A (regular short-form)
 - c. 1040 (long form)
 - d. 1040 (long form) plus additional forms and/or schedules
 - e. Don't remember

APPENDIX IV ADJUSTED GROSS INCOME GAP

(In billions)

Year	BEA- AGI	IRS- AGI	AGI GAP	GAP % of BEA- AGI
1981	\$2,016	\$1,773	\$243	12.05%
1982	\$2,099	\$1,852	\$247	11.77%
1983	\$2,226	\$1,943	\$283	12.71%
1984	\$2,473	\$2,140	\$333	13.47%
1985	\$2,632	\$2,306	\$326	12.39%
1986	\$2,853	\$2,482	\$371	13.00%
1987	\$3,121	\$2,774	\$347	11.12%
1988	\$3,412	\$3,083	\$329	9.64%
1989	\$3,650	\$3,256	\$394	10.79%
1990	\$3,798	\$3,405	\$393	10.35%
1991	\$3,857	\$3,465	\$392	10.16%
1992	\$4,092	\$3,629	\$463	11.31%
1993	\$4,245	\$3,723	\$522	12.30%
1994	\$4,474	\$3,908	\$566	12.65%
1995	\$4,760	\$4,189	\$571	12.00%
1996	\$5,145	\$4,536	\$609	11.84%
1997	\$5,578	\$4,970	\$608	10.90%
1998	\$6,120	\$5,416	\$704	11.50%
1999	\$6,554	\$5,856	\$698	10.65%
2000	\$7,125	\$6,365	\$760	10.67%
2001	\$6,983	\$6,171	\$812	11.63%

This Appendix compares the Bureau of Economic Analysis's Adjusted Gross Income (BEA-AGI), and the Internal Revenue Service Adjusted Gross Income (IRS-AGI) to calculate an AGI-Gap (a proxy for taxpayer compliance). In order to avoid inflationary impacts, AGI-Gap is converted to a percentage basis (AGI-Gap divided by the BEA-AGI).

APPENDIX V IRS ENFORCEMENT DATA

Year	Total IRS Employees	Audit Agents & Auditors	Prosecution	Hours	Audited Returns With Changes
1981	85,672	17,216	1,431		
1982	83,835	17,294	1,185		
1983	90,108	17,354	1,060		
1984	95,749	16,864	1,339		
1985	96,705	17,070	1,361		
1986	102,206	16,911	1,547		
1987	114,018	18,049	1,550		
1988	123,198	19,801	1,393		
1989	113,622	19,813	1,190		
1990	116,425	18,529	1,206		
1991	119,213	18,580	1,066		
1992	114,819	18,651	1,015	10.1	632,331
1993	110,680	18,097	1,011	8.9	662,232
1994	109,505	17,666	931	8.1	752,293
1995	114,064	18,601	850	8.4	717,066
1996	102,082	17,957	847	9.7	668,133
1997	97,404	16,935	873	9.5	619,931
1998	97,375	15,815	766	9.8	473,116
1999	97,526	14,961	722	11.7	329,494
2000	97,464	14,216	632	14.4	215,298
2001	100,577	13,510	503	16.0	170,439

The above Appendix shows the key IRS enforcement variables used for analysis of taxpayer compliance. This data is from JCT reports, the IRS's Internet statistical section site, and University of Syracuse's TRAC data.

