

**GAO**

Report to the  
Honorable Paul D. Coverdell,  
U.S. Senate

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March 2000

**TAX  
ADMINISTRATION**

**IRS' Low-Income  
Taxpayer Clinic  
Program**



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G A O

Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, D.C. 20548

General Government Division

B-284677

March 24, 2000

The Honorable Paul D. Coverdell  
United States Senate

Dear Senator Coverdell:

This report responds to your request for information on the implementation of the Low-Income Taxpayer Clinic Program authorized by section 3601 of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Restructuring Act).<sup>1</sup> Under this program, IRS is authorized to award matching grants to organizations that (1) provide legal assistance to low-income taxpayers in controversies with IRS or (2) inform individuals for whom English is a second language of their tax rights and responsibilities.

As agreed with your office, this report provides information on (1) the steps IRS has taken to implement the Low-Income Taxpayer Clinic Program; (2) the key tax problems facing low-income taxpayers served by the clinics and the reasons for these problems; (3) the role that the program plays in addressing these taxpayers' problems; and (4) other actions IRS or Congress could consider to address the types of tax problems the clinics are currently facing. This report is based on information provided by IRS officials and the directors of the low-income taxpayer clinics that served taxpayers during fiscal year 1999.

## Results in Brief

IRS has taken a number of actions to implement the Low-Income Taxpayer Clinic Program. After passage of the Restructuring Act in July 1998, IRS (which had limited experience in operating grant programs) sought input from tax practitioners and others regarding the design and operation of the program. It also developed a grant application package and selection and reporting procedures, and put a staff in place to administer the program. Between January and June 1999, IRS published its proposed grant application, finalized and made the application publicly available, and awarded the first grants—totaling nearly \$1.5 million—for fiscal year 1999. Twenty-four grants went to existing clinics; 10 to new clinics.

In the opinion of the directors we contacted, the key tax problems facing taxpayers served by their clinics involved the Earned Income Credit (EIC),

<sup>1</sup>P.L. 105-206 was enacted on July 22, 1998.

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dependency exemptions, and filing status.<sup>2</sup> In their view, problems in these areas resulted primarily because low-income taxpayers have great difficulty understanding and complying with the complexity of the tax laws, particularly as they relate to EIC. Other reasons mentioned by clinic directors included the taxpayers' failure to respond to IRS notices, nontraditional living arrangements, lack of education, and paid preparer fraud and error. Among taxpayers for whom English was a second language, the directors said that language difficulties also contributed to the taxpayers' tax problems.

Clinic directors believed that the Low-Income Taxpayer Clinic Program played an important role by helping some taxpayers resolve tax problems with IRS and promoting compliance through taxpayer education and assistance. In addition, the directors of the clinics that were affiliated with law schools or graduate accounting and business programs reported that participating students also benefited by gaining valuable educational and practical experience dealing with clients and preparing cases. In considering the role clinics might play, it is important to know that they are labor-intensive to operate and, as such, can serve only a small number of low-income taxpayers who are involved in controversies with IRS.

The clinic directors suggested actions that IRS and Congress could consider to address the types of problems facing low-income taxpayers served by their clinics. Suggestions for IRS included providing more taxpayer assistance, conducting more education and outreach activities, simplifying notices and procedures, and developing a more responsive problem-solving system. Suggestions for Congress included simplifying the tax laws, particularly EIC, and providing more funding to IRS for taxpayer assistance.<sup>3</sup>

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## Background

Some professional organizations and legal assistance clinics offer free or reduced-rate assistance to taxpayers involved in controversies with IRS. In addition, IRS sponsors tax clinics staffed by law, business, and accounting school students who have special permission to represent taxpayers in administrative proceedings before IRS. Many of these programs limit their assistance to low-income taxpayers.

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<sup>2</sup>EIC is a refundable tax credit available to low-income, working taxpayers. Both the number of dependents claimed by the taxpayer and the taxpayer's filing status are factors used, in part, to determine the correct amount of tax.

<sup>3</sup>As noted in the Scope and Methodology section, we did not evaluate the directors' suggestions.

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In its report of June 1997, the National Commission on Restructuring the Internal Revenue Service recommended that IRS provide seed money for clinics representing low-income taxpayers. During 1997 and 1998 hearings on taxpayer rights and the restructuring of IRS, witnesses testified about the need for funding to assist these clinics and encourage the development of new clinics. To increase the assistance available to low-income taxpayers in controversies with IRS in order to protect their rights and ensure fair results, Congress included a provision in the Restructuring Act to provide grants for low-income taxpayer clinics.

Section 3601 of the act authorizes the Secretary of the Treasury to provide up to \$6 million a year in matching grants for the development, expansion, or continuation of qualified clinics serving low-income taxpayers. Multiyear grants of up to 3 years may be awarded, but no clinic may receive more than \$100,000 a year. Clinics must provide matching funds on a dollar-for-dollar basis for all grant funds received. Matching funds may include such items as the salary of individuals performing clinic services and the cost of equipment used in the clinic, but not indirect expenses, including general overhead of the organization sponsoring the clinic.

