2015 TAX FILING SEASON AND GENERAL OPERATIONS AT THE INTERNAL REVENUE SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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2015 TAX FILING SEASON AND GENERAL OPERATIONS AT THE INTERNAL REVENUE SERVICE

WEDNESDAY, APRIL 22, 2015

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:05 a.m., in Room 1100, Longworth House Office Building, the Honorable Peter Roskam [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

COMMITTEE ON
WAYS AND MEANS
CHAIRMAN PAUL RYAN

Expanding American Trade with Accountability and Transparency

House Committee on Ways and Means Chairman Paul Ryan (R-WI) today announced that the Committee on Ways and Means will hold a hearing on the expanding American trade with accountability and transparency. **The hearing will take place Wednesday, April 22, 2015, at 3:00 PM in Longworth 1100.**

A list of witnesses will follow. Oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

Details for Submission of Written Comments:
Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, February 10, 2015**. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-2610.

Formatting Requirements:
The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.
1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.
3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.
The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/.

Chairman ROSKAM. The committee will come to order.

Welcome to the updated Ways and Means hearing room, and I am told that this is the first committee activity here.

So, Commissioner, you are here on a great day, and we very much appreciate you coming.

What we will do today is we will go through two rounds of questions. As Members come in and so forth, they will have the opportunity to ask questions. We will move this as expeditiously as possible.

This is the third hearing of the 114th Congress of the Oversight Subcommittee, and today we will review the 2015 tax return filing season and general operations at the Internal Revenue Service.

Obviously, the American people have the right to expect excellence from their government, including the Internal Revenue Service. This is a standard that is familiar to ordinary Americans every day in their jobs and their family lives and it is a standard that is especially important in light of the tremendous power that they have delegated to their government to perform key functions and administer them fairly and effectively.

Last week, the House of Representatives passed a Taxpayer Bill of Rights to make those rights of individuals the law when they deal with the IRS, and one of those rights is the right to quality service. And, unfortunately, many taxpayers didn't receive quality service this filing season, and many didn't receive any assistance at all. And today one of the things that we will discuss is why.

For the filing season 2015, the IRS reported that only 54 percent of taxpayers who called the agency were able to talk to a live assister. And, by April, the IRS estimated that the telephone level of service was less than 40 percent. Keep in mind, that the IRS' goal for customer service is 80 percent. Those who could get through at all had to wait an average of 34 minutes, over 15 minutes longer than last year. The number of abandoned calls increased by 1.3 million. The IRS also reported that, as of April 8, the number of courtesy disconnects, which is a nice way of saying that the system automatically hangs up because the wait time would have been too long, it actually reached 5 million.

The IRS has blamed the decline in customer service on budget cuts, and that is a premise that we are here to discuss. I think that is the focal point of our discussion today, and that is a premise that I personally challenge. I am of the view that it was the IRS who cut customer service, but we will have an opportunity to discuss that in further detail.

The amount of money that Congress appropriated to the IRS for taxpayer assistance was the same as last year, but the service was decreased drastically. In fact, the Commissioner said the taxpayer assistance this year was abysmal.

So what happened? The IRS made the decision to move money away from taxpayer assistance. The IRS has access to its user fee account, which includes fees collected for various IRS services. Last year, the IRS spent $183 million of its user fee or 44 percent of the total user fee account on taxpayer services, but that didn't happen this year.

This year, the IRS only plans to spend $49 million in user fees on taxpayer service. That is $134 million less than last year. That is a 73-percent cut. So if the IRS had used that $134 million to answer calls for assistance, it could have helped 16 million people.

At the same time the IRS was diverting user fees from taxpayer assistance, it also was failing to allocate the resources it already had available in a wise manner. For 2014, the IRS spent $60 million on performance bonuses for employees, and in recent years, bonuses have also been paid to more than a thousand IRS employees who are delinquent on their own taxes. Fiscal year 2014 bonus money could have been used to answer 7.2 million additional taxpayer phone calls. The IRS also spent $23.5 million and over 491 hours on union time in 2014. That could have been used to answer nearly 2.5 million calls.

The IRS recently hired an expensive law firm to conduct litigation activities with some lawyers on the account billing the U.S. Government at over $1,000 an hour. This makes no sense to me since taxpayer money already goes to pay the salaries of IRS and DOJ attorneys who would be able to perform these duties. The IRS gave the law firm a $2.1 million contract, and that money could have instead helped 252,000 people resolve their tax filing questions.

The IRS has also complained specifically about the impact of budget cuts on its enforcement resources, characterizing them as a tax cut for tax cheaters. But the IRS could increase its enforcement budget by over $100 million every year through third-party debt collectors using the authority it has under current law, which is widely used in other aspects of the Federal Government.

Sequestration has forced everyone to do more with less and make tough choices, but I am concerned that the IRS by its own admission is saying, Let's do less with less. And the IRS' choices—and I would argue that they are choices—on how to allocate resources have been deeply disappointing. They don't meet the reasonable expectations of the American people, and I am of the view that the IRS needs to do better.

Finally, there is another issue that continues to be a matter of serious public concern and, that is, is the IRS auditing someone because they don't like someone? Through this committee's investigation of IRS targeting, we found that senior IRS employees defied internal safeguards to decide who should be audited. In part of this fact finding, I asked the IRS to tell us how many audits are started because someone inside or outside the IRS complains about a given taxpayer, and the answer was jarring. More than one of four audits are started on the basis of internal or external complaints, that is, on the basis of the IRS' own discretion.

I think what we need to learn is whether there are any meaningful safeguards in place to prevent the IRS from auditing people or groups that it simply doesn't like or if taxpayers are simply at the mercy of the IRS under this tremendous amount of discretion. So the question that we need to explore and discuss today is, could Lois Lerner 2.0 happen? We need more than a simple assurance that just "Lois doesn't work here anymore."

The American people deserve excellence from their government, and they have the fundamental right to always receive fair service at the IRS regardless of their personal political views.

It is my hope that this hearing and, Commissioner, your presence today and willing to interact and engage with us will bring light and clarity to these issues as we both work to try and make the IRS the agency that it needs to be.

With that, I am pleased to yield to my friend, the Ranking Member, for his opening statement.

Mr. LEWIS. Good morning. Thank you, Mr. Chairman, for holding this important hearing today. It is good to be back in our room. Good to be at home again.

Mr. Commissioner, thank you for being here today and congratulations to you and your staff on a successful filing season. Last week we passed seven bipartisan bills on the House floor, all focused on improving our IRS operation. Now is the time for Congress to ensure that the agency has the resources it needs to properly serve American taxpayers and, just like last week, I hope that it will be a bipartisan effort.

Taxpayers are struggling, through no fault of their own. This committee and this Congress must do more to increase and expand taxpayer services. Unfortunately, during this filing season, taxpayers finally felt the pain of the Republican $1.2 billion cut to the agency budget. The IRS budget is now less than it was 6 years ago.

Taxpayer service this filing season was not good. It was terrible. This was not the fault of hard-working IRS employees. National Public Radio recently ran a story called "IRS Budget Cuts Make for Nightmarish Filing Season." Taxpayers seeking assistance from the IRS waited in line for hours. One of 4 in 10 taxpayers who called the agency were able to talk to a customer service representative.

The NBC–WIA local television station in Atlanta reported that thousands of people waited for hours to get answers to their questions at the IRS Atlanta regional office. In Georgia, the National Treasury Employee Union said the wait time was the result of Federal budget cuts. The union said that Georgia had lost nearly 1,900 IRS employees since 2011. Sadly, taxpayers are facing this same challenge across the country.

According to press reports in New York, one IRS office even ran out of paper to print extra tax form after taxpayers waited in long lines for hours. The union said that New York has lost nearly 1,200

IRS employees since 2011. This is not right, this is not fair, and this is not just.

Taxpayers should not suffer to further the Republican agenda. The majority of the budget cuts are the result of the IRS investigation into the process of tax-exempt application. This investigation started nearly 2 years ago in May 2013. The agency has spent more than $20 million to produce more than 1,300,000 pages of documents, including 78,000 emails from Ms. Lois Lerner. To this day, there has been—not been one shred of evidence produced to support the Republican claim that the processing or application was politically motivated and intended to target the President's political enemies.

The inspector general even stated that no one outside of the agency was involved in setting the standard for processing tax-exempt applications. It is time to put political agendas aside and work together to provide this agency with the resources it needs to improve taxpayer service and collect revenue. I ask all of my colleagues on the other side to join us in this effort.

Thank you, Mr. Chairman. And I yield back.

Chairman ROSKAM. Thank you, Mr. Lewis.

Commissioner Koskinen, welcome. You are recognized for 5 minutes.

And we have your written testimony for the record.

Welcome.

STATEMENT OF THE HONORABLE JOHN KOSKINEN, COMMISSIONER, INTERNAL REVENUE SERVICE, WASHINGTON, D.C.

Mr. KOSKINEN. Thank you, Mr. Chairman, Ranking Member Lewis, Members of the Subcommittee.

I appreciate the opportunity to update you on the 2015 tax filing season. And, as the chairman noted, it is a pleasure to be here in your redesigned room after we had a hearing in the basement. So it is a nice atmosphere.

In describing the filing season, as I said, it is the start of Dickens novel: It is the best of times; it is the worst of times.

Let's begin with the best of times. I am pleased to report that the 2015 filing season has gone smoothly in terms of tax return processing and the operation of our IT systems. Thus far, the IRS has received more than 132 million individual tax returns on the way to an expected total of 150 million. We have issued more than 91 million refunds for more than $248 billion. To further illustrate how well things worked, our system accepted a record 5.2 million individual returns electronically on April 15, the final day of the filing season.

At times that day, our systems were acknowledging receipts of electronically filed returns at a rate of more than 200 returns per second. Return processing this filing season has gone even better than anticipated, given the challenges we faced beforehand.

Along with our normal preparations, we also had to prepare for tax-related provisions under the Affordable Care Act as well as the Foreign Account Tax Compliance Act. There was also late extender legislation passed in December. Integrating all of these changes into our antiquated IT systems and still opening filing season on time on January 20 was a great accomplishment by our experienced and dedicated employees.

Now a word about the worst of times. Return processing went smoothly if you were simply filling out your return without questions or a need to contact us. But for taxpayers who did need to contact us, it has been a very different and much less positive story as reflected in the chairman's opening comments. Customer service, both on the phone and in person, has been far worse than anyone would want. It is simply a matter of not having enough people to answer the phones and provide service at our walk-in sites as a result of cuts to our budget. We are dismayed by the reports of taxpayers who lined up outside our taxpayer assistance center hours before they opened in order to get service. Taxpayers who called us have had long wait times on the phones. On bad days, fewer than 40 percent of the calls were able to reach a live assister and that was often after a 30-minute wait or longer. This has been frustrating, not just for taxpayers, but also for the IRS customer services representatives who want to have the resources to be able to provide much better customer service, the customer service that our employees feel taxpayers deserve.

Another less visible area of concern for us in regard to customer service involves taxpayer correspondence. Our goal is to answer taxpayers within 45 days after we receive a letter. But this year we have been taking much longer to respond as a result of personnel shortages, and our correspondence inventory is growing because budget cuts forced us to shorten the period of employment for seasonal employees who help with these letters. It is now taking us an average of about 70 days to answer taxpayer correspondence, and that could reach 90 days by the end of the fiscal year. We estimate that the inventory of unanswered correspondence could grow almost 50 percent above our year-end goal of 1 million pieces of correspondence.

In requesting adequate resources to allow us to improve taxpayer service, it is important to point out that our goal is not simply to obtain funding to go backwards in time and perform the way we used to. We intend to build toward a new approach that centers on improving online help to taxpayers who increasingly expect and desire that type of service. While taxpayers can now go online to get tax information from us and download IRS forms, they should have a more complete online filing experience.

If we had sufficient funding, our goal would be for taxpayers to have a secure, online IRS account and use that as the basis for their interactions with us. Taxpayers would be able to fulfill their tax obligations virtually with little or no need to call, send us a letter, or visit an IRS office.

Looking ahead to next year, we are concerned that the 2016 filing season will be another challenging one. Complicating matters is the work ahead for us to continue implementing the tax-related provisions of the Affordable Care Act for the next filing season, along with the expanded requirements of the Foreign Account Tax Compliance Act. And we expect another round of tax extender legislation later in the year, which we hope will be passed well in advance of December.

Another page here. Someplace.

So it is possible that when I testify next year on the 2016 filing season, the report on the return processing front may not be as good as it was this year. The employees of the IRS will continue to do everything they can to effectively and efficiently deliver next year's filing season, but we need help. We need the Congress to pass any tax legislation as early as possible this year and to provide the additional resources necessary as requested in our 2016 budget. With that help on both fronts, I am much more confident about the chances of delivering another smooth filing season for the Nation's taxpayers next year.

This concludes my statement and I would be happy to takes your questions.

Chairman ROSKAM. Thank you, Commissioner.

Of the two things that you asked for help on, you will find no argument from any Member of this committee on passing extenders on a timely basis. We wholeheartedly agree with you that that is something procedurally that the Congress can greatly improve on.

The appropriations question is one where I think one of the themes that you will hear from the majority side today is that we think that there are areas that the IRS can go to in the current operation with the authority that you have now that can improve that customer service number. So, as a prelude to that, I think that that will probably be a part of the focus of our discussion today. And, with that, I would like to recognize Mr. Marchant.

Mr. MARCHANT. Thank you, Mr. Chairman.

Commissioner, good to see you. This year, the IRS has had to make some choices and has had to cut taxpayer services. Is that agreed?

Mr. KOSKINEN. We had to make choices across the board. We have cut enforcement services. We have cut taxpayer services. And we have cut support for information technology. We have tried to balance that across all three areas, which are the discretionaries we have. We have no choice about implementing statutory mandates. We have no choice about trying to make sure the filing season runs smoothly. So the only areas where we have discretion are in those three areas. And over 70 percent of our budget is personnel. So when we are cut, as we were last year by $350 million, we have no choice but to cut personnel, and we try to do that in a balanced way.

Mr. MARCHANT. So do you make across-the-board cuts or are your cuts made selectively based on——

Mr. KOSKINEN. We sat down with all the senior executives and looked for areas where we could find efficiencies. We are saving over $200 million a year over time in the efficiencies we have already found. I take the chairman's point, we need to be as efficient as we can. We need to be careful and careful stewards of the money the taxpayers give us to spend. So I think it is always fair comment for us to work with GAO, the IG, with the oversight committees to say, Where can we be more efficient?

But when we made the cuts, we did not make them across the board, expect for the fact we had no choice but to say we would not replace anyone departed, that, in other words, we would have no hiring when people left. We have 1,000 people right now requesting to retire. We won't replace those people. So part of our attrition is by wherever people are going to retire because, again, we have to cut personnel.

Mr. MARCHANT. So if you have a retiree that retires in a part of the service that has nothing to do with customer service, do you retain that position in that department and not fill it there, or do you shift resources over to the service department?

Mr. KOSKINEN. Because of the constraints, as people are leaving, we aren't replacing them anywhere except for emergencies. In other words, if we lose someone in IT who is cybersecurity, we will replace them. There is an application process. Anybody across the board, if they want to replace a position, they have to let us know.

The biggest area where we have discretion is that, during filing season, we hire up to 10,000 seasonal employees, and we usually hire them for 4 to 8 or 12 months. This year, because of the constraints on the budget, we hired those people but, in fact, had to cut back the length of time they were available to provide service. So, again, our constraints are over 70 percent of our budget is personnel. So when we take a significant hit, it is going to show up with fewer people someplace, and we have tried again to analyze where those cuts are going. But, again, as a general matter this year because we didn't get the budget cuts until December, our position has been wherever people left, we didn't replace them.

Mr. MARCHANT. So when our taxpayer advocate in her 2014 report basically says that she does not believe that you are spending your money in a smart way, you would disagree with that?

Mr. KOSKINEN. I would disagree. I work very closely with the taxpayer advocate. Every year, we sit down with her and look at her recommendations and figure out where we can make improvements.

I have told her last year and this year, "Give me all your recommendations that don't cost money because we don't have any money." And we have actually adopted those. The Taxpayer Bill of Rights was one that we worked on jointly.

I do think that we disagree. Her view, for instance, is that last year we quit preparing tax returns for people in our taxpayer assistance centers, and she objected to that and said that was an important service. It is an important service. We are only preparing 68,000. We shifted those to our 12,000 VITA sites which this year prepared 3.4 million returns for taxpayers.

Mr. MARCHANT. She is an advocate for additional funding.

Mr. KOSKINEN. She is an advocate for funding. I——

Mr. MARCHANT. But she says that the IRS does not have a clear rationale for how it allocates its budget, and I think what I read into that is that, while she is in favor of giving additional funds, she is not yet convinced that, when those funds are given, that they are applied properly and they are applied in the right place because——

Mr. KOSKINEN. Right.

Mr. MARCHANT [continuing]. She doesn't think you have a clearcut vision for that.

Mr. KOSKINEN. Since she made those comments, we have demonstrated to her and showed her the information of where we do customer service surveys, where we analyze the flow of work, where we make decisions as to where, if we are going to lower service in an enforcement center or lower service in a walk-in center, we actually analyze that. But it is an important point that we need to be analyzing effectively and efficiently where we are going.

GAO has raised the same issue, and we agree that, wherever we can, we need to be as efficient as we can. But overall GAO, the inspector general, the taxpayer advocate and the oversight board have all, independently of the IRS, said we are substantially underfunded. No matter how efficient we get, there are not enough resources to provide the service, the enforcement, and the information technology services that are necessary.

Chairman ROSKAM. Mr. Lewis is recognized.

Mr. LEWIS. Thank you, Mr. Chairman.

Thank you, Mr. Commissioner, for being here today. I understand that the IRS budget today is less than it was in 2009. Could you tell Members of the Committee how the budget cuts have impacted the agency's ability to deliver service to their taxpayers?

Mr. KOSKINEN. Right. If you look at it from the budget, from 2010 on when the cuts started, our budget is down a billion two hundred thousand, which means we are down 13,000 employees. We will lose another 3,000 this year, of which 1,800 will be on the enforcement side. So we will be down 17,000 employees as a result of that $1.2 billion cut, and it is at a time when we have had additional responsibilities given to us. The Affordable Care Act responsibilities are a statutory mandate. The Foreign Account Tax Compliance Act is a statutory mandate. Any tax law changes are mandates that we are obligated to fulfill where we can. We have 7 million more taxpayers than we had 5 years ago. So, again, I would stress we take very seriously the obligation to be efficient with our funding, to spend the money wisely, but when you cut $1.2 billion out of the system, when you take 17,000 employees out of it, you are not going to do anything as well as you used to do it.

Mr. LEWIS. You heard me state in my open statement that, in the regional office in Atlanta, according to local news report, there was an unbelievable amount of wait time. Do you agree with what the union said this is due to a lack of resources?

Mr. KOSKINEN. Yes, it is basically—we have 3,000 fewer people answering the phones this year, and we have 3,000 fewer people not because we think that is a good idea. It is 3,000 fewer because we can't afford to have any more.

And, clearly, if you talk to our employees, as I said, the people who care most about this are the people in our taxpayer service centers who derive great satisfaction by being able to help taxpayers, give them answers to their questions. As I have traveled around the country, I have met with over 13,000 IRS employees, and one of the common themes of those dealing with taxpayers is they simply don't have enough people to provide the resources and the service that our employees think taxpayers deserve.

Mr. LEWIS. It is not just a problem in places like Atlanta or New York or other places.

Mr. KOSKINEN. It is a problem across the country. We actually had a list that actually was put out about where the cuts have come across the United States. We have over 500 offices across the United States. There is not—there are not enough people anywhere in the IRS. There are not enough people in appeals, in counsel.

There are not enough people in taxpayer service. There are clearly not enough people in enforcement. We don't have enough people in IT. There have been—as a result, when you take 17,000 people out of the system, you are going to take them out across the board.

Mr. LEWIS. Well, you would come before, not necessarily before us, but before another committee and be requesting more resources to make up anything——

Mr. KOSKINEN. Yes.

Mr. LEWIS [continuing]. That you can describe as making up, fixing up, repairing?

Mr. KOSKINEN. Yes. And, again, what I have tried to get people to understand is, if we got more resources, it is not to go back in time to the way we always did the business, not to hire 13,000 people and put them all on the phones. One of our goals is to move more people onto the Web, onto digital services they expect. This year over 200 million hits were made on "where is my refund" app. We have provided almost 20 million copies of prior tax returns. In the old days, those were all calls that came to our call centers. Moving those onto the Web has helped us significantly provide better taxpayer service. We need to do more of that.

So I want people comfortable that we are not saying just give us the money, and we will go back to business as usual. Our goal is to provide better service, but a big part of that service improvement will be if we can spend the money in information technology to continue to expand our services online so that more taxpayers can get efficient answers quickly online.

Also, I would note, it costs us 22 cents to answer your inquiry online. It costs us $43 to answer your inquiry on the phone. It costs us $55 to have you come to visit our taxpayer assistance center. So, clearly, for efficiency and to save funding, we need to actually build our capacity for taxpayer service online and that is what taxpayers most of them expect. We always have to deal with taxpayers who don't have access to online services, and we need to have a phone service for people who need to get through. But a lot of people calling could get the information off our Web site if it was more efficient.

Mr. LEWIS. Thank you very much, Mr. Commissioner.

Thank you, Mr. Chairman. I yield back.

Chairman ROSKAM. Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman. Thanks for having the hearing.

Mr. Commissioner, good to see you.

I know you have a reputation as a turnaround guy and being able to take things that aren't going so well and make them better. But I have also always believed that the speed of the chief is the speed of the crew. So I think sometimes just in messaging, we can polarize situations, and I just want to really be clear about this. This is not Congress versus the IRS or the IRS versus the people. This is about the two of us working together to get better results for taxpayers.

I know in my own business, and whenever we started to lose, we lost 40 percent of our business. So what we had to do was come together as an organization and ask, how are we going to do more with less? What are we going to do to meet the challenge of a market that shrank rather quickly and how do we get there and still keep the doors open? The reason I ask that is because you put a communication out to the agency, and it says you told all the IRS employees that this year you were going to have to do less with less. I don't think that if you were in the private sector, you would ever go before a company that was in bad shape or failing and say, "Hey, here is the problem. Things are looking pretty bad for us. We don't have quite the resources that we would had liked to have, not that we need to have, but that we would had liked to have, and so what we are going to do is we are going to do less with less."

And my big question is, why would we cut customer service and redeploy those dollars elsewhere? You are the head of the agency. What was it in your game plan, what was it your thinking that said, "You know what, I think what we will do is cut customer service and that way we will have a better relationship with the taxpaying public if we make them wait longer on the phone, if we make them wait longer for mail, if we can close down different offices and not be able to do the advocacy that we like to do. I think that is really going to help our position"? I really do question that.

What were you thinking about when you sent out that memo and what were you driving to get to? You can't run around town telling everybody that you are out of money and that is the reason you can't do your job and saying it is those doggone people up in Congress, if they would just give us more money, we would do a better job. We have been telling the American taxpayers for a long time; if you just give us more money, we could do a better job as a government. So, I mean, seriously, when you had that meeting, and you put out that directive, what was it that you were trying to achieve? Was it better morale?

Mr. KOSKINEN. I will tell you what I am trying to achieve. First of all, we value customer service. But when you cut the budget $1.2 billion——

Mr. KELLY. No, no, no.

Mr. KOSKINEN [continuing]. And we lose 17,000 people, we don't have enough people anyway. So we have cut enforcement. In other words, we don't have a situation where we will just do one thing or another. The discretionary areas we have is we have to enforce the Tax Code; we have to provide taxpayer service; and we have to protect taxpayer data and run an antiquated IT system we are trying to upgrade. So if we put more money into customer service, it comes—and more people, it comes from somewhere.

Even less enforcement. We have 5,000 fewer revenue agents, revenue officers, and criminal investigators. Does it come from IT? Everyone, including us, are concerned about cybersecurity. We are concerned about refund theft and identity theft and refund fraud. Are we supposed to spend even less money on that? We are spending less money on all of those areas, not because we think that is a good strategy, but that is the only choice we have.

Now, you are right.

Mr. KELLY. Yeah.

Mr. KOSKINEN. What does it mean when I say we are going to do less with less? It means that over 5 years of budget cuts—and I am hoping that we don't have this same dialogue about 2016—the mantra from the funders has been, "You should be able to do more with less." And we have done more with less. We are dealing with 7 million more taxpayers than we used to. We are implementing the statutory mandates you have passed. But there is a point for morale, when employees sitting there doing enforcement cases are answering the phone and the person next to them leaves and they know they are not going to be replaced. At some point, the employees have to know we don't expect——

Mr. KELLY. And I understand that.

Mr. KOSKINEN [continuing]. We don't expect you—can I just finish?

Mr. KELLY. But, you know, there is very little time.

Mr. KOSKINEN. We don't—okay. But we don't expect you to do more work than you are already doing——

Mr. KELLY. Excuse me.

Mr. KOSKINEN [continuing]. Since you are already overworked.

Mr. KELLY. Excuse me. You can't do that, though, as the head of the agency, if it is about improving morale, you can't tell people how bad it is and how much worse it is going to get and expect better results. And what I have seen happen is the divisiveness that has now taken place because when you to the IRS agents, they feel that they are under the gun because Congress is out to get them. When you go home and talk to the American taxpayers, they feel that both the IRS and the government is out to get them. And then we come out with a thing that says we are going to do less with less, and we are going to have less customer service. That just doesn't make sense in the real world.

Maybe it makes sense here and being on the talk circuit and talking to people about how it is to work with less. I would just suggest to you that there is hardly a person in America today that isn't doing more with less, that hasn't tightened their belt and learned how to work with less.

Now, the technology end of it has been a huge help for us, but also a 78,000-page code is probably the biggest problem you have. And the reason you have to have customer service is there are very few people out there—taxpayers—who are saying, "You know what, I think I can do this myself; it is so easy." That is why they go to all these different people, and that is why they go to the IRS and, please, help me get through this very difficult web of Tax Code that I have to understand because the one thing I don't want to be is on the bad side of the IRS.

But my point to you—and I would just suggest this because you have done this in your private life. You cannot go to the troops and tell the troops that things have never been darker, days have never been longer, winters have never been colder, but you know what, we have a solution to that, we will just do less with less. I think that is a disservice. I also think that it is further divisiveness, and it adds to the lack of confidence and the faith that the American people have in our ability to work together because it is not working with each side of the aisle. It is working with all the agencies that provide service.

So I just ask you, I would encourage you to be, a little more upbeat, it is spring! Let's talk about the good side of it, let's talk about where technology has taken us and how much easier it has been. Let's make sure that we are concentrating on customer service.

Thank you.

Chairman ROSKAM. Time has expired.

[The prepared statement of Mr. Koskinen follows:]

WRITTEN TESTIMONY OF
JOHN A. KOSKINEN
COMMISSIONER
INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT
ON THE 2015 TAX FILING SEASON
APRIL 22, 2015

Chairman Roskam, Ranking Member Lewis and Members of the Subcommittee, thank you for the opportunity to appear before you today to update you on the 2015 tax filing season, which ended last week.

The filing season opened on schedule on January 20 and went relatively smoothly in terms of processing tax returns and the operation of our information technology systems. But because of cuts to our budget, the agency was unable to provide adequate levels of taxpayer service, as I will explain in greater detail below. Thus, while I am pleased with the performance of IRS staff in very difficult circumstances, I am disappointed that because of budget cuts, taxpayers did not get the customer service experience they deserve.

DELIVERING THE 2015 FILING SEASON

Opening the 2015 filing season on schedule was a major accomplishment, given the challenges we faced. I attribute this achievement to the dedication, commitment, and expertise of the IRS workforce. Along with our normal work to get ready for the filing season, additional preparation was needed. This included preparation related to the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA). Additionally, we had to update our systems to reflect the passage of the tax extender legislation in December.

As noted, return processing ran smoothly throughout the filing season. Thus far the IRS has received more than 120 million individual income tax returns and issued more than 83 million refunds for approximately $230 billion.

Although initial indications are that return processing went smoothly, our level of customer service this filing season has been unacceptably low, both in person and on the phone, despite the best efforts of our employees.

Our low service levels were the result of the budget cuts we have had to absorb. Funding for the agency has been reduced by $1.2 billion over the last five years, dropping to $10.9 billion in Fiscal Year (FY) 2015. The IRS is now at its lowest level of funding since 2008. If adjusted for inflation, the agency's budget is now comparable to where it was in 1998, except that this year we will process an estimated 27 million more returns than we did 17 years ago.