APPENDIX VI IRS'S EXECUTIVE SALARIES

Individual	Before IRS	Total IRS	Difference
Adams, Robert	\$167,269	\$186,300	(\$19,031)
Allen, Maureen	80,000	150,000	(\$70,000)
Ayres, James	203,179	192,600	\$10,579
Berg, Doug	240,975	186,300	\$54,675
Boswell, William	500,000	192,600	\$307,400
Bratton, Delena	92,016	153,000	(\$60,984)
Chesman, Michael	615,300	186,300	\$429,000
Claytor, Paul	197,000	186,300	\$10,700
Dobbins, Tom	149,537	185,100	(\$35,563)
Duder, John	176,000	192,600	(\$16,600)
Dunahoo, Carol	334,000	192,600	\$141,400
Forman, Fred	622,700	192,600	\$430,100
Gaur, Prashant	255,000	190,000	\$65,000
Horse, Daniel	196,685	180,000	\$16,685
Jakabcin, George	109,201	140,000	(\$30,799)
Jernigan, Cliff	206,847	181,400	\$25,447
Kist, Franklin	591,661	180,000	\$411,661
Leighty, Colleen	154,614	161,000	(\$6,386)
Liuzzi, John	195,000	192,600	\$2,400
Meier, Kurt	207,000	186,300	\$20,700
Olson, Nina	95,000	135,000	(\$40,000)
Porter, William	107,346	180,000	(\$72,654)
Pursley, Mark	135,000	165,500	(\$30,500)
Ratcliffe, Wilbur	342,341	186,300	\$156,041
Shultz, Paul	186,000	181,400	\$4,600
St. Jacques, Michael	65,400	150,000	(\$84,600)
Stricklin, H. James	125,000	165,000	(\$40,000)

This Appendix lists IRS's executives hired under §1201 critical pay authority. Their pay immediately prior to joining the IRS is compared to their IRS salary. This data was provided by the IRS per a JCT 2003 data (132) request.

Individual	Before IRS	Total IRS	Difference
Terry, Thomas	\$199,958	\$186,300	\$13,658
Toder, Eric	147,000	165,000	(\$18,000)
Tootson, Jack	205,016	192,600	\$12,416
Warren, Margaret	93,333	150,000	(\$56,667)
Wisniewski, Brenda	363,600	192,600	\$171,000
Conklin, Bert	204,750	181,400	\$23,350
Conti, Vincent	160,000	135,000	\$25,000
Cosgrave, Paul	463,000	181,400	\$281,600
Cunninghame, Donna	118,400	147,500	(\$29,100)
Eads, James	355,717	192,600	\$163,117
Kehoe, Joseph	1,000,000	192,600	\$807,400
LaFaver, John	90,000	155,100	(\$65,100)
Langdon, Larry	650,000	192,600	\$457,400
Liberti, Thomas	228,700	181,400	\$47,300
Matthews, Mark	185,000	192,000	(\$7,000)
Mazei, Albert	220,000	160,000	\$60,000
Myers, Shelly	115,529	130,000	(\$14,471)
Oveson, Wilford	85,107	144,800	(\$59,693)
Reece, John	219,811	192,600	\$27,211
Rinaldi, Jim	308,118	186,300	\$121,818
Rosenker, Heather	150,000	165,000	(\$15,000)
Yuckenber, Timothy	243,413	186,300	\$57,113
Total	\$12,156,523	\$8,573,900	(\$3,582,623)

This Appendix lists IRS's executives hired under §1201 critical pay authority. Their pay immediately prior to joining the IRS is compared to their IRS salary. This data was provided by the IRS per a JCT 2003 data (132) request. (Continued from previous page.)

VITA

William Meriwether VanDenburgh received a bachelor of Business Administration degree from Millsaps College, in Jackson, Mississippi, in 1988. He is a Certified Public Accountant (inactive) in Louisiana and is an Enrolled Agent (licensed to practice before the IRS). In 1991, he received a Master of Business Administration degree from Loyola University in New Orleans, Louisiana. He received a Master of Science degree in accounting – taxation option from the University of New Orleans (UNO) in 1997. At UNO, he served as an accounting instructor for two semesters after graduation. In 2000, he entered the Louisiana State University Department of Accounting doctoral program. His minor is public administration. Mr. VanDenburgh has accepted a position as an Assistant Professor of Accounting at UNO starting in August of 2004.

Mr. VanDenburgh has published 26 articles in a variety of accounting and tax journals (academic, policy, and practitioner). His work has appeared in *Advances in Taxation* (2 in total), *The CPA Journal* (3 in total), *The Journal of Accountancy*, and *Tax Notes* (9 in total), among other journals.