Clinics eligible for grants include those at accredited law, business, or accounting schools and other organizations exempt from tax under section 501(c)(3) of the tax code.<sup>4</sup> To qualify as a low-income taxpayer clinic, a clinic may charge no more than a nominal fee for its services. Qualifying clinics must represent low-income taxpayers in controversies with IRS or operate programs to inform individuals for whom English is a second language about their tax rights and responsibilities. For clinics providing representation, at least 90 percent of the taxpayers represented must have incomes that do not exceed 250 percent of the poverty level as determined in accordance with Office of Management and Budget (OMB) criteria,<sup>5</sup> and the amount in controversy for any taxable year may generally not exceed the amount specified in section 7463 of the tax code.<sup>6</sup>

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## Scope and Methodology

To determine the steps IRS has taken to implement the Low-Income Taxpayer Clinic Program, we interviewed IRS officials in the National Office who are responsible for administering the program, reviewed

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<sup>4</sup>Under 26 U.S.C. 501(c)(3), an organization may qualify for exemption from federal income tax if it is organized and operated exclusively for one or more specified purposes, including charitable and educational purposes.

<sup>5</sup>In 1999, for example, 250 percent of the poverty level was \$20,600 for a family of one; \$27,650 for a family of two; \$34,700 for a family of three; and \$41,750 for a family of four.

<sup>6</sup>This amount is currently \$50,000.

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program documents, and obtained a list of grant recipients for fiscal year 1999 and the amount each recipient was awarded. (App. I lists the recipients and the amount awarded.)

For the remaining objectives, we interviewed the directors<sup>7</sup> of all 22 clinics that conducted qualifying activities<sup>8</sup> during fiscal year 1999 because these directors would have had experience in operating a tax clinic and dealing with low-income taxpayers. To arrive at the 22 clinics from the 34 organizations that received grants for fiscal year 1999, we first excluded the 10 clinics that IRS identified as start-up clinics because they did not anticipate conducting qualifying activities before the end of fiscal year 1999. Next, we contacted the 24 clinics that IRS identified as existing programs<sup>9</sup> and determined that 22 of the 24 programs had actually conducted qualifying activities during the fiscal year 1999 grant period.<sup>10</sup>

We used a semistructured interview to obtain descriptive information on clinic operations and the directors' views on the tax problems faced by low-income taxpayers served by their clinics, the reasons for these problems, and ways for IRS or Congress to address them. We conducted in-person interviews of the directors of five clinics located near our offices in Washington, D.C.; Atlanta, GA; Kansas City, KS; and San Francisco, CA. We interviewed the directors of the remaining 17 clinics by telephone. We did not verify the accuracy of the information provided by the clinic directors. Further, we did not evaluate the effectiveness of the Low-Income Taxpayer Clinic Program or programs operated by individual grant recipients. Also, we did not evaluate the clinic directors' suggestions for how to address the tax problems of low-income taxpayers.

We did our work from October 1999 to January 2000 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Commissioner of Internal Revenue. IRS provided written comments in a March 21, 2000, letter, which is reprinted in appendix II. The comments are discussed near the end of this report.

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<sup>7</sup>For four clinics, we interviewed a representative designated by the clinic director.

<sup>8</sup>"Qualifying activities" mean representing or referring low-income taxpayers in tax controversies with IRS or operating programs to inform individuals for whom English is a second language about their tax rights and responsibilities.

<sup>9</sup>IRS officials defined an "existing program" as a clinic that was in operation but not necessarily doing tax work.

<sup>10</sup>Two programs used their grant for start-up operations and planned to begin conducting qualifying activities during fiscal year 2000.

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## Steps Taken by IRS to Implement the Low-Income Taxpayer Clinic Program

IRS awarded the first grants under the Low-Income Taxpayer Clinic Program in June 1999, providing almost \$1.5 million to 34 of the 43 organizations that applied for matching grants in fiscal year 1999. Before making these grants, IRS had to fund the program and set it up to meet federal grant program requirements.

Congress did not provide direct funding for the program; instead, IRS had to redirect fiscal year 1999 funds appropriated for existing programs to the Low-Income Taxpayer Clinic Program. IRS officials did not know how much money they could make available under the program until late October 1998, when Congress approved the omnibus appropriations bill that included funding for IRS. In that act, Congress authorized IRS to spend up to \$2 million in matching grants for fiscal year 1999, and IRS redirected that amount from existing programs to the Low-Income Taxpayer Clinic Program.

IRS officials told us that it took time to set up the program, because they had limited experience in managing grant programs.<sup>11</sup> To ensure that the program would meet the requirements that apply generally to all federal grant programs, IRS sought assistance from its Office of Chief Counsel and officials in other federal agencies who were knowledgeable about federal grant programs. IRS officials met with tax practitioners who helped draft the low-income taxpayer clinic provision; sought input from the Taxation Section of the American Bar Association; and participated in a tax clinic workshop cosponsored by American University's Washington College of Law and the American Bar Association. With input from these sources and assistance from its Office of Chief Counsel, IRS developed the grant application package, prepared the necessary OMB paperwork, and developed grant selection and reporting processes. A proposed grant application was published for public comment in January 1999, and in April 1999, IRS started accepting applications for grants that would be made for fiscal year 1999.