Since 75 percent of the IRS budget is personnel, the agency has been absorbing the budget cuts mainly by reducing our workforce. As a result, we ended FY 2014 with more than 13,000 fewer permanent full-time employees compared with 2010. We expect to lose another 3,000 or more through attrition by the end of this fiscal year.

This year, the IRS was forced to substantially reduce hiring of extra seasonal help we usually have during the filing season. As a result, our phone level of service at the start of the filing season was 54 percent, and dipped below 40 percent toward the end of filing season. That means many callers were forced to call more than once to get through, and more than six out of every 10 people who called could not reach a live assistor. Further, we expect to end the fiscal year with an average phone level of service of only 40 percent. That is truly an unacceptable level of taxpayer service.

To further illustrate how serious our phone service difficulties have been, I would note that the number of taxpayers disconnected by our phone system when it becomes overloaded with calls is substantially higher this year. The number of these disconnects has reached 8.1 million so far this year, as compared with 360,000 by this time last year. Additionally, taxpayers who have gotten through to an assistor have faced extended wait times – in some cases 30 minutes or more -- that are unacceptable to all of us.

As for in-person assistance, during the filing season I was dismayed by the reports we received of taxpayers lining up outside our Taxpayer Assistance Centers (TACs) hours before they opened in order to get service. This is not a new problem this year, but it has gotten worse over time, and we are working to find a better approach for taxpayers.

To help cut down on the long lines, we recently began testing a system to allow people to make appointments in advance. We began doing this at 10 centers in February, and recently added 34 more. If the system can be successfully scaled, we will consider expanding it to all of our TACs.

Another, less visible, area of concern for us in regard to customer service involves taxpayer correspondence. Typically, taxpayers correspond with the IRS after receiving a notice from the agency about an issue with their return. Our goal is to answer taxpayer correspondence within 45 days after we receive the letter.

But this year, we are taking much longer to answer correspondence, and our backlog could grow to almost 50 percent higher than our end-of-year goal, because we were forced to shorten the period of employment for our seasonal employees who help answer taxpayer correspondence. It is now taking us an average of about 70 days to answer taxpayer correspondence. We estimate this will be as high as 90 days by the end of the fiscal year.

We are working to try to find a way we could end the fiscal year in better shape regarding our correspondence inventory, but at this point we do not see a way to get the inventory back down to a more manageable level in the near future, absent adequate funding.

Specifically regarding the ACA, early indications are that most taxpayers affected by the tax-related ACA provisions have been able to fulfill their filing obligations. Two major provisions of the Act took effect last year: the premium tax credit and the individual shared responsibility provision. To make taxpayers' experiences navigating the ACA requirements as smooth as possible, we took early and intensive action in two key areas:

- First, the IRS made every effort to communicate with taxpayers and preparers about the tax changes, beginning last year and continuing through the 2015 filing season. During the filing season, in fact, there was steady demand for information and assistance on tax-related provisions of the Act. So far this year there have been more than 4.6 million visits to the section on IRS.gov devoted to the ACA, and more than 340,000 recordings played on our automated ACA telephone line. In addition, to ensure that taxpayers had the information they needed about the ACA tax changes, the IRS took a number of actions. For example, we issued 45 plain-language Health Care Tax Tips, which can be found on IRS.gov; we posted more than three dozen YouTube videos on the tax provisions; and we made use of Twitter, with 490 tweets promoting ACA-related topics. In addition, IRS officials provided outreach to key stakeholder groups, and presented information at numerous events, including last year's five IRS Nationwide Tax Forums for tax return preparers.

- Second, prior to this filing season, the IRS worked with its partners in the software and tax products industry on the necessary ACA-related updates to tax software products, to ensure that any taxpayers affected by the ACA tax changes would be able to prepare their returns as quickly and easily as possible. About 91 percent of all individual tax returns were prepared using preparation software this filing season – either by the taxpayers themselves or by their preparers.

It should be noted that during this filing season, the number of ACA-related calls handled by customer service representatives was lower than expected. We believe this may be a result of both the amount of information taxpayers received prior to the filing season and the availability of ACA information online during the filing season.

BUILDING FOR THE FUTURE OF TAXPAYER SERVICE

In requesting adequate resources to allow the IRS to improve taxpayer service, it is important to point out that our goal is not merely to obtain enough funding to go backwards in time and perform the way we used to. We need to be, and are, looking forward to a new, improved way of doing business.

This involves looking at the future in a more comprehensive way, and considering how we can take advantage of the latest technology to move the entire taxpayer experience to a new level – and do it in a way that would be cost-effective for the government.

This approach centers on improving the online services we provide to taxpayers, for which demand continues to increase. So far this year, there have been more than 279 million visits to IRS.gov, compared with about 250 million for all of 2014. This includes visits by those who took advantage of our special ACA section mentioned above. One of the most popular features on IRS.gov is the “Where’s My Refund?” electronic tracking tool. Taxpayers have used it more than 193 million times this year, which already surpasses the total of 187 million for all of 2014.

Another good example of a popular online offering is Get Transcript, which was launched last year. This is a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of minutes. So far this year, taxpayers have used this application to obtain more than 17 million copies of previously filed tax information. It is reasonable to assume that, had “Where’s My Refund?” and Get Transcript not existed this filing season, the taxpayers who used those online applications would have tried to get through on the phone, resulting in even higher phone demand and a lower level of service than what occurred.

I would note, in fact, that overall call volume at the IRS – the number of callers attempting to reach a live assistor – dropped from 54.2 million calls in FY 2013 to 39.9 million in FY 2014. We expect call volume to drop again for FY 2015. We believe that the reduction in call volume is likely a direct result of more taxpayers going online to get tax help from us, and that they want and need more in terms of digital services. Therefore, our goal is for taxpayers to have a more complete online experience for all their transactions with the IRS.

The online experience should give everyone confidence in knowing they can take care of their tax obligations in a fast, secure, and consistent manner. Taxpayers should expect the same level of service when dealing with the IRS in the future as they have now from their financial institution, whether it’s a bank, brokerage, or mortgage company.

The idea is that taxpayers would have an account at the IRS where they, or their preparers, could log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually, and there would be much less need for in-person help, either by waiting in line at an IRS assistance center or calling the IRS.

Improving service to taxpayers in this way can also help us on the compliance side of the equation. With a more modern system, the IRS could identify problems in tax returns when a return is filed – rather than coming back to taxpayers years after the fact while the meter is running on potential interest and penalties. We want to interact with taxpayers as soon as possible so that those issues can be corrected without costly follow-up contact or labor-intensive audits. An additional benefit of this approach would be to reduce the need for taxpayer correspondence with the IRS.

MAKING PROGRESS AGAINST IDENTITY THEFT

Aside from customer service, another important filing season issue is refund fraud, especially fraud caused by identity theft. Fighting this fraud is an ongoing battle for the IRS, and we must remain vigilant, given the propensity of identity thieves to develop new and more complicated schemes.

For that reason, and in spite of our budget constraints, we have continued to focus as much of our resources as possible on improving our efforts against identity theft. As a result, we have been able to continue to improve the filters we use to detect suspicious returns as they come in, which helps us stop fraudulent refunds before they are issued. This year we have already stopped at the door more than two million suspicious returns, which is over 500,000 more than were stopped last year at this time.

While this is important progress, we need to do still more. For that reason, last month we held an unprecedented sit-down meeting with the leaders of the tax software and payroll industries and state tax administrators. We agreed to build on our cooperative efforts of the past and find new ways to leverage this public-private partnership to help battle identity theft.

We formed three working groups that are continuing to meet, and over the next couple of months we expect to come to agreement on short-term solutions to help taxpayers in the next tax season, and work on longer-term efforts to protect the integrity of the nation's tax system.

Congress can help us in the fight against refund fraud and identity theft, by passing several important legislative proposals in the President's FY 2016 Budget proposal, including the following:

- ***Acceleration of information return filing due dates***. Under current law, most information returns, including Forms 1099 and 1098, must be filed with the IRS by February 28 of the year following the year for which the information is being reported, while Form W-2 must be filed with the Social Security Administration (SSA) by the last day of February. The due date for filing information returns with the IRS or SSA is generally extended until March 31 if the returns are filed electronically. The Budget proposal would require these information returns to be filed earlier, which would assist the IRS in identifying fraudulent returns and reduce refund fraud, including refund fraud related to identity theft.

- ***Correctible error authority***. The IRS has authority in limited circumstances to identify certain computation or other irregularities on returns and automatically adjust the return for a taxpayer, colloquially known as “math error authority.” At various times, Congress has expanded this limited authority on a case-by-case basis to cover specific, newly enacted tax code amendments. The IRS would be able to significantly improve tax administration – including reducing improper payments and cutting down on the need for costly audits – if Congress were to enact the Budget proposal to replace the existing specific grants of this authority with more general authority covering computation errors and incorrect use of IRS tables. Congress could also help in this regard by creating a new category of “correctible errors,” allowing the IRS to fix errors in several specific situations, such as when a taxpayer’s information does not match the data in certain government databases.

- ***Authority to regulate return preparers***. In the wake of court decisions striking down the IRS’ authority to regulate unenrolled and unlicensed paid tax return preparers, Congress should enact the Budget proposal to provide the agency with explicit authority to regulate all paid preparers. The regulation of all paid preparers, in conjunction with diligent enforcement, would help promote high quality services from tax return preparers, improve voluntary compliance, and foster taxpayer confidence in the fairness of the tax system.

- ***Expanded access to Directory of New Hires***. Under current law, the IRS is permitted to access the Department of Health and Human Services’ National Directory of New Hires only for purposes of enforcing the Earned Income Tax Credit and verifying employment reported on a tax return. The proposal would allow IRS access to the directory for individual income tax administration purposes that include data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources.

There are a number of other legislative proposals in the Administration’s FY 2016 Budget request that would also assist the IRS in its efforts to combat identity theft, including: giving Treasury and the IRS authority to require or permit employers to mask a portion of an employee's Social Security Number (SSN) on W-2s, which would make it more difficult for identity thieves to steal SSNs; adding tax-related offenses to the list of crimes in the Aggravated Identity Theft Statute, which would subject criminals convicted of tax-related identity theft crimes to longer sentences than those that apply under current law; and adding a $5,000 civil penalty to the Internal Revenue Code for tax-related identity theft cases, to provide an additional enforcement tool that could be used in conjunction with criminal prosecutions.

It is important to note that these legislative proposals, while they would be very helpful, would only be partially effective in achieving their intended goals without adequate resources for the agency.

The President's FY 2016 Budget provides $12.93 billion for the IRS. This amount includes $12.3 billion in base discretionary resources, an increase of $1.3 billion from FY 2015, allowing us to make strategic investments to continue modernizing our systems, improving service to taxpayers, and reduce the deficit through more effective enforcement and administration of tax laws. The Budget also proposes a $667 million program integrity cap adjustment to support program integrity efforts aimed at restoring enforcement of current tax laws to acceptable levels and to help reduce the tax gap. This multi-year effort is expected to generate $60 billion in additional revenue over the next ten years at a cost of $19 billion over that 10 year period, thereby reducing the deficit by $41 billion. Additional funding will allow the IRS to meet the expected increase in demand for taxpayer services in FY 2016, through the hiring of approximately 3,000 additional staff to increase the telephone level of service to an acceptable level of 80 percent.

The funding for new programs will provide the foundation for the IRS to develop, over several years, an IT-based strategy that will help improve the online filing experience for taxpayers as discussed above. The strategy will focus on enhancing the filing experience by understanding taxpayers' service channel preferences. By creating new digital capabilities and reducing the burden on taxpayers, the strategy will allow for earlier and more efficient engagement between the IRS and taxpayers. This initiative will improve the speed and convenience of interacting with the IRS. The President's Budget will also improve the IRS' ability to detect and prevent improper refunds, and allow the IRS to implement legislative mandates.

LOOKING AHEAD TO THE 2016 FILING SEASON

Looking ahead to next year, I am concerned that the 2016 filing season will be another challenging one.

As we begin preparations for the next filing season, one complicating factor is the need for the IRS to design and implement new programs enacted by Congress.

For example, the IRS has been asked, as part of the Achieving a Better Life Experience (ABLE) Act, to build a certification process for professional employer organizations – on a tight time frame and without any accompanying funding. Additionally, more work needs to be done in regard to implementing FATCA and the tax-related provisions of the ACA.

Another possible complication to the 2016 filing season involves the group of tax extender provisions that expired at the end of 2014. I am concerned about the possibility that Congress may not act on the extenders until very late in 2015. The IRS will need to adjust its forms and systems for any tax provisions that Congress decides to extend, so I hope that any extender package will be passed as soon as possible, to give us and the tax community needed lead time to prepare for these changes. Enacting this legislation earlier in the year would minimize the potential negative impact on taxpayers during the 2016 filing season.

Chairman Roskam, Ranking Member Lewis and Members of the Subcommittee, thank you again for the opportunity to update you on the 2015 filing season. I know I speak for the thousands of professional, experienced, and dedicated employees of the agency when I say that we are committed to working with you and the other members of Congress to lead the agency effectively and appropriately into the future. But we need your help and support if we are to be successful. This concludes my statement, and I would be happy to take your questions.

Chairman ROSKAM. I sense you will be able to respond and weave your response in, maybe even based on an inquiry from Mr. Rangel, who is now recognized.

Mr. RANGEL. Well, I want to thank you for calling this hearing, but you don't expect me to respond to my dear friend, Mr. Kelly.

Chairman ROSKAM. No. I would suggest you keep your head down and avoid eye contact when it comes to Mr. Kelly. So—but you can do whatever you want.

Mr. RANGEL. No.

Chairman ROSKAM. But you got good counsel from me.

Mr. RANGEL. Let me make it abundantly clear, I always learn from Congressman Kelly on the floor as well as here. And it makes it easy for me to go back home and tell the wealthy people that they could do more with less and that I will have to tell this to my teachers and the sick people who are on health care that the American dream, as he says as a businessman, is to do more and to get less benefits from it.

I don't understand all of this, but clearly, it seems as though—I don't know why anybody would want to be the tax collector for our country or a county or anything. Obviously, there is something in the commissioner's background that causes him to want to be beaten up like this, but someone has to do it.

Let me ask you this: When you find a way for government employers, employees to do more work with less resources, check with me, we are going to write a book and we are going to reduce the deficit and everything is going to be well. It just seems to me, with the pain and anguish that my taxpayers suffered in this last election standing out in the rain, standing out there for hours trying to get just a little help so they could pay their taxes, that how in the heck your employees can do more with less when they don't even have paper to give them assistance, they all don't have computers, they all can't go online—and I tell you what can happen. If you don't have enough money to enforce the audits and the laws, as in some countries, people are going to say "to hell with the laws," that the big shots aren't paying taxes anyway. And if you are going to give people a hard time that are trying to pay their taxes, this so-called voluntary system is not going to work.

Now, there is some talk out there that the more money we invest in your system and your program, that you can tell us that we can get a better return on that investment. If that is true, would you share with this committee the accuracy and what is that—what do you base that on?

Mr. KOSKINEN. Yes. No one has disputed that we are the only major government agency, if you give us money, we give you more money back. So, particularly on the enforcement side, when we have 5,000 fewer revenue agents and officers and criminal investigators, that cut costs the government billions of dollars. Our estimate is that the government is now losing $7 billion to $8 billion a year as a result of the decline in our enforcement efforts and our enforcement agencies.

So our estimate for the budget cut in December was that the cut of $350 million cost the government over $2 billion. So if you are interested in deficit reduction, cutting the IRS budget is not the way to go. Cutting the IRS budget increases the deficit.

I would go to—Mr. Kelly, I agree we continue to need to work together. Actually, the Congressman and I have had a number of good conversations back and forth because we both share a business background, as he notes.

My point has been—and with the employees is after 5 years of every year the budget is being cut and the Congress saying "you can do more with less"—and we have an obligation to do as much as we can and more with less whenever we can—after you get $1.2 billion in cuts and you lose 13,000 people, for employee morale, it is important for the employees to understand that we do not, at least those of us running the place, expect that we are just going to pick up for those 13,000 people and everybody else will pitch in and will do that work.

Part of the concern for employees is, do we understand what the implications are when there simply are 3,000 fewer people answering the phones, 5,000 fewer people enforcing the code? Do we expect the remaining employees to pick up for the 5,000 revenue agents? My position to them is, at some point, the answer is no. At some point, we have to recognize the responsibility and the accountability for continued cuts in the agency.

We need to be efficient. We need to take everybody's ideas for where we could save money, and we will continue to do that. We saved $200 million a year already. Wherever anybody has got a good idea, I am in favor of it. We are not defensive about that. We will work on it.

But at some point—and this discussion is a continuation of 5 years of these discussions. At some point, when you continue to cut the budget of the organization and continue to give it more responsibilities, you have to acknowledge and recognize the impact of that is going to be a decline in service, a decline in enforcement, and greater risk in the IT area for cybersecurity and refund fraud and identity theft.

Chairman ROSKAM. Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman.

Mr. KOSKINEN. I was going to say I think we need better microphones.

Mr. MEEHAN. It is on. Thank you, Mr. Koskinen, for being here once again. And I appreciate your testimony and the challenge that you face leading the administration that you do. Tough task.

But let me ask a question: If you want us to plus up your budget, where would you find the money? What should we be cutting in government?

Mr. KOSKINEN. There has been a proposal—and it is done in the past—called the program integrity cap, where the budget over time and people have recognizes, if you give us more money, particularly for enforcement, it is not a charge against anybody else. It increases the revenues of the government.

This year, there is a request that if you gave us $600 million for enforcement, over time, the government—over the 10 years everybody measures——

Mr. MEEHAN. So it has got to be——

Mr. KOSKINEN [continuing]. The government would get $40 billion more.

Mr. MEEHAN. That wasn't my question. I know where you said we can plus up, and I appreciate that. We are looking at that. As a former prosecutor, I appreciate that.

But I am asking you, where would you like us to cut?

Mr. KOSKINEN. Budgets are an interesting discussion. Last year, the only major agency cut was the IRS, so nobody else took any significant cut. The IRS—going to Congressman Kelly's point about whether this is a battle or not, the IRS was singled out and the appropriators went out of their way to talk about how pleased they were to be able to continue to cut the IRS budget.

So, I guess, what I am saying is we have been double sequestered. We didn't go back to the presequester level the way everybody else did. Nobody else took the cut we did last year. So we are already two sequesters ahead of everybody else. If we had just been treated the same as everybody else, we would be in a much better shape. We would have $900 million more, and we would not be having this discussion. So I guess my point of where I would cut is basically I would restore the IRS to parity with everybody else, and then we would be in reasonably good shape.

Mr. MEEHAN. Let me ask about technology and where we are working with that. I see that more than—about 60 percent of the returns come in from paid returners using the resources of others who presumably are experts in this.

Mr. KOSKINEN. Right.

Mr. MEEHAN. So we are really dealing with about 40 percent, then, are coming in in some capacity in which somebody hasn't assisted. Doesn't that cut down on some of the demands and needs of the institution?

Mr. KOSKINEN. Yes. In fact, the fact that we get this year over 85 percent of people filing electronically makes us much more efficient.

Mr. MEEHAN. So we are seeing huge new opportunities in efficiency created by IT and other kinds of things——

Mr. KOSKINEN. Yes.

Mr. MEEHAN [continuing]. Which, by its very nature, means it should reduce, as long as personnel are appropriately directed, it should reduce some of the demands on personnel, should it not?

Mr. KOSKINEN. Exactly. If we were taking paper returns—in the old days, we at one point had 130,000 employees, so we are already 43,000 employees lower than where we were in the old days. That is an efficiency that has been built into the IT, and I agree with you.

One of my proposals—the reason I said is we are not talking about going backwards. We are talking, just as you say, if we had the funding to make greater investments in IT, we would be more efficient. If those people, the 200 million hits on "Where's My Refund" or the 20 million people who got copies of their transcripts had to deal with us personally, you know, we would be out of business.

Mr. MEEHAN. Well, let me ask a question about that, the funding on IT. Because once you make an investment in IT, it should be something that pays for itself moving forward consistently. Correct? I mean, it is sort of a one-time investment in an upgrade that should then pay off dividends down the road?

Mr. KOSKINEN. Exactly.

Mr. MEEHAN. Well, let me ask a question, because I am looking at this. This is from 2009. I am just looking at business system modernization, $230 million invested in 2009. 2010, $264 million more invested in business system modernization. 2011, $263 million more invested in modernization. 2012, $330 million more invested in modernization. 2013, $313 million more invested in modernization. It is a lot of money invested, and each time, we are modernizing. And part of your testimony was an antiquated system. I don't get it. Why are we investing, then, 5 years of increases in modernization and you are sitting here today telling me that we are dealing with antiquated systems that don't work?

Mr. KOSKINEN. We are. We have retired as a result of expenditures 365 old applications. We still run 580 we need to retire. We have made significant progress. Five years ago, there was no way we could have a "Where is My Refund" app. There was no way you could do an online installment agreement.

In fact, 5 years ago, we had trouble dealing with online filings. Five years ago, we couldn't deal with identity theft the way we do now. We have put significant amount of that money into it.

We file a quarterly report. It is up on a government Web site, detailing exactly where the funding is going, what the projects are, what the results are, what the improvements are that we have made. GAO and any number of people overlook it. We have made great progress compared to 20 years ago where we really struggled.

But you are exactly right. The more we could put into information technology, the better off we will be. My position, as I say, isn't we need to go back to having 100,000 employees. My position is what we need to do is, in the interim, make sure we provide taxpayers the services we can and enforce the code, but we need to keep doing exactly what you are pointing to: business system modernization. And it can't be just abstract.

We are preparing a white paper for the Congress that shows the building blocks going forward of how we get rid of the remaining antiquated systems; 50 of them are still out there that we were running 60 years ago. We need to get rid of those, but you can't do it for free. You have to actually continue to make that investment.

And we are willing and it is appropriate for us to be held accountable on your question: What are you getting for the money you spend? I think that is an important question. As I say, every quarter, we provide a thick report to the Congress and GAO saying, "Here is what you have gotten for this expenditure."

I want to make it even more user-friendly. I want you to be able to understand what the application is online that you got for the money, the ability for taxpayers to have their own account online. We should be able to demonstrate to you how much does it cost, and we should be held accountable when we get there.

And if—you are right, if we can get there, we could probably run the place with even fewer employees, but we can't do it now.

Chairman ROSKAM. Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman—Chairman Roskam and Ranking Member Lewis, for holding this hearing today on the IRS and its operations.

I welcome you, Commissioner, as well. Good to see you again.

Mr. KOSKINEN. Thank you.

Mr. CROWLEY. I think it is important to make sure our Federal agencies are operating in a way that helps our constituents. Just remember, all of our efforts here are to help our constituents. But I worry there are some who don't share the same productive goal.

At some point, the IRS just became the preferred scapegoat of all problems in our country. Let's be clear, the job of the IRS is to collect taxes and audit those suspected of not paying their legal obligation. That is the job, that is the role of the IRS.

Our constituents may not like interacting with them, and I understand that. But we all will, at some point in our lives, interact in one way or another with the IRS whether we like it or not. Yes, we have seen some actions by the IRS over the past decade that could have best be described as incompetent, but let's not lose sight of the fact that the IRS does have a job to do. And I feel better about the steps that you have taken, Commissioner, to address these problems. I feel better—I don't feel good yet, but I feel better knowing you are at the helm, known as a workhorse and without political blinders, and I appreciate that.

So, while virtually every Republican in Congress has all—they have all promised at one time or another to eliminate the IRS—we have heard it from just about every Member of the Republican side of the aisle that—once elected, they have all backed down from that pledge.

Honestly, does anyone think if a Republican wins the White House in 2016 and they keep control of the Congress that the Republicans will rewrite the Tax Code and actually eliminate the IRS? We all know the answer is no. That is because governing is always harder than grandstanding.

We have seen this with the health care law as well. While my colleagues on the other side of the aisle have voted to repeal the health care law dozens of times, a law that has expanded insurance coverage to over 16 million Americans and ended the ability of insurers to deny coverage to people with preexisting conditions like asthma, not once have ever provided any type of replacement in lieu of the ACA. The only thing they have ever offered is a plan to replace the traditional Medicare system used by millions of seniors with one based on vouchers and tax credits, forcing seniors to shop for health insurance in the private market. They must have forgotten that the reason Medicare was created in the first place was to ensure that seniors had access to affordable health care instead of having to fend for themselves in the unpredictable private markets.

But, time and again, we see more focus on sound bites than substance. So, while it is easy to bash the IRS, shouldn't we be here trying to help our constituents, who we all acknowledge will interact with the IRS at some point? That means providing the agency the resources it needs to function and function effectively but with tight congressional oversight.

Starving the agency of funds may feel good, but it doesn't actually do any good for our constituents. Unless you have plans to fundamentally revamp the tax system in the U.S. and eliminate the IRS, which to date no one here has suggested any serious legislative proposal, then we need to figure out how to address the current issues at the IRS. So let's put aside the huffing and puffing.

Let's recognize that press releases and shouts don't ease the burden of our seniors looking for tax help on the phone. They don't help our small-business people trying to figure out how to meet their tax obligations. And, yes, they don't make it easier for the local nonprofit groups in each of our districts to navigate the system and serve our local communities.

Let's figure out a way to help the IRS do the job we tasked them to do in a way that is the least onerous for our constituents with sufficient oversight to help protect all of our constituency. Sure, that isn't as easy as a press release, but, again, governing is harder than grandstanding.

And, with that, Mr. Chairman, Mr. Commissioner, thank you for your service, not to the IRS but to the American people. Thank you.

Chairman ROSKAM. Mr. Holding.

Mr. HOLDING. Thank you, Mr. Chairman.

Just as a brief followup to Mr. Meehan's line of questioning, as he was rattling off the numbers of how much is being spent to modernize the information technology of the IRS, I am sure we got up over a billion dollars. And considering some of the great information technology companies of the world started in a garage, I can only imagine what they could have accomplished if they had a million dollars of venture capital to innovate with and come up with solutions.

But at any rate, I appreciate your time, Commissioner. And I appreciate your comments in your opening remark where you say, you know, you are about being as efficient as one can and being good stewards of the taxpayers' money. Those are good mottos for anyone in government to live by.

So, of course, it concerns me that IRS employees spend hundreds of thousands of hours conducting union-related activity on official time. In fact, in 2014, IRS employees engaged in almost 500,000 hours of union activity on the taxpayers' dime. Just so we are clear, none of those hours, those 500,000 hours, would have been used to serve taxpayers. Correct?

Mr. KOSKINEN. They are representing employees, and to the extent we have an effective workforce, it helps taxpayers, but it is not a direct taxpayer service, you are right.

Mr. HOLDING. And none of those hours would have been used to catch tax cheats or fraudsters, would they?

Mr. KOSKINEN. No. Again, to the extent it makes the workforce more efficient, it helps. But it is not a direct enforcement activity or a direct taxpayer service activity.

Mr. HOLDING. So you think 500,000 hours of union activity on official time is an efficient use of time and represents good stewardship of taxpayers' funds?

Mr. KOSKINEN. I do. Congress years ago passed a statute that Federal employees have a right to a union. Congress passed another statute saying that the employees of the union representatives have a right to work with the employees on official time. Our latest contract with the union has got a joint commitment to control that. It is already down by over 100,000 hours. The union has agreed we are going to try to work with virtual meetings so they don't travel so that we can control that as much as we can. But it ultimately is an important part of the workplace for employees to feel, if they have a problem and they don't feel comfortable raising it directly, they have a place they can go to raise concerns either about their personal situation or about situations in the organization.

So I think we are efficiently doing what, again, is authorized. We don't have control over whether that time is spent or not as a concept, that Congress has approved that. What we do have control over is to work with the union to try to make it as efficient as possible.

Mr. HOLDING. Let's get a little bit more specific about that. As you note, the time spent has been reduced, and the time is actually not dictated by statute. It is dictated by the contract that you negotiate with the union. And there is some time that union members will use that is dictated. If you are engaged in collective bargaining, you have to give them official time to do that.

But, outside of that, you control that with the contract that you have with the union. And it is my understanding that you are negotiating a new contract now with your unions. You are currently operating over a contract that expired in 2012.

And so during this negotiation with your unions—I mean, the whole theme of this hearing is how you can do more with less. So, considering that it is 500,000 hours of official time used in the past year, what are you doing to negotiate with the unions to reduce that amount of time and get it down to the bare minimum of what is required under the statute rather than——

Mr. KOSKINEN. That is a good point.

Mr. HOLDING [continuing]. Hundreds of thousands of hours.

