

INTERNAL REVENUE SERVICE OPERATIONS AND THE 2012 TAX RETURN FILING SEASON

HEARING BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF THE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS SECOND SESSION

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INTERNAL REVENUE SERVICE OPERATIONS AND THE 2012 TAX RETURN FILING SEASON

THURSDAY, MARCH 22, 2012

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

The subcommittee met, pursuant to notice, at 9:31 a.m. in Room 1100, Longworth House Office Building, the Honorable Charles W. Boustany, Jr. [Chairman of the Subcommittee] presiding.
[The advisory of the hearing follows:]

HEARING ADVISORY

Boustany Announces Hearing on Internal Revenue Service Operations and the 2012 Tax Return Filing Season

Thursday, March 22, 2012

Congressman Charles W. Boustany, Jr., MD, (R-LA), Chairman of the Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the Internal Revenue Service ("IRS") and the 2012 tax return filing season. **The hearing will take place on Thursday, March 22, 2012, in Room 1100 of the Longworth House Office Building, beginning at 9:30 A.M.**

The Commissioner of the Internal Revenue Service, the Honorable Douglas Shulman, will be the only witness at the hearing. Any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

In fiscal year 2011, the IRS collected \$2.4 trillion in taxes, processed 144.7 million individual tax returns, and issued \$345 billion in refunds. With the 2012 tax return filing season underway, the Subcommittee will review IRS performance with a focus on taxpayer service, taxpayer rights, and refund administration.

In conjunction with the review of the current tax return filing season, the Subcommittee will review IRS operations in general. Specifically, the Subcommittee will consider: (1) the recently reported delays in tax refunds; (2) fairness in examinations and tax administration; and (3) efforts to prevent fraud, waste, and abuse. As part of its consideration of IRS operations, the Subcommittee will also review the Administration's fiscal year 2013 budget proposal for the IRS of \$16.1 billion, an increase of \$1.3 billion over the fiscal year 2012 enacted level.

In announcing the hearing, Chairman Boustany said, **"The Subcommittee looks forward to hearing from Commissioner Shulman about steps being taken by the Agency to deliver timely service to American taxpayers during this filing season. In addition to a discussion of the current budget request, I am also particularly interested to learn more about how the agency is using its current budget to administer tax enforcement initiatives that protect taxpayer dollars from fraud."**

FOCUS OF THE HEARING:

The hearing will focus on the 2012 tax return filing season, the IRS' budget, and IRS operations generally.

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 submit, 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 Thursday, April 5, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package de-

liveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-3625 or (202) 225-5522.

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 supplementary 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 or supplementary item 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 provided in Word format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

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 on the World Wide Web at <http://www.waysandmeans.house.gov/>.

Ms. JENKINS. [Presiding.] The Subcommittee will come to order on the hearing on the Internal Revenue Service budget request and the 2012 tax filing season.

Hard working American taxpayers have faced incredible challenges over the last several years. Many have struggled with unemployment, sluggish economic growth, and doubt about our country's economic future because of out of control spending and public debt, and then tax season comes around.

The Tax Code, which has tripled in size since 1975, continues to burden American families and small businesses with too many taxes, too many loopholes, and too many pages.

It is estimated that the average taxpayer spends 21 hours and over \$250 complying with the Tax Code each year.

They must keep track with an increasingly complex and difficult to understand Tax Code or at least hire someone else who does.

The Internal Revenue Service, of course, has the unenviable job of administering and enforcing our convoluted Tax Code.

As we meet today, we are in the middle of the 2012 tax return filing season, and millions of taxpayers and employers are willing to meet their tax filing obligations.

Some have reported experiencing delays in receiving tax refunds, and programming errors at IRS have delayed some six million returns, which we will discuss in today's hearing.

We will also talk about the frustrating issue of tax fraud and improper payments. Taxpayers are exasperated because while they work so hard to comply with the Tax Code, they see press reports of thieves robbing the Treasury of billions of dollars each year.

One recent press report detailed how an identity theft ring in Florida committed \$130 million in fraud through stolen Social Security numbers.

On top of this fraud, tens of billions of dollars in taxpayer money is lost every year through improper payments of refundable tax credits, including \$17 billion a year for the earned income tax credit alone.

Finally, we will talk about the Administration's fiscal year 2013 budget request for the IRS. For fiscal year 2013, the Administration has requested nearly \$13 billion in appropriations for the Agency, an increase of eight percent from fiscal year 2012.

Included in this request are over \$360 million and nearly 900 new employees to implement portions of the Affordable Care Act, including a new instrument subsidy and the controversial individual mandate penalty.

We look forward to discussing this and the other new initiatives that the IRS plans for fiscal year 2013.

With that, I would like to welcome Commission Douglas Shulman here today. I look forward to a fruitful discussion of his Agency, his mission, and the ongoing tax return filing season.

Before I yield to the Ranking Member, Mr. Lewis, I ask unanimous consent that for all members, written statements be included in the record. Without objection, so ordered.

Ms. JENKINS. I will also ask unanimous consent that GAO's report on the 2011 tax filing season and fiscal year 2012 budget request be included in the record. Without objection, so ordered.

[The information follows, The Honorable Lynn Jenkins #1, The Honorable Lynn Jenkins #2]

GAO

United States Government Accountability Office
Report to Congressional Requesters

March 2011

2011 TAX FILING

IRS Dealt with Challenges to Date but Needs Additional Authority to Verify Compliance



GAO-11-481

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Abbreviations

| | |
|----------|---------------------------------------|
| CADE | Customer Account Data Engine |
| E-file | Electronic filing |
| EITC | Earned Income Tax Credit |
| FDIC | Federal Deposit Insurance Corporation |
| IRS | Internal Revenue Service |
| IVR | Interactive voice response |
| MEA | math error authority |
| MeF | Modernized e-File |
| SMS | Short messaging service |
| TCE | Tax Center for the Elderly |
| TIN | Taxpayer identification number |
| Treasury | Department of the Treasury |
| VITA | Volunteer Income Tax Assistance |

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United States Government Accountability Office
Washington, DC 20548

March 29, 2011

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate

The Honorable Charles W. Boustany, Jr.
Chairman
The Honorable John Lewis
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Every tax filing season is a large-scale undertaking during which the Internal Revenue Service (IRS) interacts with taxpayers by processing returns, issuing refunds, answering telephone calls, and providing other services, both face-to-face and on its Web site. As part of processing returns and before refunds are issued, IRS uses its statutory authority to automatically correct errors. This allows IRS to avoid costly and burdensome audits and taxpayers to be made aware of additional taxes owed before being required to pay interest and penalties. For the 2011 filing season, IRS is administering a number of complex tax law changes, including the Residential Energy Property Tax Credit and provisions enacted in December 2010 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (commonly known as the tax extenders).¹

Other changes for the 2011 filing season include paid preparer regulations and expanded efforts to provide refunds on debit cards. In 2011, for the first time, paid preparers must register with IRS. In the future, certain paid preparers will be subject to competency tests and continuing education

¹L.R.C. § 25C and Pub. L. No. 111-312, respectively.

requirements to be allowed to prepare tax returns.² This year IRS is offering refunds on debit cards to taxpayers at almost all of its roughly 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. Also, the Department of the Treasury (Treasury) is pilot testing whether offering refunds on debit cards on a larger scale would be feasible.

As part of our ongoing assessment of IRS's 2011 filing season being conducted at your request, on March 23 and 24, 2011, we briefed the offices of the Senate Committee on Finance and the Subcommittee on Oversight, House Committee on Ways and Means, respectively, on IRS's performance to date. This report includes updated materials presented at the briefing in appendix I.

Based on discussions with your offices, our objective was to provide an interim assessment of IRS's performance during the 2011 filing season, including its efforts to streamline returns processing, conduct pre-refund compliance checks, improve taxpayer service, and issue refunds on debit cards.

Scope and Methodology

To accomplish our objective, we

- obtained and analyzed data from IRS related to processing returns, telephone service, Web site performance, and debit card refund offers;
- reviewed documentation to identify areas where additional statutory authority to conduct automated pre-refund compliance checks would benefit taxpayers or IRS;
- obtained and analyzed Treasury data on its 2011 debit card initiative and plans to evaluate it and also interviewed Treasury officials;
- interviewed representatives of tax preparation and tax software firms about challenges IRS faced during the 2011 filing season;
- interviewed IRS officials on various aspects of filing season performance, including ongoing efforts to provide refunds on debit cards at VITA and TCE sites and efforts to evaluate the program; and
- interviewed Treasury Inspector General for Tax Administration officials about IRS's 2011 filing season.

We interviewed IRS and Treasury officials and determined that the data presented in our briefing were sufficiently reliable for our purposes. We

²We plan to issue a report on paid preparer regulations in March 2011.

conducted this performance audit in March 2011 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.

Background

IRS is making major changes to how it processes individual income tax returns. IRS initiated its current Customer Account Data Engine (CADE) in 1999 to provide a modernized system for processing tax returns, which proved to be more complicated than IRS expected. As a result, IRS created a new strategy referred to as CADE 2, which it expects to deliver in three phases—one in 2012, one in 2014, and one at a yet to be determined date. IRS is finalizing plans to deliver the first phase of CADE 2 for the 2012 filing season, and, if effectively implemented, IRS expects it should provide many benefits, including providing faster refunds and IRS with more timely account information. IRS's Modernized E-file (MeF) system is expected to replace the legacy electronic filing (e-file) system, which IRS is scheduled to retire in October 2012. MeF provides taxpayers with a faster acknowledgment that their returns have been accepted and better information on why electronically filed returns are rejected.

In the past, Congress has granted IRS statutory authority, called math error authority (MEA), to correct calculation errors and check for obvious noncompliance, such as claims above income and credit limits. In some cases, MEA allows IRS to use prior year tax return information to verify compliance before issuing refunds. These automated and relatively low-cost compliance checks (compared to audits) can prevent erroneous refunds and avert the need to try to recover such payments. Congress must grant IRS specific authority to use MEA for purposes beyond computational errors. For example, in 2009, Congress gave IRS MEA following our suggestion that IRS should be authorized to determine whether taxpayers claimed the First-Time Homebuyer Credit more than once.³ For more discussion of IRS's and taxpayers' responsibilities and

³Congress enacted the First-Time Homebuyer Credit to assist the struggling housing market and help taxpayers purchase their first homes. GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Improve Enforcement for the 2010 Filing Season*, GAO-09-1026 (Washington, D.C.: Sept. 23, 2009).

rights under MEA, see our 2010 report.⁴ IRS's 13 existing MEAs are described in appendix II.

Since 2009, IRS has worked with partner organizations at VITA and TCE sites to encourage taxpayers not requesting a direct deposit of their refund to opt to receive it on a debit card sponsored by a participating financial institution. Separately, in 2011, Treasury launched a pilot program which offers low-income taxpayers tax refunds on debit cards. Although targeting the same demographic group, the VITA site offer is made in person and the Treasury offer is made through the mail. Both the IRS and Treasury initiatives are intended to reduce the cost of delivering refunds to taxpayers, provide faster refunds compared to paper checks, reduce transaction costs, and provide individuals who might not otherwise have access with an ongoing financial account to obtain banking services.⁵

Interim Filing Season Results

- As of March 18, 2011, IRS had processed about 73 million returns and issued about 65 million refunds totaling close to \$193 billion.
- The percentage of e-filed returns continues to grow, which remains important because it significantly reduces IRS's costs and speeds refunds. For fiscal year 2009, IRS reported that it costs 19 cents to process an e-filed return compared to \$3.29 for a paper return.
- Late tax law changes in 2010 resulted in IRS not being able to accept certain returns until mid-February 2011 because of the time it took to complete programming changes. According to officials from IRS's Business Modernization Office, when CADE 2 and MeF are fully implemented, IRS will be able to reprogram its computers more efficiently.
- IRS's inability to accept certain returns until mid-February also affected paid preparers and tax preparation software providers. Representatives from those groups told us that some taxpayers believed that the delay applied to all tax returns and delayed filing as a result, effectively condensing the filing season. According to IRS data,

⁴GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010). In this report, we suggested that Congress should provide IRS with broader MEA.

⁵We previously recommended that IRS examine the feasibility of offering refunds on debit cards. See, GAO, *2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Service Remained Low, and Taxpayer Service and Enforcement Could Be Improved*, GAO-10-225 (Washington, D.C.: Dec. 10, 2009), and *Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings*, GAO-07-27 (Washington, D.C.: Nov. 15, 2006).

IRS received about 21 percent fewer returns through mid-February 2011 compared to mid-February 2010. Those same representatives also expressed some concerns about the new paid preparer registration process.⁴

- IRS has rejected about 13 percent of e-filed returns for reasons such as incorrect personal identification numbers. According to IRS officials, when returns are rejected through MeF, taxpayers receive better information on why returns are rejected and MeF allows taxpayers to submit additional documentation electronically, both of which reduce IRS's costs.
- IRS lacks MEA to review prior year tax returns to verify compliance with lifetime limits on amounts that can be claimed. For example, IRS does not have MEA to verify that the Residential Energy Credits claimed for 2009 and 2010 do not exceed the lifetime credit limit of \$1,500. According to IRS officials, evidence exists that some taxpayers may be claiming Residential Energy Credits beyond the limit. Without MEA, IRS must ensure compliance through audits, which are time consuming for taxpayers and too costly to conduct in large numbers.
- Total telephone call volume increased by nearly 13 percent compared to volume during the same time period last year. Wait times to speak to an assistor averaged about 10 minutes, slightly longer than last year.
- The number of visits to IRS's Web site has increased by about 9 percent compared to visits during the same time period last year.
- It is too early to tell the extent to which the various debit card offers are being accepted by taxpayers. Both IRS and Treasury officials said they will evaluate their programs after the filing season.⁵

Conclusion

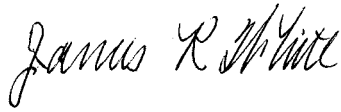
IRS has had to deal with several challenges this filing season, including late tax law changes and an increase in the volume of telephone calls. IRS's inability to accept certain returns until mid-February highlights the importance of fully implementing new systems to modernize returns processing, particularly CADE 2 and MeF. According to IRS officials, these systems should allow IRS to more easily accommodate tax law changes and issue refunds faster.

⁴Our forthcoming report on paid preparer regulations will discuss IRS's efforts to implement the program.