IRS formed two panels, consisting of National Office and field staff, to review the 43 grant applications that were submitted. A prescreening panel reviewed the applications to determine whether the applicants met the qualifications for participation in the program (see p. 3 for a description of these criteria), then gave each clinic a score. Existing and start-up clinics were evaluated separately. Scores were based on such factors as the

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<sup>11</sup>IRS operates one other grant program, Tax Counseling for the Elderly. Under this program, IRS awards grants to nonprofit organizations to reimburse the out-of-pocket expenses of volunteers who provide tax counseling to people age 60 and older.

quality of the clinic's services,<sup>12</sup> the number of low-income taxpayers who would be served, and the number of people in the clinic's service area for whom English was a second language. A selection panel reviewed and scored the applications of clinics that met the criteria as determined by the prescreening panel. Scores were compared between panels, and a best-qualified list was formed. For organizations that were not accredited academic institutions, IRS officials conducted site visits to ensure that grants went to qualified groups.

In June 1999, IRS awarded almost \$1.5 million in matching grants for fiscal year 1999 to 34 of the 43 organizations that applied for funds under the Low-Income Taxpayer Clinic Program.<sup>13</sup> Twenty-four grants went to existing clinics, and 10 grants went to start-up clinics. Awards ranged in size from \$2,500 to \$100,000<sup>14</sup> and could be used for expenses incurred from October 1, 1998, through September 30, 1999 (see app. I).

IRS officials held an orientation conference for grant recipients in San Antonio, TX, on July 30 and 31, 1999, and paid for two representatives of each grant recipient to attend. The conference covered such topics as statistical reporting, student certification to practice before IRS, and new tax law issues. Experienced tax clinic directors conducted sessions for academic institutions and other tax-exempt organizations on how to set up a low-income taxpayer clinic.

By the end of fiscal year 1999, there were three officials in IRS' National Office who administered the Low-Income Taxpayer Clinic Program. For fiscal year 2000, IRS designated, as additional support, the equivalent of 11 full-time field employees, or one-third of one employee's time per IRS district, to serve as liaisons between the clinics and IRS.

## Key Problems Facing Low-Income Taxpayers

According to the 22 clinic directors we interviewed, the most common tax problems facing low-income taxpayers served by their clinics involved EIC, dependency exemptions, and filing status. In the opinion of clinic directors, these tax problems resulted primarily because low-income taxpayers have great difficulty understanding and complying with the

<sup>12</sup>This factor included such items as qualifications of administrators and qualified representatives; system for monitoring student participation; system for monitoring cases referred, case follow-up, and resolution of cases; and record, if any, in providing service to low-income taxpayers and taxpayers for whom English is a second language.

<sup>13</sup>According to IRS officials, applicants who did not receive funding generally did not provide all the information requested in the grant application or the necessary support.

<sup>14</sup>Only three grantees did not receive the full amount requested.

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complexity of the tax laws, particularly as they relate to EIC. Other reasons mentioned by clinic directors included the taxpayers' failure to respond to IRS notices, nontraditional living arrangements, lack of education; and paid preparer fraud and error. Among taxpayers for whom English was a second language, the directors said that language difficulties also contributed to the taxpayers' tax problems.

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## Earned Income Credit

EIC is a refundable tax credit available to low-income, working taxpayers. It was intended to (1) offset the impact of Social Security taxes on low-income families and (2) encourage low-income families to seek employment rather than welfare. Eligibility for EIC and the amount of the credit are self-determined by the taxpayer in accordance with rules regarding income, residency, qualifying children, and filing status.

Clinic directors reported that problems occurred when taxpayers claimed EIC when they were not entitled to it. For example, divorced parents who share custody of their child might both claim EIC because they both believed the child lived with them for over half the year. Clinic directors also told us that some taxpayers had difficulty providing sufficient proof of their eligibility for EIC—such as Social Security Numbers for children living in foreign countries.

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## Dependency Exemptions

A taxpayer is allowed one exemption for each person who can be claimed as a dependent. An exemption reduces a taxpayer's taxable income by a specified amount.<sup>15</sup> To be claimed as a dependent, the person must meet five tests.<sup>16</sup> If the taxpayer is entitled to claim an exemption for a dependent, that dependent cannot claim a personal exemption on his or her own tax return.

Clinic directors told us that some problems occurred when taxpayers claimed dependency exemptions for people who did not meet these tests or were claimed by another taxpayer, such as in divorce situations where both parents took the dependency exemption even though only one parent was entitled to the exemption. In other cases, taxpayers did not get a Social Security Number for the dependent or did not report it, so the dependency exemption was disallowed.

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<sup>15</sup>For tax year 1999, the amount of an exemption was \$2,750.

<sup>16</sup>The five tests are member of household or relationship to the taxpayer, citizenship, joint return, gross income, and support. These tests are described in detail in IRS Publication 501, Exemptions, Standard Deduction, and Filing Information.