Mr. KOSKINEN. As noted, it has come down. We have worked with the union. It has come down significantly over the last 5 years. In the contract, which goes into effect in the fall, there has been an agreement to reduce it again by a defined amount and a relatively modest amount, but there is a broader agreement with the union that——

Mr. HOLDING. Well, considering the times that we are in and, you know, as you have noted, you know, the declining budget of the IRS, perhaps it is time to take more aggressive measures to reduce the allowable time under the union contracts that they can use the taxpayers' dime to conduct union activity. The time is worth $20 million, and that could have theoretically been used to answer 2 million calls.

These are difficult times that we live in. Doing more with less is the mantra, not less with less.

Mr. Chairman, I yield back.

Mr. KOSKINEN. Perhaps we ought to have the mantra being doing as much as you can with less, whether it is more with less or less and less. As much as you can with less is what we probably ought to be focusing on.

Chairman ROSKAM. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, this article on IRS return fraud called "Fraudulent Filing of Tax Returns Hits High Locally" ran this last Sunday in a local paper in my district. It highlights the problems faced by folks who have had their personal info stolen and used for fraudulent returns, which is higher than ever in our region. I just wanted to bring this to the committee's attention and enter it into the record.

Chairman ROSKAM. Without objection.

[The information follows:]

Fraudulent filing of tax returns hits high locally

Sunday, April 19, 2015
By Erin Ragan ~ Southeast Missourian

Since Jan. 1, the Cape Girardeau Police Department has taken an average of one report per day of identity theft leading to the fraudulent filing of tax returns.

Police spokesman Darin Hickey said that amount is "astronomically higher," than in past years' tax filing seasons.

"We've never seen reports like this before," Hickey said, noting that last week the number of identity theft complaints relating to tax returns surpassed 100 for the year so far, and two people were in the police department lobby Friday morning to file such complaints.

Rampant reports of false filings using stolen personal information in communities throughout the country have the Internal Revenue Service looking at a potentially record-setting year for dealing with tax-return fraud, if the upward trend of the past few years continues. The number of identity theft/tax return fraud incidents rose nearly 85 percent, to 2.9 million, from 2010 to 2013, according to the most recent IRS statistics report available.

Identity thieves who commit refund fraud most often do it by obtaining a taxpayer's personal information, such as their name, Social Security number, birth date and address, then use the information to create a fake wage reporting form and electronically file a tax return. The real owner of the information is unaware of the theft until they attempt to file their taxes, at which time they are notified by the IRS, either through their tax preparer or by mail, that their return has been rejected because it is a duplicate filing.

"It is very frustrating," said Paula Huggins, a certified public accountant in Cape Girardeau, who estimates that 1 percent of the 500 clients for whom she annually pays taxes have had their identities stolen and false returns filed this year.

"I'm the one who has to call and let them know," Huggins said.

Huggins said the identity thieves normally get away with a $7,000 to $8,000 refund per fraudulent tax

return, and that it can take a minimum of three months for the IRS to sort out who is the true owner of information and send out a refund to the actual taxpayer.

"There is no safeguard the IRS has yet," Huggins said. "It's a significant problem, and one the IRS has got to address."

While identity theft leading to refund fraud has been a growing problem in recent years, Huggins said she has noticed a few possible trends this year -- one, that both members of married couples have had their information stolen and used to file fraudulent returns, and that 90 percent of her clients who were victims work in a hospital or the medical field.

Huggins said she could not explain how identity thieves were gaining access to seemingly more detailed information; some taxpayers' information was part of recent, large-scale data breaches, others were not.

Hickey said a detective at the police department who investigates financial crimes turns reports over to the IRS, and the department advises victims of the steps they can take, which include filling out an IRS identity-theft affidavit and a visit to the local IRS office to submit extra proof of identification documents.

Once a taxpayer has reported identity theft, the IRS will issue a personal identification number designed to protect the taxpayer from future fraud. The PIN is used to work through the process of being issued a refund.

Huggins said she believes the PINs should be issued by the IRS ahead of electronic filing, instead of after a taxpayer has already been victimized.

Reports of phone calls from impersonators claiming to be with the IRS and threatening arrest and legal action unless payments are made are also on the rise this year. On Wednesday, a U.S. Senate panel examined the scams, which have caused thousands of people to be defrauded an estimated $15 million, including $112,000 from Missouri taxpayers, according to a news release from U.S. Sen. Claire McCaskill's office that warned against the calls.

Government estimates show the scam calls are topping 10,000 per week.

eragan@semissourian.com

388-3632

Story URL: http://www.semissourian.com/story/2187028.html

Mr. SMITH. Thank you.

Commissioner, you have said the IRS has to do less with less. Could the IRS do more if it had an extra 100 million this year?

Mr. KOSKINEN. If we had an extra 100 million, we would do more. We would be efficient with it, and we would do more.

Mr. SMITH. I would think so. Well, it seems like the IRS hasn't really been digging through the couch cushions, in my opinion, to find extra funds. I know where you can get that kind of funding—that kind of money, in fact. Did you know that Congress has given the IRS authority to use third-party debt collectors to collect unpaid taxes?

Mr. KOSKINEN. Well, they haven't given us—that issue was raised and was not provided last year. But we have tried that twice, and it turned out we didn't make any money at it.

And the GAO reviewed that. We sent a detailed report to the Senate when they were considering it last year. It turns out, by the time you get done—recognizing private debt collectors cannot lien or levy so all they can do is call people to try to get them to pay, we have to develop a system to monitor them to make sure they are not abusing taxpayers because we are responsible for that.

In the 1990s and 10 years ago when that was tried, it turned out to not be a productive enterprise.

Mr. SMITH. So we have used third-party debt collectors in the past and did not make any money?

Mr. KOSKINEN. Ultimately, by the time you added the cost with the revenues, it turned out to be basically—in one case, we lost a little money.

Mr. SMITH. Okay. So my understanding was that we used these third-party debt collectors and the only payment that they received is if they brought in due tax returns that we were no longer going after. Is that correct?

Mr. KOSKINEN. They got paid out of the revenues they received, which was either an incentive or a bounty, depending on how you wanted to deal with it. But it didn't cost us; that was not the cost. The cost was, in effect, setting up the appropriate systems to monitor and be able to, in fact, organize that. We ended up having, because of concerns by the public and the Congress, we ended up having to have IRS employees in offices to make sure on the phone that they were not using abusive tactics to harass taxpayers to get them to pay.

Mr. SMITH. So what was the cost to do that monitoring?

Mr. KOSKINEN. By the time we got done with it, the cost equalled basically the revenues in. And I would be happy to provide you the report we provided. My commitment in my confirmation hearing was that we would go back and do a fresh review of all of this. And we provided that report to the Senate. And I will be happy to provide it to you.

Mr. SMITH. I would like to see that. I just find it interesting that GAO and the Treasury inspector general for tax administration and the Joint Committee on Taxation estimates that using these third-party debt collectors would raise roughly $4.4 billion over the next 10 years. How do you feel about that?

Mr. KOSKINEN. I am not sure where the Joint Committee, which does great work, came up with those numbers. But, as I say, we will share with you the third-party review and the information and the experience we had the two different times the IRS tried it.

Mr. SMITH. I think we need to look into seeing why all these different committees are suggesting that IRS could get an extra $1.1 billion under using these third-party debt collectors, especially since you could definitely use more money from what you have testified today.

Mr. KOSKINEN. As I say, we looked—I looked—I told it was my commitment we would do a fresh look at the issue and see if there was a way to deal with that. And we did that and provided the report to this Congress. It had—GAO had looked at that in the past as well. And, as I say, we will be happy to give you that report.

Mr. SMITH. So this report just says that we shouldn't use third-party debt collectors?

Mr. KOSKINEN. The report goes into great detail. The third-party reviews that were done, it is a fairly thick report, it will give you the background information as to how that conclusion was reached.

Mr. SMITH. Okay. Mr. Holding was just discussing the unions with you. Have the same unions that have spent these hundreds of thousands of taxpayer-funded hours on their activities opposed using this authority?

Mr. KOSKINEN. They have historically been opposed to that, yes.

Mr. SMITH. So they have opposed using third-party debt collectors?

Mr. KOSKINEN. That is my understanding, yes.

Mr. SMITH. Thank you, Mr. Chairman.

Chairman ROSKAM. Ms. Noem.

Mrs. NOEM. Thank you, Mr. Chairman.

Commissioner, you have complained today and previously several times that Congress has not given you enough money to do due diligence on customer service. And some, I believe, would be very surprised to know that you have the same amount of dollars in the 2014 budget in the 2015 budget that is dedicated specifically and has been appropriated to customer service.

And that is not coming through in a lot of your testimony that you delivered before us and the other places around town when you speak. The problem that I have today is that the IRS gets to choose where it spends some of its dollars. And it looks to me like you are purposely diverting money away from customer service to harm taxpayers. We are going to put a slide up today that reflects some of the user fee account dollars and where they have gone in the past and where they are going in the future and where they are happening to go today. Last year, the IRS spent $183 million out of this user fee account for customer service, which is about, I think, 44 percent of that account was used to help make sure that taxpayers have the assistance that they needed to adequately pay their taxes.

This year, it looks like you only chose to spend $49 million of these user fee dollars on taxpayer services. I believe that is down to almost 10 percent of the account. And it was directly chosen by you to do that at a time when you come before our committee and you come before many other places around town talking about the fact you don't have enough dollars for customer service. Instead, you moved money that you had the opportunity to away from customer service and put it into operations. So, from where I am sitting, it looks like to me that you are purposely harming taxpayers.

Mr. KOSKINEN. Can I answer that assertion?

Mrs. NOEM. Well, I would like—the question that I would like you to answer is, do you agree that you have cut the use of taxpayer fees or user fees to pay for customer assistance? Is that correct?

Mr. KOSKINEN. That money was moved to, in fact, fund the IT necessary for implementing the statutory mandate that Congress passed. In 2014, we asked for $300 million for IT to support FATCA and the Affordable Care Act. In 2015, we asked for $300 million to support implementation of the statutory mandate. In both years, the Congress gave us zero dollars. So we had no choice but to go elsewhere to find the resources to implement the mandate that we had no choice about implementing. So we did take—and I made that clear before, and the chairman was very accurate in noting that we have never been fully funded for customer service. We have always used our user fees in the last several years. And you are right. The numbers are exactly right; we spent $190 million of that in 2014. But, again, as we got zero funding for the Affordable Care Act implementation, we had no choice. We could not afford to have the filing season collapse because we couldn't implement that. So we took $100 million of user fees out of customer service and put it into the IT—to, in fact, operations—to develop the IT necessary to support the filing season.

Mrs. NOEM. How much money annually do you collect in user fees?

Mr. KOSKINEN. Our user fee account is—it varies, but it is in the range of $200 million to $250 million. It goes up and down.

Mrs. NOEM. So, out of that amount, you chose to reduce the dollars that were purposely dedicated to customer service and use those to fund IT?

Mr. KOSKINEN. We didn't fund just IT. We funded the statute that we are required to implement. At the same time, we took money out of enforcement. As I say, we are going to have 5,000 fewer people in enforcement. So this is not a question of we put the money in places we didn't need it. We have actually taken money from everywhere. And part of the reason we have done that is because of the refusal of the Congress in 2014 to give us the $300 million necessary to implement the act, the refusal of Congress to give us $300 million for IT in 2015 to implement the act. We have shared that information with the appropriators.

Mrs. NOEM. Mr. Commissioner, if you would look at the slide that we have up today. I would like you to glance at that. Because what this shows, based on GAO data, is that there is direct correlation between wait time that taxpayers have to wait for assistance from the IRS that correlates with the amount of user fees that are dedicated to taxpayer services. And that is what concerns me today is that knowing this is the projection we are going to see in the future, that the decision was made by leadership within the IRS, which I believe lays directly at your feet, that you have chosen to help IT, to help other areas of your budget to the detriment of taxpayers and that they are truly the ones who are going to suffer in the future because they won't have the assistance to make sure that they pay their taxes on time.

I believe it is a loss of priorities. I don't believe that workers who work for the IRS are bad. I think many of them work very, very hard every day. I do think this is directly relational to leadership and the lack of priorities identified correctly to where they need to be. We have to remember each and every day that the dollars that you deal with are the taxpayer dollars and that the refunds are due them and due them in a responsible amount of time. So that is the concern that I have is that when I look at your budget and where you have chosen to prioritize funding, it has not been in taxpayer services and in assistance and taking care of them. It has, instead, been on other areas, such as IT improvements, which we can see you certainly have had millions of dollars you could work with over previous years.

Mr. KOSKINEN. If you would be able to point out to me where we would find elsewhere the $300 million in 2014 and the $300 million in 2015 for the implementation of the statutory mandate that Congress passed, where else we could find the money, I would be happy to know that. We sat down, as Congressman Kelly said, with the entire leadership team looking for how were we going to fund the requirements that we have of implementing statutes and running the filing season.

We did not take money just from customer service. We took money from across the board. As I say, we have 5,000 fewer people in enforcement. We have fewer lawyers. We have fewer appellate people. There has been an across-the-board attempt to balance out the needs. If you can find a better way for us to have spent that money, I would be happy to talk with you about it.

Mrs. NOEM. We will do that. Thank you.

Chairman ROSKAM. Ms. Black.

Mrs. BLACK. Thank you, Mr. Chairman. And thank you, Mr. Chairman, for allowing me to be here on this panel today. This is a very important conversation that we are having here. And I think that all the colleagues in front of me have covered much of the issues that I had in my mind. But I want to go back to and follow up on the conversation that Representative Noem has talked about where there has been this diverting of this money. The IRS, in fact, has spent $1.2 billion dollars on implementing the President's health care law, is that true?

Mr. KOSKINEN. Over the last 4 years, we have spent $1.2 billion. That is a statutory mandate. We have no choice.

Mrs. BLACK. $1.2 billion. And, in addition to that, you expect to spend another $533 million in fiscal year 2015, is that correct?

Mr. KOSKINEN. That is correct.

Mrs. BLACK. Okay. So that is almost 5 percent of the IRS' total budget. Is that correct?

Mr. KOSKINEN. Correct.

Mrs. BLACK. So what we see here—and I understand that you are saying it is a mandate on your agency that you must follow the law. But I think it is important for the American people to see what this is costing the American people, that $1.2 billion has been spent up to this point in time in implementing this law. And so when we talk about the cost to the American people on implementing this law, this is one that I think gets many times lost in that of conversation. The American people don't realize that this is how much money is being spent just on this side of implementing this law.

Now, I want to go on and connect this to something last week in one of my Health subcommittees as we had people who are in the real working world, employers who are having to abide by the law on the employer mandate. And one of their complaints is that, first of all, they did not receive the guidance on just how to report on the employer mandate, which they are going to be required to do in fiscal year 2015: to report the employees that they have, the amount of insurance that they have for them, their families, Social Security numbers, a lot of information that is coming to you. They did not get guidance on that until February. And, yet, they have to go back to January and do that reporting mechanism.

But here is the thing they tell us: This is a lot of work, costing them a lot of money. Can you tell me if the agency is ready to crossmatch what they are sending in with what is seen on the exchanges and whether these employees that they have possibly have somebody in their family that has applied for the exchanges and the subsidies, can you crossmatch this information? Do you have the system set up to do that?

Mr. KOSKINEN. We don't yet. That is what we are building this year. That is part of the challenge for preparing for the next filing season. But we are prepared. I have been meeting every 2 weeks for the last 15 months with the IT people, the program people, and our operations people, reviewing the deadlines and the time frames. As I say, we managed to get through this filing system with all the ACA implementation going smoothly. We expect to get through the next filing season going smoothly. But, again, it is a challenge. And to the extent the funding continues to be cut, it is going to be a significant challenge.

Mrs. BLACK. So what we can say to the taxpayer is, by the way, you couldn't get into the IRS to ask your questions because money was taken out of customer service and put over here to the implementation.

Mr. KOSKINEN. Well, another way to put it would be we couldn't get into the IRS because, in fact, our budget was cut on top of all that.

Mrs. BLACK. In addition to that, we are asking employers to spend a lot of time putting all this information into the system where, admittedly, the system is not even ready to use that information to do what the system says that they are requiring them to send this information in for.

Mr. KOSKINEN. We will be ready by the filing season 2016. Last year, I said we would be ready for filing 2015, and we were. And I am confident—because it is a great workforce working very hard—that we will be ready to use that data when it comes in appropriately in the next filing season.

Mrs. BLACK. Well, I certainly hope, as we look next year this time and we are talking about this, that that is true. You have certainly said it here for the record. But it is a lot of information that is causing employers a lot of time and money to put in. And if this information is not being able to be used—and, again, we are taking this from customer service, moving it over to the implementation of a program that, again, the American public I don't think realizes how much this is really costing. Thank you.

I yield back the balance of my time.

Mr. KOSKINEN. Thank you. My only other observation is if the budget continues to be constrained or cut, then we are going to have a similar dialogue next year. And my concern is, will the filing season go as well as we go?

Chairman ROSKAM. Commissioner, I just wanted to focus in and take the admonition of Representative Rangel and that is that we need to defend a voluntary system. And you know and I know and every Member on this committee knows—and Mr. Rangel made a great point, and that is if it is undermined in any way, then it begins to collapse in on itself. And one of the great strengths of the United States is our system is voluntarily. And to the extent that I am involved in how Representative Crowley feels, I think we can make him feel better. He said he felt better but not great. And so part of the challenge is, where are these resources? Because there is nobody on this panel on either side of the aisle that is going to say morale and so forth is an easy thing to manage as a workload increases.

So what you have done is you have challenged us to say: Look, where is the money? Where are the resources? And give me resources.

And that is a fair argument to a point. And here is where you and I separate, I think, in terms of how we approach that. There have been a number of examples today on where resources can come from. I have got a thing up on the screen. You can't see these. Is our new technology so inelegant that you can't see this? That is not helpful. So let me read these through.

Mr. KOSKINEN. Somebody gave me a copy of the last one. If there were a copy of this one, it would be great.

Chairman ROSKAM. All right. We will get that to you. Let me just go through them.

There is nothing surprising here. And it is all essentially a discussion point. But, for example, we would argue that the bonus money that you made a decision to pay, $60 million in bonuses, you decided to move forward with that. One of your predecessors, Commissioner Werfel, said he wasn't going to pay those bonuses. And you made a decision to pay those. We would argue that the $60 million could have handled 7.2 million in calls. Does that make Representative Crowley feel great? No. But I think it would make him feel better if those 7 million calls were met.

The discussion that you had with Mr. Holding, for example, there is an opportunity—and we accept at face value, again, that some of the responsibility, as it relates to collective bargaining, is, in fact, a statutory mandate. But the overwhelming majority of it isn't. And, basically, knocking on the door of about 90 percent is not mandatory. It is discretionary on the part of the Service. And so toward that end, there is another $20 million that can be saved. That is 2.4 million calls. There is a law firm that you have entered into a contract with that I want to just touch on and then come back to because I have got a 6103 question. But the outside firm, that is a couple million dollars. And we would argue, look, there are plenty of attorneys and so forth that can handle that. And the user fee cuts, there is also a $100 million that Mr. Smith outlined and that is in the private debt collection, and other aspects of the Federal Government have come, Commissioner, to a very different conclusion than you have come about it or that the IRS has come. Maybe it was dealt with before you assumed the leadership as the Commissioner. But the GAO says that the IRS' study was not soundly designed to support a decision on whether to continue contracting out debt collection. In addition, the study was not originally intended or designed as primary support for the decision to cancel the program. IRS officials used it nevertheless for that purpose.

TIGTA went on to criticize the private debt collection cancellation. And they said it is clear that the Federal Government benefited from private collection agencies working these lower priority cases. So to use the old contingent fee model, this is debt that is not being pursued. It is just on the shelf. And two reputable, sterling reputation organizations—that is TIGTA and GAO—have come to a different conclusion. And I know that is not money, Ms. Noem's point, that can be used for customer service. It can be used to take off some of the pressure on the enforcement side. So, in light of these things, how do you respond to our suggestion that we think 26 million phone calls could have been handled much, much better if these things had been adopted?

Mr. KOSKINEN. All right. I appreciate that. Let's work backwards. As you note, whether we use debt collectors or not, the money doesn't come to the IRS. So that $100 million or $200 million or $50 million, whatever it is, goes to the Treasury, not to the IRS.

Chairman ROSKAM. But $100 million of it, according to the GAO, $100 million of it—so it is $4.5 billion over a 10-year cycle, $400 million a year, a quarter of which comes to the IRS. Now, of the $100 million that comes to the IRS, your argument is, look, it can't go into customer service. I agree with that. But you have basically been arguing all morning the fungibility of money. So what we are saying is, look, we have got a $100 million that is available fairly, fairly quickly. Two government agencies that everybody cites and has a lot of respect for say you can do it. Why not do it?

Mr. KOSKINEN. Let me start by saying if you add it all up, it is less than the budget cut we took in December in the face of increasing responsibilities.

Chairman ROSKAM. But that is arguing——

Mr. KOSKINEN. You can't add it all up. The user fees, as I say, if somebody can tell me where we would have found the $134 million we spent on IT with that money to implement the statutory requirements, if somebody can say where else we get that, I would be happy to know that. In other words——

Chairman ROSKAM. No, but——

Mr. KOSKINEN. If I can complete it, what you are saying is, because there is a lot of pressure on customer service, that, somehow, if we moved money and we let the IT system either fail or we didn't have the filing system work, that that would be okay because we would have put $134 million into customer service. We used to do that until the Congress refused to give us the money that was necessary to implement the Affordable Care Act and FATCA. With regard to the outside——

Chairman ROSKAM. Commissioner, hold on, let's just, so we can get to it.

Mr. KOSKINEN. Okay.

Chairman ROSKAM. I think that is a straw man argument. So, in other words, you are saying, you gave us—you referred to Charles Dickens in your opening, best of times and worst of times. And, on the best of times things, it is very impressive, you know, the amount of time and so forth and the smoothness of the filing season; 200 returns per second, that is impressive.

The worst of time, based on your presentation to us, was all customer service. And the subtext of every Member here on this side of the aisle has been, Let's talk about customer service. And you have been going around publicly making the customer service argument and putting it at our feet. And so what you are sensing from us is we think that is too simple. We think that you have created a straw man. And the straw man, it is sort of like the argument when you have been in a jurisdiction where a school board has not gotten a referendum passed. And the school board says: "All right, here is what we are going to do. We are not going to challenge anybody in the administration. What we are going to do is cut the orchestra, and we are going to cut the football team. And we are not going to deal with the vice principal in charge of looking out the window. We are going to go after the things that make people hurt."

Now, I am not accusing you of bad faith. But what I am saying is you came in today saying that customer service was the problem in your opening statement. And we are saying we think you are over-characterizing that and that there is resources that we have enumerated and argued for and not the least of which is the fungibility argument, which is what you were making to me 90 seconds ago, the fungibility of these funds. If we can find $100 million in enforcement by taking Jason Smith's idea, why not take that? Particularly in light of the fact that two agencies—and I would ask unanimous consent to put these two reports in the record—the GAO and TIGTA, say the IRS is just wrong on this.

[The information follows:]

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

February 27, 2015

Congressional Requesters

Internal Revenue Service: Observations on IRS's Operations, Planning, and Resources

This letter transmits briefing slides in response to your requests for information based on our ongoing reviews of the fiscal year 2016 budget request for the Internal Revenue Service (IRS) and the 2015 tax filing season. See the enclosed briefing slides which include the information used to brief your staff in February 2015.

Our briefing objectives were to describe (1) trends in IRS's budget and operations for fiscal years 2009 through 2015, including the 2015 filing season to date; (2) key aspects of the President's fiscal year 2016 budget request for IRS; and (3) IRS's actions to strategically manage operations.

To describe trends in IRS's budget and operations, we reviewed the President's budget requests and IRS's congressional justifications for fiscal years 2009 through 2016, reviewed IRS filing season performance data, and interviewed IRS officials on performance and challenges. To describe key aspects of the fiscal year 2016 budget request, we reviewed budget proposals and interviewed IRS officials. To analyze IRS's actions to strategically manage operations, we reviewed planning documents and interviewed IRS officials. We also reviewed prior GAO work that recommended improvements to IRS's strategic management, and we interviewed IRS officials about the status of recommendations. To assess the reliability of IRS's filing season performance data, we interviewed knowledgeable officials about computer systems and data limitations. To assess the reliability of budget numbers presented in the congressional justification, we compared the numbers to those presented in the President's budget. We determined that the data presented in this report were sufficiently reliable for our purposes.

We conducted this performance audit from January 2015 to February 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found the following:

- IRS's fiscal year 2015 appropriation ($10.9 billion) and staffing levels (81,279 full-time equivalents, or FTE) continue a decline that has occurred over several years and are now below fiscal year 2009 levels. Since fiscal year 2010, IRS's annual appropriation has declined by $1.2 billion, and staffing has fallen by about 11,000 FTEs since fiscal year 2009, while the agency's workload has increased for reasons such as a surge in identity theft-related refund fraud and the implementation of key provisions of the Patient Protection and Affordable Care Act (PPACA). In response to budget cuts, IRS has taken steps to reduce staffing costs including extending a hiring freeze and limiting seasonal employment. According to the Commissioner of Internal Revenue, IRS may also furlough employees for 2 days later in the fiscal year. IRS is concerned about filing season performance, and anticipates it may face some challenges processing returns that claim the Premium Tax Credit—an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace. As a result, IRS expects that some refunds may be delayed. IRS also projects significant declines in telephone level of service—only 38 percent of taxpayers who seek help from a live assistor will receive it and wait times will average almost one hour. IRS cites resource constraints and increased call volume as primary factors contributing to the decline in telephone performance.

- IRS's fiscal year 2016 budget request is $12.9 billion. This amount is almost $2 billion (18 percent) more than IRS's fiscal year 2015 appropriation, and $667 million above the discretionary spending cap. About half of the requested increase is for operations support. The largest requested FTE increase is about 4,000 FTEs for enforcement. The budget request includes $490 million and 2,539 FTEs to implement PPACA.
- Additional funding is not the only solution to performance declines across IRS. Although resources are constrained, IRS has some flexibility in how it allocates resources to ensure that limited resources are utilized as effectively as possible. This environment of constrained resources also highlights the importance of strategically managing operations to make tough choices about which services to continue providing and which services to cut. IRS has begun to plan more strategically. For example, in 2014 the agency established the Planning, Programming and Audit Oversight office to improve coordination of resource decision making and long-term strategic planning. This was, in part, a response to our June 2014 recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. Further, IRS is developing a 6-year initiative to better understand how taxpayers want to interact with the agency. The initiative's overall goal is to provide taxpayers with secure self-service options and to improve taxpayer service. We have previously recommended additional actions IRS could take to improve operations, plan more strategically, and improve revenue collection. These recommendations included that IRS develop a long-term strategy to improve web services provided to taxpayers. As of February 2015, IRS officials reported that the agency does not have a separate online services strategy. Rather, this strategy is a key component of IRS's Service on Demand strategy, which aims to deliver service improvements across different taxpayer interactions such as individual account assistance, refunds, identity theft, and billings and payments.

Agency Comments

On February 20, 2015, IRS provided technical comments on our findings, which we have incorporated where appropriate.

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As arranged with your offices, unless you publically announce the contents of this report earlier, we plan no further distribution until 4 days after the date of this report. At that time, we will send copies of this report to the Chairman and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies to the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. The report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or mctiguej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report were Joanna Stamatiades, Assistant Director; Libby Mixon, Assistant Director; Theodore Alexander; Jeff Arkin; Amy Bowser; James Cook; John Dicken; Mary Evans; Shannon Finnegan; Charles Fox; Robert Gebhart; Melissa King; Kirsten Lauber; Paul Middleton; Susan E. Murphy; Edward Nannenhorn; Sherice Nelson; Sabine Paul; Ellen Rominger; Mark Ryan; Erinn L. Sauer; Cynthia Saunders; Erin Saunders Rath; and James White.

James R. McTigue Jr.

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Enclosure – 1

List of Requesters

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable John Boozman
Chairman
The Honorable Chris Coons
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Charles Boustany, Jr.
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

GAO Enclosure: Briefing Slides

Internal Revenue Service: Observations on IRS's Operations, Planning, and Resources

Prepared for Congressional Requesters
February 2015

GAO

Objectives

Our objectives are to provide preliminary information on the President's fiscal year 2016 budget request for the Internal Revenue Service (IRS) and on IRS's 2015 filing season performance. This briefing describes

(1) trends in IRS's budget and operations, focusing on fiscal years 2009 to 2015, including the 2015 filing season to date;

(2) key aspects of the President's fiscal year 2016 budget request for IRS; and

(3) IRS's actions to strategically manage operations.