⁵IRS designed the evaluation based in part on a recommendation we made in 2010 for IRS to include the full range of stakeholders in its analysis of the debit card program. See GAO, *2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others*, GAO-11-111 (Washington, D.C.: Dec. 16, 2010).

| | |
|---|--|
| | Additional MEA to verify compliance with lifetime limits on credits and deductions has advantages, compared to audits, for both taxpayers and IRS. For example, taxpayer errors can be caught and corrected before they result in penalties. This, in turn, would allow IRS to use its expensive auditors' time on more significant compliance problems. |
| Matter for Congressional Consideration | To ensure that IRS can adequately enforce certain tax provisions, Congress should provide IRS with MEA to use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable. |
| Agency Comments and Our Evaluation | <p>IRS officials provided us with technical comments on this report, which we incorporated as appropriate.</p> <p>As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 2 days from the report date. At that time, we will send copies of this report to the Chairmen 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, the Chairman of the IRS Oversight Board, and the Director of the Office of Management and Budget.</p> <p>The report also is available at no charge on the GAO Web site at http://www.gao.gov. If you or your staff have any questions or wish to</p> |

discuss the material in this report further, please contact me at (202) 512-9110 or at whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive, flowing style.

James R. White
Director, Tax Issues
Strategic Issues

Appendix I: Updated Slides from the
March 23 and March 24, 2011, Congressional
Briefings



**2011 Tax Filing:
IRS Dealt with Challenges to Date but Needs Additional
Authority to Verify Compliance**

**Senate Committee on Finance and Subcommittee on
Oversight, House Committee on Ways and Means,
March 23 and 24, 2011**



Objective

Based on discussions with your offices, our objective was to provide an interim assessment of the Internal Revenue Service's (IRS) performance during the 2011 filing season, including:

- its efforts to streamline returns processing;
- conduct pre-refund compliance checks;
- improve taxpayer service; and
- issue refunds on debit cards.

Page 2



Results in Brief

- To date, for the 2011 tax filing season:
 - IRS processed about 73 million returns and issued about 65 million refunds and the percentage of taxpayers filing electronically continues to grow, which is important because it reduces IRS's costs.
 - IRS's inability to process certain returns until mid-February highlights the need for IRS to complete new systems.
 - IRS lacks statutory authority to review prior year tax returns for provisions with lifetime limits on the amount that can be claimed.
 - Total call volume increased by about 13 percent and the average wait time to reach a live assistor was about 10 minutes.
 - The number of visits to IRS's Web site has increased by about 9 percent.
 - It is too early to tell the extent to which debit card offers are being accepted by taxpayers. Both IRS and Treasury officials said they will evaluate their programs this year.

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Scope and Methodology

- To accomplish our objective, we
 - obtained and analyzed data from IRS related to processing returns, telephone service, Web site performance, and debit card offers;
 - reviewed debit card refund offers;
 - reviewed documentation to identify areas where additional statutory authority to conduct automated pre-refund compliance checks would benefit taxpayers or IRS;
 - obtained and analyzed Department of the Treasury (Treasury) data on its 2011 debit card initiative and plans to evaluate it and also interviewed Treasury officials;
 - interviewed representatives of tax preparation and tax software firms about challenges IRS faced during the 2011 filing season;
 - interviewed IRS officials on various aspects of filing season performance, including ongoing efforts to provide refunds on debit cards at Volunteer Income Tax Assistance (VITA) and Tax Center for the Elderly (TCE) sites and efforts to evaluate the program; and
 - interviewed Treasury Inspector General for Tax Administration (TIGTA) officials about IRS's 2011 filing season.
- As part of our ongoing work on IRS's 2011 filing season performance, we conducted this performance audit in March 2011 in accordance with generally accepted government auditing standards. We interviewed IRS and Treasury officials and determined that the data presented in this briefing were sufficiently reliable for our purposes.

Page 4



Background

- IRS is making major changes to how it processes individual income tax returns.
- IRS initiated its current Customer Account Data Engine (CADE) in 1999 to provide a modernized system for processing tax returns, with the intention of ultimately replacing the Individual Master File (IMF), the authoritative source for individual taxpayer accounts. However, developing the system was more complex and taking longer than IRS expected.
 - As a result, IRS created a new strategy to replace the current CADE, referred to as CADE 2, which it expects to deliver in three phases—one in 2012, one in 2014, and one at a yet to be determined date.
 - If effectively implemented, CADE 2 should provide many benefits, including providing faster refunds and IRS with access to more timely account data for use in compliance and resolution of taxpayer questions or issues.

Page 5



Background, Cont'd

- IRS's Modernized E-file (MeF) system is expected to replace the legacy electronic filing (e-file) system and be fully operational for the 2012 filing season. IRS began accepting some individual tax returns on MeF in 2010 and expects to retire the legacy e-file system in October 2012.
- According to IRS officials:
 - MeF provides taxpayers with a faster acknowledgment that their returns have been accepted and better information on why returns are rejected.
 - MeF currently provides IRS with the ability to accept additional documentation electronically through portable document files. Without MeF, IRS must accept certain returns on paper.

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Background, Cont'd

- Taxpayers and IRS rely heavily on paid preparers and tax preparation software providers. About 90 percent of returns are prepared by individual taxpayers or paid preparers using tax preparation software. Additionally, in 2010, over 70 percent of taxpayers electronically filed their tax returns, which has benefits for IRS.
- In 2011, paid preparers must register with IRS, and in the future, certain paid preparers will be subject to competency tests and continuing education requirements to be allowed to prepare tax returns.
 - We plan to issue a report on paid preparer regulations at the end of March 2011.

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Background, Cont'd

- Complex tax law changes enacted in December 2010 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010—commonly referred to as the tax extenders (Pub. L. No. 111-312)—caused IRS to be unable to process returns until February 14, 2011, for taxpayers
 - filing a Schedule A, because of the extension of the state and local general sales tax deduction;
 - claiming the higher education tuition and fees deduction on Form 8917; or
 - claiming the educator expense deduction, for K-12 educators with out-of-pocket classroom expenses.
- In addition, IRS is administering the Residential Energy Property Credit (I.R.C. § 25C). This credit allows taxpayers to receive 30 percent of the cost of improvements with a maximum lifetime credit limit of \$1,500 for the combined 2009 and 2010 tax years (Pub. L. No. 111-5, § 1121).
 - In 2011, the limit drops to 10 percent of the cost of improvements with a \$500 credit limit (Pub. L. No. 111-312, § 710).

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Background, Cont'd

- As part of its pre-refund compliance checks, Congress has granted IRS 13 specific math error authorities (MEA). MEA allows IRS to correct calculation errors and check for obvious noncompliance, such as claims above income and credit limits. Congress
 - must grant MEA to IRS for purposes beyond correcting computational errors.
 - has granted MEA to use information from prior year returns to determine compliance. This was the case following our Matter for Congressional Consideration on the First-Time Homebuyer Credit.¹ IRS's existing MEA is described in appendix II of our report
- When IRS has MEA, it does not have to provide the taxpayer with a statutory notice of deficiency to correct a return.
- Correcting errors before issuing refunds allows IRS to avoid costly and burdensome audits and taxpayers may receive larger refunds or be made aware of additional taxes owed before they are required to pay interest and penalties.
- We previously suggested that Congress should provide IRS with broader MEA.² Congress has yet to provide IRS with this authority.

¹ GAO, *Tax Administration: Opportunities Exist for IRS to Enhance Taxpayer Service and Improve Enforcement for the 2010 Filing Season*, GAO-09-1026 (Washington, D.C.: Sept. 23, 2009).

² GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010).



Background, Cont'd

- Since 2009, a small number of VITA sites have encouraged taxpayers not requesting a direct deposit to opt for a debit card sponsored by a participating financial institution.
 - In 2010, IRS partnered with three large financial institutions to offer debit cards at 20 VITA sites. However, only about 3 percent of eligible taxpayers elected to receive the cards, down from 8 percent of eligible taxpayers in 2009.³
 - Taxpayers may sign up for the card at a participating VITA site.
- In 2011, Treasury launched a pilot program that offers low-income taxpayers and taxpayers without bank accounts debit cards to receive their refunds at a low cost.
 - Treasury informed taxpayers of this program through targeted mailings.

³GAO, 2010 Tax Filing Season: IRS's Performance Improved in Some Key Areas, but Efficiency Gains Are Possible in Others, GAO-11-111 (Washington, D.C.: Dec. 16, 2010). Page 10



Background, Cont'd

- These debit card initiatives are intended to
 - reduce the cost of delivering refunds to taxpayers, provide faster refunds compared to paper checks, and reduce transaction costs and
 - provide banking services to individuals who might not otherwise have access to an ongoing financial account.
- We previously recommended that IRS examine the feasibility of offering refunds on debit cards.⁴ IRS stated that they were exploring a range of options to deliver refunds to unbanked taxpayers, including providing refunds on debit cards.

⁴GAO, 2009 Tax Filing Season: IRS Met Many 2009 Goals, but Telephone Access Remained Low, and Taxpayer Service and Enforcement Could Be Improved, GAO-10-225 (Washington, D.C.: Dec. 10, 2009), and Tax Administration: Most Filing Season Services Continue to Improve, but Opportunities Exist for Additional Savings, GAO-07-27 (Washington, D.C.: Nov. 15, 2006).



Processing: Percentage of E-Filed Returns Continues to Grow

Table 1: Tax Returns Processed through Mid-March (in Thousands)

| | 2007 | 2008 | 2009 | 2010 | 2011 | Percentage change from 2010 to 2011 |
|--|---------|---------|---------|---------|---------|-------------------------------------|
| Number of returns processed | 70,194 | 74,139 | 74,806 | 70,937 | 73,342 | 3.4% |
| Electronic | 53,053 | 57,702 | 61,110 | 60,764 | 65,275 | 7.4 |
| Paper | 17,141 | 16,437 | 13,696 | 10,173 | 8,067 | -20.7 |
| Percentage electronically filed ^a | 75.6 | 77.8 | 81.7 | 85.7 | 89.0 | N/A |
| Number of refunds issued (millions) | 63.0 | 64.7 | 66.9 | 63.3 | 64.7 | 2.2 |
| Amount of refunds (dollars in billions) | \$152.8 | \$161.3 | \$183.3 | \$190.0 | \$193.1 | 1.6 |
| Average refund amount ^b | \$2,427 | \$2,492 | \$2,740 | \$3,004 | \$2,985 | -0.6 |

Source: GAO analysis of IRS data.

Note: Data are from January 1 of each year through March 23, 2007; March 21, 2008; March 20, 2009; March 19, 2010; and March 18, 2011.

^aThe percentage of electronic returns filed is for returns filed early in the filing season and is likely to decline before the filing season is over. In 2010 taxpayers filed about 71 percent of all individual returns electronically.

^bAverage refund amount is in actual dollars, not thousands.



Processing: Percentage of E-Filed Returns Continues to Grow, Cont'd

- Electronic filing:
 - Is important because it reduces IRS's costs. For fiscal year 2009, IRS reported that it cost 19 cents to process an e-filed return compared to \$3.29 for a paper return.
 - Reduces errors because it eliminates the need for IRS to manually transcribe information from returns and it allows taxpayers to receive refunds faster.



**Processing: IRS's Inability to Process Certain Returns
until Mid-February Highlights the Need for IRS to
Complete New Systems**

- According to officials from IRS's Business Modernization Office, when CADE 2 and MeF are fully implemented, IRS will be able to reprogram its computers more efficiently following tax law changes.
- As of March 18, 2011, over 24 million returns have been processed using the current CADE.
 - In 2011, IRS expects to process approximately 42 million returns using the current CADE, about the same as last year.
 - IRS plans to retire the current CADE later this year and all taxpayer accounts will be shifted to accelerated processing on the IMF next year and then to CADE 2. Accelerated processing on the IMF will also result in faster refunds to all taxpayers.

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**Processing: IRS's Inability to Process Certain Returns
Until Mid-February Highlights the Need for IRS to
Complete New Systems, Cont'd.**

- IRS data show that through March 27, 2011, MeF had accepted about 4.8 million individual returns (on Form 1040), up from about 281,000 returns at the same time last year.
 - Last year we noted that IRS-authorized e-file providers did not use MeF as much as IRS anticipated because of issues with the system's stability.
 - According to industry experts, the MeF system is much more stable this filing season and IRS is continuing to promote its use.
- IRS plans to fully retire the legacy e-file system in October 2012 and use MeF to accept all individual tax returns after that.



Processing: IRS's Inability to Accept Certain Returns until Mid-February Also Affected Paid Preparers and Tax Preparation Software Providers

- According to industry experts representing paid preparers and tax preparation software firms we interviewed:
 - Some taxpayers believed that the delay applied to all tax returns and not a limited number of tax returns and delayed filing as a result;
 - Delays result in tax professionals preparing and transmitting to IRS a larger volume of returns in a shorter period of time, effectively condensing the filing season. According to IRS data, IRS received about 21 percent fewer returns through mid-February 2011 compared to mid-February 2010.
 - The implementation of new paid preparer regulations caused some concerns, but did not indicate that the new rules have had a significant effect on return preparation during the 2011 filing season.
- Our forthcoming report on paid preparer regulations will discuss IRS's efforts to implement the program.

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Processing: Reducing Rejected Electronic Returns Could Result in Cost Savings

- IRS automatically rejects a return and sends it back to the taxpayer when basic information provided by the taxpayer, such as verification of identity with a personal identification number (PIN) or address, does not match IRS records.
- As of March 21, 2011, IRS had a rejection rate of 13 percent for electronically filed returns.
 - According to IRS data, the most common reasons for rejection were (1) incorrect PIN information provided, (2) a dependent's Social Security number not matching the IMF, and (3) incorrect information for taxpayers claiming the Earned Income Tax Credit.⁵
- MeF provides better information to taxpayers on why returns are rejected and allows taxpayers to submit additional documentation electronically, both of which, according to IRS, reduce IRS's costs.
- Taxpayers with rejected returns frequently call IRS to learn why and may refile on paper rather than electronically. It costs IRS about \$25 for an IRS assistor to answer a call and about \$3.10 extra to process a paper return.

⁵The Earned Income Tax Credit is a refundable tax credit for moderate and low-income working individuals and families. For refundable credits, taxpayers receive payments even when there is no tax liability.



Pre-Refund Compliance Checks: IRS Lacks MEA to Use Prior Year Information

- IRS lacks MEA to review prior year tax returns for provisions with lifetime limits on the amount that can be claimed.
 - For example, IRS does not have MEA that would allow it to review the 2009 return to see if the total amount of Residential Energy Credits claimed for 2009 and 2010 exceeds the \$1,500 lifetime limit.
 - According to IRS officials, preliminary analysis conducted by TIGTA indicates that some taxpayers may be claiming more Residential Energy Credits than they are entitled to claim.
- Without MEA, IRS must ensure compliance through audits, which are time consuming for taxpayers and costly for IRS. Resource constraints also limit the number of audits IRS can complete in a given year.