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## Filing Status

Filing status is a category that identifies the taxpayer based on marital status and family situation. Categories include “single,” “married filing jointly,” “married filing separately,” “head of household,” and “qualifying widow(er) with dependent child.” Filing status is an important factor in determining whether a person is required to file a tax return, the amount of the standard deduction, and the correct amount of tax. It is also important in determining whether the taxpayer is eligible to take other deductions and credits, such as EIC. Clinic directors told us that some problems occurred when taxpayers incorrectly reported their filing status—for example, as “married filing jointly” when their filing status had changed during the tax year to “head of household.” In other cases, taxpayers who are not legally separated might misreport their filing status as “head of household” instead of “married filing separately.”

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## Reasons for Key Taxpayer Problems

In the opinion of clinic directors, low-income taxpayers had problems with EIC, dependency exemptions, and filing status primarily because of their inability to understand and comply with the complexity of the tax laws, particularly as they relate to EIC.

The taxpayer self-determines eligibility for EIC and the amount of the credit in accordance with rules regarding income, residency, qualifying children, and filing status. Clinic directors told us that low-income taxpayers had difficulty understanding these rules, particularly the definitions of “qualifying child” and “household.” Clinic directors told us that understanding these rules was more difficult, because many low-income taxpayers live in extended, rather than traditional families.<sup>17</sup> Further, the support test for a qualifying child for EIC purposes differed from that of dependency exemptions, creating confusion for some taxpayers.

Clinic directors attributed some EIC problems to paid preparer fraud and error. In these cases, preparers completed returns with incorrect or fraudulent EIC claims, which resulted in large refunds for the taxpayers and larger fees for the preparers. In some cases, refunds were diverted to the paid preparers, who had used their own address, instead of the taxpayer’s, for the refund. In any case, the taxpayer is liable for repaying the portion of any refund that results from a fraudulent claim.

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<sup>17</sup>These views are consistent with the Department of the Treasury’s analysis of an IRS study of tax year 1994 EIC filers. According to Treasury’s analysis, the three most common causes of EIC noncompliance were (1) taxpayers claiming qualifying children who did not reside with them for over half the year, (2) taxpayers claiming the wrong filing status, and (3) complicated living arrangements involving more than one custodial caregiver.

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Clinic directors mentioned other factors contributing to tax problems, including the taxpayers' failure to respond to IRS notices, nontraditional living arrangements, and lack of education. Language difficulties contributed to tax problems among taxpayers for whom English was a second language. Clinic directors told us that tax problems often turned into collection problems when low-income taxpayers did not respond to IRS notices.

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## Program's Role in Addressing the Problems of Low-Income Taxpayers

Of the 22 clinics we contacted, 14 were affiliated with academic institutions, and 8 were affiliated with other tax-exempt organizations. These clinics represented low-income taxpayers in tax-related matters or referred them to qualified representatives, and for those for whom English was a second language, the clinics operated programs that provided information about their tax rights and responsibilities. While clinic directors reported positive outcomes for the taxpayers served, their clinics could serve only a limited number of taxpayers because of the way they operate.

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## Clinics Affiliated With Academic Institutions

Of the 14 clinics affiliated with academic institutions, 12 were part of the curriculum of accredited law schools, and 2 were part of graduate accounting or business programs. Many of the schools had participated in the IRS-sponsored Student Tax Clinic Program, and over half had been operating tax clinics more than 5 years. Clinic directors told us that the purpose of these tax clinics was primarily educational—that is, to provide students with practical experience in handling cases and in dealing with taxpayers. At the same time, the clinics helped low-income taxpayers who were unable to afford professional representation or assistance.

Academic clinics were directed by faculty members who, with help from other faculty members or professionals, supervised and trained students to represent and assist taxpayers in disputes before IRS and in tax court. The students, who were generally second- and third-year law students or graduate accounting or business students, received course credit for their tax clinic work. About two-thirds of the academic clinics were open year round. The remaining clinics were open to coincide with the academic year. Directors of clinics affiliated with academic institutions told us that most matching funds were provided by the host academic institution and included such items as faculty salaries and equipment.

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## Clinics Affiliated With Other Tax-Exempt Organizations

Of the eight clinics affiliated with other tax-exempt organizations, seven were sponsored by professional associations, community service organizations, or legal aid organizations that provided tax assistance to low-income persons as one component of their program. The remaining

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clinic was sponsored by an organization devoted exclusively to providing tax assistance to low-income taxpayers. The primary purpose of tax clinics run by these other tax-exempt organizations was public service, that is, to help low-income taxpayers by providing legal representation and informing them of their tax rights and responsibilities.

Some clinics, such as legal aid clinics, had staff qualified to handle tax matters. However, most clinics referred cases to local tax professionals who volunteered to do pro bono work. Generally, the clinics affiliated with tax-exempt organizations were open year round to coincide with the hours of the parent organization. Two clinics that only provided assistance in preparing tax returns were only open during the tax filing season (January through April). Directors of clinics affiliated with other tax-exempt organizations told us that matching funds generally came from such entities as foundations, individuals, and private corporations, rather than the sponsoring organization, and included such items as volunteer time, donated equipment, and cash donations.