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Scope and Methodology

- To describe trends in IRS's budget and operations, we reviewed the President's budget requests and IRS's congressional justifications for fiscal years 2009 through 2016; reviewed IRS filing season performance data; and interviewed officials on filing season performance and challenges.
- To describe key aspects of the fiscal year 2016 budget request, we focused on budget proposals for funding, staffing, new initiatives, return on investment estimates for enforcement initiatives, and legislative proposals related to our prior work.
- To describe IRS's actions to strategically manage operations, we reviewed planning documents and interviewed IRS officials in the Planning, Programming and Audit Oversight (PPAO) office. We also reviewed our prior work that recommended improvements to IRS's strategic management and interviewed IRS officials about the status of those recommendations.
- For each objective, we interviewed IRS budget and operations management officials. We interviewed IRS officials and determined that the data presented in this report were sufficiently reliable for our purposes.

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Results in Brief

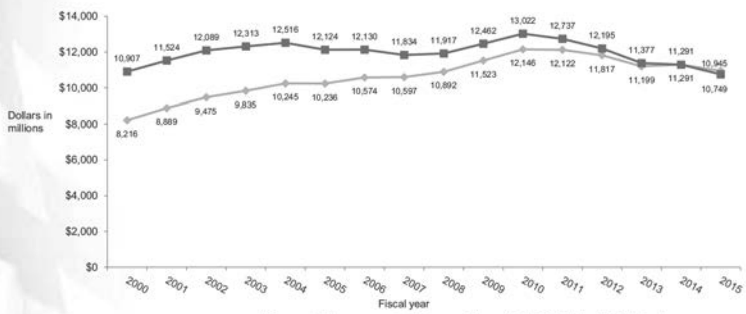
- IRS's fiscal year 2015 appropriation ($10.9 billion) and staffing levels (81,279 full-time equivalents) continue a decline that has occurred over recent years and are now below fiscal year 2009 levels.
    - This filing season, IRS expects to face some challenges processing returns that include the Premium Tax Credit (PTC) claim under the Patient Protection and Affordable Care Act (PPACA); this could cause delays in some refunds. IRS projects its telephone level of service (LOS) performance (the percentage of callers seeking live assistance and receiving it) will be about 38 percent and wait times will average about an hour. Finally, identity theft-related refund fraud remains an ongoing challenge.
- For fiscal year 2016, IRS requested $12.9 billion in appropriations, an increase of about $2 billion over fiscal year 2015. This level of funding would support staffing of about 91,000 full-time equivalents (FTEs), an increase of about 11 percent.
- IRS has begun to plan more strategically. For example, in 2014 IRS established the Planning, Programming and Audit Oversight (PPAO) office to better coordinate strategic long-term planning. This was, in part, a response to our prior recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. IRS is also developing a 6-year strategy to better meet taxpayers' needs and preferences for interacting with the IRS. The strategy's overall goal is to provide secure self-service options for taxpayers and to improve taxpayer service.

GAO

Objective 1

Funding Trends: IRS's Fiscal Year 2015 Appropriations are Near the Fiscal Year 2000 Level After Adjusting for Inflation

Figure 1: IRS Appropriations Nominal and Inflation Adjusted (2014 dollars), from Fiscal Year 2000 through Fiscal Year 2015



Source: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service congressional justifications for fiscal years 2005 through 2014, and Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235 (Dec. 16, 2014). | GAO-15-420R
Note: Inflation adjustments were made using Bureau of Economic Analysis data and CBO projections of the fiscal year chain weighted GDP price index.

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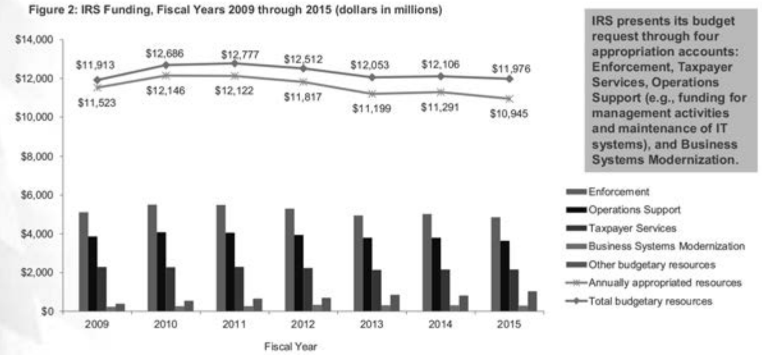
Objective 1

Funding Trends: IRS's Total Funding Declined to Fiscal Year 2009 Level

Figure 2: IRS Funding, Fiscal Years 2009 through 2015 (dollars in millions)



IRS presents its budget request through four appropriation accounts: Enforcement, Taxpayer Services, Operations Support (e.g., funding for management activities and maintenance of IT systems), and Business Systems Modernization.

Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R
Notes: Total budgetary resources includes funds such as user fees and reimbursables. Dollars are nominal and not adjusted for inflation. See appendix I for additional detail.

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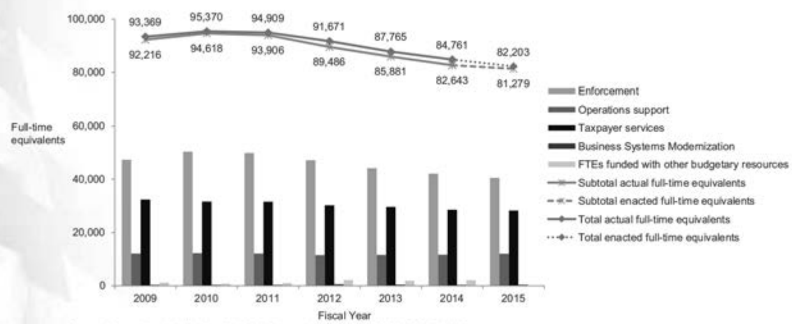
Objective 1

Funding Trends: IRS Total FTEs Reduced by 11,166 (12 percent) since Fiscal Year 2009

Figure 3: IRS Full-Time Equivalents (FTE), Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 Enacted



Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R
Notes: Total actual and total enacted full-time equivalents include FTEs funded with other budgetary resources, such as user fees. See appendix II for additional detail.

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Objective 1

Funding Trends: Budget Reductions Realized through Multiple Efforts

Figure 4: IRS Savings, Reductions, and Efficiencies, Fiscal Years 2010 through 2013

Fiscal year	Total amount of savings (in millions)	Examples of savings, reductions and efficiencies
2010	$176	• IT contract reductions including renegotiated and restructured contracts: $62 million • Stimulus funding reductions from repurposing dedicated toll free line: $68 million • Increased E-filing savings: $10 million
2011	$277	• IT reductions including decreased and renegotiated contracts: $165 million • Increased E-filing savings: $42 million • Reductions in direct mailing of tax forms: $25 million
2012	$426	• Attrition including hiring freezes and targeted buyouts: $206 million • Reduced IT infrastructure: $79 million • Reduced training and travel: $54 million
2013	$566	• Attrition and furlough reductions including a hiring freeze: $311 million • Contract reductions including decreasing and renegotiating contracts: $64 million • Travel reductions: $56 million

Source: Congressional justifications for IRS, fiscal years 2012 through 2015. | GAO-15-420R

Funding Trends: IRS Plans to Further Reduce Staffing Costs in Fiscal Year 2015

For fiscal year 2015, IRS is reviewing travel, training and contracting for further cuts, but the agency has determined it will need to cut labor costs, which account for about 76 percent of its budget.

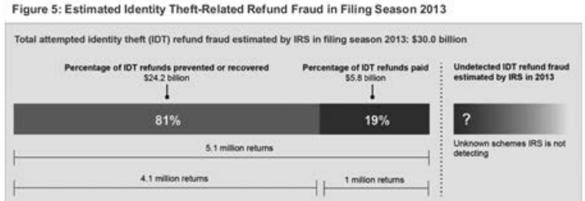
In response to the budget cuts, IRS has taken action to reduce staffing costs and other expenses through the following efforts:

- extending its hiring freeze through fiscal year 2015 and reducing staffing through attrition;
- eliminating most overtime taken by IRS staff;
- planning to limit the number of months it uses seasonal staff for answering telephones and responding to correspondence during and after the 2015 filing season; and
- considering whether to furlough all IRS employees for 2 days later in the fiscal year.

Workload Trends: IRS Increased FTEs Working on Refund Fraud and Identity Theft (IDT) Issues

- IRS increased FTEs allocated towards refund fraud (including IDT) from 1,018 in fiscal year 2011 to 3,993 in fiscal year 2014 (an increase of about 292 percent).
- IRS estimated that $30 billion in IDT refund fraud was attempted in filing season 2013, with about $24.2 billion (81 percent) prevented or recovered and $5.8 billion (19 percent) paid.[1] The full extent is unknown.

Figure 5: Estimated Identity Theft-Related Refund Fraud in Filing Season 2013



Source: GAO analysis of IRS data. | GAO-15-420R

- IRS has taken important steps to prevent IDT refund fraud, including instituting IDT filters. However, IDT refund fraud takes advantage of IRS's "look-back" compliance model. Under this model, rather than holding refunds until completing all compliance checks, IRS issues refunds after conducting selected reviews.

[1]See GAO, *Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits and Risks*, GAO-15-119 (Washington, D.C.: Jan. 20, 2015).

GAO

Objective 1

Workload Trends: IRS Increased FTEs to Implement PPACA with Funds from Multiple Accounts

Table 1: Patient Protection and Affordable Care Act Spending by Account, Fiscal Years 2010 to 2015 (dollars in millions)

Appropriations account	Fiscal years 2010	2011	2012	2013	2014	Total
Department of Health and Human Services, Health Insurance Reform Implementation Fund	$20.7	$168.2	$299.2	-	$49.9	$538.0
Taxpayer Services	-	-	-	4.3	12.1	16.4
Enforcement	-	-	-	19.3	16.6	35.9
Operations Support	-	-	-	190.7	122.3	313.0
User Fees	-	-	-	69.7	185.7	255.4
Total	$20.7	$168.2	$299.2	$284.0	$386.6	$1,158.7

Source: IRS. | GAO-15-420R

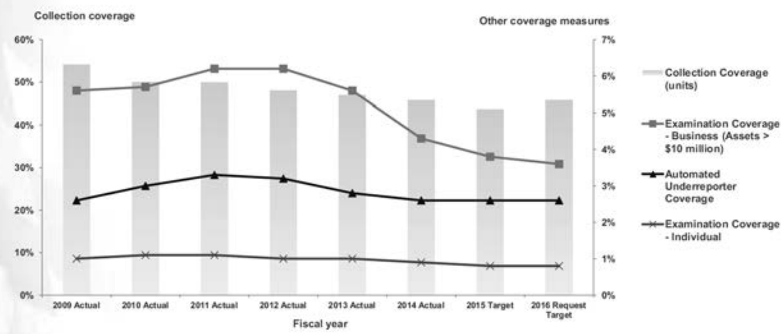
IRS increased FTEs dedicated to PPACA from approximately 30 in fiscal year 2010 to over 1,200 in fiscal year 2015.

GAO

Objective 1

Workload Trends: Return Examination and Collection Coverage Measures Show Decline

Figure 6: IRS Exam and Collection Coverage Measures, Fiscal Years 2009 through 2014 Actual and Fiscal Year 2015 and 2016 Targets



Source: GAO analysis of the congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

GAO

Objective 1

Filing Season Trends: IRS Anticipates Challenges with Returns That Include Premium Tax Credit (PTC) Claims

- As of February 6, IRS has processed about 27 million individual income tax returns and 20 million refunds totaling $66 billion have been issued.
- Some states discovered attempts to file fraudulent tax returns and stopped accepting or processing returns, but IRS officials said federal returns were not affected.
- IRS officials reported they have not processed many returns claiming the PTC,[2] reporting information required by the Foreign Account Tax Compliance Act (FATCA), or involving the previously expired provisions which Congress renewed at the end of 2014, such as the deduction of mortgage insurance premiums.
- However, IRS officials anticipate challenges with returns that include PTC claims because (1) IRS must reconcile PTC amounts reported by the taxpayer with information reported by marketplaces, and (2) for those taxpayers who received an advance payment of the credit based on the income reported at time of enrollment, IRS must reconcile the income reported at enrollment with income claimed on the tax return, which may result in differences that affect the amount of the taxpayer's refund.

[2]The PTC is an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace.

GAO

Objective 1

Filing Season Trends: IRS Anticipates Challenges with Returns That Include Premium Tax Credit (PTC) Claims (Cont.)

- Third parties (i.e., the marketplaces) had until February 2 to provide taxpayers with Form 1095-A, *Health Insurance Marketplace Statement*, which taxpayers need to compute the amount of their PTC.
- In addition, IRS does not yet have complete marketplace data from all 50 states and the District of Columbia to proceed with pre-refund matching for PTC claims. As a result, IRS is holding some returns pending receipt of these data.
- IRS does not have Math Error Authority (to quickly correct errors without the need for an audit) specifically for PTC claims. In February 2010, we suggested that Congress provide IRS with broader authority to correct errors.[3] Treasury has also proposed that Congress provide IRS with this authority. Without this authority, IRS must write to the taxpayer to resolve discrepancies, which delays any potential refund. Congress has not taken action on this suggestion.

[3]See GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: February 10, 2010).

GAO

Objective 1

Filing Season Trends: IRS Expects Telephone Service to Decline Based on Resource Limitations and Increased Demand for Assistors

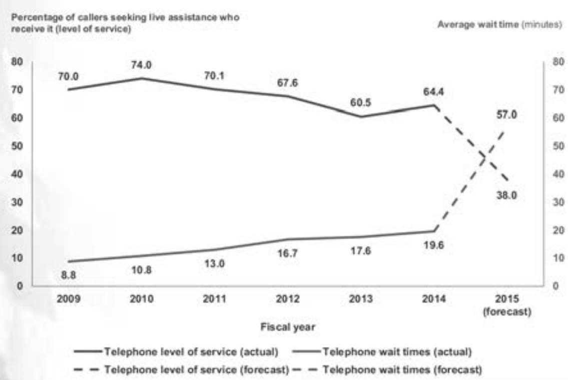
- In fiscal year 2015, IRS received approximately the same appropriated funding for taxpayer services as it did in fiscal year 2014. However, IRS is confronted with absorbing other costs that typically occur on an annual basis, such as salary adjustments and increases for inflation.
- IRS expects demand for assistors to increase about 20 percent from fiscal year 2014 (from 39.9 to 48 million) in part due to PPACA-related questions, and expects assistors to answer about 27 percent fewer calls (from about 23.1 to 16.8 million).
- IRS is shifting additional staff to work correspondence earlier in the filing season than in the past. Since IRS uses the same staff to work correspondence and answer telephones, this shift contributed to the expected decrease in telephone level of service (LOS). Further, IRS provides limited interactive services for taxpayers on its website. Therefore, taxpayers with questions about their accounts who do not successfully receive service from the website or an IRS assistor on the phone may have little choice but to send correspondence to IRS or visit a walk-in site, potentially increasing IRS's costs.

GAO

Objective 1

Filing Season Trends: IRS Projects Significant Declines in Telephone Service and Average Wait Times of Almost an Hour

Figure 7: IRS Telephone Level of Service and Average Telephone Wait Times, Fiscal Years 2009 through 2014 and Fiscal Year 2015 Forecast



From fiscal years 2014 to 2015, through the first week of February:

- telephone level of service (LOS) decreased from 64.1 to 48.6 percent;
- wait times increased from about 18.7 to 34.4 minutes;
- demand for assistors increased from about 11.3 to 11.6 million calls; and
- assistor-answered calls decreased from about 6.6 to 5.3 million calls.

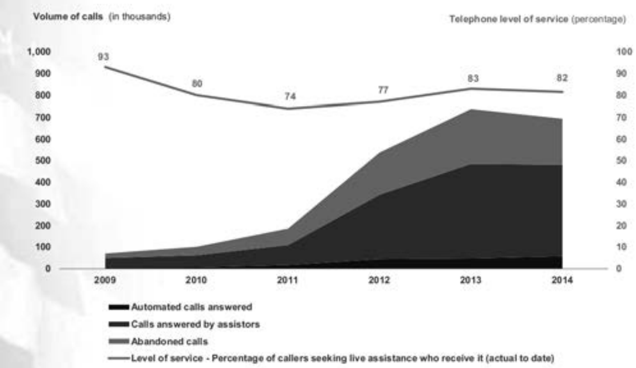
Source: GAO analysis of IRS data. | GAO-15-420R

GAO

Objective 1

Filing Season Trends: IDT Calls During the Filing Season Have Increased Significantly in Recent Years

Figure 8: IRS Identity Theft Call Volume and Performance from January 1 through Late March or Early April, 2009 through 2014 Filing Seasons



- IRS forecasts telephone LOS for its Identity Protection Specialized Unit to be 43 percent in fiscal year 2015, which is greater than the overall telephone LOS.
- Average wait times to date significantly increased from about 1.1 to 12.6 minutes (or over 1,000 percent) from 2009 to 2014.

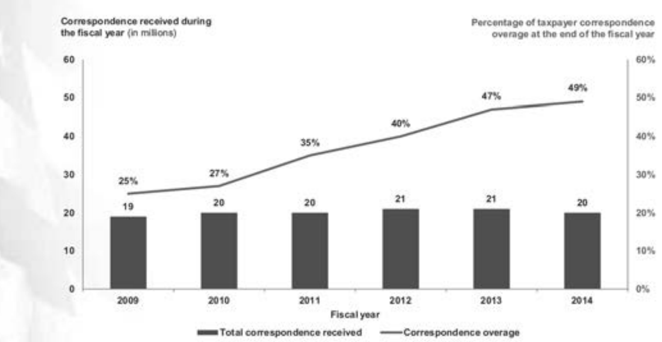
Source: GAO analysis of IRS data. | GAO-15-420R
Note: Dates are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; March 30, 2013 and March 29, 2014.

GAO

Objective 1

Filing Season Trends: Overage Correspondence Has Almost Doubled Since Fiscal Year 2009

Figure 9: IRS Taxpayer Correspondence Performance, Fiscal Years 2009 through 2014



Overage correspondence is paper correspondence that IRS has not responded to within 45 days of receipt.

Source: GAO analysis of IRS data. | GAO-15-420R

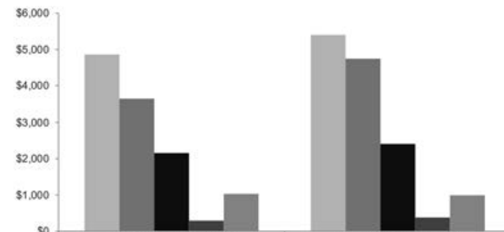
Note: Aggregate data are from two IRS units that jointly handle taxpayer correspondence. The same employees that provide telephone service are also responsible for responding to correspondence. Data cover equivalent periods for each fiscal year with slight variation in the exact dates depending on the year and data source.

GAO

Objective 2

Fiscal Year 2016 Budget Request: The Largest Requested Increase Is $1.1 Billion for Operations Support

Figure 10: Fiscal Year 2015 Funding for IRS Compared to Fiscal Year 2016 Request (dollars in millions)



	Fiscal year 2015 enacted	Fiscal year 2016 requested
Enforcement	$4,860	$5,400
Operations Support	$3,638	$4,743
Taxpayer Services	$2,157	$2,409
Business Systems Modernization	$290	$379
Other budgetary resources	$1,031	$991

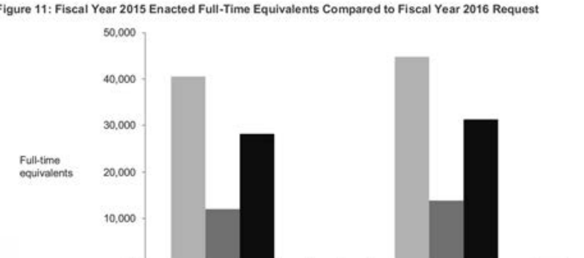
Source: GAO analysis of the Congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Other budgetary resources includes funds such as user fees and reimbursables.

GAO

Objective 2

Fiscal Year 2016 Budget Request: The Largest FTE Increase Is About 4,000 for Enforcement

Figure 11: Fiscal Year 2015 Enacted Full-Time Equivalents Compared to Fiscal Year 2016 Request



	Fiscal year 2015 enacted	Fiscal year 2016 requested
Enforcement	40,564	44,800
Operations support	12,043	13,863
Taxpayer services	28,274	31,285
Business Systems Modernization	398	576
Other budgetary resources	924	962

Source: GAO analysis of the congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Other budgetary resources includes FTEs funded with user fees and reimbursables.

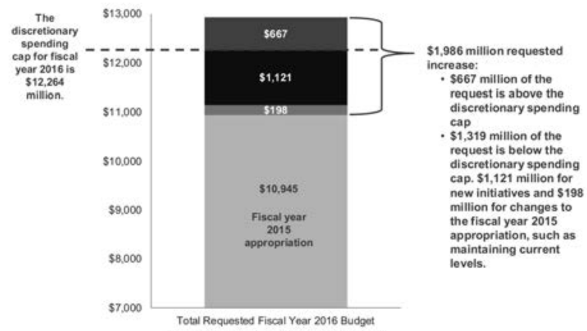
GAO

Objective 2

Fiscal Year 2016 Budget Request: Request Is 18 Percent ($2 Billion) Above the Fiscal Year 2015 Appropriation and $667 Million Above the Discretionary Spending Cap

Figure 12: Breakdown of IRS Fiscal Year 2016 Requested Increase (dollars in millions)

Congress passes program integrity cap adjustments to allow additional funding above discretionary spending limits for certain activities that are expected to generate benefits that exceed cost.



Source: GAO analysis of IRS data. | GAO-15-420R
Note: The scale begins at $7,000 million.

GAO

Objective 2

Fiscal Year 2016 Budget Request: IRS Proposed 14 Enforcement Initiatives

Table 2: Funding Requested for Enforcement Initiatives (dollars in millions)

Description of requested budget increase	Fiscal year 2016 funding requested, by appropriations account				
	Taxpayer services	Enforcement	Operations support	Business Systems Modernization	Total[a]
New enforcement initiatives below the cap	**$0.1**	**$107**	**$66**	**-**	**$172**
Implement Foreign Account Tax Compliance Act	-	34	37	-	71
Address Impact of Affordable Care Act Statutory Requirements	0.1	45	22	-	67
Implement Merchant Card and Basis Matching	-	28	6	-	34
New enforcement initiatives above the cap	**-**	**352**	**203**	**-**	**555**
Prevent Identity Theft and Refund Fraud	-	48	34	-	82
Increase Audit Coverage	-	97	64	-	162
Improve Audit Coverage of Large Partnerships	-	14	3	-	16
Address International and Offshore Compliance Issues	-	35	5	-	41
Enhance Collection Coverage	-	83	40	-	123
Leverage Data to Improve Case Selection	-	5	34	-	39
Address Compliance Risks in the Tax-Exempt Sector	-	16	8	-	23
Pursue Employment Tax and Abusive Tax Schemes	-	9	9	-	17
Enhance Investigations of Transnational Organized Crime	-	37	5	-	43
Ensure Ethical Standards of Conduct for Practitioners	-	3	.9	-	4
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities	-	5	-	-	5
New non-enforcement initiatives	**218**	**-**	**754**	**88**	**1,060**
Changes to base	**34**	**81**	**82**	**1**	**198**
Total requested increase in appropriations	**$252**	**$540**	**$1,105**	**$89**	**$1,986**

Source: Congressional budget justification for IRS, fiscal year 2016.
Note: [a]Numbers may not add due to rounding.

GAO

Objective 2

Fiscal Year 2016 Budget Request: IRS Proposed 12 Non-Enforcement Initiatives

Table 3: Funding Requested for Non-Enforcement Initiatives (dollars in millions)

Description of requested budget increase	Fiscal year 2016 funding requested, by appropriations account				
	Taxpayer services	Enforcement	Operations support	Business Systems Modernization	Total*
New non-enforcement initiatives below the cap	$218	-	$642	$88	$948
Improve Taxpayer Services	183	-	118		302
Leverage New Technologies to Advance the IRS Mission	-	-	4	88	92
Implement Information Technology Changes to Deliver Tax Credits and Other Requirements	-	-	306	-	306
Improve Upfront Identification and Resolution of Identity Theft Returns	16	-	3	-	19
Sustain Critical Information Technology Infrastructure	-	-	189	-	189
Enhance Service Options for Taxpayers	14	-	2	-	16
Restore Staffing for Essential Support Programs	-	-	20	-	20
Increase Service for Low-Income Taxpayers and Taxpayers in Need of Hardship Relief	5	-	.6	-	6
New non-enforcement initiatives above the cap	-	-	111	-	111
Consolidate and Modernize IRS Facilities	-	-	85	-	85
Maintain Integrity of Revenue Financial Systems	-	-	12	-	12
Implement Agency Wide Shared Services Priorities	-	-	11	-	11
Implement Federal Investigative Standards	-	-	3	-	3
New enforcement initiatives	0.1	459	269	-	728
Changes to base	34	81	82	1	198
Total requested increase in appropriations	$252	$540	$1,105	$89	$1,986

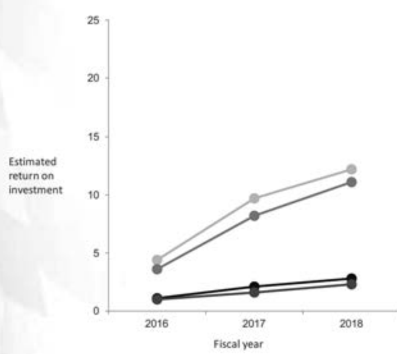
Source: Congressional budget justification for IRS, fiscal year 2016.
Note: *Numbers may not add due to rounding.

GAO

Objective 2

Fiscal Year 2016 Budget Request: Four Enforcement Initiatives Expected to Produce Revenue Are Under the Discretionary Spending Cap

Figure 13: Estimated Return on Investment for Proposed Enforcement Initiatives Below Discretionary Spending Cap



Name of initiative	Full performance fiscal year 2018 (in millions)
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Protecting)	Cost: $7 Revenue: $89
Implement Merchant Card and Basis Matching	Cost: $29 Revenue: $322
Address Impact of Patient Protection and Affordable Care Act Statutory Requirements (Revenue Producing)	Cost: $65 Revenue: $182
Implement Foreign Account Tax Compliance Act	Cost: $67 Revenue: $155

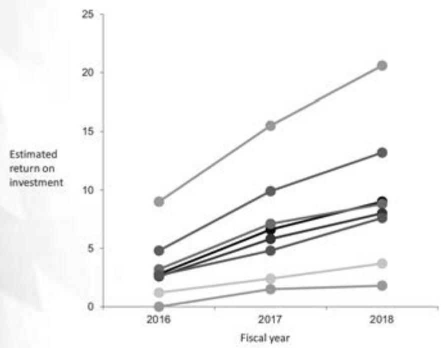
Source: GAO analysis of congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

GAO

Objective 2

Fiscal Year 2016 Budget Request: Eight Enforcement Initiatives With Expected Return on Investment Are Above the Discretionary Spending Cap

Figure 14: Estimated Return on Investment for Proposed Enforcement Initiatives Above Discretionary Spending Cap



Name of initiative	Full performance fiscal year 2018 (in millions)
Prevent Identity Theft and Refund Fraud (Revenue Producing)	Cost: $3 Revenue: $64
Prevent Identity Theft and Refund Fraud (Revenue Protecting)	Cost: $78 Revenue: $1,031
Enhance Collection Coverage	Cost: $131 Revenue: $1,180
Increase Audit Coverage (Revenue Protecting)	Cost: $13 Revenue: $112
Increase Audit Coverage (Revenue Producing)	Cost: $159 Revenue: $1,267
Improve Audit Coverage of Large Partnerships	Cost: $17 Revenue: $129
Address International and Offshore Compliance Issues	Cost: $43 Revenue: $160
Leverage Data to Improve Case Selection (Revenue Enhancing)	Cost: $41 Revenue: $75

Source: GAO analysis of congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R

GAO

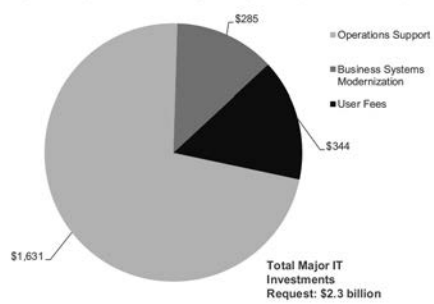
Objective 2

Fiscal Year 2016 Budget Request: $3.2 Billion Requested for Information Technology

Of the $3.2 billion requested,

- $2.3 billion is planned to fund 20 major IT investments.[4] The requested funding for major IT investments would come from multiple sources, as shown in the figure to the right.
    - This includes $24 million for Web Applications, a major IT investment initiated in fiscal year 2015 to meet continued growth in demand for customer service from taxpayers across all channels.
- $976 million is planned to fund non-major IT investments.