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Service to Taxpayers: Total Call Volume Is Up Compared to Last Year

Table 2: IRS Call Volume from January 1 through Mid-March (in Millions)

| | 2007 | 2008 | 2009 | 2010 | 2011 | Percentage change from 2010 to 2011 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------------------------------|
| Assistor calls answered | 9.4 | 9.5 | 11.4 | 9.6 | 9.6 | 0.0% |
| Automated calls answered | 13.4 | 13.7 | 16.4 | 18.3 | 22.3 | 21.9 |
| Abandoned calls | 6.3 | 6.8 | 11.2 | 9.6 | 10.3 | 7.3 |
| Busies and IRS disconnects | 0.4 | 0.5 | 4.0 | 0.7 | 0.8 | 14.3 |
| Total calls to IRS | 29.5 | 30.5 | 43.0 | 38.2 | 43.0 | 12.6 |

Sources: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to March 17, 2007; March 15, 2008; March 14, 2009; March 13, 2010; and March 12, 2011.

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Service to Taxpayers: Average Telephone Wait Times Remain High, and the Goal for Providing Live Assistance Remains Low

Table 3: Telephone Service Goals and Performance from January 1 through Mid-March

| | | 2007 | 2008 | 2009 | 2010 | 2011 | Percentage change from 2010 to 2011 |
|--|----------------------|------|-------------------|-------------------|------|------|-------------------------------------|
| Percentage of callers seeking live assistance who received it (in percent) | FY goal ^a | 82.0 | 82.0 ^b | 77.0 ^c | 71.0 | 71.0 | 0.0% |
| | Actual to Date | 83.3 | 80.0 | 60.9 | 74.2 | 72.6 | -2.2 |
| Average wait time (in minutes) | FY Goal ^a | 4.3 | 4.5 | 10.4 | 11.6 | 11.6 | 0.0 |
| | Actual to Date | 4.1 | 5.4 | 9.2 | 9.9 | 10.3 | 4.0 |

Source: GAO analysis of IRS data.

Note: Data are cumulative for IRS from January 1 of each year to March 17, 2007; March 15, 2008; March 14, 2009; March 13, 2010; and March 12, 2011.

^aThe goal listed is for the entire fiscal year, not just the time period from January 1 through mid-March.

^bIRS revised its original fiscal year goal of 82.0 percent down to 74.0 percent because of high call volume caused by stimulus-related calls.

^cIRS revised its original fiscal year goal of 77.0 percent down to 70.0 percent because of high call volume from taxpayers requesting electronic filing authentication information and asking stimulus-related questions.

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Service to Taxpayers: IRS Has Requested Additional Funding to Improve Its Level of Telephone Service

- IRS sets its annual goal for telephone level of service—the percentage of taxpayers seeking live assistance who actually receive it—based on anticipated call volume and available resources.
- IRS has requested additional funds to increase the goal for level of service to 80 percent in fiscal year 2012.
 - The level of service goal for fiscal year 2011 remains 71 percent, the same as in fiscal year 2010. IRS has asked for an additional \$20.9 million to raise this goal to 75 percent, but has not received this funding under the current continuing budget resolution.
 - In its fiscal year 2012 budget request, IRS asked for an additional \$30 million (on top of the \$20.9 million requested in 2011) to raise the level of telephone service to 80 percent.

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Service to Taxpayers: Use of IRS's Website Continues to Grow

Table 4: IRS's Web site Visits from January 1 through Mid-March (in Millions)

| | 2008 | 2009 | 2010 | 2011 | Percentage change from 2010 through 2011 |
|--|------|-------|-------|-------|--|
| Total IRS.gov visits | 97.1 | 124.9 | 120.1 | 131.1 | 9.2% |
| IRS searches | 56.5 | 130.9 | 139.0 | 159.0 | 14.4 |
| "Where's My Refund" visits (landing page) | 21.4 | 34.0 | 37.8 | 40.7 | 7.7 |

Source: GAO analysis of IRS data.

Note: Data are from January 1 through March 12 for all years.



Service to Taxpayers: IRS Has Requested Funding to Expand Its E-Services

- IRS is taking steps to improve its Web site, including planning to invest \$320 million over 10 years to introduce a new Web site by the 2013 filing season.
 - For the fiscal year 2011 budget, IRS asked for \$25 million to upgrade its public user portal, which will allow for the installation of additional e-services, but has not received this funding under the current continuing budget resolution.
 - For the fiscal year 2012 budget, IRS requested \$25 million to replace both the employee and registered user portal (on top of the \$25 million requested in 2011). IRS requested an additional \$8 million to create an e-service, called E-Notices.
 - This service would allow taxpayers who have entered into installment agreements to opt for monthly electronic payment reminders.

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Issuing Refunds on Debit Cards: IRS Partners with Financial Institutions to Offer Debit Cards at VITA Sites

- For 2011 IRS is partnering with J.P. Morgan Chase, PNC Bank, U.S. Bank, and Western Union (PNC and U.S. Bank also participated last year) to offer refunds on debit cards and debit cards are available to taxpayers at almost all of IRS's roughly 12,000 volunteer sites across the country. Additionally, IRS partner organizations work with financial institutions locally to provide debit cards to taxpayers.
 - Debit cards from Western Union are available through the software program used to prepare returns at nearly all VITA sites. This card includes a \$1.95 fee per ATM withdrawal and may only be used in the United States.
 - The other three partnering financial institutions offer debit cards at a limited number of VITA sites (18 sites, 154 sites, and 45 sites, respectively).
- All four options include no monthly or activation fee.
- All of the debit cards except the Western Union card include free in-network ATM withdrawals. Except for Western Union, each bank has ATMs in a limited number of states.

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Issuing Refunds on Debit Cards: Treasury's 2011 Pilot Program Involves Testing Different Debit Card Offers

- In January 2011, Treasury mailed offers to about 808,000 taxpayers who likely make less than \$35,000 per year, and are unlikely to have bank accounts.
 - Treasury offered eight different options to different groups of taxpayers, randomly assigning which taxpayers received which offer, to test how taxpayers respond to the different offers. Program invitees may only enroll in the option they received with their offer and may not choose among offers.
 - The offers vary by monthly fee (\$4.95 or none) and whether the card includes access to a savings account. The offers also differ based on the message used to promote the card (convenience versus safety).
- All cards are provided on a Visa debit card by a contractor selected by Treasury. Card options include no acquisition fee, free in-network ATM withdrawals, and \$2.50 out-of-network ATM withdrawals.
 - According to Treasury officials, if Treasury expands the program next year they will hold a competitive bidding process to select the contractor.
- Appendix III of our report provides a more detailed comparison of the Treasury and IRS programs

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Issuing Refunds on Debit Cards: Both IRS and Treasury Are Conducting Program Evaluations

- It is too early to tell what the take-up rate for the IRS program will be this year or whether any of the debit card options in the Treasury program will be widely used. Both IRS and Treasury plan to evaluate their programs after the filing season.
- IRS will apply social marketing principles and techniques to promote and increase the use of prepaid cards by different target groups.⁶
 - IRS will engage a range of stakeholders and partners to issue a program evaluation report by August 2011.
 - IRS designed its evaluation based, in part, on a recommendation we made in 2010 for IRS to include the taxpayers, volunteer site partners, and other stakeholders in its analysis of the debit card program.⁷

⁶Social marketing emphasizes listening to the needs and desires of the target audience to develop a program to benefit them.
⁷GAO-11-111.



Issuing Refunds on Debit Cards: Both IRS and Treasury Are Conducting Program Evaluations, Cont'd

- Treasury contracted with the Urban Institute, a research organization, to evaluate its debit card program. The study will compare taxpayers' responsiveness to the eight different offers and evaluate the design and execution of the program.
- The study should be publicly released later this year, and, according to Treasury officials, will be used as one of the factors in the decision regarding the future of its debit card program.



Conclusion

- IRS has had to deal with several challenges this filing season, including late tax law changes and an increase in the volume of telephone calls. IRS's inability to accept certain returns until mid-February highlights the importance of fully implementing new systems to modernize returns processing, particularly CADE 2 and MeF. According to IRS officials, these systems should allow IRS to more easily accommodate tax law changes and issue refunds faster.
- Additional MEA to verify compliance with lifetime limits on credits and deductions has advantages, compared to audits, for both taxpayers and IRS. For example, taxpayer errors can be caught and corrected before they result in penalties. This, in turn, would allow IRS to use its expensive auditors' time on more significant compliance problems.

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Matter for Congressional Consideration

-
- To ensure IRS can adequately enforce certain tax provisions and consistent with our previous suggestion that Congress grant MEA to IRS more broadly, Congress should provide IRS with MEA to use tax return information from previous years to ensure that taxpayers do not improperly claim credits or deductions in excess of lifetime limits where applicable.

Appendix II: IRS's Existing Math Error Authority

Table 1 summarizes the Internal Revenue Service's (IRS) existing math error authority (MEA).

Table 1: IRS's 13 Existing MEAs

| No. | Description |
|-----|---|
| 1 | An error in addition, subtraction, multiplication, or division shown on any return. |
| 2 | An incorrect use of any table provided by IRS with respect to any return if other information in the return makes the incorrect use apparent. |
| 3 | An entry on a return of an item that is inconsistent with another entry of the same or different item on that return. |
| 4 | An omission of information that is required to be supplied on the return to substantiate an entry on that return. |
| 5 | An entry on a return of a deduction or credit in an amount that exceeds the statutory limit for that deduction or credit, if that limit is expressed as a specific monetary amount or as a percentage, ratio, or fraction, and if the component items of that limit appear on the return. |
| 6 | A correct Taxpayer Identification Number (TIN) not provided on the return as required for the following provisions: <ul style="list-style-type: none"> • Earned Income Tax Credit (EITC); • child and dependent care credit; • personal or dependent exemption; • child tax credit; or • Hope and Lifetime Learning credits. |
| 7 | A return claiming an EITC for net earnings from self-employment, where the self-employment tax imposed by I.R.C. § 1401 on those net earnings has not been paid. |
| 8 | An omission of information required for recertification of eligibility for the EITC. |
| 9 | An entry on the return of a TIN required for the EITC, the child credit, and the child and dependent care credit, when information associated with that TIN indicates that the child does not meet the age eligibility requirements for those credits. |
| 10 | An entry on the return of a claim for the EITC where the Federal Case Registry of Child Support Orders indicates that the taxpayer is the noncustodial parent of that child. |
| 11 | A failure to reduce Electronic Stimulus Payment credit on a return related to the Economic Stimulus Act of 2008 by amounts previously advanced. |
| 12 | A failure to reduce the Making Work Pay credit by the amount of any payment received as a result of tax abatement resulting from the combat-related deaths of members of the Armed Forces, deaths of astronauts, and deaths of victims of certain terrorist attacks, or by the amount of any credit allowed under the American Recovery and Reinvestment Act of 2009, or a failure to submit a proper Social Security number with the claim. |
| 13 | A claim for the First Time Homebuyer Credit where the taxpayer has not included the required settlement statement; or where other information indicates that the taxpayer is under 18 years of age, or where information from the past 2 years of returns indicates ineligibility for the credit. Additionally, IRS may correct the return where the taxpayer has failed to include the increased tax required under the recapture provision for the credit, when applicable. |

Source: GAO analysis.

Appendix III: Descriptions of IRS Volunteer Income Tax Assistance/Tax Centers for the Elderly and Treasury Programs to Offer Tax Refunds on Debit Cards

Table 2 provides further details on the debit cards being offered at Volunteer Income Tax Assistance (VITA) and Tax Center for the Elderly (TCE) sites.

Table 2: Tax Refunds Offered on Debit Cards at IRS VITA and TCE Sites

| | J.P. Morgan Chase | PNC Bank | U.S. Bank | Western Union |
|--|--|-------------------------|-----------------------------|--|
| Type of card | Visa | Visa | Visa | MasterCard |
| Card activation | Free | Free | Free | Free |
| Monthly maintenance | Free | Free | Free | Free |
| Signature purchase | Free | Free | Free | Free |
| PIN Purchase | Free | Free | Free | Free |
| Retailer purchase with cash back option | Free | Free | Free | Free |
| ATM cash withdrawals | Free at Chase and network | Free at PNC and network | Free at US Bank and network | \$1.95 plus additional ATM fees could be assessed by ATM owner |
| Bill payment | \$0.75 | Free | Free | Free |
| Live customer service | Free | Free | Two free per month | Free |
| Overdraft | No fee (\$.75 per denied transaction for insufficient funds) | No charge | No charge | No charge |
| Online electronic statements | Free | Free | Free | Free |
| Payroll direct deposit (employer must have the capabilities for direct deposits) | N/A | Free | Free | Free |
| Money transfer load | N/A | N/A | N/A | Free |
| Online/Interactive Voice Response account activity | Free | Free | Free | Free |
| Short Message Service account notifications (wireless provider could charge a fee) | Free | Free | \$0.15 | Free |
| Card replacement | One free per year. Additional card \$7.50 | Free | Free | Free |
| Cash reloads | N/A | Free at PNC branch | Free at U.S. Bank branch | \$4.95 |
| Teller cash advance | \$10 | Free | \$5 | Not available |
| Card consecutive month inactivity fee assessed after | 6 months | 3 months | 3 months | 12 months |
| Relationship building with financial institution | Yes | Yes | Yes | No |

**Appendix III. Descriptions of IRS Volunteer
Income Tax Assistance/Tax Centers for the
Elderly and Treasury Programs to Offer Tax
Refunds on Debit Cards**

| | J.P. Morgan Chase | PNC Bank | U.S. Bank | Western Union |
|---|--|--|--|----------------------|
| Federal Deposit Insurance Corporation protected | Yes | Yes | Yes | Yes |
| Visa/MasterCard zero liability protected | Yes | Yes | Yes | Yes |
| Personalized card | Yes | Yes | Yes | Yes |
| Geographic coverage | Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Louisiana, Michigan, Missouri, Nevada, New Jersey, New York, Ohio, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, West Virginia, and Wisconsin | Delaware, District of Columbia, Florida, Illinois, Indiana, Kentucky, Maryland, Missouri, New York, Ohio, Virginia, West Virginia, and Wisconsin | Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Iowa, Kentucky, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming | USA only |

Source: GAO analysis of IRS data.

Table 3 provides additional details on the fee structures offered through Treasury's pilot program.