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## Representation and Referral Programs

Twenty of the 22 clinics provided representation to low-income taxpayers in disputes with IRS or referred taxpayers to qualified representatives, including the 14 academic clinics and 6 of the other tax-exempt clinics. Clinic directors said that taxpayers who came to the clinics for legal assistance had learned about their services from a variety of sources, such as newspaper articles, posters, and flyers. However, most taxpayers came to the clinics, because they had received an IRS notice, accompanied by an informational letter publicizing the clinic's services.

Clinics screened all potential clients who sought assistance to ensure that they met the program's criteria and other criteria the clinic used to determine eligibility for its services. Clinic directors told us that taxpayers were most often turned away because they did not meet the income requirements of the program. Clinics also turned away cases that lacked legal merit and cases where the amount in controversy exceeded program or clinic criteria, among other reasons. Cases that met the clinic's criteria were handled by clinic staff or referred to qualified professionals.

The 20 clinics representing low-income taxpayers in tax disputes handled about 625 cases during fiscal year 1999. The vast majority of these cases involved collection and tax court matters, and the remainder consisted of examination, appeals, and other matters.<sup>18</sup>

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<sup>18</sup>“Other matters” include, for example, those involving notices from IRS service centers regarding failure to file tax returns and math errors on individual tax returns.

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## Information Programs

Twelve of the 22 clinics, including 5 academic clinics and 7 other tax-exempt clinics, operated programs to inform taxpayers for whom English is a second language of their tax rights and responsibilities. Generally, according to the directors, this assistance was provided in the taxpayers' native language. Examples of qualifying activities included programs that assisted targeted taxpayers in the preparation of federal tax returns and educational programs conducted by a clinic and attended by targeted taxpayers. Among the clinics operating information programs, six reported that they provided taxpayer assistance, such as tax return preparation; six provided educational programs; and six provided other services, such as community outreach.

Measuring the number of targeted persons reached by these 12 clinics would be difficult because of the nature of these information activities. One clinic, for example, held an educational program attended by 15 people, and another clinic assisted almost 550 targeted taxpayers in preparing their tax returns. A third clinic conducted community outreach and media campaigns that targeted over 100,000 persons; however, the clinic had no way of knowing for certain how many people were reached.

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## Clinic Directors Reported That Their Clinics Helped Taxpayers and Promoted Compliance

In the opinion of the 22 clinic directors we interviewed, the most important outcomes of their programs were helping low-income persons resolve tax problems and promoting compliance through taxpayer education and assistance. These outcomes are consistent with the activities that qualify tax clinics for IRS matching grants—representing or referring taxpayers in controversies with IRS and operating programs to inform taxpayers for whom English is a second language of their tax rights and responsibilities. Another important program outcome for the directors of clinics affiliated with law schools or graduate accounting programs was giving participating students valuable educational and practical experience dealing with clients and preparing cases.

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## Low-Income Clinics Can Serve Only a Limited Number of Taxpayers

While the directors of the 22 clinics reported positive outcomes for the low-income taxpayers they served, the way these clinics operate limits the number of taxpayers they can serve. In clinics affiliated with academic institutions, students assist taxpayers in controversies with IRS. The number of students who can participate is limited because students, who are not professionally licensed to represent taxpayers, must work under the close supervision of faculty members or other qualified professionals. This low faculty-to-student ratio limits the number of students who can work in a clinic and the number of taxpayers the clinic can represent. Altogether, about 220 students participated in the 14 clinics affiliated with

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academic institutions during fiscal year 1999 and handled almost 600 cases.

Few clinics affiliated with other tax-exempt organizations had staff qualified to do tax work, according to the clinic directors we interviewed. Instead, most referred cases to local tax professionals who volunteered to do pro bono work. However, there are limits to the number of professionals willing to take on pro bono work, the amount of time they can spend on such work, and as a result, the number of pro bono tax cases they can handle.

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## Clinic Directors Suggested Ways for IRS and Congress to Help Low-Income Taxpayers

Clinic directors suggested various actions that IRS and Congress could consider to address the problems facing low-income taxpayers served by their clinics. Suggested actions for IRS focused on four areas—providing more taxpayer assistance, conducting more taxpayer education and outreach activities, simplifying notices and procedures, and developing a more responsive problem-solving system. Suggested actions for Congress included simplifying the tax code, especially EIC, and providing more funding for IRS' taxpayer assistance programs.<sup>19</sup>

Our past work<sup>20</sup> and that of others have made similar observations. Most recently, in his 1999 annual report to Congress, the National Taxpayer Advocate identified tax complexity as the most serious problem facing taxpayers. The same report identified EIC, dependency exemptions, and head-of-household filing status as 3 of the 10 most litigated issues for individual taxpayers. As a result, many of the clinic directors' suggestions are not new. For example, the suggestion to simplify the tax code has also been made by the National Taxpayer Advocate and many others.

As we have also reported,<sup>21</sup> in considering these observations, it is important to recognize that the tax code did not come about by happenstance. Rather, it reflects many decisions and compromises made by Congress and administrations to accomplish their policy goals.