Figure 15: Major IT Investments by Funding Source (dollars in millions)



[4]According to IRS, major investments are defined by Treasury as those that cost $10 million in either the current year or budget year, or $50 million over the 5-year period extending from the prior year through budget year +2.

GAO

Objective 2

Fiscal Year 2016 Budget Request: $490 Million and 2,539 FTEs Proposed to Implement PPACA in Fiscal Year 2016

Table 4: Fiscal Year 2016 Patient Protection and Affordable Care Act (PPACA) Budget Request (dollars in millions)

	Taxpayer services		Enforcement		Operations support		Total	
Initiatives	Dollars	FTEs	Dollars	FTEs	Dollars	FTEs	Dollars	FTEs
Expand telecom infrastructure to handle increased demand	-	-	-	-	$16.0	-	**$16.0**	**-**
Improve taxpayer services	$78.3	1,231	-	-	$23.2	7	**$101.5**	**1,238**
Address impact of PPACA statutory requirements	$0.1	1	$44.8	432	$22.3	50	**$67.2**	**483**
Implement information technology changes to deliver tax credits and other requirements	-	-	-	-	$305.6	818	**$305.6**	**818**
Total fiscal year 2016 PPACA budget request	**$78.5**	**1,232**	**$44.8**	**432**	**$367.1**	**875**	**$490.4**	**2,539**

Legend: FTE = Full time equivalent.
Source: Congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R
Note: Some numbers do not add due to rounding.

GAO

Objective 2

Fiscal Year 2016 Budget Request: Selected GAO Analyses Related to Legislative Proposals

Table 5: Selected Legislative Proposals Related to Prior GAO Work (dollars in millions)

Selected IRS legislative proposals related to prior GAO work	Projected revenues over 10 years (in millions)	Projected costs over 3 years (in millions)	Related GAO reports
Modify reporting of tuition expenses and scholarships of Form 1098-T, Tuition Statement.	$618	$0.2	GAO-10-225
Authorize the Department of Treasury to require additional information to be included in electronically filed Form 5500 annual reports and electronic filing of certain other employee benefit plan reports.	10[a]	11.2	GAO-05-491
Increase certainty with respect to worker classification.	10,170	1.9	GAO-09-717
Require taxpayers who prepare their returns electronically, but file their returns on paper, to print their returns with a scannable code.	10[a]	14.6	GAO-12-33
Allow IRS to absorb credit and debit card processing fees for certain tax payments.	20	9.6	GAO-10-11
Provide IRS with greater flexibility to address correctable errors.	639	1.4	GAO-15-163, GAO-11-481, GAO-10-349
Improve whistleblower program.	Negligible revenue effect	0	GAO-11-683
Explicitly provide that the Department of Treasury and IRS have authority to regulate all paid return preparers.	427	Not available	GAO-14-467T, GAO-08-781
Rationalize tax return filing due dates so they are staggered.	1630	1.0	GAO-13-515
Combat tax-related identity theft.	Negligible revenue effect	2.7	GAO-15-119, GAO-14-633, GAO-13-132T

Source: GAO analysis based on congressional budget justification for IRS, fiscal year 2016 and Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals* (Washington, D.C.: February 2015).
Note: [a]Department of Treasury includes this legislative proposal under "Enhance Electronic Filing of Returns" and provides a single projected revenue for this proposal, as well as several others.

GAO

Objective 3

Strategic Management: IRS Created a New Office in 2014 to Better Coordinate Strategic Long-Term Planning Decisions

- Responding in part to a June 2014 GAO recommendation,[5] IRS established the Planning, Programming, and Audit Oversight office (PPAO) in 2014 to improve coordination of (1) current and completed audits, and (2) resource decision making and strategic planning.
- PPAO is to facilitate coordination among business units and operating divisions to improve resource allocation and planning.
- PPAO is to drive long-term planning for resource allocation to be seen first in the fiscal year 2017 budget.
- The new strategic approach is to include consideration of short-term trade-offs with long-term investments, allocation of finite resources, and post-evaluation of investments.

[5]See GAO, *IRS 2015 Budget: Long-Term Strategy and Return on Investment Data Needed to Better Manage Budget Uncertainty and Set Priorities*, GAO-14-605 (Washington, D.C.: June 12, 2014), in which we recommended that IRS develop a long-term strategy to address operations amidst an uncertain budget environment.

GAO

Objective 3

Strategic Management: IRS Is Implementing Taxpayer Service Initiatives for the 2015 Filing Season

IRS is implementing service initiatives, with the goal of serving the maximum number of taxpayers possible more effectively and efficiently, by

- redesigning notices, in part to inform taxpayers about online resources and self service tools as an alternative to calling or writing to IRS;
- expanding use of IRS's Oral Statement Authority tool to accept verbal requests for penalty relief; and
- directing qualified taxpayers to apply and set up installment payment agreements online or through self-service kiosks instead of calling or visiting IRS.

We previously reported that shifting taxpayers to self-service tools reduces the need for taxpayers to speak with IRS assistors, which in turn reduces IRS's costs while improving taxpayer services.[6]

[6]See GAO, *Tax Filing Season: 2014 Performance Highlights the Need to Better Manage Taxpayer Service and Future Risks*, GAO-15-163 (Washington, D.C.: Dec. 16, 2014).

GAO

Objective 3

Strategic Management: IRS's Service on Demand Initiative Is Intended to Improve Taxpayer Experience

- IRS is developing a 6-year strategy known as Service on Demand, which is intended to better meet taxpayers' needs and preferences for interacting with the IRS. The overall goal is to provide secure self-service options for taxpayers and to improve taxpayer service.
- IRS has ranked 71 projects that are designed to improve taxpayer services and is exploring how to implement the top 20, which are grouped into 6 programs:
    - developing an online account,
    - streamlining digital self-service options,
    - expanding third party services,
    - analyzing taxpayer behaviors to reduce errors,
    - accepting mobile payments, and
    - upgrading all IRS forms, publications, and instructions to a web-friendly format written in plain language.
- In fiscal year 2015, IRS anticipates piloting an online web-based secure communications portal that is expected to improve taxpayer services, for example, by enabling IRS and taxpayers to communicate by sending both one-way and two-way secure messages.

GAO

Objective 3

Strategic Management: Open GAO Recommendations Highlight Opportunities for IRS to Improve Operations, Manage More Strategically, and Improve Revenue Collection

For example:

- IRS 2015 Budget (GAO-14-605)
    - Develop a long-term strategy to address operations amidst an uncertain budget environment
    - Calculate actual return on investment for implemented initiatives and use that information to inform resource allocation decisions
- IRS Website (GAO-13-435)
    - Develop a long-term strategy to improve web services to taxpayers, including business cases for new services to prioritize projects
- Large Partnerships (GAO-14-732)
    - Multiple recommendations to improve overall audit efficiency
- Correspondence Audits (GAO-14-479)
    - Recommendations to establish formal program objectives and ensure that the program measures reflect those objectives

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Concluding Observations

IRS has absorbed $1.2 billion in cuts to its annual appropriation since fiscal year 2010. Meanwhile, the agency has assumed additional responsibilities related to identify theft refund fraud and the implementation of PPACA. A reduced budget and increased workload has contributed to performance declines across the agency, including serious concerns about service to taxpayers during filing season. However, additional funding is not the only solution. Although resources are constrained, IRS has some flexibility in how it allocates resources to ensure that limited resources are utilized as effectively as possible. This environment of constrained resources also highlights the importance of strategically managing operations to make tough choices about which services to continue providing and which services to cut. IRS established its PPAO office in 2014 to improve coordination and long-term planning, in part based on our recommendation. We have other open recommendations and suggestions for Congress that, if fully implemented, would help IRS strategically manage operations and generate additional revenue.

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Appendix I: Dollars by Appropriations Account, Fiscal Years 2009 to 2016

Table 6: Fiscal Years 2009 through 2015 Enacted and Fiscal Year 2016 Budget Request for IRS (dollars in millions)

Appropriations account	Fiscal year 2009 enacted	Fiscal year 2010 enacted	Fiscal year 2011 enacted	Fiscal year 2012 enacted	Fiscal year 2013 enacted[a]	Fiscal year 2014 enacted	Fiscal year 2015 enacted	Fiscal year 2016 requested	Dollar change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	$5,117	$5,504	$5,493	$5,299	$4,949	$5,022	$4,860	$5,400	$540	11.11%
Operations support	3,867	4,084	4,057	3,947	3,801	3,799	3,638	4,743	1,105	30.36%
Taxpayer services	2,293	2,279	2,293	2,240	2,136	2,157	2,157	2,409	252	11.70%
Business Systems Modernization	230	264	263	330	313	313	290	379	89	30.75%
Health Insurance Tax Credit Administration (HITCA)[b]	15	16	15	0	0	0	0	0		
Subtotal	**11,523**	**12,146**	**12,122**	**11,817**	**11,199**	**11,291**	**10,945**	**12,931**	1,986	18.15%
Other resources, such as user fees	390	539	655	695	855	815	1,031	991	-40	-3.86%
Total funding available for obligations	**$11,913**	**$12,686**	**$12,777**	**$12,512**	**$12,053**	**$12,106**	**$11,976**	**$13,922**	$1,946	16.25%

Source: Congressional budget justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R

Notes: Dollars are nominal and not adjusted for inflation, and numbers may not add due to rounding.

[a] Fiscal year 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration.

[b] In fiscal year 2012 and thereafter, amounts appropriated for HITCA, which had been a separate account, were moved to the Taxpayer Services appropriation.

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Appendix II: Staffing by Appropriations Account, Fiscal Years 2009 through 2016

Table 7: Fiscal Years 2009 through 2014 Actual, 2015 Enacted, and 2016 Requested Full-time Equivalents

Appropriations account	Fiscal year 2009 actual	Fiscal year 2010 actual	Fiscal year 2011 actual	Fiscal year 2012 actual	Fiscal year 2013 actual	Fiscal year 2014 actual	Fiscal year 2015 enacted	Fiscal year 2016 requested	FTE change fiscal year 2015 enacted compared to fiscal year 2016 requested	Percent change fiscal year 2015 enacted compared to fiscal year 2016 requested
Enforcement	47,361	50,400	49,920	47,189	44,174	42,119	40,564	44,800	4,236	10.4
Operations support	12,101	12,262	12,103	11,499	11,610	11,652	12,043	13,863	1,820	15.1
Taxpayer services	32,422	31,607	31,574	30,236	29,646	28,535	28,274	31,285	3,011	10.7
Business Systems Modernization	322	337	309	562	451	337	398	576	178	44.7
Health Insurance Tax Credit Administration (HITCA)[a]	10	12	0	0	0	0	0	0	0	0
Subtotal	**92,216**	**94,618**	**93,906**	**89,486**	**85,881**	**82,643**	**81,279**	**90,524**	**9,245**	**11.4**
Other resources, such as user fees	1,153	752	1,003	2,185	1,884	2,118	924	962	38	4.1
Total	**93,369**	**95,370**	**94,909**	**91,671**	**87,765**	**84,761**	**82,203**	**91,486**	**9,283**	**11.3**

Source: Congressional budget justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R

Note: [a]The administrative resources for HITCA were moved to the Taxpayer Services appropriation.

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TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds

March 20, 2015

Reference Number: 2015-40-024

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

Redaction Legend:
1 = Tax Return/Return Information

Phone Number / **202-622-6500**
E-mail Address / **TIGTACommunications@tigta.treas.gov**
Website / **http://www.treasury.gov/tigta**

HIGHLIGHTS

VICTIMS OF IDENTITY THEFT CONTINUE TO EXPERIENCE DELAYS AND ERRORS IN RECEIVING REFUNDS

Highlights

Final Report issued on March 20, 2015

Highlights of Reference Number: 2015-40-024 to the Internal Revenue Service Commissioner, Wage and Investment Division.

IMPACT ON TAXPAYERS

Identity theft for the purpose of committing refund fraud occurs when an individual uses another person's name and Taxpayer Identification Number (generally a Social Security Number) to file a fraudulent tax return and obtain a fraudulent tax refund. Refund fraud adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardships.

WHY TIGTA DID THE AUDIT

This audit was initiated to follow up on concerns raised in a prior audit that the IRS was not providing quality customer service to identity theft victims. Our overall objective was to determine whether the IRS is improving its assistance to victims of identity theft.

WHAT TIGTA FOUND

Identity theft victims experienced long delays in resolving their tax accounts in Fiscal Year 2013. Our review of a statistically valid sample of 100 identity theft tax accounts resolved in the Accounts Management function between October 1, 2012, and September 30, 2013, identified that the IRS took an average 278 days to resolve the tax accounts.

In addition, our review continues to identify errors made on the tax accounts of victims of identity theft. For example, of the 100 tax accounts that TIGTA reviewed, the IRS did not correctly resolve 17 (17 percent) accounts. Based on the results of our sample of 100 identity theft tax accounts resolved during the period October 1, 2012, to September 30, 2013, TIGTA estimates that of the 267,692 taxpayers whose accounts were resolved, 25,565 (10 percent) may have been incorrectly resolved, resulting in the delay of refunds or the victim receiving an incorrect refund amount.

Finally, TIGTA continues to find that the information the IRS reports related to the time period for case processing and resolution is misleading. For example, the IRS informs taxpayers who inquire about the status of their identity theft case that cases are resolved within 180 days.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS:

1. Analyze identity theft case reassignments and revise inventory management processes to reduce case reassignments.
2. Develop a comprehensive identity theft training course to ensure that assistors are capable of handling complex cases.
3. Develop processes and procedures to ensure that case closing actions and account adjustments are accurate.
4. Develop processes and procedures to accurately calculate the average time it takes to fully resolve taxpayer accounts affected by identity theft.
5. Develop processes and procedures to accurately report the number of identity theft cases resolved to include only those taxpayers for whom the IRS fully resolves their account and issues any refunds due.

The IRS agreed with three recommendations and partially agreed with another recommendation. The IRS disagreed with the recommendation to develop processes and procedures to calculate the average time it takes to fully resolve taxpayer accounts. TIGTA continues to believe that further actions are needed to improve its tracking of these timeframes. Until this is corrected, the IRS will continue to provide an inaccurate account resolution timeframe to taxpayers due a refund.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

March 20, 2015

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds (Audit # 201340036)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is improving its assistance to victims of identity theft. This audit was included in the Treasury Inspector General for Tax Administration's Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

As the IRS notes in its response, this report is specific to those identity theft cases in which the victims were due a refund. These are the cases in which the timeframe for resolution is the most critical because victims are waiting for their refund. This is specified in the report and in the Detailed Scope and Objectives appendix.

The IRS also noted that a portion of our sample were accounts that it closed during the three months prior to its procedural changes implemented in January 2013. Our statistically valid sample consisted of tax accounts that the IRS closed in the most recent 12 months prior to the start of our audit. The IRS closed a higher percentage of cases in the first quarter of the fiscal year; 84,840 (32 percent) of the 267,692 identity theft accounts resolved in Fiscal Year 2013 were closed during the three months prior to January 2013. As such, the statistical sample for the full year included accounts closed during this period.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Abbreviations

CIS	Correspondence Imaging System
CY	Calendar Year
FY	Fiscal Year
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
SPC	Special Processing Code
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

Background

Identity theft for the purpose of committing refund fraud occurs when an individual uses another person's name and Taxpayer Identification Number[1] (generally a Social Security Number (SSN)) to file a fraudulent tax return and obtain a fraudulent tax refund. Figure 1 provides an illustrative description of identity theft refund fraud.

Figure 1: Description of Refund Fraud

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the identity theft process as it affects the Internal Revenue Service (IRS) and taxpayers.

The IRS developed identity theft indicators to mark and track the types of identity theft incidents (IRS-identified[2] or taxpayer-initiated[3]) and the actions taken by employees on taxpayer accounts.

---

[1] A nine-digit number assigned to taxpayers for identification purposes. The Taxpayer Identification Number is an Employer Identification Number, an SSN, or an Individual Taxpayer Identification Number.
[2] Cases for which the IRS proactively identified the taxpayer as a potential identity theft victim.
[3] Cases for which taxpayers initiated contact with the IRS to report that after filing their tax return they received a notice indicating that it was rejected because someone (an identity thief) had already filed a tax return using the same SSN and name. A taxpayer may have more than one incident if the identity thief uses the stolen identity to file a fraudulent tax return for multiple tax years.

For example, an identity theft indicator is input on affected taxpayer accounts when the IRS receives the taxpayers' documentation supporting the identity theft claim. Another indicator is then input after the IRS resolves the case. Figure 2 shows the number of incidents and taxpayers reported by the IRS during Calendar Years (CY) 2010 through 2013.

Figure 2: Identity Theft Incidents and Taxpayers Affected During CYs 2010 Through 2013

	IRS-Identified		Taxpayer-Initiated		Total	
Calendar Year	Incidents	Taxpayers	Incidents	Taxpayers	Incidents	Taxpayers
2010	338,753	201,376	101,828	69,142	440,581	270,518
2011	1,014,884	553,730	110,750	87,322	1,125,634	641,052
2012	1,508,375	985,843	277,491	233,365	1,785,866	1,219,208
2013	2,542,488	2,106,932	376,996	309,841	2,919,484	2,416,773

Source: IRS Identity Protection Incident Tracking Statistics Reports.

The Accounts Management function works the majority of taxpayer-initiated identity theft cases

The majority (69 percent)[4] of taxpayer-initiated cases are originated and worked in the Wage and Investment Division's Accounts Management function. This function places identity theft indicators on the taxpayers' tax accounts, inputs adjustments to the accounts, and provides assistance to taxpayers with tax and account inquiries via telephone and correspondence. The Accounts Management function has six identity theft specialized groups[5] to address the complexities that accompany identity theft cases. The formation of these groups was intended to improve case tracking and enhance customer service by improving efficiency. Figure 3 shows the identity theft case inventory that the Accounts Management function reported during Fiscal Years[6] (FY) 2011 through 2014.[7]

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[4] IRS Identity Protection Incident Tracking Statistics Reports.
[5] These groups are located in Fresno, California; Atlanta, Georgia; Kansas City, Missouri; Brookhaven, New York; Philadelphia, Pennsylvania; and Austin, Texas.
[6] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
[7] The Accounts Management function does not compile its case inventory by unique taxpayer but rather by Identity Theft Case Processing Category Codes for some analysis and Integrated Data Retrieval System (IDRS) control bases for others. This method results in multiple cases or control bases for the same taxpayer.

Figure 3: Accounts Management Identity Theft Inventory From FY 2011 Through FY 2014

Identity Theft Inventory	FY 2011	FY 2012	FY 2013	FY 2014
Beginning Inventory	36,618	99,894	382,329	127,303
Receipts	184,501	654,564	607,055	634,623
Closures	121,225	372,129	862,081	722,614
Ending Inventory	99,894	382,329	127,303	39,312

Source: Accounts Management function identity theft inventory records.

Process to assist victims of taxpayer-initiated identity theft

Tax-related identity theft adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardships. Many taxpayers learn that they are a victim of tax-related identity theft when they attempt to file their electronic tax return and the IRS rejects it because someone else (an identity thief) already filed a tax return using the same SSN. The IRS advises the taxpayer to submit a paper tax return with an attached Form 14039, *Identity Theft Affidavit*, or police report. After the paper tax return and affidavit or police report are received by the IRS's Submission Processing Receipt and Control function, the documents are scanned into electronic images in the Correspondence Imaging System (CIS)[8], and an identity theft case is created.

In addition, IRS employees in the Receipt and Control function input all the information from the tax return and attachments into the IRS Individual Master File.[9] The input of the tax return generates a Notice CP 01S or CP 701, *We received your Form 14039 or similar statement for your identity theft claim*, being sent to the taxpayer acknowledging receipt of the documentation. Once created, identity theft cases are then assigned to assistors who work to resolve the cases, which includes determining the true owner of the SSN, correcting the innocent taxpayer's tax account, and placing a closing identity theft indicator on the innocent taxpayer's tax account.

A prior TIGTA review identified concerns with the quality of customer service provided to taxpayers

In September 2013, we reported that our review of a statistically valid sample of 100 identity theft accounts resolved August 1, 2011, through July 31, 2012, found that taxpayers encountered significant delays in having their tax accounts resolved.[10] Resolution averaged 312 days with an

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[8] A system for scanning all receipts into digital images.
[9] The IRS database that maintains transactions or records of individual tax accounts.
[10] TIGTA, Ref. No. 2013-40-129, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft* (Sept. 2013).

average of 277 days of inactivity, *i.e.*, no work was performed on the case, and tax accounts were assigned to an average of 10 assistors during processing. In addition, 25 (25 percent) tax accounts were not correctly resolved, resulting in delayed and incorrect refunds. We also reported that IRS assistors were instructed to inform taxpayers who inquire about the status of their identity theft case that the time period for resolving their case would be 180 days. The IRS's own documentation showed that the actual number of days it took to resolve identity theft cases ranged from 228 to 298 days.

We recommended that the IRS: 1) ensure that assistors assigned to identity theft cases work these cases exclusively and are provided with ongoing training and the ability to perform all actions to work these cases to conclusion and 2) develop clear and consistent processes and procedures to ensure that taxpayer accounts are correctly updated when cases are closed. The IRS agreed with our recommendations and stated that it had already implemented new processes that resolved a significant number of accounts and reduced case processing times. The IRS also stated that the time to close a case had dropped to 120 days for cases received in Filing Season 2013.

This review is a follow-up to our September 2013 audit. This audit was performed in the Wage and Investment Division's Customer Account Services function in Atlanta, Georgia, and at Submission Processing Sites[11] in Fresno, California; Atlanta, Georgia; and Austin, Texas, during the period September 2013 through October 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[11] Site at which tax return submissions (both paper and electronic), payments, and refunds are processed.

Results of Review

Identity Theft Victims Continue to Experience Long Delays in Having Their Tax Accounts Resolved

Our review of a statistically valid sample of 100 taxpayer identity theft accounts[12] resolved in the Accounts Management function between October 1, 2012, and September 30, 2013, identified that the IRS took an average of 278 days to resolve the tax accounts. Although this is 34 days on average less than the time reported in our previous review, it still represents a significant delay for taxpayers to have their tax accounts corrected and refunds issued. Resolution of the tax accounts took from 16 to 762 days from the date the IRS received the victim's tax return to the date the correct refund was ultimately paid. Figure 4 shows the range of days the IRS took to resolve the tax accounts we reviewed.

Figure 4: Days Taken to Resolve Identity Theft Tax Accounts

Number of Cases	Percent	Range of Days to Resolve Cases
12	12	Less Than 151
14	14	151 to 200
18	18	201 to 250
18	18	251 to 300
18	18	301 to 365
9	9	366 to 400
6	6	401 to 500
5	5	More Than 500

Source: TIGTA analysis of a sample of 100 identity theft cases resolved between October 1, 2012, and September 30, 2013.

[12] The accounts we evaluated were ones in which the IRS issued a refund to the taxpayer after the account was resolved.

The IRS continues to take actions in an effort to expedite identity theft case processing. For example, the IRS initiated a new process in June 2012 requiring employees in its Submission Processing functions to mark a special processing code on incoming tax returns that have an attached *Identity Theft Affidavit* or police report. This code identifies that the filer is self-reporting that they are a victim of identity theft and allows the IRS to route the tax return directly to one of the specialized identity theft groups in the Accounts Management function, bypassing the duplicate filing area.[13] IRS management indicates that this is intended to reduce case processing by one to two months. For the 100 identity theft tax accounts we reviewed, 16 of the tax returns were received in FY 2013 and processed using the new special processing. The IRS resolved these accounts in an average of 174 days compared to the overall average of 278 days taken to resolve all accounts.

We determined that the new procedures appear to be working as intended. Employees are correctly marking tax returns which, once marked, are bypassing the duplicate filing area. For example, we identified that 394,953 (99 percent) of the 395,261[14] identity theft cases created in the CIS in FY 2013 did not have a duplicate filing code. This means that, for those cases created due to receipt of a tax return with an attached identity theft affidavit, the tax return bypassed the duplicate filing area as intended. We examined the remaining 308 cases and determined that they did have a duplicate filing code and were later marked with an identity theft code meaning that the taxpayer may[15] have provided an affidavit with his or her return and the return was not correctly marked with the special processing code. In addition, we found that once marked with the special processing code, tax returns were in fact bypassing the duplicate filing area. For example, 73,551 (98 percent) of the 75,332 tax returns received in FY 2013 and marked with the new special processing code bypassed the duplicate filing area as intended.

The Accounts Management function's operating guidance requires cases to be prioritized based on age and then by priority case type, such as a statute-imminent,[16] disaster claim,[17] or identity theft case. The guidance also requires management to reassign priority cases as necessary to ensure timely resolution and that the oldest cases are worked first. In response to the results of our case reviews, some IRS management officials indicated that the following factors contributed to the continued long delays in the processing of the identity theft cases:

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[13] The duplicate filing area is where employees work to resolve duplicate filing conditions such as when a duplicate or amended tax return posts to a tax account with an original return already posted to the account.
[14] Not all CIS cases involve a tax return. In addition, we omitted from this universe of identity theft cases those cases associated with the special processing code.
[15] CIS correspondence category codes indicate the IRS received correspondence from a taxpayer, but the codes do not define the type of correspondence.
[16] A statute-imminent case is one in which the IRS is at risk of not taking actions on cases before the statute of limitations expires.
[17] Taxpayers who live in an area for which the President issues a "Declaration of Emergency or Major Disaster" may file disaster claims using Form 4684, *Casualties and Thefts*.

- Excessive inventories assigned to assistors. Prior to FY 2013,[18] assistors had case inventories averaging 250 cases, which was unmanageable. Accounts Management function guidance for managers in FYs 2012 and 2013 required assistors' inventories to be limited to no more than 50 cases. Site management had some flexibility and could consider the number of trained assistors per program and the volume of cases in the sites' inventories when determining the optimum assistor inventory.
- The Automated Age Listing[19] report was not showing the oldest cases first in assistors' inventories, which led to the assistors not prioritizing their assigned cases in conformance with case processing guidelines.
- New managers in the Accounts Management function were not familiar with managing and redistributing case inventory to other managers who had fewer cases and available assistors.

Cases were held in inventory holding queues without being assigned to an assistor for completion

The cases for the 100 accounts that we reviewed were assigned to an average of seven different assistors prior to the case being resolved. Although this is an improvement over cases being assigned to an average of 10 assistors as found in our prior review, these frequent case transfers can sometimes contribute to case inactivity and processing delays. Inactivity on the cases averaged 254 days, which is an improvement over the 277 days reported in our previous review.

Contributing to the significant delays was the Accounts Management function's inadequate processes and procedures to cover reassignment of cases among the six identity theft specialized group sites, and managers, assistor team leads, and assistors at these sites. Cases were often reassigned in bulk by Accounts Management function Headquarters analysts, site inventory control managers, and assistor manager and team leads attempting to find assistors with lower inventories. Although the bulk reassignment of cases provides flexibility in managing inventories, the cases reassigned sometime remain in inventory at the site, manager, or team lead (holding queue) level where they are not being actively worked. Cases are worked only after assignment to an assistor from site, manager, or team lead inventories.

To determine the root cause for the frequent transfers, we examined the cases for a judgmental sample[20] of five accounts that had a high level of inactivity and reassignments from the 100 accounts we reviewed. The average time to resolve these five accounts was 390 days. The

[18] Many of these cases were worked in FY 2012 and FY 2013 but were resolved in FY 2013.
[19] The Automated Age Listing is generated weekly and contains all cases controlled to an IDRS number. Each Accounts Management function site can generate an aged list of IDRS cases assigned to a site, team, or unit.
[20] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

cases were transferred in and out of site, manager, team lead, and assistor inventories[21] an average of 15 times before resolution. The cases were not assigned to an assistor for an average of 270 days, accounting for 69 percent of the 390 average days the cases were open. Figure 5 provides a comparison of the length of time the cases spent in site, manager, and team lead inventory (holding queue) to the length of time the cases were assigned to an assistor for resolution.

Figure 5: Comparison of the Length of Time Cases Are Held in an Inventory Holding Queue to the Length of Time Cases Are Assigned to an Assistor for Resolution

Tax Account	Days Open	Reassignments	Days in Holding Queue	Days Assigned to Assistors
1	**1**	**1**	**1**	**1**
1	**1**	**1**	**1**	**1**
1	**1**	**1**	**1**	**1**
1	**1**	**1**	**1**	**1**
1	**1**	**1**	**1**	**1**
Average	390	15	270	120

Source: TIGTA analysis of five identity theft accounts resolved between October 1, 2012, and September 30, 2013.