Table 3: Treasury Pilot Debit Card Program Offers

| Service | Fee |
|---|---|
| Monthly Fee | \$0 or \$4.95 depending on offer (for offers with \$4.95 monthly fee, that charge is waived in any monthly billing cycle in which cardholder loads at least \$1,000 to the Card or makes 30 purchase transactions) |
| Savings Account | For those participants who are offered a savings feature, there is no charge to open or maintain the account, no minimum balance, and 0.25 percent annual percentage yield (variable rate, subject to change). Fees may apply to withdraw funds if cardholder uses an ATM outside of the MyAccountCard network. There are limitations on the number of transfers in and out of the account per month. |
| Card acquisition fee | Free |
| Unlimited ATM cash withdrawals and balance check at 15,000 participating locations nationwide (\$2.50 service fee applies for out-of-network ATM withdrawals) | Free |
| Transactions at U.S. merchant locations | Free |
| Purchases online or over the phone | Free |
| Cash back with purchases | Free |
| Online bill pay | Free |

Appendix III: Descriptions of IRS Volunteer
Income Tax Assistance/Tax Centers for the
Elderly and Treasury Programs to Offer Tax
Refunds on Debit Cards

| Service | Fee |
|---|--|
| Balance inquiries online, by phone, by text and at in-network ATMs (standard text messaging rates may apply from your wireless carrier) | Free |
| Add money with direct deposit | Free |
| Lost/stolen card replacement | \$4.95 |
| Second card | \$4.95 |
| Out-of-network ATM cash withdrawals | \$2.50 plus any fee the ATM owner may charge |
| Teller cash withdrawals | \$2.50 |
| Balance inquiries at out-of-network ATMs | \$0.50 |
| Add money in-person at participating locations | Up to \$4.95 |
| Card use outside of the 50 United States | 3 percent of transaction amount |

Source: Treasury

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

James R. White, (202) 512-9110, whitej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Joanna Stamatiades, Assistant Director; Steven J. Berke; Abbie David; David Fox; Tom Gilbert; Matt Johlle; Inna Livits; Karen O'Connor; and Sabrina Streagle made key contributions to this report.

| | |
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United States Government Accountability Office

Testimony
Before the Subcommittee on Legislative
Branch, Committee on Appropriations,
House of Representatives

For Release on Delivery
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**FISCAL YEAR 2012
BUDGET REQUEST**

**U.S. Government
Accountability Office**

Statement of Gene L. Dodaro
Comptroller General of the United States



GAO-11-453T

Mr. Chairman, Ranking Member Honda, and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the U.S. Government Accountability Office's (GAO) budget request for fiscal year 2012. I want to thank the subcommittee for its continued support of GAO. We very much appreciate the confidence you have shown in our efforts to help support the Congress in carrying out its constitutional responsibilities and to help improve government performance and accountability for the benefit of the American people.

With this committee's support, in fiscal year 2010, GAO provided assistance to every standing congressional committee and 70 percent of their subcommittees. Our work yielded significant results across the government, including financial benefits of \$49.9 billion—a return on investment of \$87 for every dollar invested in GAO. In addition, we documented over 1,300 other benefits resulting from our work that helped improve services to the public, promote improved management throughout government and change laws, such as the Improper Payments Elimination and Recovery Act of 2010.¹

Recently, we issued two major reports that underscore GAO's continuing value in helping Congress and the Administration reduce costs and improve government, particularly in a time of reduced resources.

- First, just last week on March 1, 2011, we detailed 81 opportunities to reduce duplication, overlap, or fragmentation.² These opportunities span a range of federal government mission areas such as agriculture, defense, economic development, energy, general government, health, homeland security, international affairs, and social services. Within and across these missions, our report touches on hundreds of federal programs, affecting virtually all major federal departments and agencies. By reducing or eliminating unnecessary duplication, overlap, or fragmentation and by addressing the other cost-saving and revenue-enhancing

¹ GAO-11-2SP, United States Government Accountability Office Performance and Accountability Report Fiscal Year 2010 and GAO-11-3SP, Summary of GAO's Performance and Financial Information Fiscal Year 2010.

² GAO-11-318SP, Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars and Enhance Revenue.

opportunities contained in the report, the federal government could save tens of billions of tax dollars annually and help agencies provide more efficient and effective services.

- Second, our High Risk update issued on February 17, 2011 identified 30 federal areas and programs at risk of fraud, waste, abuse, and mismanagement, and those in need of broad-based transformation. Solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the public, and strengthen confidence and trust in the performance and accountability of the U. S. Government.³

Looking ahead to fiscal year 2012, GAO is acutely aware of our dual responsibilities in a time of fiscal austerity. First, the Congress has rightly come to rely upon GAO to help identify billions of dollars in cost-saving opportunities to tighten federal budgets or to point out revenue enhancement opportunities. We know our mission becomes ever more critical when the nation faces difficult financial times. But second, GAO must also ensure it meets this responsibility while implementing all possible cost savings in its own operations without diminishing our traditionally high-quality work that lays the foundation for critical decision-making and oversight by the Congress.

Accordingly, we are seeking only to maintain our fiscal year 2010 funding level of \$556.8 million in fiscal year 2012 and plan to maintain our current authorized staffing levels. While operating at this funding level with no increase poses challenges, GAO is committed to reducing our own costs as much as possible in order to absorb the additional demands and increasing costs of the coming year without additional resources. Our budget request attempts to balance tradeoffs and assumes that we will be able to manage at reduced funding levels, and try to maintain our staffing levels to provide insightful analyses on the most important priorities for congressional oversight and decision making.

However, if GAO's funding is reduced below the requested level, more drastic measures would be needed, such as reductions in our staff capacity, which would result in increased delays in responding to

³ Our 2011 High-Risk List is included in Appendix I.

GAO Efforts Help the Congress Address Domestic and International Challenges

congressional requests, limit our ability to provide timely responses to support congressional oversight, and reduce the number of requests that we could complete.

GAO stands ready to serve the Congress and the American people at this historically critical juncture and is uniquely positioned to help address our nation's challenges and identify opportunities. Pressures to reduce the federal deficit following an economic recovery will mean a greater need for analyses of programs and their effectiveness, as well as a reduction in improper federal payments and closing the gap between taxes owed and paid.

Congressional demand for GAO services remains high as evidenced by our workload. We expect that trend to continue as a result of the pressures on federal finances and our economy. For example, we will be working to produce future annual reports outlining duplication, overlap and fragmentation as well as opportunities to reduce costs and enhance revenue. Additionally, the Wall Street Reform Act contained 44 new statutory requirements or authorities for GAO assistance, including audits related to the Federal Reserve.

Our past performance is evidence of the critical role our dedicated staff play in helping the Congress and the American people better understand issues, both as they arise and over the long term. For example, in fiscal year 2010, GAO issue-area experts testified 192 times before the Congress on a wide range of issues, ranging from aircargo, border and cyber security issues and the Department of Defense's planning for the drawdown of U.S. forces from Iraq to the Medicare prescription drug program, processing of disability claims and funding for broad band services.¹

GAO's strategic plan for serving the Congress and the nation, highlights the broad scope of our efforts to help the Congress respond to domestic and international challenges, such as

- threats confronting U.S. national security interests;
- fiscal sustainability and debt challenges;

¹ A list of selected issues on which GAO staff testified before Congress during fiscal year 2010 is included as Appendix II.

-
- economic recovery and restored job growth; and
 - advances in science, technology, engineering, and mathematics.

GAO seeks not only to help position the government to better manage risks that could compromise the nation's security, health, and solvency, but also to identify opportunities for managing government resources wisely for a more sustainable future.

Our Strategic Plan covers the following goals and objectives.

Goal 1: Help the Congress Address Current and Emerging Challenges to the Well-being and Financial Security of the American People

- Financing and Programs to Serve the Health Needs of an Aging and Diverse Population
- Lifelong Learning to Enhance U.S. Competitiveness
- Benefits and Protections for Workers, Families, and Children
- Financial Security for an Aging Population
- A Responsive, Fair, and Effective System of Justice
- Viable Communities
- A Stable Financial System and Consumer Protection
- Responsible Stewardship of Natural Resources and the Environment
- A Viable, Efficient, Safe, and Accessible National Infrastructure

Goal 2: Help the Congress Respond to Changing Security Threats and the Challenges of Global Interdependence

- Protect and Secure the Homeland from Threats and Disasters
- Ensure Military Capabilities and Readiness
- Advance and Protect U.S. Foreign Policy Interests
- Respond to the Impact of Global Market Forces on U.S. Economic and Security Interests

Goal 3: Help Transform the Federal Government to Address National Challenges

- Analyze the Government's Fiscal Position and Opportunities to Strengthen Approaches to Address the Current and Projected Fiscal Gap
- Identify Fraud, Waste, and Abuse

-
- Support Congressional Oversight of Major Management Challenges and Program Risks

Our Strategic Plan framework is included in Appendix IV.

Constrained Fiscal Year 2012 Budget Request

Our requested funding level of \$556.8 million will allow us to try to support a staffing level of 3,220 FTEs to provide insightful analysis on the most important priorities for congressional oversight and decision making. We will continue to outreach to the Congress to understand and set priorities to ensure that we focus on the most important issues for congressional oversight.

Although operating under a flat budget for 3 years provides significant operational challenges, we have carefully considered our resource requirements and made tradeoffs to ensure that we try to maintain our staff capacity within our current funding level to allow us to provide the Congress with high-quality, timely, and objective analyses of government programs, operations and finances—information that the Congress needs to make policy choices, ensure transparency and accountability, and protect the taxpayer.

However, since 80 percent of our budget covers staff compensation and benefits, our flexibility to control costs without diminishing our staff capacity is limited. Without additional funding in fiscal year 2013 and beyond, we would need to reduce our staff capacity which would increase the delay in starting work on congressional requests, limit our ability to provide timely responses and analyses to support congressional oversight, and reduce the number of requests that we could undertake.

GAO Maintains Effective Workforce Relations

We could not have achieved our level of performance without the hard work and dedication of our professional, diverse, and multidisciplinary staff. Recognizing that GAO's accomplishments are a direct result of our dedicated workforce, we continuously strive to maintain a work environment that promotes employee well-being and productivity. We are also proud of the results from our 2010 annual employee feedback survey, which indicate that employee satisfaction continues to increase and that we continue to make progress toward our goal to create a more inclusive work environment. In 2010, GAO was once again rated second on the list of the "Best Places to Work" in the federal government by the Partnership for Public Service.

GAO regularly seeks and values the input we receive from our employee organizations. Recently, we reached tentative agreement with GAO's Employees Organization, IFPTE, Local 1921, on a master contract that has since been ratified by its members and is pending legal review. We are also working with our Employee Advisory Council and the Diversity Advisory Council on a range of issues.

Concluding Remarks

I believe that you will find our prudent budget request is fiscally responsible and essential to ensure that we can maintain our capacity to assist the Congress in this challenging period in our nation's history.

We have a proven track record of helping the Congress evaluate critical issues of national importance and improving the transparency and accountability of our national government. Our new strategic plan for serving the Congress through fiscal year 2015 provides the framework for reporting on progress toward our institutional goals.

We remain committed to providing accurate, objective, nonpartisan, and constructive information to the Congress to help it conduct effective oversight and fulfill its constitutional responsibilities. I appreciate, as always, your careful consideration of our submission and look forward to discussing our proposal with you.

Mr. Chairman, Ranking Member Honda, Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the subcommittee might have.

Appendix I: GAO's 2011 High-Risk List

Strengthening the Foundation for Efficiency and Effectiveness

- Management of Federal Oil and Gas Resources (New)
- Modernizing the Outdated U.S. Financial Regulatory System
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability
- Funding the Nation's Surface Transportation System
- Strategic Human Capital Management
- Managing Federal Real Property

Transforming DOD Program Management

- DOD Approach to Business Transformation
- DOD Business Systems Modernization
- DOD Support Infrastructure Management
- DOD Financial Management
- DOD Supply Chain Management
- DOD Weapon Systems Acquisition

Ensuring Public Safety and Security

- Implementing and Transforming the Department of Homeland Security
- Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
- Protecting the Federal Government's Information Systems and the Nation's Cyber Critical Infrastructures
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Revamping Federal Oversight of Food Safety
- Protecting Public Health through Enhanced Oversight of Medical Products
- Transforming EPA's Process for Assessing and Controlling Toxic Chemicals

Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
- NASA Acquisition Management
- Management of Interagency Contracting

Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws
- IRS Business Systems Modernization

Modernizing and Safeguarding Insurance and Benefit Programs

- Improving and Modernizing Federal Disability Programs
- Pension Benefit Guaranty Corporation Insurance Programs
- Medicare Program
- Medicaid Program
- National Flood Insurance Program

Appendix II: Selected Testimony Topics, Fiscal Year 2010

Selected Testimony Topics • Fiscal Year 2010

Goal 1: Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People

- Unemployment Insurance Trust Funds
- Social Security Disability
- Underfunded Pension Plans
- Proprietary Schools
- Medicare High-Cost Drugs
- Toxic Substance Abuses Disease Registry
- Concussions in High School Athletes
- Children's Access to Medicaid Dental Services
- Corporate Crime
- DOJ's Civil Rights Division Enforcement Efforts
- Community Emergency Preparedness
- Fannie Mae & Freddie Mac
- Interior's Oversight of Oil & Gas
- Clean Water Act Enforcement Efforts
- U.S. Postal Service Financial Viability
- Federal Facilities Security
- High Speed Rail Projects
- Commercial Aviation Consumer Fees

Goal 2: Respond to Changing Security Threats and the Challenges of Global Interdependence

- Financial Markets Regulation
- National Flood Insurance Program
- Climate Change
- Alien Smuggling Along U.S. Southwest Border
- Aviation Security Advanced Imaging Technology
- Terrorist Watchlist Screening
- Combating Nuclear Smuggling
- Iran Sanctions
- Counternarcotics and Anticrime Efforts in Mexico
- Global Food Security
- Intellectual Property Enforcement Efforts
- Afghanistan Security Force Capacity
- DOD Military and Civilian Employee Compensation
- Warfighter Contract Support
- Joint Strike Fighter Challenges

Goal 3: Help Transform the Federal Government to Address National Challenges

- Defense Space Acquisitions
- Military Language Skills
- Interagency Collaboration for National Security Interagency Contracting Strategies
- NASA Management and Program Challenges
- Balancing the Government-to-Contractor Workforce
- Iraq and Afghanistan Contract and Grant Management
- Recovery Act Oversight
- First Time Homebuyer Tax Credit
- Equal Employment Opportunity at DHS
- 2010 Census Management Challenges
- U.S. Government Financial Statements
- DHS Financial Management Systems Consolidation
- Protecting Federal Information Systems
- Environmental Satellites
- Debt Settlement Risks to Consumers
- Service Disabled Veteran-Owned Small Business Program Fraud Prevention
- HEAD START Program Fraud
- Defense Contract Audit Agency Vulnerabilities

SOURCE: GAO.