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## Actions IRS Could Consider

Clinic directors offered many suggestions for actions that IRS could consider to address the problems of low-income taxpayers. Some suggestions for IRS to provide more taxpayer assistance included

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<sup>19</sup>As noted in the Scope and Methodology section of this report, we did not evaluate these suggestions.

<sup>20</sup>Earned Income Credit: IRS' Tax Year 1994 EIC Compliance Study (GAO/GGD-98-150, July 28, 1998); and Tax Administration: Earned Income Credit Noncompliance (GAO/T-GGD-97-105, May 8, 1997).

<sup>21</sup>Small Business: Taxpayers Face Many Layers of Requirements (GAO/T-GGD-99-76, Apr. 12, 1999).

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increasing the number of toll-free taxpayer help lines, assigning more staff to the toll-free line, providing better trained staff to assist taxpayers, and making available some type of bilingual assistance. Clinic directors told us, for example, that it is difficult to get help using the toll-free lines. It has been their experience that the telephone line is often busy, and the assistors who take the calls may not be able to answer the taxpayers' questions or communicate with taxpayers who do not speak English fluently.<sup>22</sup>

As part of IRS' education and outreach activities, clinic directors suggested that IRS

- work with the clinics to develop outreach programs;
- conduct outreach efforts in areas frequented by low-income taxpayers; and
- provide more bilingual representation at IRS' educational programs.

Regarding notices and procedures, clinic directors suggested that IRS

- improve the readability of its forms, notices, and instructions;
- issue bilingual notices;
- simplify the power-of-attorney procedure so that clinic caseworkers do not have to prove constantly to IRS that they represent the taxpayer;
- make the offer-in-compromise process more flexible by allowing necessary living expenses based on geographic variations; and
- be more reasonable about the proof of eligibility for EIC.

To create a more responsive problem-solving system, clinic directors suggested that IRS

- broaden the authority and discretion of the taxpayer advocates to resolve cases,
- reduce the number of case review levels,
- expand the problem solving days program,
- develop an action plan to address a taxpayer's problem and include it with the initial IRS notice, and
- provide enough qualified staff to handle tax court cases using small case procedures.

Another suggestion was that IRS provide one point of contact for a taxpayer seeking help in solving a problem. Having fewer people in contact

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<sup>22</sup>For a discussion of taxpayer difficulties in accessing IRS' telephone service in 1999, see [Tax Administration: IRS' 1999 Filing Season](#) (GAO/GGD-00-37, Dec. 15, 1999).

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with the taxpayer could improve efficiency and could result in a quicker resolution of a low-income taxpayer's problem.

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## Actions Congress Could Consider

Clinic directors also offered suggestions for actions that Congress could consider to address the problems of low-income taxpayers. Most frequently, clinic directors said that Congress could simplify the tax code, especially the provisions related to EIC. Other suggestions made by clinic directors related to the funding of taxpayer assistance programs, including the Low-Income Taxpayer Clinic Program.

Clinic directors suggested that Congress could address the problems of low-income taxpayers by simplifying the tax code. General areas for simplification included EIC, dependency exemptions, and filing status. Other suggestions included clarifying provisions for taxpayers in nontraditional living arrangements, and setting uniform income levels for qualifying or not qualifying for programs or tax credits. As for specific actions, one director suggested changing the penalty provisions related to improperly claiming EIC so that the taxpayer is not penalized for failure to understand the eligibility requirements or for the actions of a fraudulent or uninformed preparer. Another director suggested passing the EIC benefit to the taxpayer as a direct subsidy with easily understood requirements, rather than as a tax credit.<sup>23</sup>

Other suggestions for congressional action related to the funding of taxpayer assistance programs. Clinic directors suggested that Congress give IRS more funding so that more staff are available to assist taxpayers, particularly on the toll-free help line. Directors also told us that Congress should continue to fund programs, such as the Low-Income Taxpayer Clinic Program, to educate and assist low-income taxpayers. However, as noted by one clinic director, even if there were a tax clinic at every educational institution, there would not be enough clinics to address all the problems of low-income taxpayers.

Clinic directors offered suggestions regarding funding and eligibility standards for program participation. Some suggestions included making the program a line item in IRS' budget to ensure that IRS funds the program at its authorized level and aligning the program's grant period with the academic, rather than fiscal, year. One director suggested that Congress could enable IRS to make a funding commitment to a clinic for 3 years instead of 1 year, so that clinics could hire better qualified personnel

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<sup>23</sup>For recent GAO work related to EIC, see GAO/GGD-98-150, July 28, 1998 and GAO/T-GGD-97-105, May 8, 1997.

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and allocate their resources better. The director explained that the uncertainties created by year-to-year funding make faculty members and other qualified tax professionals reluctant to work in the tax clinics.

Some directors said that Congress could make it easier for tax clinics to operate by providing more flexibility in program requirements. Specific suggestions included expanding eligibility requirements to include taxpayers with incomes greater than 250 percent of the poverty level; using a poverty level that adjusts for geographic differences in the cost of living; and allowing clinics affiliated with academic institutions to take cases based on academic value, not income standards. Expanding eligibility standards would enable clinics to help more taxpayers who have valid cases but cannot afford paid representation.