For each of these five tax accounts, we interviewed Accounts Management function officials, including managers, to determine why they made the decision to transfer the case out of their inventory to another holding queue with no action being taken. The officials could not recall the specific circumstances as to why these cases were frequently reassigned among the holding queues. IRS officials did explain that after cases are reassigned in bulk to a site, manager, or team lead with smaller case inventories, some cases remain unassigned to an assistor because managers want to assign identity theft cases to only those assistors trained to work the cases. The IRS informed us that the cases are complex and IRS management is more interested in identifying a trained employee to work an identity theft case than the number of case reassignments. Thus, cases can remain in a manager's inventory, unassigned to an assistor, until the manager finds an available identity theft trained assistor.

Management's above response regarding finding an identity theft trained assistor to work the case is cause for concern because we raised this issue in our prior review. We reported on the

[21] See Appendix V for an illustration of how cases are reassigned among site, manager, lead, and assistor inventories.

complexity of identity theft cases and the need for the IRS to ensure that assistors remain adequately trained. In response to the concerns we raised, IRS officials informed us that *all assistors* received required training in CY 2012. The IRS did not plan to schedule any additional identity theft training for the remainder of FY 2013 or FY 2014, other than to provide basic training in FY 2013 for employees who had not received it.

An initiative was implemented in an effort to reduce over-aged identity theft inventories

In FY 2013, the IRS implemented an initiative in the Accounts Management functions in Fresno, California; Atlanta, Georgia, and Austin, Texas, to reduce their over-aged identity theft inventories. The officials in these three sites took similar approaches to significantly reduce their site's over-aged case inventories quickly. For example:

- The Atlanta site assembled an identity theft "strike" team in February 2013 to identify identity theft cases that had been open 365 days or longer. The team then screened the cases and assigned the same case types to assistors for resolution. This approach allowed the Atlanta site to resolve more than 10,000 identity theft cases.
- The Austin site created a team to identify over-aged inventories by analyzing the Automated Age Listing to identify cases that could be resolved quickly. Over-aged case inventory at this site was reduced from 79 percent for the week ending February 16, 2013, to 14 percent for the week ending September 28, 2013.
- The Fresno inventory control manager identified the identity theft cases open 365 days or more and provided a list of cases to a "triage" team of assistors who analyzed and resolved the cases. In addition, some employees worked as screeners to identify and concurrently resolve cases that could be resolved in a relatively short time. From October 2012 to August 2013, the Fresno site reduced its identity theft open inventory from 167,766 cases to 59,725, a 64 percent decrease.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Complete an analysis of identity theft case reassignments and revise inventory management processes to reduce the number of times cases are reassigned.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will analyze identity theft cases to evaluate the impact reassignments have on case resolution time. If warranted by the analysis, the IRS will revise reassignment guidelines accordingly.

Recommendation 2: Develop a comprehensive identity theft training course to ensure that assistors are capable of handling complex cases so that managers do not delay assignment waiting for a trained assistor.

> ***Management's Response:*** The IRS agreed with this recommendation. A complete identity theft training program already exists and is provided to every assistor working identity theft cases. The timely resolution of these cases is a high priority for the IRS; however, the workload addressed by the Accounts Management function is diverse and varies in complexity. Consequently, not all assistors are trained to work every program. The IRS frequently evaluates its inventory of all casework and ensures that staffing levels of trained employees are adequate to provide balanced coverage for all types of work, including identity theft. The IRS will continue to evaluate the effectiveness of its training and make appropriate improvements.

Processes Are Not Effective to Ensure That Tax Accounts Are Correctly Resolved, Resulting in Delayed and Incorrect Refunds

Our review identified that errors continue to be made on the tax accounts of victims of identity theft. For example, the IRS did not correctly resolve 17 (17 percent)[22] of the 100 accounts we reviewed. The errors resulted in delayed refunds and required the IRS to reopen a case and take additional actions to resolve the errors. For 11 of the 17 accounts, the IRS issued an incorrect refund amount. For one of the incorrect refunds, the taxpayer identified the error and called the IRS to dispute the incorrect refund amount received. Based on the results of our sample of 100 identity theft tax accounts resolved during the period October 1, 2012, to September 30, 2013, we estimate that of the 267,692 taxpayers whose accounts were resolved, 25,565[23] (10 percent) may have been incorrectly resolved, resulting in the delay of refunds or the victim receiving an incorrect refund amount. This wastes additional resources to resolve the errors and creates further burden for victims of identity theft.

The 17 percent error rate is an improvement over the 25 percent error rate we identified in our prior review. We attribute this improvement to IRS corrective actions to revise and improve its internal procedures. In addition, we asked 207 assistors who routinely work identity theft cases whether internal guidance was clear and sufficient. We noted that 172 (83 percent) assistors responded that the procedures were clear and allow them to complete their work successfully. This response is an improvement over the 73 percent of assistors surveyed in our prior audit who responded that identity theft procedures were confusing. Figure 7 shows the type of errors found in the 17 accounts along with the effect on the taxpayers.

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[22] The point estimate error rate for the percent of errors is 17 percent (17/100). We are 95 percent confident that the true population exception rate is between 9.60 percent and 24.4 percent.
[23] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 13,979 and 37,153.

Figure 7: Type of Identity Theft Account Errors and Their Effect on Taxpayers

Type of Error	Definition	Number of Cases	Effect
Adjustment	Assistor incorrectly adjusted the tax account. ************1************** *************1***************.	**11**	The taxpayer's refund was delayed. The taxpayer also received an incorrect refund amount.
Posting	Assistor incorrectly input a freeze or holding code.[24]	**5**	The taxpayer's refund was delayed.
*****1*******	*********1********************* ***************1********.	**1**	************1********** ******1******.

Source: TIGTA analysis of 17 identity theft accounts resolved between October 1, 2012, and September 30, 2013.

IRS officials stated that the errors we identified were the result of employees not correctly performing the adjustment work on the tax accounts. The officials also stated that, "while we would like to achieve 100% accuracy on all of our adjustments, errors do occur, which is why we have our quality review process. The quality review process aids in identifying any problems so that appropriate feedback and training can be provided."

Recommendation

Recommendation 3: The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that case closing actions and account adjustments are accurate.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS indicated that a review process is in place to review case closures and ensure the timely detection of error trends so they can be addressed and corrected. On October 1, 2013, a unique Specialized Product Review Group was launched specifically for the purpose of measuring the accuracy of identity theft paper adjustments. The group performs a separate review process that simplifies the identification of error trends and improves the IRS's ability to initiate corrective action. Bi-weekly conference calls are held with the campuses working identity theft cases to review the quality reports and share improvement ideas.

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[24] Alpha codes applied to a taxpayer's account that identify specific conditions and restrict normal systemic processing, such as stopping notices and refunds.

The Information Reported for Case Processing and Resolution Time Is Misleading

IRS guidance in FY 2013 instructed employees to inform taxpayers who inquire about the status of their identity theft case that cases are resolved within 180 days. In our prior review, we reported that the IRS's own case processing data did not support the 180-day resolution time period. In fact, IRS data showed case resolutions were taking between 228 to 298 days.

Subsequently, the IRS reported to stakeholders, such as the IRS Oversight Board, that identity theft cases were actually being resolved in approximately 120 days. Our review of IRS documentation shows that the IRS excluded the majority of cases closed in FY 2013 when calculating the time period. Specifically, the IRS excluded 454,049 (66 percent) of 691,251 cases closed in FY 2013 that were received prior to FY 2013. The IRS calculated its 120-day period using only those 237,202 cases that it received in FY 2013, whereas the IRS's calculation of the average time to close *all* cases in FY 2013 shows that it took an average of 254 days. When we brought this to management's attention, they indicated that they believe the 120-day period is more accurate because it reflects the closure rate of victims' cases that were identified and resolved in FY 2013.

The IRS continues to calculate identity theft case resolution time frames that do not consider the full account resolution time

As we have continually reported, the IRS's calculation of the time to resolve identify theft cases does not factor in all of the time taken to provide a correct refund. The IRS continues to base its estimates of identity theft case resolution on the average days assistors take to resolve individual CIS cases rather than the average time to resolve victims' identity theft cases, adjust their tax accounts, and issue any refunds due.

This distinction is significant because the CIS usually has multiple cases associated with a specific tax account, and the IRS does not issue a refund on that tax return until all cases associated with that tax return are resolved. The multiple CIS cases can result from IRS receipt of multiple submissions of documentation from victims. For example, the sample of 100 taxpayer identity theft accounts we reviewed had a total of 213 associated CIS cases. Depending on factors such as availability of documentation, availability of employees, and reassignments, some cases are closed quickly, while others take much longer.

When the IRS provides misleading identity theft case resolution time periods, it creates a false portrayal of improvement to stakeholders and makes it more difficult for the IRS to gage and improve its own operations. Moreover, taxpayers continue to be frustrated about how long it takes to resolve their cases and seek alternatives to help with resolution such as an IRS Taxpayer Assistance Center, the Taxpayer Advocate Service,[25] or a member of Congress.

Identity theft case resolutions do not reflect the number of taxpayers assisted

A similar problem results because of the way the IRS uses Integrated Data Retrieval System (IDRS)[26] information to report the number of identity theft cases the IRS resolves during a given period. Using IDRS information significantly inflates and overstates the number of taxpayers assisted because the IDRS, similar to the CIS, has multiple cases for the same victim. For example, using IDRS case closures, the IRS reported that it resolved 862,081 identity theft cases during FY 2013, when in fact the IRS actually assisted 602,728 taxpayers.

Thus, the number of taxpayers assisted was 30 percent less than the number of case closures. In its 2013 report to Congress, the IRS Oversight Board reported that the IRS had resolved 800,000 identity theft tax refund fraud cases. The IRS does not clarify or explain to stakeholders the difference between "cases resolved" and "taxpayers assisted." Accounts Management function officials informed us that funding limitations and other priorities have prevented the IRS from updating its systems to accurately provide the number of taxpayers assisted.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 4: Develop processes and procedures to accurately calculate the average time it takes to fully resolve taxpayer accounts affected by identity theft. The time should be based on the average period between the date the IRS receives the taxpayers' tax returns and the date the tax refunds are issued.

> ***Management's Response:*** The IRS indicated that it will consider other computations that could be incorporated into IRS current methodology and will determine if they are feasible modification to the existing process. However, the IRS did not agree to implement the recommendation because of concern that it would omit accounts that do not involve a refund due. IRS believes the methodology for determining the average time to fully resolve taxpayer accounts affected by identity theft should include all closed cases and should be quantifiable over various periods of time. The IRS stated that the recommended action would provide closure data on only a portion of the

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[25] The Taxpayer Advocate Service coordinates with the Accounts Management and other functions to ensure that cases are expedited in an effort to relieve taxpayer hardships. Hardships include taxpayers needing their refund to retain housing, obtain food for self and family, pay bills, obtain medical treatment, or retain his or her job (will become unemployed due to lack of transportation).

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

total population and would be resource intensive due to the amount of continuous sampling needed to provide reportable results.

Office of Audit Comment: We do not agree that to track these cases properly would be resource intensive or require continuous sampling. All identity theft cases should be tracked properly, whether or not there is a refund due. However, the most significant burden caused by delays in this process falls on taxpayers who are waiting for their refund. IRS continues to base its estimates of identity theft case resolution on the average days assistors take to resolve individual CIS cases rather than the average timeframe to resolve victims' tax accounts and issue any refunds due. Until this is corrected, the IRS will continue to provide an inaccurate account resolution timeframe to taxpayers due a refund.

Recommendation 5: Develop processes and procedures to accurately report the number of identity theft cases resolved, including only those taxpayers for whom the IRS fully resolves their account and issues any refunds due. Until these processes and procedures are established, the IRS should disclose in reports the difference between cases resolved and taxpayers assisted.

Management's Response: The IRS partially agreed with this recommendation. Limited resources preclude both the manual analysis and systemic programming needed to separately report the volume of cases and accounts resolved. The IRS will annotate its identity theft reports that the volume of closed cases can include multiple cases for unique taxpayers.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS is improving its assistance to victims of identity theft. To accomplish our objective, we:

I. Assessed the accuracy and validity of the data and reports the IRS used to justify informing taxpayers that their cases would be resolved within 180 days and for the IRS's claim that cases are now being resolved within 120 days.

   A. Analyzed the statistical data that supports the IRS's calculation that cases are resolved within 120 days.

   B. For resolved taxpayer cases in which the refund was issued, assessed the data to determine the number of days to resolve the cases applicable to one taxpayer and one tax period regardless of the category code. We averaged the total number of days and compared the results to the IRS CIS closure results.

   C. Used the SSNs and applicable tax periods from the Individual Master File[1] to determine the period from when the rightful owner of the SSN files the tax return to when the refund was paid. We compared the results to the IRS's period to determine if they are comparable.

II. Assessed the accuracy and validity of the data and reports the IRS used to report its identity theft case resolutions and ending identity theft inventory.

   A. Requested data to support the 180-day statement and determined this period to be a goal and estimate.

   B. Analyzed identity theft statistical data on the TIGTA Data Center Warehouse to validate the 120-day resolution statements by the IRS.

   C. Analyzed IRS statistical data concerning FY 2013 identity theft case resolutions.

III. Assessed the Special Processing Code (SPC) 8 process used when a taxpayer submits a tax return with an attached Form 14039, *Identity Theft Affidavit*, or police report.

   A. Assessed the guidelines associated with the SPC 8 process to determine if they were adequate.

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[1] The IRS database that maintains transactions or records of individual tax accounts.

B. Identified the population of tax returns correctly coded with an SPC 8 during FY[2] 2013 by requesting an extract from the Individual Master File of tax returns processed with a Transaction Code 971 and an Action Code 805.[3]

   1. For these returns, determined whether they were correctly routed to the Identity Theft units by identifying if the tax return was first categorized as an identity theft tax return or a duplicate tax return.

   2. Determined the population of SPC 8 tax returns categorized with a duplicate filing category code, the period to process these returns, and any breakdown in the IRS's procedures.

C. Identified the population of tax returns for which the SPC 8 process was not followed during FY 2013, *i.e.*, identity theft tax returns not stamped with an SPC 8 and instead routed directly to the duplicate filing area.

   1. Identified the tax returns for which the affidavit or the police report was separated from the tax returns.

   2. Identified identity theft tax returns not coded with an SPC 8 and categorized with a duplicate filing category code, then with a subsequent identity theft category code and a correspondence category code. We then determined the population, the additional time to process these returns, and any breakdown in the IRS's procedures.

   3. Assessed the process and determined whether the SPC 8 process shortens the time to process an identity theft tax case. We calculated the number of days saved by this new process.

IV. Assessed whether the IRS timely and accurately resolved identity theft tax accounts and compared the results to the results of our previous audit.[4] For the statistically valid sample, we:

   A. Based on a projected error rate of 7 percent, precision rate of ± 5 percent, and a confidence interval of 95 percent, randomly selected a statistically valid sample of 200 taxpayer accounts from the population of 267,692 that were closed during the period October 1, 2012, through September 30, 2013. We analyzed 178 accounts until we identified a sample of 100 accounts for which the taxpayer had received a

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[2] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
[3] A transaction code is used to identify a transaction being processed and to maintain a history of actions posted to a taxpayer's account on the Master File. Every transaction processed must contain a transaction code. An action code further describes the transaction.
[4] TIGTA, Ref. No. 2013-40-129, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft* (Sept. 2013).

refund. We eliminated accounts for which the taxpayer was deceased, had a balance due, did not have a filing requirement, or the identity theft involved a secondary filer.

1. Identified the population of identity theft accounts from an Individual Master File extract in which accounts showed identity theft indicators that were input by the Accounts Management function. For each sampled account, we determined the number of days it took to resolve the identity theft tax account. We based our calculation of tax account resolution on the days from when the rightful taxpayer filed his or her paper tax return to the date the IRS issued the correct refund to the taxpayer. Our contract statistician reviewed our projections.
2. Determined the number of assistors assigned to the tax account.
3. Determined the amount of inactivity per taxpayer account.
4. Determined the number of CIS cases open and closed related to the taxpayer's identity theft tax account.
5. Discussed our sampling methodologies with our contract statistician to obtain agreement and ensure that we could project the error rates to the populations when needed.

B. Judgmentally[5] identified a sample of five cases from our sample of 100 that had significant days of inactivity and reassignments. These cases were identified so we could interview managers and employees for causes of the inactivity and reassignments. We used a judgmental sample because we did not intend to project the results of this test to the entire population.

V. Surveyed 207 identity theft case workers, using a questionnaire, to determine whether training is sufficient and the Internal Revenue Manual is clear. We also interviewed inventory control coordinators, analysts, and employees in the duplicate filing area of the Accounts Management function.

VI. Evaluated updates to Internal Revenue Manual procedures, job aids, and any guidelines used to work identity theft cases. We also assessed whether the training case workers received during FY 2013 was sufficient.

A. Interviewed identity theft case workers regarding the Internal Revenue Manuals, job aides, and training.

B. Determined how errors are identified, including SPC 8 errors, and obtained any operational reviews.

[5] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Validity and reliability of data from computer-based systems

Data used to select the statistically valid sample in Steps III. and IV. were validated by selecting an independent sample of the data extract to validate. We assessed the reliability of both data extracts from the Individual Master File by: 1) requesting and receiving data extracts with specific criteria from the TIGTA Strategic Data Services Division, 2) performing preliminary tests to ensure that the extracts contained the data requested in a useable format, and 3) selecting a judgmental sample of cases from each extract to verify that the data elements extracted matched the taxpayer account information on the IDRS.[6] We determined that the data were valid and reliable for the purposes of this report.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies, procedures, and guidelines used by the Identity Theft Program to work and control identity theft cases. We evaluated these controls by reviewing cases, interviewing management, analyzing data, and reviewing policies and procedures.

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

Appendix II

Major Contributors to This Report

Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services)
W. Allen Gray, Director
Lena Dietles, Audit Manager
Jerry Douglas, Acting Audit Manager
Tanya Boone, Lead Auditor
Jean Bell, Senior Auditor
Pamela DeSimone, Senior Auditor
Lynn Faulkner, Senior Auditor
Jackie Forbus, Senior Auditor
Tracy Harper, Senior Auditor
Robert Howes, Senior Auditor
Patricia Jackson, Senior Auditor
Jerome Antoine, Auditor
Nelva Usher, Auditor
Donald Meyer, Information Technology Specialist

Appendix III

Report Distribution List

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Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI

Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 25,565 taxpayers affected (see page 10).

Methodology Used to Measure the Reported Benefit:

Our review of a statistically valid sample of 100 taxpayers victimized by identity theft found that the IRS made errors on 17 taxpayers' accounts. These errors resulted in delayed refunds to all 17 taxpayers including 11 who received an incorrect refund amount. The IRS had to reopen the identity theft cases and take additional actions to resolve the errors.

The IRS resolved the identity theft case for 267,692 taxpayers from October 1, 2012, through September 30, 2013, which is the period from which we selected our sample. Based on the error rate we identified, we estimate that 25,565[1] taxpayers received a delayed refund or an incorrect refund amount.

[1] The point estimate number of exception cases is 25,565 ((17/178)*267,692). We are 95 percent confident that the true population number of exception cases is between 13,979 and 37,153.

Appendix V

Case Reassignments Among Sites, Managers, Team Leads, and Assistors

The following table illustrates a composite example of how cases were reassigned for the five tax accounts we evaluated that had a high level of inactivity and reassignment.

Count	Date	From	To	Purpose
1	***1***	***1***	***1***	********************1************************* ********************1*******************************
2	***1***	***1***	***1***	********************1************************* ********************1****************************** ******************1*****************
3	***1***	***1***	***1***	********************1************************* ********************1*******************************
4	***1***	***1***	***1***	********************1************************* ********************1****************************** *************1******************
5	***1***	***1***	***1***	********************1************************* ********************1****************************** ********************1************************
6	***1***	***1***	***1***	********************1************************* ********************1***************************** ***********1******************
7	***1***	***1***	***1***	********************1************************* ********************1****************************** *************1*********************
8	***1***	***1***	***1***	********************1************************* ********************1***************************** *********************1*************************** **********1*********
9	***1***	***1***	***1***	********************1************************* ********************1***************************** ********1***************

Count	Date	From	To	Purpose
10	***1***	***1***	***1***	********************1************************* ********************1****************************** *********************1********
11	***1***	***1***	***1***	********************1************************* ********************1*******************************
12	***1***	***1***	***1***	********************1************************* ********************1****************************** ********1**************
13	***1***	***1***	***1***	********************1************************* ********************1*******************************
14	***1***	***1***	***1***	********************1************************* ********************1****************************** **********1***************
15	***1***	***1***	***1***	********************1************************* ********************1*******************************
	1	***1***	***1***	********************1************************

Source: TIGTA analysis of identity theft case reassignments for five tax accounts resolved between October 1, 2012, and September 30, 2013.

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

FEB 26 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland Debra Holland
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds (Audit # 201340036)

Thank you for the opportunity to respond to the subject draft audit report. Identity Theft (IDT) remains one of the most significant and pervasive threats confronting the United States tax system and the taxpaying public it serves. The IRS continues to search for opportunities to improve the taxpayer experience when confronted with this stressful and unfortunate situation. Although not reflected in the title of the audit report, we appreciate the Treasury Inspector General for Tax Administration's (TIGTA) acknowledgment of the improvements within the IDT processes; specifically, the use of special processing codes to expedite assignment to victim assistance units and the deployment of designated teams to focus on older IDT cases. We believe these initiatives and others have contributed significantly to improvements in the IDT processes and overall IDT inventory levels. Additionally, the IRS has improved its ability to detect IDT refund fraud during return processing so that appropriate actions can be taken immediately to prevent the fraudulent return from adversely affecting the victim's tax account. When victims are impacted, we have also streamlined post-determination processes to ensure refunds are issued more quickly than in the past.

Beyond improvements we have made to our victim assistance processes and our ability to detect and stop IDT refund fraud at the time returns are filed, we have also taken actions to assist taxpayers in safeguarding their tax accounts from being compromised and prevent future victimization. For the 2015 filing season, the IRS has continued the Identity Protection Personal Identification Number (IP PIN) pilot project. An IP PIN is a unique identification number that protects the holder from being victimized by tax-related IDT refund fraud by preventing the processing of returns filed without, or with an incorrect, IP PIN. The IP PIN pilot allows taxpayers who filed their 2013 Federal Income Tax Returns with addresses in Florida, Georgia, and the District of Columbia to voluntarily participate in the program by enrolling through IRS.gov[1]. Further, the IRS is offering approximately 1.7 million taxpayers the opportunity to opt in to the IP PIN program in instances where the IRS has identified indications of identity theft on their accounts.

The improvements we implemented within the victim assistance processes have enabled us to decrease the processing time of impacted taxpayers significantly and to decrease the Accounts Management IDT inventories to only 39,312 cases at the end of the 2014 fiscal year. Also, effective October 2014, the IRS consolidated and centralized all IDT work into single operating division (the Wage and Investment Division) in order to maximize efficiency in resolving these cases and further improve the victim assistance process.

We are concerned that the sampling methodology used to identify the cases being reported is not representative of the complete IDT inventory and may be confusing to third party readers. The methodology, which selected a statistically valid sample from the entire population of IDT cases, takes the additional step of eliminating all but those cases where a refund was requested. This makes the conclusions applicable to refund-only cases and not to the total population of case inventory. We believe that this needs to be clearly stated in the report. Many of the cases from which the sample was selected also predate our January 2013 implementation of corrective actions that were in response to recommendations made in the previous report. Therefore, we do not believe the current report fully captures the impact those actions have had on case resolution.

A difference of opinion exists with regard to the effect transferring inventory has on case resolution. The report identifies case transfers as contributing to delays in processing. We believe that transfers do not contribute to delays, but that processing delays contribute to the need to transfer inventory. Standard inventory management procedures include transferring cases to an area or employee with the available capacity to process the case(s). As shown in Figure 3 of the report, inventory levels were highest at the beginning of the 2013 fiscal year. Case transfers are more frequent during periods of high inventory. We are confident that the improved case processing and lower inventories have likewise led to fewer case transfers.

We disagree with the TIGTA's conclusion that the IRS has reported misleading information when reporting case processing and resolution time. The TIGTA was aware of the changes and improvements made to the IDT processes prior to the closing of the previous audit. We believe this follow-up audit should have focused on those improvements and sampled cases received after the initiation of the procedural changes. Instead, the TIGTA selected the sample set from all case closures during the 2013 fiscal year, which included those closed three months prior to the procedural

[1] http://www.irs.gov/Individuals/Get-An-Identity-Protection-PIN

changes. In fact, 46 of the 100 cases sampled were closed prior to January 2013. In essence, half of this sample reviews the same cases as reviewed in the prior audit, and does not reflect the current status of the IDT inventory and processes.

The report expresses concern with our stated processing timeframes of 180 days and also questions our current reported timeframe of 120 days as disclosed in our official response to the previous audit. The 180-day timeframe was determined after analysis of the current inventory in conjunction with the known upcoming procedural changes and dedicated resources. The timeframe is identified in our Internal Revenue Manual procedures as a general guideline to provide to taxpayer inquiries regarding their IDT case. If the case is not processed within that timeframe, the taxpayer will be contacted regarding the status of their case. It should be noted that we achieved that timeframe as anticipated, and then surpassed it. Our response to the previous report clearly indicated the 120-day timeframe was specific to cases received after January 2013. In support of the 120-day timeframe, we have provided the days to close report, methodology, and data on multiple occasions. We believe this methodology most accurately estimates the time to resolution an IDT victim will experience. Further, our methodology for measuring the time to closure is based on the total population of IDT cases, not just those expecting refunds. Consequently, we disagree with the TIGTA's statement that our reported timeframes are misleading.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1
Complete an analysis of identity theft case reassignments and revise inventory management processes to reduce the number of times cases are reassigned.

CORRECTIVE ACTION
We will analyze identity theft cases to evaluate the impact reassignments have on case resolution time. If warranted by the analysis, we will revise reassignment guidelines accordingly.

IMPLEMENTATION DATE
October 15, 2015

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2
Develop a comprehensive identity theft training course to ensure that assistors are capable of handling complex cases so that managers do not delay assignment waiting for a trained assistor.

CORRECTIVE ACTION
A comprehensive Identity Theft (IDT) training program already exists and is provided to every assistor working IDT cases. The timely resolution of these cases is a high priority for the IRS; however, the workload addressed by the Accounts Management function is diverse and varies in complexity. Consequently, not all assistors are trained to work every program. We frequently evaluate our inventory of all casework and ensure staffing levels of trained employees is adequate to provide balanced coverage for all types of work, including IDT. We will continue to evaluate the effectiveness of our training and make appropriate improvements.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
N/A

Recommendation

RECOMMENDATION 3
The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that case closing actions and account adjustments are accurate.

CORRECTIVE ACTION
The IRS has a review process in place to review case closures and ensure the timely detection of error trends so they can be addressed and corrected. On October 1, 2013, a unique Specialized Product Review Group (SPRG) was launched specifically for the purpose of measuring the accuracy of IDT paper adjustments. The IDT SPRG is a separate review process that simplifies the identification of error trends and improves our ability to initiate corrective actions. Bi-weekly conference calls are held with the campuses working IDT cases to review the quality reports and share improvement ideas.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 4
Develop processes and procedures to accurately calculate the average time it takes to fully resolve taxpayer accounts affected by identity theft. The time should be based on the average period between the date the IRS receives the taxpayers' tax returns and the date the tax refunds are issued.

CORRECTIVE ACTION
We disagree with this recommendation as it omits any account where a refund has not been claimed. We believe the methodology for determining the average time to fully resolve taxpayer accounts affected by IDT should include all closed cases and should be quantifiable over various periods of time. The recommended action would provide closure data on only a portion of the total population and would be resource intensive due to the amount of continuous sampling needed to provide reportable results. In the alternative, we will consider other computations that could be incorporated into our current methodology and will determine if they are feasible modifications to the existing process.

IMPLEMENTATION DATE
November 15, 2015

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 5
Develop processes and procedures to accurately report the number of identity theft cases resolved, including only those taxpayers for whom the IRS fully resolves their account and issues any refunds due. Until these processes and procedures are established, the IRS should disclose in reports the difference between cases resolved and taxpayers assisted.

CORRECTIVE ACTION
We are in partial agreement with this recommendation. Limited resources preclude both the manual analysis and systemic programming needed to separately report the volume of cases and accounts resolved. We will annotate our IDT reports that the volume of closed cases can include multiple cases for unique taxpayers.