Appendix III: How GAO Assisted the Nation, Fiscal Year 2010

How GAO Assisted the Nation • Fiscal Year 2010

Goal 1: Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People

- Identified ways for HHS to strengthen inspections of ambulatory surgical centers leading to a fourfold increase in the proportion of centers found to have deficient practices
- Appointed 49 experts and stakeholders to 3 organizations created in new health care legislation
- Recommended food safety improvements that the Congress included in legislation for USDA's school lunch program
- Facilitated expedited claims process for Labor's black lung benefits program
- Increased EPA focus on environmental threats to children's health
- Identified factors to consider in restructuring Fannie Mae and Freddie Mac
- Proposed changes to improve control of toxic chemicals in consumer products
- Identified hidden fees for air travel that should be disclosed to consumers

Goal 2: Respond to Changing Security Threats and the Challenges of Global Interdependence

- Led FEMA to begin developing a strategic plan to improve the national public alert and warning system
- Exposed weaknesses in TSA's behavior-based identification of high-risk air passengers
- Recommended changes that FEMA implemented to better plan for national emergency response capabilities
- Informed DHS's top-level review of weaknesses and risks in the multibillion dollar Secure Border Initiative
- Contributed to a more robust missile defense acquisition policy
- Encouraged reforms in the United Nations' procurement, internal oversight, and employment processes
- Provided insight to the Congress that led to expanding U.S. sanctions against Iran
- Informed development of a framework to reform the U.S. export control system

Goal 3: Help Transform the Federal Government to Address National Challenges

- Informed IRS's decision to extend regulation of paid tax preparers, including requiring them to obtain an identifying number and be tested for competency
- Exposed Energy Star as a self-certification program by obtaining certification for bogus products which led DOE and EPA to adopt improvements in their approval process
- Led GSA to strengthen requirements due to improper spending on premium class government travel
- Surfaced weaknesses in VA outpatient scheduling IT systems
- Developed a methodology adopted by the Congress to efficiently target billions of dollars in Medicaid assistance through the Recovery Act
- Assessed IT risks for the 2010 Census to ensure successful execution
- Profiled selected DHS investments in a 2-page format to provide the Congress with a new, easy reference on acquisition oversight, planning, and execution

Goal 4: Maximize the value of GAO by enabling quality, timely service to the Congress and Being a leading practices federal agency

- Implemented leading practices to attract a more diverse workforce and foster an inclusive work environment
- Leveraged technology to facilitate business process improvements in financial and administrative IT systems
- Improved access to our products with a new mobile Web site for users of small screen devices and a new electronic product format
- Collaborated with international accountability organizations to enhance their audit guidelines by incorporating private sector international auditing standards
- Led development of a strategic plan for the international accountability community

Source: GAO.

Appendix IV: GAO's Strategic Plan Framework



Serving the Congress and the Nation GAO's Strategic Plan Framework

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

TRENDS

National Security Threats Fiscal Sustainability Challenges Economic Recovery and Growth Global Interdependence Science and Technology Networks and Virtualization Shifting Roles of Government Demographic and Societal Change

| Goals | Objectives | |
|--|--|--|
| Provide Timely, Quality Service to the Congress and the Federal Government to... | Health care needs | Viable communities |
| ...Address Current and Emerging Challenges to the Well-being and Financial Security of the American People related to... | Lifelong learning | Stable financial system and consumer protection |
| | Benefits and protections for workers, families, and children | Stewardship of natural resources and the environment |
| | Financial security | Infrastructure |
| | Effective system of justice | |
| ...Respond to Changing Security Threats and the Challenges of Global Interdependence involving... | Homeland security | U.S. foreign policy interests |
| | Military capabilities and readiness | Global market forces |
| Help Transform the Federal Government to Address National Challenges by assessing... | Government's fiscal position and options for closing gap | Major management challenges and program risks |
| | Fraud, waste, and abuse | |
| Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress and Being a Leading Practices Federal Agency in the areas of... | Efficiency, effectiveness, and quality | Professional networks and collaboration |
| | Diverse and inclusive work environment | Institutional stewardship and resource management |
| CORE VALUES | | |
| Accountability | Integrity | Reliability |

Source: GAO.

| | |
|--|---|
| GAO's Mission | The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability. |
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Ms. JENKINS. Mr. Lewis.

Mr. LEWIS. Thank you very much, Madam Chair, for holding this hearing on the Internal Revenue Service.

I am pleased that we have the Commissioner before us today.

I have serious concerns about the effect of the recent budget cuts on taxpayers, tax collection, and Agency operations.

In the most recent report to Congress, the National Taxpayer Advocate stated that the most serious problem facing taxpayers is that the IRS is not adequately funded to serve taxpayers and to collect taxes. I fully agree with this statement.

This year, the Agency's budget was cut by over \$300 million. This cut harmed taxpayers and telephone service. Telephone calls have increased by 34 percent, but the hours phones are answered have decreased by 20 percent.

Only 65 percent of taxpayers seeking telephone assistance are able to speak to an IRS employee, and they must wait an average of 17 minutes.

Taxpayers seeking in person assistance also have been harmed. This is clear from the very long wait time at Taxpayer Assistance Centers.

The budget cut also harmed Agency operations. The cut forced the Agency to lay off thousands of employees. The majority of these employees worked in Enforcement. They protected and collected revenue. This reduction does not help tax collection or reduce the deficit. It makes no sense.

I look forward to discussing these issues and the Agency's proposed budget for next year.

Madam Chair, finally, I would like to take a moment to thank Floyd Williams for his service and dedication to the Agency and to this Congress.

As many of you know, Floyd is the Legislative Affairs Director of IRS. He plans to retire this summer.

Floyd began his Government service as a congressional page under Senator Fulbright of Arkansas many years ago. I think the Senator from Arkansas probably violated the child labor laws. You are not that old.

I have worked with Floyd in many roles on this committee, and I know he will be missed. I wish him the best as he retires. Thank you for your great service.

With that, Madam Chair, I yield back.

Ms. JENKINS. Thank you, Mr. Lewis.

I would like to welcome back the Commissioner of the Internal Revenue Service, Mr. Douglas H. Shulman, who has served as Commissioner since March 2008.

Commissioner Shulman, thank you again for your time today. The Committee has received your written statement and it will be made part of the formal hearing record.

You will be recognized for five minutes for your oral remarks, and you may begin when you are ready.

STATEMENT OF DOUGLAS H. SHULMAN, COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. SHULMAN. Thank you very much, to all the Members of the Subcommittee, for giving me the opportunity to testify today.

I want to talk a little about filing season, our strategic initiatives, and the President's 2013 budget, which would give us a much needed increase over the 2012 enacted levels.

A significant portion of the President's 2013 budget would restore congressional reductions in IRS funding made over the last two years.

I want to start by saying that I believe it is incumbent on all of us in the Government to be as efficient as possible and to spend taxpayer dollars wisely.

For the IRS, that means finding savings where we can and continuing to invest in strategic priorities that allow us to improve service and voluntary compliance.

From fiscal year 2009 through the 2013 proposed budget, we will have achieved nearly \$1 billion in budget savings and efficiencies in core IRS operations.

These savings and efficiencies reflect an across the board commitment at the IRS to find better and more efficient ways to administer the tax system.

At the same time, we collect \$200 in revenue for every dollar spent on our budget. We also collected \$2.4 trillion last year. We issued 110 million refunds for \$345 billion to hard working American taxpayers.

Our compliance activities brought in a direct revenue of \$55 billion, and we blocked another \$14 billion from going out the door to taxpayers who were trying to commit fraud on the Government.

In this regard, I want to point out that the Administration's proposal for IRS funding includes critically important enforcement initiatives that would be funded through a program integrity cap adjustment.

Let me just say that this proposal makes sense and is a reflection of the President's and this Administration's belief that IRS funding actually helps reduce the deficit.

Congress is literally leaving money on the table if it does not enact this proposal, which would allow for deficit reducing initiatives in tax compliance, while leaving specific funding decisions to the normal annual appropriations process.

Let me just talk about a couple of things that we have done over the last few years that have moved the Agency forward to position it for the future and do a better job serving taxpayers and making sure they comply with the Tax Code.

Let me just start with filing season. E-File continues to grow. This year, we have issued about 59 million refunds for a total of \$174 billion. That is about the same number as last year.

We deployed several new large technology systems. I would be happy to talk about those as we get further into filing season.

In strategic areas, this year for the first time in history, we have moved from a weekly batch cycle to daily processing of tax returns through CADE 2. CADE 2 delivers on the promise of IRS modernization going back two decades, and we are very proud of this achievement.

A couple of years ago, I told this committee we restructured our technology program, we were going to deliver our major technology initiatives, and this year, we have delivered those initiatives.

We also had the highest score ever last year on the American Customer Satisfaction Index Rating, which is the overall score we track for taxpayer satisfaction with their interactions with the IRS.

We scored 73 on this Index, and we are very proud of this achievement in a constrained budget environment.

Our return preparer program is now up and running. To date, more than 840,000 paid preparer's have registered with the IRS. Both the testing and education requirements are well underway.

This is going to be one of the most important initiatives in the tax system in several decades.

We have also made significant progress in our battle against offshore tax evasion. We have collected more than \$4.4 billion to date through our offshore voluntary disclosure program. We are getting people back in the system through this and other offshore initiatives.

I think we have made significant progress, as I said. We have cut \$1 billion out of our core operating budget through the 2013 budget proposal that we have given.

Let me conclude my opening statement with one concern that I want to emphasize for this subcommittee, and I think it is quite important for the Ways and Means Committee as a whole.

In recent years, it seems taxpayers increasingly face uncertainty about what the tax law will be for the next filing season. This year, we at the IRS are very concerned with the status of the AMT and so-called “extenders.”

If the AMT and extenders are not dealt with in a timely fashion, we may have to delay the start of filing season for many millions of taxpayers as we have done in prior years.

I have written to this committee before that it is imperative that whatever action Congress decides to take on AMT and extenders, that this action happen by the end of the year, which would still be late from an operational perspective, but not longer than that, in order to prevent even more widespread disruption of next year’s tax filing season.

[The prepared statement of Mr. Shulman follows:]

**WRITTEN TESTIMONY
OF
DOUGLAS H. SHULMAN
COMMISSIONER
INTERNAL REVENUE
BEFORE
THE HOUSE WAYS & MEANS
SUBCOMMITTEE ON OVERSIGHT
FILING SEASON AND FY 2013 BUDGET REQUEST
MARCH 22, 2012**

INTRODUCTION AND SUMMARY

Chairman Boustany, Ranking Member Lewis and Members of the Subcommittee, thank you for this opportunity to testify on this year's tax filing season and to provide you with a quick look at some of our recent successes and an overview of our proposed FY 2013 Budget and what we hope to accomplish with these resources.

The 2012 filing season is underway and as of March 10, 2012, the IRS received over 70 million individual returns. The IRS has issued 59.2 million refunds for a total of \$174 billion, as compared to 59 million refunds for a total of \$178 billion over the same time period in 2011. The average dollar refund was approximately \$3,000, about the same as last year. During the same time period, the IRS directly deposited 51.3 million refunds to taxpayers, as compared to 49.8 million last year – a 3 percent increase.

The IRS E-file program continues to grow. This year the individual E-file rate continues to trend upward – a very positive development. Later in my testimony, I provide more statistics and information on the current filing season.

Let me turn to the FY 2103 Budget for the IRS. Although the economy is regaining strength, we still face numerous challenges, such as finding the right balance between fiscal discipline while still investing in programs that produce a high rate of return, and are important to the future of our nation and the American people.

It is incumbent upon all of us in government to be as efficient as possible and spend taxpayer dollars wisely. For the IRS, that means finding savings where we can, and continuing to invest in strategic priorities that allow us to improve service and voluntary compliance.

Indeed, the IRS consistently achieves a high return on investment for its activities while running a fiscally disciplined operation. From FY 2009 through the FY 2013 proposed budget, the IRS will have achieved nearly \$1 billion in budget savings and efficiencies. At the same time, the agency collected nearly \$200 in government revenues for every dollar spent on the IRS budget.

Against this backdrop, it is clear that the IRS is vital both to the functioning of government and keeping our nation and economy strong. In FY 2011, the IRS collected \$2.415 trillion in taxes, representing 92 percent of federal government receipts. The IRS processed more than 144.7 million individual returns during the 2011 filing season and issued almost 110 million refunds totaling \$345 billion that traditionally help boost consumer spending.

The IRS is proud of its record over the past few years as we have made tangible progress on a number of strategic initiatives while carrying out our core duties, such as delivering a smooth filing season in 2011 – in spite of the late passage of legislation. The following are some of the more prominent programs and initiatives, including those in our core programs that demonstrate how targeted investments can deliver real value to taxpayers and our nation.

Return Preparer Program

The Return Preparer Program is one of the most important initiatives the IRS has undertaken in recent memory that leverages preparers' expertise and commitment to quality service and the integrity of the tax system.

Boiled down to its essence, the program will ensure a basic level of competency for return preparers while enabling us to focus on finding unscrupulous preparers. First, we had to identify all preparers and have them register.

Since September 2010, almost 840,000 individuals have registered and obtained a Preparer Tax Identification Number, or PTIN, and are now in our tax professional database. And we are learning some interesting facts about not only the size, but the nature of the tax preparer community. For example, over 60 percent of PTIN holders are not attorneys, CPAs, or enrolled agents.

Once PTIN registration was in place, we began the next phase of the program aimed at ensuring a minimal level of competency for all return preparers.

In November 2011, we launched a new competency test for certain tax return preparers who prepare Form 1040 returns but who are not attorneys, CPAs, or enrolled agents, or supervised by one of them in a firm. These individuals also have a new requirement to complete 15 hours of continuing education each year from IRS approved providers.

Let me add also that from the beginning we planned to exempt CPAs, attorneys, and enrolled agents from the testing and continuing education requirements as they already have more stringent testing and education requirements.

As we've set up the registration, testing and continuing education components of our return preparer initiative, it is also important that we focus on finding unscrupulous preparers who damage the good name of honest return preparers and undermine the

overall tax system; therefore, we have a comprehensive strategy to focus on preparer enforcement and compliance.

Our compliance efforts will be focused on places of highest risk -- where the vast majority of preparers who play by the rules should want us to focus.