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## Concluding Observations

Low-income taxpayer clinics can benefit both IRS and taxpayers who otherwise may not be able to afford representation for their tax problems or find dealing with IRS too daunting. IRS has recognized the value of making tax help accessible to low-income taxpayers and has taken a number of positive actions to get the new grant program up and running. Because of the nature of clinics and how they operate, however, they generally can only serve a small number of taxpayers. Accordingly, the clinics cannot be viewed as a panacea for addressing the problems of large numbers of low-income taxpayers.

As some clinic directors noted and our work has shown, there are other actions that could be taken that would also help low-income taxpayers in their dealings with IRS. Some, such as conducting more outreach and education and simplifying notices, could help prevent problems from occurring. Others, such as providing more access to taxpayer assistance, could make it easier for taxpayers to resolve problems earlier in the process, when they first occur. As IRS moves forward in its modernization plans, it expects to improve services to all taxpayers and diversify these services to reflect the different needs of particular groups of taxpayers. Presumably, in doing so, IRS will continue to include the grant program as part of its larger strategy to help people understand and meet their tax responsibilities.

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## Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Commissioner of Internal Revenue. IRS provided written comments in a March 21, 2000, letter, which is reprinted in appendix II.

IRS found that the draft report accurately captures its progress in implementing the Low-Income Taxpayer Clinic Program. In addition, IRS

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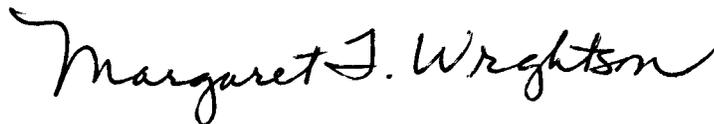
mentioned several ways that it is already addressing many of the concerns raised by clinic directors. These include establishing an EIC coordinator in each IRS district to plan and implement EIC education and outreach activities, revising IRS notices to make them easier to understand, and making the offer-in-compromise process more flexible.

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As agreed, unless you announce the contents of this report earlier, we plan no further distribution of this report until 30 days from its date of issue. At that time, we will send copies of this report to the Commissioner of Internal Revenue and make copies available to others upon request.

If you have any questions regarding this letter, please contact me or Joseph Jozefczyk at (202) 512-9110. Key contributors to this assignment were Susan Malone and Joseph Lenart, Jr.

Sincerely yours,

A handwritten signature in black ink that reads "Margaret J. Wrightson". The signature is written in a cursive style with a large, looping initial "M".

Margaret T. Wrightson  
Associate Director, Tax Policy  
and Administration Issues

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## Abbreviations

EIC	Earned Income Credit
IRS	Internal Revenue Service
OMB	Office of Management and Budget

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# Low-Income Tax Clinic Grant Recipients for Fiscal Year 1999

Organization	Location	Type of service	Type of program	Existing or start-up	Amount awarded
Accounting Aid Society	Detroit, MI	ESL <sup>a</sup>	Other tax-exempt <sup>b</sup>	Existing	\$22,450
American University	Washington, DC	Rep <sup>c</sup>	Academic (Law School)	Existing	100,000
Budget & Financial Management Assistance	Kansas City, MO	ESL/Rep	Other tax-exempt	Existing	21,000
California State University, Hayward	Hayward, CA	Rep/ESL	Academic (Business/Accounting)	Existing	55,000
Center for Law and Human Services	Chicago, IL	Rep	Other tax-exempt	Existing	62,674
Central American Resource Center	Washington, DC	ESL	Other tax-exempt	Start-up	15,000
Central California Legal Services	Fresno, CA	Rep/ESL	Other tax-exempt	Existing	10,461
Chapman University School of Law	Orange, CA	Rep	Academic (Law School)	Existing	65,100
Chicago Kent College of Law	Chicago, IL	Rep	Academic (Law School)	Existing	77,877
Community Legal Services, Inc.	Phoenix, AZ	Rep/ESL	Other tax-exempt	Existing	24,318
DNA-People's Legal Services, Inc.	Window Rock, AZ	Rep	Other tax-exempt	Start-up	9,324
Duquesne University School of Law	Pittsburgh, PA	Rep	Academic (Law School)	Start-up	15,947
Georgia State University College of Law	Atlanta, GA	Rep/ESL	Academic (Law School)	Existing	99,656
Korean Resource Center	Los Angeles, CA	ESL	Other tax-exempt	Existing	12,658
Lincoln University	Chester, PA	ESL	Academic (Business/Accounting)	Start-up	19,379
Loyola University Chicago School of Law	Chicago, IL	Rep	Academic (Law School)	Existing	12,000
Maryland Volunteer Lawyers Service	Baltimore, MD	Rep	Other tax-exempt	Start-up	27,487
Quinnipiac College School of Law	Hamden, CT	Rep	Academic (Law School)	Existing	25,025
Rutgers, The State University of New Jersey	Piscataway, NJ	Rep	Academic (Law School)	Existing	99,988
The Community Tax Law Project	Richmond, VA	Rep/ESL	Other tax-exempt	Existing	100,000
The George A. Wiley Center	Pawtucket, RI	Rep	Other tax-exempt	Start-up	27,905
The University Corporation-California State University, Northridge	Northridge, CA	Rep	Academic (Business/Accounting)	Start-up	18,644
University of Arkansas at Little Rock School of Law	Little Rock, AR	Rep	Academic (Law School)	Start-up	4,225
University of Connecticut School of Law	Hartford, CT	Rep	Academic (Law School)	Start-up	26,340
University of Denver College of Law	Denver, CO	Rep	Academic (Law School)	Existing	27,667
University of Idaho College of Law	Moscow, ID	Rep/ESL	Academic (Law School)	Existing	32,690
University of Miami School of Law	Coral Gables, FL	Rep	Academic (Law School)	Start-up	40,000
University of Minnesota School of Law	Minneapolis, MN	Rep	Academic (Law School)	Existing	40,060
University of Missouri-Kansas City Tax Law Foundation	Kansas City, MO	Rep	Academic (Law School)	Existing	91,841
University of North Carolina at Greensboro	Greensboro, NC	ESL/Rep	Academic (Business/Accounting)	Existing	100,000
University of Pittsburgh	Pittsburgh, PA	Rep	Academic (Law School)	Existing	22,760
University of San Diego School of Law	San Diego, CA	Rep	Academic (Law School)	Existing	60,004
Villanova University School of Law	Villanova, PA	Rep	Academic (Law School)	Existing	88,287
Washington DC Center for Public Interest Tax Law	Washington, DC	Rep	Other tax-exempt	Existing	2,500
<b>Total</b>					<b>\$1,458,267</b>