IMPLEMENTATION DATE
August 15, 2015

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

Chairman ROSKAM. And it is not even as if, Commissioner, this is blue-sky stuff. This is not some theoretical thing. This is well used in other areas of the Federal Government, and yet the IRS has said we are not going to do it at the same time saying we need more money.

Mr. KOSKINEN. This is a hearing on the filing season. The filing season was a question of how efficient were we. And we were very efficient. And it is a great accomplishment by our workforce. And I keep saying that because it is a stunning achievement by a workforce under great pressure. The other reason that I stress customer service is because that is integral to the filing system. I am happy to have another hearing to talk about what is going wrong with enforcement if you would like; what the impact of the 5,000 fewer revenue agents, officers, and criminal investigators is; and, ultimately, what the threat is to the integrity of the filing season and, ultimately, the integrity of the ability of the government to collect its revenues. That is not the subject of this hearing. But I will guarantee you that there is a serious story there. There is a serious story in information technology about what the decline in funding has done to the agency and the risk we run.

So to say I could take $134 million that we made a conscious judgment needed to be spent in IT and magically move it back to customer service as if that was easy and nothing else were to happen seems to me to be illusory. I am happy to have that discussion. But the point about it is the $134 million and the 16 million calls don't exist as a reality, as a likelihood because, otherwise, what would have happened is we would not have been able to implement and run the filing season the way it ran. And I can guarantee you we would have a very difficult conversation here if the filing season had not run well. We would be asked, why did you put the money someplace else and not put it into the systems necessary to collect the $3.1 trillion?

So it is, as you have noted, a question of where do we spend the money. We spend a lot of time trying to do the best we can to, in a balanced way, implement this. And you are exactly right: Our goal is not to make life difficult for taxpayers. It does not help us or the taxpayer. But our goal and responsibility is we have to run enforcement, we have to run the IT systems, we have to run customer service. And when you cut the budget by $1.2 billion over time, when you cut the budget by $350 million last December, that money has to come from somewhere. And if you look at only one spot, you will say, Well, gee, why don't you put more money there? More money is even less money in the other spots.

And my concern is not looking backward; my concern is going forward. The reason I make a big point about this is because I think we are beginning to erode the ability of the agency to function. And if we do the same thing in the budget in 2016, we are going to have an even more serious discussion about the negative impacts on the ability of the IRS to deliver on its mission.

Chairman ROSKAM. Okay. This past exchange, we have just talked past one another. Let me try, let's try and get you and I on the same wavelength. I understood what you said. What I would— what I would appreciate is if you could respond to this. Assume for the sake of argument that you had $100 million in enforcement money that came in that was yours to use. Would your ability to impact customer service be helped by having $100 million on the enforcement side that you didn't have to use user fees, for example, to supplement?

Mr. KOSKINEN. It certainly would help.

Chairman ROSKAM. Okay. We are of the opinion that $100 million is available to the IRS. And let me explain how. The private collection process is demonstrably solid in other areas of the Federal Government. It is successful. Secondly, two agencies that have done the review, that is TIGTA and GAO, have said also that they think this is a good fit for the IRS. They are critics of the decision in the past of the IRS to move beyond this. And we are convinced that you have got the capacity within your own purview—I mean this is not where you need legislative authority; this is within your own purview—to pursue this money. Does that make sense?

Mr. KOSKINEN. Not in the result of our experience. Our experience is that we did not, in fact, for the two times we actually ran it, make money, anything like $100 million. But I am happy to have that discussion. We looked at it already a year and a half ago. We shared that information with the Senate when they were considering it. And they ultimately decided not to go forward. But I am happy to have the discussion. It is an important one. As I said, anywhere we can find a way to be more efficient, we are happy to do that.

I would note right now we have spent a year fighting the IRS scams of people calling people on the phone masquerading as IRS representatives. So, again, unleashing private debt collectors who are going to call on the phone isn't going to automatically make taxpayers feel better or even be very efficient.

But I am happy to have that discussion because wherever we can get revenues, we can. But the $100 million isn't even going to make up last year's budget cut. And, as I say, my concern is the indications of where we are going.

Chairman ROSKAM. I am not buying that. I don't buy that it has got to be all or nothing.

Mr. KOSKINEN. I agree.

Chairman ROSKAM. Even Joe Crowley, look, he is feeling better, not great. So let's get this feeling better. So let me move to another line of questions.

You and I have stated our opinions clearly. And I would urge you to revisit the private debt collection question. Could you give us some insight into the decision by the service to hire the law firm of Quinn and Emanuel? So two questions: Why do you have to pay these guys $2 million? I guess three questions: Why do you have to pay them $2.1 million, first question? Second question is, why would any partner be able to bill at $1,000 dollars an hour? And then the third question is, how does Section 6103 and the confidentiality work here? Because you have cited a fairly narrow section, 6103(n), which gives some authority at the Treasury level to designate people, but it tends to be more of a processing, storage, and so forth. And it tends not to be that involved in taking witness statements and litigation. So could you let us know—just let me know what your thinking is on those three points?

Mr. KOSKINEN. Well, let me say, as you know, with 6103, we are not at liberty to talk about individual cases and any individual taxpayer. But let me just respond generally without going into any specifics about a particular case.

The IRS, historically, over time has had the authority to retain people to provide assistance in litigation which exposes those people to 6103 information by definition. Those have been economists. They have been consultants. And, on occasion and in some cases, they are lawyers. We only bring in outside consultants, only spend that money, especially it comes out of our budget, we only spend that money when it is important, related to the various cases. Some of our cases, speaking broadly, not about any particular case, some of our cases involve billions of dollars of disputed tax collection. And from the standpoint of the judgment made by the IRS Chief Counsel's Office is they look at litigation, what are the appropriate resources to bring to bear? There is a risk-reward. There is what is the benefit out of it. We do not willy-nilly in most tax court cases bring in outside experts. But whenever there are serious, significant cases against well-heeled clients who have access to unlimited amounts of legal and other consulting businesses, it is our obligation to represent the United States Government and the U.S. taxpayers as effectively and efficiently as we can. And, historically, that has been done. It has not been challenged before. We are very careful with that. It only goes on in cases that are very significant, very important to the government and, therefore, very important to the taxpayer.

Chairman ROSKAM. So you have concluded in those cases that the Department of Justice doesn't have the capacity?

Mr. KOSKINEN. For the kinds of cases we are dealing with, we have made that judgment that, in fact, outside assistance, as a general matter, whether it is economists—we have a lot of economists in the government—whether it is economic help, whether it is consulting help——

Chairman ROSKAM. These are litigators. I mean, these are people, and the Department of Justice, it is an army of litigators basically.

Mr. KOSKINEN. An army of litigators we use a lot. We have a wonderful working relationship with them.

Chairman ROSKAM. They are not up to this task? I mean, is this one so unique?

Mr. KOSKINEN. I am not going to talk about any particular one because I am not at liberty to do that. Let me just say, as a general matter, we are well aware of the capacity of other government lawyers. We rely on them significantly and substantially. And I am happy in private to have our chief counsel talk with you more about any particular case. But let me just say, as a general matter, our job is to, in fact, defend the interests of the government and the Tax Code. And we will deploy the resources necessary in our judgment to do that.

Chairman ROSKAM. How is Section 6103 authority designated to this law firm? Because it is fairly limited. If you look at the statute, you are relying on section 6103(n), which says that the Secretary may issue regulations to allow the IRS to disclose return information for purposes such as the storage, transmission, and re-production of returns, return information; programming maintenance, repair, testing, and procurement of equipment; and the providing of other services for purposes of tax information. You are talking something far beyond that. How is this possible?

Mr. KOSKINEN. I would be happy to get you the legal authority for that. As I say, for years, we have provided and brought in economists. We have brought in all sorts of people into tax litigation. The litigation itself is a—the defendants are actually providing that information. But I would be happy to get you more details. But this is not a unique occurrence.

Chairman ROSKAM. Can you just walk me through your decision to pay the bonuses? Your predecessor, Commissioner Werfel, said he wasn't going to do it.

Mr. KOSKINEN. He said he wasn't going to do that in the middle of the sequester because it was only way to limit the number of days the agency was shut down. The agency was shut down for 3 days. It would have had to have been shut down for another 2 days if they had paid the performance awards. They are not bonuses; they are performance awards. Over 40, 45 percent of the employees don't get them. You only get them if you perform. The average amount of those awards is about $1,100, $1,200. As I said, nobody goes to Bimini with the money.

Back to Congressman Kelly's point about morale, those awards and that performance award system has been in place for a long time. It was a great hit to employee morale even though they understand the trade off was 2 more days not working if the awards were paid. My view is, going forward, if we can't reward employees and distinguish between those really going beyond the normal and doing great work, if we can't provide incentives for those employees, then it is going to cost us significantly. And I think it is an appropriate thing.

In the private sector, I ran for 20 years bankrupt companies. And in the face of creditors and everyone else, we provided incentive awards for people who did well. We protected the rights of employees because without the employees, you don't have an operation. And my sense here is I understood why, if you had to shut the place down for 2 more days, you wouldn't pay the award in 2013. But going forward—we paid it last year. It is not a decision we made just this year. And I think it is important to reward employees who perform. This is a workforce under great stress. It is a workforce dedicated to the mission. It is a workforce that does great work. And we need to recognize that. And I would stress that they are performance awards. In any given year, 35 to 45 percent of the employees don't get an award at all.

Chairman ROSKAM. So let me yield to Mr. Marchant, if he is here, in a moment. Just one final point on this, we are convinced—I mean, a majority in the committee is convinced—that the decision to allocate resources is something that the IRS can improve on and that the notion that it is the responsibility of the Congress when there is these various significant amounts of money that are available I think is overstating and over-characterizing. So reasonable people can differ on how to approach these things. But I think that speaking on, just for myself, looking at the private debt collection, looking at the amount of union activity that is discretionary, looking at the decision to pay bonuses, looking at the hiring of the law firm, all are things that are significant that came at the expense of customer service.

So, with that, I would like to——

Mr. CROWLEY. Mr. Chairman, would you just yield for one or two clarifications?

Chairman ROSKAM. Yes. I would be happy to.

Mr. CROWLEY. I have been told that my name may have been brought up in the banter back and forth.

Chairman ROSKAM. Several times.

Mr. CROWLEY. And I just want to clarify for the record that I in no way, shape, or form support the privatization of any role of the IRS, be that through private debt collectors—and, more specifically, I think adding personal reward into this, if you want to talk predatory, that is predatory. And I would, I think keeping personal reward out of this and profit-making out of debt collecting as it pertains to the IRS is where I stand. I just want to make that point clarified.

Chairman ROSKAM. Mr. Kelly.

Mr. KELLY. Thank you, Chairman.

I do want to get back—as you and I were talking a little about leadership position and morale because morale is one of those things that, if we don't have a high morale, then we lose the belief that we would have or the trust we would have, whether it is in a team or an organization or an agency.

But I want to go back to this winter and this early spring. You have been pretty busy. And some of the things you have done, you have been out in public talking about some things that I think if you had the chance to take it back, you probably would take back some of those statements. And one of the ones I am going to bring up to you—and I just read about this—in a recent speech that you did at the Tax Policy Center in Washington, you likened the IRS budget cuts to tax cuts for tax cheats. And I think that by making that statement, I mean, certainly if the mayor of New York City would happen to say, You know what, there is not going to be any cops on the beat tomorrow; I don't have any faith in the system. Do you think that would possibly see a spike in crime? Would you think people who are out there saying, Hey, you know what, they are not going to be out checking; well, shoot, I guess I kind have a free range to get there.

So when you make those kind of statements because words truly do matter—and we have listened today, and there are a lot of words going back and forth. And sometimes the rhetoric does go off the charts. But I keep going back to this, the 435 of us that sit in the House and the 100 that sit in the Senate and the 83,000 that work at the IRS are all here for the same purpose: to serve the American people. So when you as the Commissioner go out and make public statements that these tax cuts are a great enabler for tax cheats, what in the world were you thinking of?

Mr. KOSKINEN. First of all, that was a catchy phrase that has been raised several times in various parts of the press. What I am thinking of—and I have testified on this, and it goes back to the other subject. We are talking about filing season here. Enforcement is a significant issue. And my concern is that, in fact, as I said in one of those speeches, that my concern is as we begin to erode the ability of the IRS to effectively function, what I don't want to do is have somebody later on say, You never warned us. So as I said in that speech, This is your warning. Compliance is a coin that has two sides. One is enforcement. One is taxpayer service. So the amount of money we collect every year, which is significant, $50 billion to $60 billion with our activities, isn't important just for the money, it is a lot of money, it reinforces the $3.1 trillion. If that compliance rate goes down 1 percent, it will cost the government $30 billion a year. And if we continue——

Mr. KELLY. Commissioner, If I could, I understand where you are coming from. And you are very good at these panels of taking things and making it into something else. My question really comes down to, you are the guy. You are the face of the IRS. It is you. It is not the 83,000 of the people that work for the agency. It is you. So when those words come out of your mouth—and words certainly do matter—when those words come out of your mouth and when you start to say this is a tax break for tax cheats, my question was, do you think that encourages those people who are going to be noncompliant—because you and I in one of our first meetings, you said, basically, there are two types of people out there: There are those that want to pay their taxes, and there are those that don't want to pay their taxes. So I don't think that I would want to be a cheerleader, telling those people that don't want to pay their taxes, Hey, you know what, we are not going to be able to come after you because I don't have enough money to do it. So, I mean, maybe your point was to really blow up the idea that I don't have enough money to work. But I would just suggest that sometimes those comments are better kept internally. I think when you say them publicly and with the way the media is today and certainly with the social media, I think there is probably anybody out there that was wondering if they could get away with something, they would say, you know what, listen, the Commissioner himself said, We are so underfunded; we can't go after tax cheats.

And there is an old saying: There are no secrets in my family; there are just a lot of things we don't talk about.

I just think it would be better—and I am talking about the morale of the Agency right now. And I am serious about this. Those 83,000 men and women who get up every morning and come to work to collect the revenue that is needed to run the country are important people. But what I don't want to do is keep dividing those folks from the United States Congress. And I have got to tell you, sir, words matter. I think that you have got to be careful. And I would really, if you have the chance to do it, and you certainly do here publicly today, tell those folks, you know what, I shouldn't have said that. That is not what I meant.

Mr. KOSKINEN. No, I will tell you what I said—I should have said. What I did say also—you didn't quote—is we still do 1.2 million audits a year. And the roulette wheel spins, and you don't want that white ball falling on your number because we are not very happy about it. So we are continuing to enforce the law.

But the Congress has, in fact, cut our revenues to a point and resources to a point that we are not as effective as we ought to be. And I agree with you; we ought to be on the same level here. My concern is for 5 years the budget has been cut, notwithstanding these discussions. And my concern is if we head into 2016 and, even in the face of all this, continue to cut the budget, I don't want you saying later on, you know, you should have told us about this, that it is serious. It is serious.

Mr. KELLY. I want to make sure you and I understand each other. My concern is you are the Commissioner of the IRS, for you to go out and start telling people that this is a tax break for tax cheats is a very dangerous phrase. My only question to you was if you could take those words back, would you take those back? Because I think that does great harm to exactly what you are talking about you are not able to do. Why would you want to increase the percentage of people who say, They can't do anything about it; I am going to go ahead and cheat. I just think that sometimes a little retrospect is in place.

So I am glad you are here today. But I got to tell you, I just expect a lot more from you because I know your background. You are capable of doing that. And especially when it comes to messaging, there is nobody that does it better than you and to flip it from where we are going to what we need to do. Please, I am just saying, words matter. Let's make sure we are all talking the same way, we are on the same sheet of music. I thank you.

Chairman ROSKAM. Mr. Lewis.

Mr. LEWIS. Mr. Commissioner, again, I want to thank you for being here and thank you for your service.

A few moments ago, one Member and later the chair said something about private debt collection. We have been down this road before. I have been here for a while. The Republicans continue to believe that hiring third-party debt collectors would help collect revenue. We fought this battle before. This is not a new idea. It is a bad idea. We need to drop the idea. We have tried it, this idea, twice over the last 18 years. Both times it has ended in failure. In 2006 and 2009, the program was started and then ended. The IRS concluded it lost money. In 1996, the IRS awarded five contracts and then terminated the program. The IRS again lost money. An IRS employee in the ACS unit can collect $20 for every $1 in funding. This is more than the amount collected by a private debt collector. The matter is simple: Fund the IRS. That is what we need to do. And that is what we should be talking about.

Again, Mr. Commissioner, I want to thank you for your service, for all of your great and good work. I know when you first became Commissioner, you got out. You traveled around the country. You came to Atlanta. You went to other places. You had townhall meetings with the employees. And I would like to know from you at this moment, what is the morale of the staff at headquarters and the centers around the country?

Mr. KOSKINEN. Well, as Congressman Kelly and I, from our background, both share the same point, which is morale and support for the employees in your organization is critical because they do the work. Without them, it doesn't matter what your business is, it is going to go away.

I just had a meeting with leadership in our wage and investment virtual meeting yesterday. I continue to be impressed by the caliber of the workforce and their dedication to the mission. As, Congressman Kelly, is important, they view themselves as on the side of the taxpayers. They view themselves as on the side of the government. They are proud to be part of the IRS. Even with all of the IRS bashing over the last couple years, with the constraints on funding, I continue to find employees who are focused primarily on what can we do to, in fact, be able to do the work better? They are professional. They are dedicated. Many of them have been—part of my concern is a lot of them have been here a long time so they are eligible to retire. Twenty-five percent of the workforce could retire tomorrow morning if they wanted to. And so they are—they show up every day. They work hard. I have had lunch, every place I have gone, 37 cities, I have had lunch with 15 to 20 employees. None of them lack energy. They are all enthusiastic about their work.

If you went out and talked to the employees, you would find they are as concerned or more concerned about the level of taxpayer service than anyone else. They derive great satisfaction, as I said, by helping taxpayers. If you ask a question and they can answer it, they feel good about that. And they feel that is their mission. I have been in a lot of interesting circumstances. I have been 20 years in the private sector managing large failed enterprises of one kind or another. I have spent the last 15 or 20 years in various government roles. This is the best workforce I have been privileged to work with. It has great senior leadership. It has significant challenges. We haven't hired enough young people so we are aging the workforce out. We don't have enough people anywhere. We need to continue to provide training for them. We need to continue to provide support for them because they are critical.

As I say, over 70 percent of the budget is personnel. So if the personnel aren't working effectively, everything else we are talking about, IT systems or anything else, is not going to matter. So I have been delighted, amazed to some extent. Certainly it is refreshing to talk to IRS employees and see how concerned they are and dedicated they are to getting the work done.

Mr. LEWIS. I believe, Mr. Chairman, we are going to have an opportunity to come in a few days and visit. And when I am in Atlanta, I plan to get out and visit and see some of the IRS employees.

But, you know, Mr. Commissioner, you cannot, old saying, you cannot get blood from a turnip. I grew up on a farm in rural Alabama. And if you expect to get something, get a crop in for the season, you have got to work that crop; you have got to fertilize it. So if you need revenue, if you need resources, you have to speak up, speak out, and demand that we do something.

I yield back, Mr. Chairman.

Mr. KOSKINEN. I don't think anyone would say I have been a shy, retiring violet about this problem.

Chairman ROSKAM. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Many families in my district rely on the earned income tax credit. But in its most recent financial statement, the Treasury Department reports that the earned income tax credit improper payment rate continues to grow. During our full committee hearing in February, Chairman Ryan asked Treasury Secretary Lew if he would work with Congress to clean up the management and structure of the earned income tax credit to reduce improper payments. Secretary Lew agreed that compliance needs to be improved but said that resource constraints limit those efforts. In 2010, however, when the IRS was at its funding peak, $12.1 billion, the earned income tax credit improper payment rate was at 26.3 percent. The improper payment rate sank in 2011 and in 2012 as the IRS' resources shrank. It does not appear that there is any correlation between increasing the IRS' resources and reduction of the improper payment rate. Given the resources available, how would you recommend revising the management and structure of the earned income tax credit program to reduce improper payments?

Mr. KOSKINEN. It is a very important question. And of all these challenges we have, implementing statutory mandates, identity theft, refund fraud, as we go forward, the problem that I am most concerned about is, in fact, our inability to make a dent in the rate of improper payments or the amount of improper payments in the earned income tax credit. A year and a half ago when I started, I said I want to talk—everybody who knows anything the history of this, for 10 years, the IRS has tried a wide range of things to try to deal with this problem. The bottom line was that we had not pushed forward is we need help. I have testified before, we have asked Congress for authority. First, we need to get W–2s earlier. We don't get them until the end of March. So we are processing particularly earned income tax credit payments and returns without knowing whether, in fact, the income statements are accurate until afterwards, at which point we are in a pay-and-chase manner. We have asked for what is called correctable error authority. We can oftentimes on a return see that the number of children claimed is erroneous. But to make any correction like that, we have to actually start an audit and an exam process. We do over 400,000 audits a year in the earned income tax credit area. But we have 25 million recipients. So we are never going to audit our way out of it.

And I think you are right, more resources, we wouldn't, say, do twice as many audits, it is going to make a difference. If we could make the corrections on the return, the taxpayer would still have the right to come in and say, no, I really do have three children, not one, that would be helpful.

Over 50 percent of the returns are prepared by preparers; 400,000 of them have no credentials at all. They are not CPAs. They are not enrolled agents or tax attorneys. A big chunk of them do a very good job. They are knowledgeable. They do their best. Some of them mean to do well but have relatively little understanding about the complicated code, let alone the complications of the earned income tax credit. And then there are some of them, a small percentage, that are crooks and run advertisements: "Come with us, we will get you a bigger refund. Just sign the return, you don't even have to see it, give me a blank return with your signature."

We need to provide and require minimum competency by tax preparers. We are talking about continuing education once a year, sometimes take 15 hours, 18 hours of updates on what the code is, learn how to fill out the earned income tax credit appropriately would be helpful.

And, finally, if somebody wanted to simplify the program, that would be helpful too because it is very complicated. I have looked at it and tried to figure out how you figure out where the kids are and who has got them. But I think, again, if we could get W–2 authority to get it in January—New York State and several, three or four other States already get the W–2s in January—if we could make corrections on the returns when we know there is a problem without having to audit them, if we had minimum qualifications for tax preparers, it would allow us to begin to make a dent in that problem because you are exactly right; it is a problem that needs to be addressed.

The program has great support across all political lines because it supports working people. Part of our challenge is 30 percent of them turn over every year because they get a better job; they get income, exactly what we would like to have happen. Some of them lose their jobs, and then they are not eligible. So we have the duality of trying to make sure the eligible people participate and then try to make sure that we don't pay the wrong things to the wrong amount.

Mr. SMITH. Okay. Before my time runs out, you hit a lot of points that I think are valid. But also a point that you didn't hit that I have concern with is the different methods of filing, whether it is online or whether it is paper filing. And I do know that it has been publicly noted throughout everything of all the increase in fraudulent returns being filed through online software. Why don't you begin to address the problem immediately, through just form changes you control, to bring the same scrutiny of eligibility to all filing methods so online filing isn't a larger percentage of fraudulent filings than just paper filings?

Mr. KOSKINEN. Right. We are working with software providers across the board to try to figure out how to deal with identity theft and refund fraud. Part of it is in the IT, yet it is a broader issue than that. And you are exactly right, we had the first in history—I brought together the CEOs of the tax preparers, brought the representatives of State tax administrators, and the IRS that we chaired because we need to work across the board to see what can we jointly do in a true public-private partnership to address the risks of identity theft and refund fraud. We have made progress, but there is a lot more progress we could do.

Mr. SMITH. Thank you, Mr. Chairman. I just would like to point that online filing and paper filing should have the same standards and the same scrutiny.

Mr. KOSKINEN. I think that is right.

Chairman ROSKAM. Mr. Rangel.

Mr. RANGEL. Let me first thank the chairman because so many of the issues that we raised today, it appears as though we are being critical of the IRS. And all of us want to improve the IRS and certainly improve the morality—I mean, the feeling that they all are public servants like we are.

I am glad that the earned income tax credit has come up because there are so many things that we give them. We are giving self-esteem. We are giving the ability not to go on welfare, and, as the Commissioner said, and people would actually stay in that work market and not know what it is like to be dependent.

Of course, there are some issues too that we got these fast food places, they prepare the EITC or have people who do it for them to include as a part of their salary that keeps the salaries low. So there is a lot of work that hearings, I wish we could have a work group, which I volunteer to be on, with someone from your office to find out how we can work our way through a very complex but worthwhile situation. And I would be glad to volunteer and get some people from, how we can save something that is good.

As far as having the IRS to transfer the authority to collect taxes, I want to talk with you. You know, I have had some serious illnesses. And I thought with the Affordable Care Act and my insurance company that, hey, it was expensive, but we paid for it. Now I have insurance companies telling me that I owe them money for services that they provided. And the hospital gave them my name. And so I told them who I was and that I was a very important American; and, "What service was provided?"

They said: "We don't know."

I said: "Well, why are you calling me?"

They said: "Because we got your business."

I said: "But I don't remember getting the service."

"I am sorry about that."

I said: "Well, who can I discuss it with?"

They said: "You don't discuss it with anybody. We are here just to get the money."

And I said: "You must be kidding me. Who can I talk with? Can I talk with the hospital?"

They said: "No, it has been turned over to us."

Now, you talk about morale; we cannot afford to do this. I don't know how much money it takes to set up this system. But I know one thing, if I am motivated by the amount of money that I collect in order to get my commission, we don't want to go there. It is bad enough being a tax collector. But when we have outsiders whose income is based on the amount of money they beat out of taxpayers who don't like the Internal Revenue anyway, please let's talk about before it we even think about it because the motivation has to be how much money can I collect in order for me to make certain my shareholders make money? And that is a good thing. They have to find out how many people can I not tee off to stay in the system and at least pay something so that it continues to be a voluntarily system.

So I know that there are things the private sector can do better. But take my word for it, I come from a community that knows tax collectors. And they are the most mercenary, insensitive people in the world. And I understand their problem. Their problem is not compassion, not understanding, but to collect money. They got enough problems in trying to make morale higher with less resources than us taking it away from them where people have no responsibility at all for Americans and what we stand for.

So you have the majority. But, please, before you push that, if you are pushing it, let's have a discussion.

And I hope, Mr. Chairman, because you have been very kind in opening up a change opportunity, that we can have a private session with these people, that we can meet with them and try to tell them what is on our mind without letting the press know because

I agree with you that if my daughter came up and said she was engaged to get married and I asked her who are you marrying and she said a tax collector, I don't know whether that would go over big. So we have got to do a whole lot to improve their reputation.

But I hope with the tax system that we all depend on, whether we like the bills that we have or not, whether we should reform or not, that we can have some meetings, some luncheon meetings and work with them and not just walk into the offices but to find out what problems they got and how we can be helpful.

And let me congratulate you for your openness in the subject matters. They are delicate and sensitive and nonpartisan. And we can say it in a different way, but we do want improvement.

Chairman ROSKAM. Thank you. Are you yielding back?

Mr. RANGEL. Yes.

Chairman ROSKAM. All right. Let me just pick up on one quick theme. I will go to Ms. Noem in a second.

But just to pick up, I think you are absolutely right in how we would approach something like this. There is a sensitivity to it. You don't want a bounty hunter feel. We have seen in Medicare what some of these RAC audits are like. And they are not helpful. And they create a lot of churn and a lot of difficulty.

Let me also sort of highlight part of the discussion that you alluded to, but let me shine a spotlight on it. You said we have a voluntary system, and we do and we agree that that is the nature of it. But some of these folks are volunteering not to pay their taxes. So we are not talking about someone, let's say as a constituent of yours or mine or Mr. Lewis' or any of ours, who, you know, these are folks that are doing their best and coming to the IRS and saying, Look, this is something that I want to try and get right and work out a plan.

What we are really talking about here is debt that the IRS has said we are not ever going to get this; this is on the shelf, and it is going away. So, to your point, we have got to discern and we have got to be wise and thoughtful about what the structure is and what you can do and what you can't do. And that situation that you described where you are in a catch-22 situation, you are in a Franz Kafka novel where you don't know what is going on, like you have got too many things that are ringing right now and you don't know what is going on to your point, Mr. Rangel, that is fundamentally unfair. And we need to defend against that because that doesn't get us where we need to go. So I think that there is a lot of opportunity to us for us to revisit these things.

So, with that, Ms. Noem.

Mrs. NOEM. Commissioner, last year this committee was investigating whether or not the IRS was keeping taxpayer information confidential. And I think, throughout the course of that investigation, they came to you and asked the IRS for communications between employees of the IRS and the White House. And the answer that you gave back was that you didn't have the systems in place to allow a search of the employees' communications.