We will also continue to conduct undercover shopping visits to return preparers suspected of engaging in fraud, and we will continue to work closely with the Department of Justice to pursue civil or criminal action against unscrupulous return preparers.

Customer Account Data Engine 2 (CADE 2) Launch

In January 2012, the IRS for the first time since the beginning of automated processing of tax returns five decades ago began processing tax returns daily instead of weekly. The new system, known as CADE 2, is a major milestone for the tax system and the IRS.

CADE 2 addresses myriad issues that have historically created issues in the tax system. It will provide more up-to-date information at the fingertips of our customer account representatives, speed account issue resolution, allow for faster refunds, and provide a platform for more real-time analytics and compliance. It will also eliminate structural technology problems that could lead to time-lag problems, such as when notices are sent to taxpayers.

For example, it will enable faster resolution of taxpayer account issues and account adjustments, which will greatly help taxpayers and the IRS. And it will correct one of the biggest problems we have when a taxpayer calls about a payment he or she made, but our representative cannot tell whether it has been posted or not.

Taxpayers and practitioners will also see quicker updates to web-based applications, and faster taxpayer notices. The CADE 2 database will also allow IRS to consider offering a wider range of web-based, self-initiated service solutions that could fundamentally change the way taxpayers interact with the IRS, and potentially provide greater operational efficiencies.

CADE 2 also supports sophisticated, next-generation compliance systems which will improve overall compliance through enhanced workload selection and by enabling advanced decision analytics.

Budget Trends

Over the last several years, the IRS budget requests have reflected strategic investments in the IRS that serve to reduce the deficit, along with substantial efficiency and other targeted reductions that reflect our commitment to effective stewardship of the resources that we are given.

These savings and efficiencies reflect an across-the-board commitment to finding better and more efficient ways to administer the tax system. They come from a variety of sources, including reductions in outside contracts, training and all but case-related travel.

However, even with these efficiencies, the IRS would not have been able to meet the level of budget reduction enacted for FY 2012 without substantially reducing our headcount. The IRS had already instituted an agency-wide hiring freeze and has only been replacing attrition on an exception basis. Attrition savings were not sufficient to meet the 2012 levels, though, so the IRS resorted to voluntary incentives designed to accelerate retirements of those who were retirement-eligible, or close to eligible. As of March 5, 2012, these incentives – known as buyouts – were given to approximately 1,000 workers.

As a result of these measures, the IRS has approximately 5,000 fewer staff on the payroll this filing season, as compared to last year. Of the 5,000 person reduction, approximately 3,000 are in Enforcement, with the balance of the reduction principally coming from Taxpayer Service.

Offshore Tax Evasion

Our approach to offshore tax evasion follows the natural course of cleaning up the abuses of the past and then mining and leveraging the data we receive to mount a greater attack on the abuse.

A good example of our offshore successes is the IRS' work relating to a major Swiss bank, where for the first time in history, a bank secrecy jurisdiction turned over thousands of names and account numbers. The bank also agreed to pay hundreds of millions of dollars in fines, penalties, interest and restitution as part of a deferred prosecution agreement with the U.S. government.

However, our offshore work has never been about one bank or one country. The IRS has produced results and will continue to produce positive outcomes through other elements of our offshore program, such as our game-changing voluntary disclosure programs.

In January 2012, we reopened the Offshore Voluntary Disclosure Program (OVDP) to help people hiding offshore accounts get current with their taxes; as of the end of 2011, we had collected more than \$4.4 billion to date from the two previous OVD programs in 2009 and 2011. That number will grow as the IRS processes the 2011 cases.

Our decision to reopen the OVDP was a result of continued strong interest from taxpayers and tax practitioners after the closure of the previous programs. People still wanted to come in and get right with their government.

This new program makes good sense for taxpayers still hiding assets overseas and for the nation's tax system. This is the best chance to get these taxpayers back into the system and back into compliance, so they properly report and pay their taxes for years to come.

Large Business Issue Resolution

We have been in the process of transforming our relationship with our large corporate taxpayers. We need to work smarter. We need to be more efficient. We need to create innovative strategies for issue resolution that are less time and resource intensive for both the IRS and these taxpayers.

We now have a suite of programs at the IRS that are designed to provide greater certainty, consistency and efficiency going forward for both our large taxpayers and the IRS. They may have different names and functions but all are focused on resolving issues.

First is the Compliance Assurance Program (CAP), which we made permanent last year. Any corporation that meets the program's requirements and wants to enjoy the benefits of open, cooperative, and transparent interactions can now apply. The number of corporate taxpayers in the program has already grown from 17 in the 2005 tax year – when the pilot began – to 160 taxpayers in the 2011 tax year. In recent months, I've been talking with CAP taxpayers, and the feedback I've gotten is that the paradigm of transparency and certainty is a welcome change in our tax system.

We have another important tool in our toolkit that can help us cut through the fog of uncertainty. The Industry Issue Resolution Program (IIR) can help the IRS and corporate taxpayers reach administrable, common sense solutions for uncertain tax areas. For example, by using IIR, we resolved some long-standing controversies that had plagued the telecommunications, transmission and distribution industries for years. We see IIR as a very useful tool for issue resolution and continue to work on a number of new issues.

Fast Track Settlement is an additional issues resolution tool we are encouraging our agents to use. Instead of finishing an audit and then going to Appeals, Fast Track allows a taxpayer to settle an issue with an Appeals officer during the audit process. We have witnessed an uptick in participation, which is promising, and are committed to expanding our ability to resolve issues more quickly with taxpayers who want to do so. The latest data is also most promising. It shows that 83 percent of the cases accepted into Fast Track resulted in a resolution.

Our uncertain tax position (UTP) initiative gets to the heart of information we need, while respecting a taxpayer's internal analysis and deliberations. The program's goal is to have a transparent discussion with corporations to resolve issues much quicker, and be more efficient in targeting taxpayers and issues with the highest risk of non-compliance. And here are the latest statistics on Schedule UTP. As of January 1, 2012:

- Approximately 1,900 taxpayers have filed Schedule UTP
- Approximately 4,000 issues have been disclosed

- The top three Code sections are Section 41, research tax credits; Section 482, allocation of income including transfer pricing; and Section 162, trade or business expenses
- 19 percent of all issues disclosed are transfer pricing issues.

Lastly, I am the Chair of the global body of tax authorities called the Forum on Tax Administration (FTA). We have been very focused on governments moving from information sharing to real, coordinated action. To that end, the U.S. recently led an effort to develop a protocol for joint audits, where two or more countries conduct a single audit of a taxpayer. At the same time we were developing a protocol for joint audits through the FTA, I asked our IRS team to find opportunities to start some joint audits immediately.

We recently conducted a joint audit involving one of our CAP taxpayers on a transfer pricing issue that demonstrated the substantial benefits for both governments and taxpayers. The joint audit reduced taxpayer burden – especially for these large multinational corporations that must face audits in multiple jurisdictions on the same set of transactions. It provided the taxpayers with a timesaving and less resource-intensive way to address the tax consequences of a transaction on a bilateral or even multilateral basis. And just as important to a swift resolution of issues, the joint audit provided certainty for the taxpayer today and in the future.

We at the IRS have dedicated ourselves to creating innovative new paths that will help both businesses and the IRS resolve issues and achieve our shared goals of certainty, consistency and efficiency. I think we can all agree that these are goals that, if achieved, would benefit the entire tax system.

IRS Customer Service

The IRS continues to provide taxpayers with quality customer service and different service channels and products. We recognize that we must never stop innovating to meet the service needs of an increasingly diverse taxpayer base and must serve taxpayers when and where they need it.

Our broad portfolio of customer service channels run the gamut from traditional walk-in sites for those who need to see an IRS representative face-to-face, to toll-free automated and assistor telephone service and web-based applications and social media. All make it easier for taxpayers to file and pay their taxes.

One of our most far reaching innovations – and one of the most successful modernization programs in all of government – is e-filing. For the 2011 calendar year, the IRS processed more than 110 million individual tax returns electronically, setting a new record. Individual returns electronically filed increased to 77.2 percent, up 7.9 percent from 2010. Business returns filed electronically jumped to 33.9 percent, up from 26.6 percent in 2010 and home-computer filing increased to 39.8 million returns, 14.2 percent more than 2010.

IRS.gov has become the favorite source of information for millions of taxpayers. For the 2011 filing season, there were almost 323 million web page visits to IRS.gov – a five percent increase over the same time period last year. Use of the “Where’s My Refund” electronic tracking tool continued to post double-digit yearly gains. And in FY 2011, the IRS received a Compuware Gomez “Best of the Web” award, which recognized IRS.gov as one of the best websites in government for performance and quality and first in consistency.

The IRS is increasingly communicating with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social and new media, such as YouTube, Twitter and even iTunes, we are able to reach these taxpayers with important service and compliance messages. Last year, the IRS also unveiled IRS2Go, its first smartphone application that lets taxpayers check on the status of their tax refund and obtain helpful tax information. This new smartphone application reflects our commitment to modernizing the agency and engaging taxpayers where and when they want.

However, we have not forgotten the importance of the content of our communications and we launched a major plan to overhaul our notices with a focus on clarity. Our efforts were recognized last May when the Center for Plain Language honored the IRS with the ClearMark Grand Prize Award, citing two of our revised notices for the best clear language of all the documents they reviewed.

We received another important sign of the progress the IRS is making: every year, the American Customer Satisfaction Index survey is conducted and for 2011, the survey of taxpayers showed satisfaction with our services reaching 73 on a scale of 100 among all individual tax filers. That score is a three-point jump from a year earlier and our highest score since we began participating in the survey that began in 1994. Satisfaction among people who filed electronically came in even higher at 78. This is a tremendous step in the right direction and one that we will build upon in the future.

Enforcement

Turning to enforcement, the IRS continues to run robust compliance programs. We continue to have appropriate and balanced audit coverage rates across taxpayers and to innovate in our collection programs. As previously noted, through our Offshore Voluntary Disclosure Programs we have collected more than \$4.4 billion to date from those hiding money overseas and that number will grow as the IRS processes the 2011 cases.

In FY 2011, IRS compliance activities returned \$55.2 billion to the Treasury as a result of our examination and collection programs. While the direct revenues brought in by IRS activities are important, the indirect effects are far more substantial and important. A strong and fair enforcement program serves to support over \$2 trillion that is paid voluntarily and on a timely basis every year. In addition, IRS enforcement revenues do

not include billions of dollars in attempted refund fraud that is stopped by IRS upfront fraud detection programs.

In short, despite a quickly evolving taxpayer base and unprecedented demands on IRS resources, the IRS continues to deliver for the American people.

People

The IRS' workforce is our greatest asset. Three years ago, I embarked on a campaign to make the IRS the best place to work in the federal government. This past November, the Partnership for Public Service released the results of the 2011 Best Places to Work in Federal Government survey. The IRS ranking improved yet again, moving over a two-year period from a ranking of 127 to a ranking of 65 out of the 240 participating agencies. And, we are now ranked third out of 15 large agencies (those with over 20,000 employees) in the employee engagement index from the survey.

In addition, our own employee engagement index – which measures the degree of employees' motivation, commitment and involvement in the mission of the organization – and the job satisfaction index both remained stable compared with last year. In other words, we saw no erosion of the substantial gains we had made over the past few years.

This is especially heartening to me because we have faced more than the usual number of challenges this year, from late tax law changes, to six short-term continuing resolutions during filing season, to weeks of speculation of a possible government shutdown, and ultimately a decreased budget.

The fact that our survey results showed that our employees remain engaged, motivated and committed, regardless of the external environment, is a testament to the professionalism and deep commitment to service woven into the culture of the IRS.

Real-Time Tax System

Last April, I began discussing a potential new structure that would fundamentally change the way taxpayers and tax practitioners prepare and file individual returns and that leverages technological innovations.

We initially came to call this vision the "real-time" tax system because it would deal in real time. We want to move away from the after-the-fact or "look-back" model where audits may take place years after a return is filed, and taxpayers had to hunt for, or recreate records and documentation – to a new model where we reduce burden.

Under the vision of a real-time tax system, the IRS could embed more information return data into its pre-screening filters, and could provide the opportunity for taxpayers to fix the return before we accept it – if it contains data that does not match our records.

Under this vision – which I’ve described as a long-term destination, rather than a short-term project or initiative – taxpayers and the IRS would have more confidence that returns are accurate. Many problems could be dealt with up-front, while records are available, and many taxpayers have access to the tax professional who may have prepared their return. We could shift resources to spend more money on getting it right in the first place, and focus back-end auditing resources on more complex issues. There are huge compliance and service benefits associated with such a system, not to mention burden reduction for taxpayers.

The IRS has held two public meeting to get feedback on our initial work on real-time. Both of these meetings were very helpful to us and reinforced our belief that this is a vision worth pursuing.

THE 2012 FILING SEASON & TAXPAYER SERVICE

Mr. Chairman, there is much of which to be proud this filing season. Let me stress that providing quality taxpayer service throughout the year, but especially during the filing season, is important if we are to help taxpayers get it right from the start and avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other interactions with the IRS.

Submission Processing, Refunds and E-filing

As of March 10, 2012, the IRS received over 70.7 million individual returns. Overall individual filing is up near five percent compared to the same time period last year.

The IRS e-file program continues to grow. This year the individual e-file rate is trending higher than last year – a very positive development. On the other hand, paper returns are dropping.

The number of taxpayers e-filing their returns themselves continued to grow this filing season. As of March 10, 2012, more than 25.6 million prepared their own e-file return – an 11 percent point increase over the same time period last year. The overall growth in e-filing translates into a huge savings for the Federal Government.

For FY 2010, it cost only 17 cents to process an e-filed return – a fraction of the \$3.66 it takes to process a paper return. And with e-file, taxpayers get their refund faster, with fewer data processing errors that can lead to problems later in the process.

Indeed, taxpayers filing electronically can get their refunds as soon as 10 to 21 days upon acknowledgement of receipt by the IRS. Based on the most current Refund Timeliness data, the average time to process a refund for a paper tax return is six weeks upon receipt of the return.

Through March 10, 2012, the IRS issued 59.2 million refunds for a total of \$174.4 billion, as compared to 59 million refunds for a total of \$178.3 billion over the same time period in 2011. The average dollar refund was approximately \$3,000, about the same as last year. During the same time period, the IRS directly deposited 46.2 million refunds to taxpayers, as compared to 45.3 million last year – a two percent increase.