<sup>a</sup>"ESL" means a program to inform individuals for whom English is a second language of their tax rights and responsibilities.

<sup>b</sup>"Other tax-exempt" means a program operated by an organization, other than an academic institution, described in section 501(c) of the tax code and exempt from tax under section 501(1).

<sup>c</sup>"Rep" means a program to represent or refer low-income taxpayers in controversies with IRS.

Source: IRS.

# Comments From the Internal Revenue Service



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

COMMISSIONER

March 21, 2000

Ms. Margaret T. Wrightson  
Associate Director, Tax Policy  
and Administration Issues  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Wrightson:

Thank you for the opportunity to review and comment on GAO's draft report entitled "Tax Administration: IRS' Low Income Taxpayer Clinic (LITC) Program (Job Code 268890). The report accurately captures our progress with Low Income Taxpayer Clinics. Thank you for acknowledging a number of actions we have taken to implement this program. Since Fiscal Year 1999, the pilot year of the program, the number of clinics participating in the LITC program has more than doubled reflecting the effectiveness and success of the program.

The Internal Revenue Service (IRS) is already addressing many of the concerns raised by the directors, such as:

- We have established a full-time Earned Income Tax Credit (EITC) coordinator in every district. These coordinators are responsible for planning and implementing EITC education and outreach activities in their districts. They partner with community and faith-based organizations, local government agencies, employers, and others to get the word out to taxpayers about EITC. Many EITC coordinators work with their District Office Research and Analysis analysts to pinpoint neighborhoods where EITC-eligible taxpayers are most likely to live, so that education and outreach activities can be targeted to these communities.
- We provided Volunteer Income Tax Assistance, Tax Counseling for the Elderly, and walk-in sites with additional computers for this filing season. As a result, more EITC returns can be e-filed than in previous years, and taxpayers can get their refunds more quickly.
- We have rewritten EITC related notices to make them easier to understand.
- We have redesigned EITC related forms and publications to make them more user-friendly, and to emphasize the eligibility criteria for the EITC.

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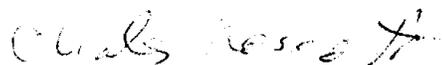
- We have established unique toll-free numbers in seven service centers for taxpayers when they receive a notice regarding a return under examination in a service center. The availability of these toll-free numbers encourages low-income taxpayers to call IRS to resolve issues expeditiously. We plan to establish toll-free numbers for the remaining three service centers by the end of this year.
- We are making progress to improve the language, clarity and tone of our notices and outgoing correspondence. This should minimize the need for taxpayers to contact us and facilitate any issues needing resolution.
- We are making great strides in the area of bilingual assistance. We have engaged a contractor to provide multi-lingual interpreter service in 21 Tax Assistance Centers. We are waiting for the completion of the current filing season to analyze the data gathered to determine the expansion and development of this program.

In addition, the suggestion offered by clinic directors to make the Offer in Compromise process more flexible by allowing necessary living expenses based on geographic variations, is already in place. The IRS established "allowable expenses" based on data from the Bureau of Labor Statistics Consumer Expenditure Survey. Allowable expenses are used when analyzing financial statements or ability to pay based on where the taxpayer lives.

We are currently incorporating problem solving techniques into our business processes at taxpayer assistance centers and IRS offices nationwide. Under the new organization, taxpayers will be able to call and set up appointments to resolve problems at the IRS office in their area.

If you have any questions or require additional information, please let me know or your staff may contact Robert C. Wilkerson, Assistant Commissioner (Customer Service) at (202) 622-5044.

Sincerely,



Charles O. Rossotti

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