So we asked the White House, and the White House told us to come back to you for that information. And so we have come back and asked for those documents, and you told us that it would be unmanageable to look for those emails between the IRS and the

White House. You told us to give you a list of personnel involved that we would like to see the records from. And so now we have narrowed down that request to about 66 different employees. And you responded to us just yesterday that such a search would require a new database, an associated IT infrastructure. So what we are asking for you for is 66 different email accounts for correspondence with email addresses ending in who.eop.gov and provide us with the responsive documents.

And my question is, if you don't have systems in place that allow you to search the employees' emails, how do we do effective oversight of the IRS?

Mr. KOSKINEN. Right. First, I would note that we have provided you—when the issue was whether 6103 information improperly went to the White House or not, we did provide you all of that information, which showed that there had been no improper distribution.

We do share some information at their request when anyone is being considered for a Senate confirmation position and their tax returns have to be—those are by consent. So there was—we have explained that to you and your staff as well in terms of where to go.

Our problem, which has been publically discussed certainly for the year and a half I have been here for 2 years is back to our system, that we have an old-fashioned records retention program, which is a paper retention program for official documents.

Three years ago, there was a review made at the IRS about what would it take to get to be a more modern document retention program. It would be good for official records and terrific for being able to search. The estimate then was it would cost about $30 million. And, in 2012, the decision was made that, as the budgets were being cut, that they couldn't do that.

We resurrected that because I do think it is important for us, for your point about oversight, that we ought to be able to easily search documents and be easily able to provide them. As it is now, we go through the paper records that have preserved and then we have to go through each employee's hard drive to see what is reserved on their hard drive. And it is an antiquated system. It takes us far too long and too much money.

In corporations—Congressman Kelly knows—you can actually go, you have got them saved there. So we are looking for a way. We have—since this all came up and I got here, we have now taken the top, give or take a little, 280, 300 executives across the agency and are beginning a process where their emails automatically get archived in a way that you could search for those going forward.

But we need a system where, for the 87,000, those documents would be preserved, their official records would be preserved. When somebody wants to know something, we could, in effect, almost push a button and get it to you without having to make a big deal about it.

So we are—it is still a $30 million dollar item. I have actually asked—even with the resource constraints, we made a decision a few weeks ago that we need to actually spend what I call the seed money to design what that program would look like and what the procurement would look like so, if we ever do find the money, we could do it.

But right now, as shown—we provided this committee, for instance, 1,300,000 pages of documents about the famous (c)(4) issue. It took us months to do, and we should have been able to be able to do that if we had a good system, you know, in a week or two.

Mrs. NOEM. I think the concern here is that taxpayers, how do they feel reassured that when they make FOIA requests, that they get the information that they need? And if we ask you for 66 employees and are pretty specific on which communications we would like to have, will we be getting that information?

Mr. KOSKINEN. Right.

Mrs. NOEM. And why is that impossible to provide?

Mr. KOSKINEN. No. We actually—you know, the FOIA requests we are behind a little because we have been providing to all the six investigators documents they want. We provide—we have an obligation and we measure the delay in time to FOIAs. We have an obligation to comply to the statute and anyone who makes a FOIA, particularly the media, we try to do that. Obviously, they get redacted information because the FOIA statute has issues that you can't reveal to the public, and then there is 6103 information that doesn't apply here.

Mrs. NOEM. What is the general——

Mr. KOSKINEN. So we have said all of the—anything that is provided in response to a FOIA request, we are delighted to provide with you. And, in fact, in most cases, because most of it is about the issue of the determination process, you have already got everything they got in the FOIA results plus more because you have the unredacted amounts.

Mrs. NOEM. So you are—you believe you are mandated to reply to these FOIA requests as well?

Mr. KOSKINEN. Yes. I—I think we——

Mrs. NOEM. And I do believe you are mandated to supply information to this committee as well.

Mr. KOSKINEN. Yes. And, in fact, our—we have been having very good——

Mrs. NOEM. So when you have made the technology upgrades and you spent millions of——

Mr. KOSKINEN. No. We are going to do it.

While we are over here—and it hasn't been upgraded—we have an obligation to work with you.

Mrs. NOEM. What I am wondering is the money that you have received for IT and that you have diverted away from user fees to use for IT, where particularly did you invest those dollars in upgrading IT to do what services? Did you focus on the Affordable Care Act mandate? Did you focus on the mandate to provide FOIA requests? On providing background searches? On getting us information for the committee? You have IT dollars, and you had to choose where to spend them.

Mr. KOSKINEN. Right.

Mrs. NOEM. And you believe you are mandated in several different areas to provide information. So where did you focus those dollars that you believed were critically important to be——

Mr. KOSKINEN. Yes.

Mrs. NOEM [continuing]. Complying with——

Mr. KOSKINEN. I do think—and I have told and made it clear in our discussions about the budget, even with the constraints, improving our system and ability to be able to provide information is a priority. And we have to figure out where we are going to find the money to do that, but it is one of the half a dozen senior priorities we have because we just can't keep running it the way we are doing it. It just takes too much of our time and effort, and it is unsatisfying to the committees. But we have had good discussions with the staff, and we continue to want to work with them to figure out how can we most efficiently get you what you need for the investigations and the oversight you want to do because it is an important function.

Mrs. NOEM. Okay. Thank you.

Chairman ROSKAM. Commissioner, thanks.

I just have a couple of—one subject area that is new for us to discuss a little bit and then a little bit of cleanup. But you have been generous with your time today, and I really appreciate your taking the time to field all these questions.

Mr. KOSKINEN. Well, I am delighted——

Chairman ROSKAM. And you can dish it out as much as you can take it, so that is why——

Mr. KOSKINEN. No, no. But—but I was going to say——

Chairman ROSKAM [continuing]. These exchanges——

Mr. KOSKINEN [continuing]. It has been a terrific hearing as far as I am concerned because these are important issues and I don't—I think it is an important part of oversight. I think all—we don't always come to the same conclusion on the facts, but I do think it is helpful and important for us to be able to have this discussion without it getting overly contentious or difficult. And I am delighted to have been here. I think it is an important use and good use of my time, and I appreciate the opportunity to have this interchange.

Chairman ROSKAM. Thank you.

Let me ask one question for the record, and then I want to—I want to talk specifically about audit selection so that is where I will go in a second.

But this is this idea about rehiring people who were rejected and then brought back on.

Mr. KOSKINEN. Yes.

Chairman ROSKAM. And when you hear about these and you read a description of them, when the GAO characterizes them, let me just read a couple of paragraphs as a summary.

Mr. KOSKINEN. I could—I agree with you totally and we have adjusted the process. I have told people that, within any constraints of the law, we are not going to hire—rehire anyone. Most of them are temporary or seasonals. We are going to go out of our way to make sure we don't hire anyone with a prior employment problem. If they were dismissed or any violations of the law, the statute, or performance, we ought not to be rehiring them. I agree with you totally.

It is the same thing—it has been raised in the past that employees who had willfully not paid their taxes were eligible for awards, and we have changed that. You no longer are eligible for an award if you haven't complied with the Tax Code. Even though we have over 99 percent compliance, I thought it was an important point. I think this is an important point.

Chairman ROSKAM. Fair enough.

Mr. KOSKINEN. It makes no sense.

Chairman ROSKAM. When I was practicing law and I had a motion before a judge, and the judge said, "Motion granted," I always learned to stop talking. So thank you for that response.

Let me shift gears quickly. I sent you a letter. You responded, and the question was—just to refresh your recollection——

Mr. KOSKINEN. Exam.

Chairman ROSKAM [continuing]. It had to do with audit selection. And you said—and I am bound—this is sort of the ratio. But you said about 25 percent of audit exams, audits to be determined were based on referrals in some way. And I thought that number was really high. I thought that the system was far more automated, that there were a lot more algorithms that went into it and there are algorithms, obviously, that determine 75 percent of these. But 25 percent of them come from referrals of some type, internal, external, press reports, congressional letters——

Mr. KOSKINEN. Right.

Chairman ROSKAM [continuing]. And so forth.

So here is the question. And let me just parenthetically tell you about this interchange that I had, because I did a townhall meeting with the employees at the Cincinnati office on Monday, as you know.

And when I went in and I spoke to them, the point I was making was that we were all in this together and that they worked for an institution that was unpopular, and I am a participant in an institution that is unpopular. And the unpopularity of Congress is based on a perceived ineffectiveness; that is the bottom-line criticism of Congress these days. But the unpopularity of the Internal Revenue Service, I would argue, is different. So people say, "Congress, you are not doing your job," but IRS is perceived as fearful. That is really the concern. So——

Mr. KOSKINEN. Right.

Chairman ROSKAM [continuing]. It is not as if this stuff just happened in a vacuum. So the ability of the Internal Revenue Service to be incredibly directive and to have a lot of discretion is—it is an incredibly powerful thing. And as you know and I know, any type of power that is abused is a disaster because it is corrosive and so forth.

So what steps have been taken to assure the public that when they get an audit notice, it is on the level and it is not somebody that is saying "I don't like your politics" or "I don't like this" or "I don't like that?"

And let me just make one other point because it is important. Lois Lerner—there was a—there was a process that was in place—and you are familiar with the emails and so am I.

Mr. KOSKINEN. Right.

Chairman ROSKAM. There was a process that was in place that, on paper, was a good process. It said there is going to be a review. You know, there is going to be three people and so forth. Lois Lerner was able to run around that completely and say things like

"I can't believe you are not auditing these people" and putting pressure and so forth. So I am going to assert something and tell me, if you think I am wrong, why I am wrong.

I think Lois Lerner 2.0 is possible today. What do you think?

Mr. KOSKINEN. Well, first of all, you raise a critical point. And that is—and I have said from the start, I said, the issues about the determination process that took place and were revealed 2 years ago revealed mistakes that should never have been made and they should never happen again. And we have made it clear—and I, a year ago, apologized on television saying anybody who was delayed—most of the people were delayed. They never got turned down. They just were delayed for, you know, 2 years, which is, you know, outrageous. And I think that is wrong. I think that should never happen, and I think we should, in fact, do whatever we can going forward.

Taxpayers need to be confident—as you say, it is critical that if they hear from us, it is because of something in their return. We don't care who they voted for. We don't care what party they belong to. We don't care what meeting they went to 3 weeks ago. And if somebody else had the same issue on their return, they would hear from us as well. And we need to make sure that we do everything we can for taxpayers to feel comfortable with that as we go forward.

So the inspector general, in the famous report in May of 2013, had a set of recommendations as to how to put in place security steps to make sure it doesn't happen again. We implemented all of those. We have gone forward with those.

Also, what we have done, as we did a review across our exam process totally: What are the criteria? Are there controls? Is there an issue? And we brought in an outsider that Danny Werfel before me hired, and he started when I did. And he did a full review of all of our audit exam procedures to see—and he is a trained auditor—to see if there were any issues.

GAO is right now doing the same thing. And we found no issues in that review. We have shared that information with GAO. We expect them to give us any recommendation they have. But it is critical that we have systems in place that work. But your point is well-taken, no system self-executes.

So I have spent a lot of time in my year and a half worrying about employee morale, but also culture is trying to get employees to understand in the meetings I have had with 13,000 of them that we need every employee at the front lines and for the frontline managers through the system to view themselves as a risk manager. That if there is something going on that they don't think looks good, it is not going the way we expected, something new has happened they have to believe me when I say, Bad news is good news, that, in fact, the only problem we can't solve is the one we don't know about.

And we need to have the entire agency comfortable that if we have a problem—I testified at my confirmation hearing, it would be nice to say we are never going to have a problem, that this system will be perfect. And the answer is 87,000 people and the complicated Tax Code and dealing with virtually every American, things aren't always going to be perfect.

So the real challenge is to make sure, if there is a problem, we find it quickly, we fix it quickly, and we are transparent about it. And the only way that is going to work is if everybody is comfortable that is what we are trying to do. So I have already had people a couple of times walk into my office and say, I have bad news. And I was delighted because then we could address the issue.

So part of what happens in large organizations—I always talk about the General Motors ignition switch issue. People in General Motors knew what the problem was. It just never got to the top. Because I know General Motors from my private sector experience, it is a command-and-control organization. Large organizations tend to be. You know, you have got a lot of people; you have got to tell them what to do. The art form is to make sure that the information flows from the bottom up as well as the top down.

So we are committed to supporting every employee to saying, Whatever the issue is, whatever the problem is, if it doesn't look right, let us know. And everybody in the organization now knows how to get a hold of me personally. I have gotten, in my travels, over, I guess, 400 or 500 separate suggestions. I have gotten another 500 in emails to me. And I think it is important.

Somebody asked me at a hearing last week who is the responsible and most knowledgeable person about Affordable Care and its issues, and I said, I am. If you run the organization, you need to know what is going on in it, you need to be accountable and responsible for how it works.

And so, coming back to where we started, you raise a very important point, and that is that the American taxpayer needs to be comfortable that we are in tax administration; we are nonpartisan; we are nonpolitical. We simply are enforcing the Tax Code.

Your point earlier, if you have problems with compliance, we are here to help you. You don't have to hire somebody off late-night TV to represent you with the IRS. I always say that you can call us, and then I shutter a little bit about how long it takes you to get through. But we really are trying to help people in that regard. But you are also right, the people trying to cheat need to understand that we will chase you to the end of the earth if necessary, and we are not going to be happy when we find you.

But—so the balance for us, not only in terms of compliance, the voluntary compliance system and enforcement in taxpayer service, the balance for us for a normal taxpayer is for them not to fear us if they have a legitimate question or a legitimate concern or problem. You can do online installment agreements. We do offers in compromise. If you try to be compliant, as I said earlier, we are doing everything we can to keep you in the system to have you be comfortable and to work with you.

But, ultimately, it goes back to trust. And people have to know that we mean this and that we have got an employee system—I have had no pushback from the employees. They are all delighted to know that if there is an issue, as I say, we don't shoot whistleblowers or people who bring the problems to them; we reward them and compliment them. And I think that is a message that we have to keep saying, but we have to mean it. We have to have systems in place, and we have to have oversight.

I am delighted the GAO is taking another look at the stuff we have looked at because we need to make sure that in every one of these cases, if we are auditing you, it is because of some question in your tax return. If you got a good answer, we will be delighted.

Chairman ROSKAM. Thank you. Let me just close by saying this. In fourth grade I had Miss Lillian Anderson, who was my teacher. And Lillian Anderson was a really good fourth grade teacher. And my memory of her was she was tough, but she was fair. And I think that there is an admonition there for what everybody expects from the Internal Revenue Service, to be tough—it is a tough business obviously—but to be fair.

I am of the opinion that Lois Lerner 2.0 is still possible. I appreciate the spirit with which you are communicating to us today that you recognize the nature of that milieu and trying to mitigate those possibilities. I think that a 25 percent referral rate is high in a highly automated system, and so I would ask you to revisit that.

We have posed a number of things that we think will improve the customer service aspect of things, some of which you have responded you are willing to take a look at, some of which you have said you disagree with us. But I will say we think that there is—there is ways to meet these needs of the taxpayers in an environment that makes the IRS a satisfying place to work but also protects and defends taxpayers.

And, with that, I want to thank my colleagues for their time today and, Commissioner, for your time as well. And the committee is adjourned.

Mr. KOSKINEN. Thank you, Mr. Chairman.

[Whereupon, at 12:22 p.m., the subcommittee was adjourned.]

[Public Submissions for the Record follows:]

Elizabeth Dreicer, CEO of Posiba, comments

Comments by Elizabeth Dreicer, CEO of Posiba
regarding IRS operations
submitted to the House Ways and Means
Committee Subcommittee on Oversight
on the 2015 Tax Filing Season April 22, 2015

Thank you Chairman Roskam and Ranking Member Lewis for the opportunity to submit comments to the subcommittee on this important topic that affects a $350 billion charitable sector (government, foundations, corporate philanthropy and individual donor) of the U.S. economy.

As you consider the operations of the IRS, I hope you will give serious consideration to requiring machine readable 990 forms to be filed by charitable organizations. As is commonly understood, the value in transitioning data from hard copy to digital can have many positive effects, including, growing our economy as well as unlocking important insights.

We live at a time of great challenges and even greater possibility. Never before in history have more people been engaged in making the world better. Innovative ideas and sustained efforts are making a difference everywhere. We're gaining confidence in our ability to create positive change. YET we (government and philanthropy) long to know more about the impact we're having and how to increase it.

As the government makes the transition to digital reporting and strives to achieve open data goals, this transition should be a priority as creating a more efficient and cost effective accountability and reporting system for the sector can only help us all better achieve our objectives for society.

While you consider this matter and on a related note, we understand, the IRS is accepting 990 forms in paper and machine digital formats. And, many organizations file digitally. This said, we further understand that when documents do come in electronic format, they are converted to hard copy for the purposes of processing. The IRS has expressed concern with the resources it takes them to process hard copy information and then revert it back to machine readable format and has yet to produce 990 forms for the public in machine readable formats, even though many returns are filed that way initially.

It has become clear since the Administration's request for open data reporting at the IRS and through a recent court case that the IRS is dragging its feet regarding the transition to a new digital format and will not act without strong action by Congress to force it to make this change. Short of the IRS being compliant of their own volition, we support the effort to require e-filing by all charities as the next best way to achieve this goal.

Congress is also needed to inject reason into the process by which this change is made. The IRS seems unaware of the most effective and efficient way to transition documents from hard copy to machine-readable formats. In a recent denial of our FOIA request for machine-readable 990s, they put an outlandish price tag of $688.88 per 990 Return on their process of transitioning a document. **Further, it seems unlikely that the IRS doesn't already have these data entered**

and, therefore, digitized in their accounting system even if they were not e-filed originally. After all, how could the IRS fulfill its duties otherwise, if accounting was still partially paper-based? More broadly, society will benefit by understanding the money flows within the charitable sector. The form 990 is an efficient way to get at these data and upon further review by the Administration, it is likely to surface that the IRS has the data digitized already in its accounting system.

I am the founder and CEO of Posiba, a company dedicated to bringing information, tools and analytics together to support the charitable sector to enable greater learning, accountability and decision making. We collect data on charitable giving, spending and impact, and then aggregate, analyze and share that data through tools and analytics so that charitable organizations can easily learn and compare results, improve programs, decision making, and ultimately outcomes.

People are learning the value of data and the benefits of open data in government agencies. We urge you to embrace your role and ensure the IRS makes the transition through legislative action, thereby making available 990 data in a way that liberates and shares information for greater social impact.

I urge you to help the IRS become a leader in open data for greater accountability and learning, and set the standard by making this information readily available without further delay.

I sincerely thank the subcommittee for your diligent and careful consideration.

Elizabeth Dreicer is the CEO of Posiba and is representing herself and Posiba, Inc. in these comments.

Foundation Center, comments

Written Comments Submitted To:

The United States House of Representatives
Committee on Ways and Means
Subcommittee on Oversight
Hearing on the 2015 Tax Filing Season and General Operations at the Internal Revenue Service
April 22, 2015

On behalf of:

Foundation Center
Indiana University Lilly Family School of Philanthropy
Center for Civil Society Studies at Johns Hopkins University
Center on Nonprofits and Philanthropy at the Urban Institute
GuideStar
The Aspen Institute's Nonprofit Data Project

ELECTRONIC FILING OF THE FORM 990 WILL INCREASE NONPROFIT TRANSPARENCY, ACCURACY, AND INNOVATION WHILE SAVING TAXPAYER MONEY

The Aspen Institute's Nonprofit Data Project brings together the major nonprofit research and data providers in the United States, including Foundation Center, Indiana University Lilly Family School of Philanthropy, Center for Civil Society Studies at Johns Hopkins University, the Center on Nonprofits and Philanthropy at the Urban Institute, and GuideStar.

The above organizations thank the subcommittee for this opportunity to submit comments on general operations at the Internal Revenue Service (IRS) with respect to nonprofit organizations. In particular, the agency's approach to making nonprofit tax information public is highly inefficient, expensive and time-consuming. Electronic-filing of tax forms by all nonprofits would lower the cost of processing returns saving the IRS and taxpayer money while providing other important benefits.

The nonprofit sector has proven to be an invaluable resource in our society. Not only does the sector help millions of individuals in need, it represents five percent of the nation's gross domestic product (GDP), and is a major source of jobs: according to the Bureau of Labor Statistics, one in ten private sector workers in the U.S. is employed by a nonprofit organization.

One of the best sources of information on nonprofits is the Form 990 series, which most nonprofits are required to file annually with the Internal Revenue Service (IRS) and make publicly available upon request.

Current law already requires very large nonprofit organizations, (those that file at least 250 returns during the calendar year and have over $10 million in assets) and very small nonprofit organizations (those with gross receipts of less than $50,000 annually) to file their tax returns electronically. The majority of nonprofits in between, however, file paper tax returns.

We write to strongly support a tax proposal to require electronic filing of the Form 990 by all nonprofit organizations that file, and the release of these data in an open, "machine-readable" format by the IRS.

This non-controversial proposal has been embraced by policymakers on both sides of the aisle. It was included in the Tax Reform Act of 2014, introduced by the former Chair of the House Ways and Means Committee, Rep. David Camp, as well as in the tax reform discussion draft of former Senator Baucus and the President's last three budgets. The Joint Committee on Taxation has determined this proposal to have "no revenue effect."

Once publicly available, machine-readable Form 990 data may be used by a variety of stakeholders including donors, researchers, analysts, entrepreneurs, state and local regulators, charity watch-dog groups, charitable beneficiaries, and others to better understand the tax-exempt sector and create information tools and services to meet the sector's needs.

Thus, we:

1) Strongly support a tax provision mandating electronic filing of the Form 990 for all nonprofits required to file these forms with the IRS.

2) Strongly support a requirement that the IRS make electronically-filed Form 990s available to the public in a machine-readable format.

3) Strongly support transitional relief for small organizations, 990-T filers, or other organizations for which the provisions would cause undue burden without a delay. In such cases, two years after the enactment of legislation should be sufficient transition time.

4) Believe that it is important to include a reasonable date certain for the public release of the Form 990. Once e-filing is instituted for all 990 filers, the turn-around time for making this information public – after ensuring the automated redaction of confidential information – should not be lengthy. We suggest that the IRS release electronically-filed forms no more than 90 days after receipt, ensuring that the forms are updated on a regular basis for the public to use.

WHY 990 E-FILING MATTERS:

Currently, the IRS makes Form 990 data available to the public by providing *images* of the 990s in TIF (Tagged Image File) format. These individual 990 images must be *manually re-digitized*, one-by-one, in order to make the data available, usable and analyzable by the public (in fact, the IRS converts electronically-filed returns into images). This antiquated approach to making the data public is highly inefficient, expensive and time-consuming. It also increases the frequency of errors and omissions.

It is time for ALL nonprofits to file electronically and for the IRS to release the data in a format that can be easily downloaded, analyzed, visualized and understood. Given the importance of the nonprofit sector to our society and economy, the need for this information is critical. The benefits of universal e-filing and open nonprofit data include:

- **INCREASED TRANSPARENCY** of nonprofits, helping nonprofit leaders, donors, businesses, policymakers and the public to make better decisions, understand trends in the field and gauge where some nonprofits stand in comparison to their peers.

- **REDUCTION OF FRAUD** by making it easier for both federal and state charity officials to detect and locate potential problems, which are more easily identifiable through computer analysis.

- **IMPROVED ACCURACY** of information provided to the public, since e-filed returns, as opposed to paper-filed returns, reduce errors, such as inaccurate calculations, and cut down on mistakes, such as the unintentional disclosure of private information (*e.g.* confidential donor lists).

- **MORE INNOVATION AND BUSINESS OPPORTUNITIES** for entrepreneurs and innovators to use the data and develop new, useful "apps" and data-driven platforms that can help solve problems in our communities.

- **UNDERSTANDING COMMUNITY RESOURCES IN RELATIONSHIP TO COMMUNITY NEEDS,** through web-based tools and research that aggregate 990 data. Examples include the Foundation Center, which uses 990 data for a range of online tools, like BMAfunders.org, to help the public track funding trends and assist philanthropic organizations to better collaborate with the public and private sectors; the Lilly Family School of Philanthropy at Indiana University's research on individual giving and all other sources and uses of philanthropy; the nonprofit economic impact studies carried out by the Johns Hopkins Center for Civil Society Studies for states and communities around the country; and, the Urban Institute's Community Platform, which uses a combination of 990 and other data to give citizens access to helpful information on their communities.

Mandating electronic-filing of Form 990 returns would substantially lower the cost of processing returns saving the IRS and taxpayer money by greatly reducing transcription errors and the amount of training, recruiting, and staffing that the IRS requires to process paper tax returns. It is our understanding that the IRS technology that is already in place to support the processing of electronically-filed IRS Forms 990 could readily accommodate the increased volume that would result if all organizations were required to e-file. In addition, given limited funding available to the Exempt Organizations division of the IRS, which generally does not raise revenue, it is particularly important that resources be used efficiently. More timely and accessible data will not only help the IRS operate more efficiently, but it will also boost the public's ability to monitor charities.

These and other findings can be found in the Aspen Institute's landmark report, *Information for Impact: Liberating Nonprofit Sector Data,* which was released in 2013. This in-depth examination of the Form 990 system, based on research and interviews with over 40 nonprofit, government and business leaders, concluded that there is an urgent need to deliver Form 990 data to the public in a more efficient and accessible manner.[1]

[1] "Information for Impact: Liberating Nonprofit Sector Data, Second Edition" Beth Simone Noveck and Daniel L. Goroff (The Aspen Institute), <http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/Information_for_Impact_Report_FINAL_REPORT_9-26-13.pdf>

We also note that in December, 2014, the Government Accountability Office (GAO) recommended in a report that Congress consider expanding the mandate for nonprofits to electronically file their tax returns, stating “Expanded e-filing may result in more accurate and complete data becoming available in a timelier manner, which in turn, would allow IRS to more easily identify areas of non-compliance.”[2]

CONCLUSION:

Adoption of the above recommendations will not only lead to improved operations at the IRS, it will also help lead to more publicly accessible nonprofit information, a better understanding of the nonprofit sector, strengthened law enforcement and greater sector-wide accountability.

Thank you for this opportunity to submit comments for the record on the 2015 tax filing season and general operations at the Internal Revenue Service.

[2] “Tax-Exempt Organizations: Better Compliance Indicators and Data, and More Collaboration with State Regulators Would Strengthen Oversight of Charitable Organizations” James R. McTigue (United States Government Accountability Office), <http://www.gao.gov/assets/670/667595.pdf>

Professional Managers Association, letter

PROFESSIONAL MANAGERS ASSOCIATION
An Association for Federal Managers and Management Officials
P.O. Box 77235 • Washington, D.C. • 20013 • 202-874-0126 • www.promanager.org

April 22, 2015

The Honorable Peter Roskam
Chairman
Subcommittee on Oversight
House Committee on Ways & Means
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
House Committee on Ways & Means
1106 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Roskam, Ranking Member Lewis, and Members of the Subcommittee:

As you know, Congress is akin to the board of directors for the federal government, passing laws that guide agency activities and programs and approving funding to carry those programs out, including at the Internal Revenue Service (IRS).

The decisions made by the board (Congress) in recent years regarding the IRS have resulted in abysmal customer service to our customers and your constituents, American taxpayers and businesses.

These decisions include passage of significant new requirements, such as the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA), while simultaneously cutting over $1.2 billion from the agency's budget since FY 2010.

Staffing levels have dropped by 13,000 full-time employees since that time, and the agency is no longer able to assist taxpayers with anything beyond the most basic tax question, if at all. Our customers must wait in digital and physical lines, often for hours, only to be turned away.

In 1995, the IRS had a staff of 114,064 to administer tax laws and process 205 million tax returns. By the close of 2013, staffing had fallen to 83,613 to administer a more complicated tax code and process 242 million much more complex tax returns and other forms. By year's end we expect to lose another 3,000 full-time employees.

As you know, a significant proportion of the IRS budget goes to salaries and expenses. The agency is doing all it can to find efficiencies in operations, but as Commissioner Koskinen has repeatedly stated, the agency is in dire need of adequate funding to perform the mission the board of directors (Congress) has currently tasked it with. Some investments in the agency and its operations are necessary to drive improvement for the future.

The employees of the IRS did not create this situation, nor did they author the Internal Revenue Code. They want to serve the American people. And this tax filing season, they did the absolute best they could with the tools provided to them.

Despite myriad challenges, the IRS and its employees were proud to deliver a generally smooth filing season.

PMA looks forward to working with you to ensure the IRS is able to meet its congressionally directed mission.

Sincerely,

Thomas R. Burger

Thomas R. Burger
Executive Director