I would be remiss if I did not acknowledge that in the first few weeks of the tax filing season, we experienced some delays in processing a subset of e-filed returns. These were temporary issues that affected a subset of taxpayers who filed in late January and early February, and the issues were resolved by mid-February. And, even with the delays, the IRS was generally delivering refunds in our normal 10 to 21 day time frame. I recognize that this group of taxpayers encountered delays this filing season and we regret the inconveniences caused.

Even with these initial issues, the overall average refund timeline remained steady in FY 2012 when compared to FY 2011. In other words, the delays were isolated to early issues in the filing season, and after that IRS was processing tax returns according to normal refund timelines.

Toll-Free Telephone Performance

High quality toll-free telephone service – both assistor and automated – is an extremely important tool in answering taxpayer questions, helping them navigate an extremely complex tax code and making voluntary compliance easier.

As of March 3, 2012, IRS telephone assistors answered 7.3 million calls. The IRS also completed 29.5 million automated calls – a 45.5 percent increase over last year's 20.3 million calls, reflecting a growing taxpayer appetite for quality self-serve options.

Accuracy rates for both customer tax law and account questions remain in the 90-plus percentile with minimal change over last filing season's levels.

Website Usage and New Media

IRS.gov continues to be the favorite source of information for millions of taxpayers. As of March 3, 2012, there were over 157 million visits to IRS.gov – a 35 percent increase over the same time period last year. Use of the “Where’s My Refund” electronic tracking tool continued to post double-digit yearly gains. IRS.gov/Español offers many of the same services and information in Spanish.

Taxpayers can also use electronic tools, such as the Earned Income Tax Credit (EITC) Assistant, to determine if they qualify for the refundable tax credit or a withholding calculator to help them determine the right amount of tax to withhold from their paychecks.

The Interactive Tax Assistant (ITA) is an expanded resource this filing season that provides consistent answers to a limited number of tax law questions using a probe and response process. The ITA will guide you to accurate answers that are not readily addressed through simple Frequently Asked Questions.

As previously noted, the IRS is increasingly employing social and new media to reach taxpayers who do not get their information from traditional sources. For example, during the week of February 10-17, 2012, our YouTube Video “When Will I Get My Refund?” had more than 254,000 views. Our “tweet” and subsequent “re-tweets” on the “Dirty Dozen” tax schemes reached almost 28,000 people. The IRS Video in English is currently the 4th most viewed Federal Government YouTube channel with nearly three million total views.

Taxpayer Assistance Centers (TACs)

As of March 3, 2012, approximately 1.16 million taxpayers were served at TACs – a nearly five percent decrease over the previous year. In addition to IRS help, community organizations partner with the IRS. Volunteer Income Tax Assistance programs assist people who earned \$50,000 or less, and Tax Counseling for the Elderly programs assist individuals age 60 and over with their 2012 income tax return preparation and electronic filing. Many of these sites have Saturday hours while others offer assistance at various times during the week.

Limited English Proficiency (LEP)

Today, the IRS offers language services to LEP taxpayers, thereby affording them the same access to Federal benefits and services as English speakers. We now have more than 2,300 bilingual employees who provide services to LEP taxpayers; a Spanish language web site; and a Multilingual Gateway that provides information in Chinese, Vietnamese, Korean and Russian. A telephone interpreter service is also available in more than 170 languages, and more than 600 tax products have been translated into languages such as Spanish, Chinese, Vietnamese, Russian and Korean.

Identity Theft

Mr. Chairman, I know that the Committee staff has been working closely with IRS staff. I would simply like to reiterate that the IRS is intently focused on executing a two-pronged identity theft strategy that focuses on both fraud prevention and victim assistance. We continue to improve our programs to prevent and detect identity theft and although we cannot stop all identity theft, we are working hard to resolve issues created when identity theft occurs. And in calendar year 2011, the IRS protected \$1.4 billion in refunds from being erroneously sent to identity thieves.

Finally, working closely with the Justice Department, IRS criminal investigators are pursuing those who are behind these schemes. In January, the IRS and Justice

Department announced a nationwide sweep that targeted 105 people in 23 states, and our efforts in this area continue.

THE ADMINISTRATION'S FY 2013 BUDGET REQUEST FUNDS KEY PRIORITIES

The Administration's Fiscal Year 2013 Budget request for the Internal Revenue Service is approximately \$12.8 billion, a \$944.5 million increase (8%) over the FY 2012 enacted level but only a \$639.3 million increase (5.3%) from the level enacted for FY 2011. A significant portion of the increase from FY 2012 represents the Administration's request to restore lost resources resulting from reductions in IRS funding made over the past two years. This request is designed to provide the resources necessary to administer and enforce the current tax code, implement recent changes to the law to update the Code and serve the American taxpayer in a timely manner.

To collect the revenues required to fund the policies passed by Congress and meet long-term obligations to the American people, the IRS FY 2013 funding request reflects a continued commitment to improving tax compliance through the balance of quality taxpayer service with fair enforcement of the tax laws. It also supports the Administration's strategic goal of managing the government's finances in a fiscally responsible manner.

As noted in the introduction to my testimony, the IRS consistently achieves a high return on investment for its activities while running a fiscally disciplined operation. In FY 2013, the IRS expects to identify nearly \$71 million in cost savings from increased use of electronic return filing, reductions in non-case related travel and streamlining operations.

Enforcement Program

The FY 2013 Budget request includes \$403 million in new IRS enforcement activities, which are expected to raise \$1.48 billion in revenue annually at full performance, once new hires are fully trained and develop broader experience by FY 2015. The return on investment is 4.3-to-1. The return on investment is even greater when factoring in the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

The enforcement budget also includes \$200 million in additional examination and collection programs that will generate more than \$1.1 billion in additional annual enforcement revenue by FY 2015. Investments such as these in IRS enforcement programs are especially important to further the IRS' mission of improving tax compliance.

Specific areas where the proposed FY 2013 funding will enable the IRS to continue to strengthen enforcement efforts and reduce the tax gap include:

- Improving international compliance by individual and business taxpayers. In FY 2013, the IRS will continue to address offshore tax evasion by individuals through such efforts as increased examinations and the special offshore voluntary disclosure program. To ensure business entity compliance, the IRS will provide additional international technical specialists to increase coverage of complex international transactions;
- Protecting revenue by expanding efforts to identify fraud and prevent issuance of questionable refunds, including tax-related identity theft. The increase in funding will help support efforts to reduce erroneous refund payments, including non-compliant and fraudulent claims by prisoners and claims for the EITC by ineligible taxpayers;
- Implementing tax law changes that make available the use of new information reporting requirements to help address the underreporting tax gap; and
- Enhancing IRS oversight of complex financial situations, including transfer pricing and uncertain tax positions.

Return Preparer Initiative

The FY 2013 Budget request includes \$35 million to strengthen return preparer compliance. It bears repeating that this initiative is one of the most important that the IRS has undertaken in recent years, the foundation of which is mandatory registration for all paid tax return preparers. In addition, the IRS is developing requirements to establish mandatory competency testing and continuing education for preparers to ensure that taxpayers are hiring preparers who have a minimum level of competency and adhere to professional standards. This initiative is core to the IRS' tax gap strategy and will increase government revenue, and support high-priority, preparer-related enforcement activities.

Implementation of Tax Law Changes

The request provides \$128 million to support IRS efforts to implement programs that are designed to ensure compliance with a number of recent changes to the tax laws, and to help taxpayers understand them. Recent tax law changes include the reporting provisions related to merchant payment cards and third party reimbursements (included in the Housing and Economic Recovery Act of 2008), basis reporting on securities sales (included in the Emergency Economic Stabilization Act of 2008), and the non-exchange related tax law changes included in the Affordable Care Act (ACA).

Infrastructure Requirements

The FY 2013 Budget also requests funding for the IRS to continue the development of new information technology systems, and substantial modification and enhancement of

existing systems necessary to implement the new premium assistance tax credit and other tax law provisions related to the insurance exchanges created in the ACA.

Taxpayer Service Program

The FY 2013 request provides funding for the IRS to continue delivering services using a variety of in-person, telephone and web-based channels to help taxpayers understand their tax obligations, correctly file their returns and pay taxes due in a timely manner.

The IRS is committed to expanding the use of electronic transactions, including increasing the e-file rate and expanding taxpayer service options available over the Internet. In 2011, there were more than 322 million visits to IRS.gov, and more than 78 million taxpayers checked their refund status by accessing Where's My Refund? in English or in Spanish on our website.

Business Systems Modernization

In FY 2013 the IRS will continue the modernization of its IT systems. It will strategically invest in state-of-the-art capabilities, such as online taxpayer services, and focus on the second phase of the CADE 2, to ensure the long-term viability of IRS tax processing systems.

In 2012, the IRS delivered the most significant update to its core tax processing system in decades. As noted, through the deployment of the first phase of CADE 2, the IRS transitioned to a daily processing cycle from a weekly batch cycle. Also for the first time, IRS processing systems began accepting all 1040 forms electronically through a modernized e-filing capability.

EXPLANATION OF BUDGET ACTIVITIES

Taxpayer Services

The FY 2013 President's Budget request is \$2,253,133,000 in direct appropriations, an estimated \$24,050,000 from reimbursable programs, and an estimated \$142,742,000 from user fees, for a total operating level of \$2,419,925,000. This appropriation funds the following budget activities.

Pre-filing Taxpayer Assistance & Education (\$625,931,000 from direct appropriations, \$1,151,000 from reimbursable resources)

This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing & Account Services (\$1,627,202,000 from direct appropriations, \$22,899,000 from reimbursable resources, and an estimated \$142,742,000 from user fees)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. This budget activity also provides operating resources to administer the advance payment feature of the Trade Act of 2002 (Public Law 107-210) health insurance tax credit program, which assists dislocated workers with their health insurance premiums.

Enforcement

The FY 2013 President's Budget request is \$5,701,670,000 in direct appropriations and an estimated \$73,604,000 from reimbursable programs, and an estimated \$17,750,000 from user fees, for a total operating level of \$5,793,024,000. The total direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity cap adjustment totaling \$691,028,000, of which \$276,964,000 will be funded from the Enforcement account. This appropriation funds the following budget activities.

Investigation (\$688,296,000 from direct appropriations, and an estimated \$61,633,000 from reimbursable resources) This budget activity funds the criminal investigations programs that uncover criminal violations of the internal revenue tax laws and other financial crimes, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.

Exam & Collections (\$4,846,749,000 from direct appropriations, and an estimated \$11,307,000 from reimbursable resources) This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It includes programs such as specialty program examinations (employment tax, excise tax and estate and gift exams), and international collections and examinations. The budget activity also supports appeals and litigation activities associated with exam and collection.

Regulatory (\$166,625,000 from direct appropriations, an estimated \$664,000 from reimbursable resources, and an estimated \$17,750,000 from user fees) This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return

Preparer initiative is funded within this activity in addition to the Office of Professional Responsibility which is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2013 President's Budget request is \$4,476,200,000 in direct appropriations, an estimated \$37,564,000 from reimbursable programs, and an estimated \$57,958,000 from user fees, for a total operating level of \$4,571,722,000. The direct appropriations level includes an additional appropriation for tax enforcement and compliance activities funded through a program integrity cap adjustment totaling \$691,028,000, of which \$414,064,000 will be funded from the Operations Support account. This appropriation funds the following budget activities.

Infrastructure (\$987,730,000 from direct appropriations, an estimated \$889,000 from reimbursable resources, and an estimated \$21,867,000 from user fees)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services & Support (\$1,348,363,000 from direct appropriations, an estimated \$20,207,000 from reimbursable resources, and an estimated \$11,700,000 from user fees)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equity, diversity and inclusion programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$2,140,107,000 from direct appropriations, an estimated \$16,468,000 from reimbursable resources, and an estimated \$24,391,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain and operate the information systems critical to the support of tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of the mainframes, servers, personal computers, networks, and a variety of management information systems.

Business Systems Modernization

The FY 2013 President's Budget request is \$330,210,000 in direct appropriations. This appropriation funds the following budget activity.

Business Systems Modernization (\$330,210,000 from direct appropriations)

This budget activity funds the planning and capital asset acquisition of information technology to continue the modernization of IT systems, including labor and related

contractual costs. In FY 2013, the IRS will strategically invest in state-of-the-art capabilities, such as online taxpayer services and focus on the second phase of the core taxpayer account database, CADE 2, Transition State 2, to ensure the long-term viability of IRS tax processing systems.

LEGISLATIVE PROPOSALS

The President's FY 2013 Budget request includes a number of legislative proposals intended to improve tax compliance with minimal taxpayer burden. These proposals will target the tax gap and generate more than \$12 billion over the next ten years. The IRS estimates the implementation cost for the proposals to be \$80.2 million over three years, including the initial startup, processing and compliance operational costs.

The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended by the Budget Control Act (BCA) of 2011, to allow adjustments to the nine-year (FYs 2013-2021) discretionary caps to permit program integrity cap adjustments in support of additional IRS investments.

CONCLUSION

In conclusion, let me thank the subcommittee again for this opportunity to discuss the 2012 filing season and IRS Budget Request for FY 2013. Both reflect the progress and improvements the IRS continues to make – even in a difficult budget environment. Through its balanced and targeted investments in key enforcement, service and business modernization programs and initiatives, this budget will ensure that the IRS will continue its vital role in keeping our nation and economy healthy and strong.

Ms. JENKINS. Thank you, Commissioner Shulman. I think we will turn to questioning now. We will alternate between sides with five minutes being given to every member.

Last year, you testified to the Committee that enforcement and customer service are not an either/or proposition, providing quality taxpayer service, especially during a filing season, is important to help taxpayers avoid unintentional errors, inadvertent non-compliance, and reduce other burdensome post-filing interactions with the IRS.

So far this filing season, access to live IRS assisters is down to 65 percent and taxpayers are waiting an average of 18 minutes to talk with an IRS assister.

The rate of taxpayers getting busy signals or that are disconnected from the IRS has roughly doubled, yet this is not a new problem but rather seems to be just a bad trend.

Since 2004, the percentage of answered calls has dropped from 87 percent to 70 percent in 2011. Last year, the average wait time was 12 minutes, and in 2007, it was five minutes or less.

Personally, I have heard from Kansas CPAs that it is not uncommon to be on hold for 30 minutes.

According to GAO, this decline in customer service has occurred despite the number of full time equivalents dedicated to answering the phones, having increased from 8,000 in fiscal year 2007 to 8,800 in 2011, and despite greater use of automated answers and self service website options.

It seems to me that the IRS has placed greater emphasis on enforcement at the expense of service, yet as you told us last year, the lack of service for those who have questions will only lead to greater non-compliance than if those questions had been answered.

Can you help me better understand a few things? First, what actions are being taken to ensure that taxpayers are able to reach a live IRS assister?

Secondly, given your belief that the IRS must deliver both enforcement and customer service, do you think this budget request focuses too much on enforcement while sacrificing customer service, and then finally, does the IRS consider this to be an acceptable level of service?

Mr. SHULMAN. Thanks for bringing up a set of important issues. First, let me repeat what I told you last year and what I talk about a lot with our employees, Members of Congress, and everyone involved in the tax system.

It is not an either/or proposition. We need to run service operations and compliance operations to make the nation's tax system work.

Let me put in context the resources that we have this year to put towards both enforcement and customer service.

We had a \$300 million budget cut, which was \$1.2 billion less than the President had requested for service and enforcement last year.

We also had to absorb for rent and other kinds of increases about \$200 million of inflation, and \$66 million was put into our technology accounts, which we are very appreciative of, so if you take 300, 200, 66, we had a \$566 million reduction in our core services and enforcement accounts.

What we are trying to do is do the best we can with the resources we were given.

Last year, our phone level of service was about 70 percent. This year, it is running at about 66 percent, even though we had predicted about 61 percent, and the reason for that is we have really squeezed efficiency. We have routed calls. More people are using automated answering systems, and people are using our website.

As you said, the wait is longer. At a certain point, we can squeeze as many efficiencies out of technology and other efficiencies

as we can, but it comes to how many people do we have answering phones.

Volume is up, so the numbers you gave that said we have more people, we also have much more volume. We have more taxpayers. We have a more complicated Tax Code right now.

Another number that is interesting to look at is how many people hang up in the first couple of minutes. We have added a feature that tells them how long a wait.

We say if you want to, use our web, use our automated phone, or call back when there is less time, then our phone level of service this year is 77 percent, if you take away the people who hung up in the first couple of minutes.

I guess my view of this is we have taken a whole bunch of actions. At a certain point, we need money to invest. You need people to answer phones for live service.

I am pretty proud that while service is down, it has not degraded to a point where it could have gone given the cuts, and the answer to your last question, which is do we think it is acceptable, you know, I want everyone who contacts the IRS to get what they need from the IRS.

This year, everyone is not getting what they need from the IRS, but I think we are doing a pretty good job given the resources we were given.

Ms. JENKINS. Okay. Thank you, Commissioner. I am just looking at data, and the budget cuts compared to the level of service, they do not always follow, given this information from the GAO.

We would just encourage you to continue to work on that, and we would be delighted to work with you in any way we can.

With that, I would recognize Mr. Lewis for five minutes.

Mr. LEWIS. Thank you very much, Madam Chair.

Mr. Commissioner, the GAO notes there has been a 34 percent increase in the number of calls for this filing season, and about a 50 percent increase in calls answered by the automated service.

Can you tell us what the taxpayers are calling about? What are the nature of the calls?

Mr. SHULMAN. You know, calls can be anything from people want to set up a payment plan to people are curious, I am filling out my return and I am going to take this deduction, how does that work, just general tax law questions, to questions about where is my refund, I filed last Friday, and my preparer told me I would get a refund on Wednesday and I have not gotten it.

Calls vary. We can get you a specific breakdown of what the calls are.

Mr. LEWIS. Thank you very much. We understand IRS is requesting a cap adjustment of about \$700 million for next year's budget to fund the enforcement program.

What are your plans if any if the Agency does not receive these resources?

Mr. SHULMAN. Well, we are still early in the congressional budget and appropriations cycle, so we are quite hopeful. In the past, we have had broad bipartisan support for cap adjustments.

The most recent cap adjustment was 2006 in 2007 with a Republican President and a Democratic controlled Congress.

We actually think this is a bipartisan proposal. It reflects the Administration's belief that prudent investments in the IRS are good for deficit reduction, so that there should be cap adjustments for our budget. Investments for us is good for the long term for the tax system.

Right now, I think our position is that for this budget program, integrity cap adjustments are good for the system, that people should agree with it, and we have had good productive conversations in both the House and Senate about it.

Mr. LEWIS. Mr. Commissioner, could you tell Members of the Subcommittee, how has the \$300 million budget cut impacted taxpayer service this year, and what taxpayer service has been reduced?

Mr. SHULMAN. For Ms. Jenkins, I walked through the notion of there is \$300 million at the top, but the impact is greater, given where the resources were put in our budget.

I think we have a slight dip in number of taxpayers served in walk-in centers, but we have had a corresponding increase in number of taxpayers served in volunteer VITA sites, where we encourage them to go, because we work in partnership with community organizations.

Our phone level of service is down by about four percent compared to last year, although automated calls are up, and the wait times are longer.

I guess the way I characterize it is there has been a predictable effect because of less resources. With that said, I am quite proud that we have been able to mitigate some of that effect by making sure we work smart and we really drive efficiencies as hard as we can.

Mr. LEWIS. Thank you very much, Mr. Commissioner. I yield back, Madam Chair.

Ms. JENKINS. Thank you, Mr. Lewis. Now we will give five minutes to the Representative from Minnesota, Mr. Paulsen.

Mr. PAULSEN. Thank you, Madam Chair.

Thank you, Commissioner, for being here today. I just wanted to follow up on a letter I sent to you not too long ago.

In the last year, you have been talking a lot or a great deal about this concept of a real time tax system, and have had a number of actually public meetings on the issue as well.

I know there are benefits to receiving real time verification and having that information on hand, but I am concerned that the cost could outweigh the benefits, particularly in the sense that having this filing system could lead to a burden that is very similar to the 1099 provision that was being rolled out as a part of the President's new health care law, which would have been a nightmare for America's employers, small and large.

If the IRS is going to make this real time system work, I am sure you are going to want to have all the data earlier than is required today, you probably are going to want more 1099 data as well.

Just looking at what has been discussed today, it seems that compressing this reporting time line is going to make it more challenging for reporting requirements for pretty much a very onerous and burdensome process right now.

Let me ask you this, what are you doing right now to work with existing stakeholders, with the business community, you know, to kind of get their feedback, their buy in, as part of this?

There is no doubt increased regulatory and compliance costs are a big deal now for employers. It is one of the reasons I think on that level of uncertainty you mentioned on some tax rate issues and AMT and extender issues, but I know this is a factor as well.

Can you talk a little bit about that? Have you conducted any studies of the increased cost to businesses of changing deadlines, for instance, for reporting informational returns or increasing better reporting requirements, or would you agree to an independent study as part of that process? Would that make sense?

Mr. SHULMAN. Thanks, Mr. Paulsen, it is great questions and an important set of issues. Let me give you perspective on it.

I view one of my jobs as Commissioner to make sure I am helping prod the tax system forward so it works better for the American people ten years and 20 years from now than it does today.

The combination of consumer expectations of us working better and quicker and more timely with taxpayers with the advances in technology, clearly there is room for us to think about a future that works better for people.

What really struck me is the average taxpayer, if they have an interaction with us beyond just filing, that interaction is they have their economic activity one year, they file their return the next year, and it can take us a year to two years to reach out to them.

By the time we go back to them, they have either spent their refund or their records and all the memory is gone, whether it is a small business or individual.

I think the current system actually adds a lot of burden to people, and we have heard that.

I laid out this vision that said what if we could clear everything up rather than coming back to them on the back end at the time they filed, which is the simplest way to think about this.

I also recognize all the things you said, which is this is something that would affect all the stakeholders in the tax system, from taxpayers to tax preparers to information return filers.

The way we went about this is the way I think a public agency should go about this, which is we held a series of public meetings, which I hosted, with stakeholders, the broad range of stakeholders, to get their input.

What we heard universally is basically makes sense, we would all love to have everything work faster in the tax system, but we need to make sure we work through the details together in a constructive fashion so that we do not add burden in the process.

What we are doing now is taking the next step and really developing detailed vision about what this would mean.

I think there has been some misunderstanding. We have never suggested speeding up or adding more information reporting. We have asked questions about what do people have now, when is it ready, and when could they get it to us, not is there more or would they have to start doing what they already do faster.

We have asked ourselves internally, how do our systems work, and when could we do this kind of matching.

Mr. PAULSEN. Let me just ask you this, time is kind of running out here. How much will an upgraded system cost, to sort of encapsulate all of this, that would be needed to run this type of system?

How many years would it take to build and test? You are here justifying the budget in terms of the request that Congress would give to the President, for instance, or the Administration, to run your operations.

Mr. SHULMAN. Way too early. This is a vision that we are having conversations with stakeholders on. The first step is laying out exactly what it would mean.

There are a bunch of things we can do right away, which is just process things through our system quicker, so we could have quicker engagement.

I cannot tell you. There is no blueprint right now. We have laid out a vision. We have had a broad set of stakeholder engagements, and we are now moving in to have the next round of stakeholder engagements.

Mr. PAULSEN. Would it be safe to say that you plan to have an actual proposal for Congress to have feedback on at some point as a part of your vision?

Mr. SHULMAN. I think for sure we will have public proposals. We will have plenty of time for interaction.

Mr. PAULSEN. Thank you.

Ms. JENKINS. Thank you. We will recognize Representative Becerra for five minutes.

Mr. BECERRA. Thank you, Madam Chair.

Commissioner, always good to see you. By the way, thank you for the work that you are doing, given the real budgetary constraints that you are facing, and if you will pass along to each and every one of your employees who are doing yeoman's work, I cannot imagine the stress they are under given that you have thousands of Americans waiting to connect with them on the phone, who are waiting 10/20 minutes, and many of them very unhappy that they have to wait that long.

I think after two or three minutes, most Americans tend to hang up on any phone call where they are having to be put on hold.

I hope we will get this done in a smart way. I do not think the first thing we want to do is short change the Agency, which already has a tough task, and that is asking Americans to voluntarily pay their taxes, and where we have Americans who do so to watch as others do not, it is very frustrating.

We do not want to undermine the voluntary compliance rates that we have in this country by Americans who pay their taxes.

Please share with all the folks you work with that we thank them very much, and also tell that gentleman right over there, Mr. Williams, that we thank Floyd Williams for all his years of service.

We are going to miss him because he has been a tremendous asset to not just Congress but to the American people because of the service he has provided to the IRS and to us as the go between, between your Agency and the Congress. We are going to miss him, and we want to say, Floyd, to you, thank you for all the service you have provided over the years.

Your initiative on tax preparer's, that universe of people out there who are representing themselves as competent and qualified to prepare American's tax returns, and get paid to do it.

We know there are some great ones, but we know there have been some that have just ripped off the American public.

It is hard to believe you need a license to cut someone's hair, but in America, you do not need a license to prepare someone's perhaps most important financial documents.

I thank you for the initiative to try to bird dog that industry and make sure competent folks are the ones that are preparing our taxes.

I am distressed. As I sit and listen to what you are saying, you have lost 5,000 employees. Your budget was cut \$300 million.

We know when you do tax compliance enforcement, that dollar you spend to have that investigator and those folks who follow through to make sure people are complying with payment of the taxes they owe, that you return \$6 for every \$1 we invest in you to do that.

For us to be cutting \$300 million from your budget, it is distressing. The last thing we want is stories of how some over zealous tax agent goes and busts someone's door down to try to collect taxes.

The truth is for the most part, you have employees who do just yeoman's work to try to help their fellow American's prepare their taxes.

I hope that you will sound the alarms, if they are alarms, on the ability for us to pay our taxes the right way voluntarily.

My understanding is, and correct me if I am wrong, that we now estimate that some \$385 billion annually is not paid in taxes that are either avoided or intentionally not paid in this country.

Is that the estimate now, \$385 billion?

Mr. SHULMAN. That is the tax gap estimate for tax year 2006.

Mr. BECERRA. That is more money than we would fund you for how many years?

Mr. SHULMAN. A lot.

Mr. BECERRA. It is just incredible. We have American's who are voluntarily paying their taxes. You have a whole bunch of other American's who unfortunately are not doing what they should or at the level they should, so the responsible taxpayers in this country are having to cover for those who are not.

You can go out and figure out who they are, if you just had the compliance money, the enforcement money, to go out there and find them.

Many of them make errors, simple errors. I think most of those American's are ready to pay their fair share. Others are not. Others are trying to send their money overseas and do things that they should not, and we should make them pay their fair share.

I just hope that we go out there and do this the right way.

Is there any hope that with the funding that you are getting that you can fulfill everything that we are asking you to do?

Mr. SHULMAN. Well, it is very much the prerogative of Congress to fund us, and whatever Congress ends up giving us, we will do the best that we can.

I am quite proud of this Agency delivering on multiple fronts over the last several years and especially this year in a decreased budget environment, and really trying to balance compliance and service.

I think we are doing a good job.

Ms. JENKINS. Thank you. The time has expired. Ms. Black is recognized for five minutes.

Mrs. BLACK. Thank you, Madam Chair, and thank you, Mr. Shulman, for being here.

We are all talking about limited dollars. We need to spend our dollars in the best way we possibly can.

I was reading a report just recently from the Treasury Inspector General for Tax Administration, who found billions of dollars in Federal education credits that were issued in error.

What I am really trying to get to here is number one, to save, to make sure we are giving the money to the people that really deserve the money, so that we can use it in the budgetary process to fund those places, such as yourself, that can continue to do a good job.

It is very disturbing when I see here how much money this represents that was potentially given to those who do not deserve it.

I just want to read a couple of things out of that report. 1.7 million taxpayers received \$2.6 billion in education credits for students for whom there was no supporting documentation in the IRS files that they even attended an educational institution.

Almost 380,000 of these individuals claims students were not eligible because they did not attend the required amount of time or were post-graduate students, resulting in an estimated \$550 million in erroneous education credits, 64,000 of those taxpayers erroneously received \$88 million in education credits for students claimed as a dependent or a spouse on the other one's return. It was a double payment. 250 prisoners erroneously received over \$255,000.

It says here that it was identified that a valid Social Security number is required for Federal student aid, but not for these educational credits.

That just blows me away. I know when we were talking about the child tax credit at one of the other hearings, that was told to us, that it was not a requirement that they have a Social Security number.

I am not sure how you track that when you do not have a Social Security number being used.

I want to go to trying to find ways to help you, what we can do, what kind of tools we can do and give you so you can have the authority to say we are not going to process this return, it does not have the proper information on there.

A Social Security number just seems like an easy thing to me, not sending it to a prison would seem like an easy thing, as well as making sure they attended the classes, or at least attended a college, and perhaps maybe a valid school EIN number would also help, to make sure that when those credits are being processed, that you have all the information to verify that truly they qualify for those.

Can you help me out with that?

Mr. SHULMAN. Sure. Thanks for bringing it up and I appreciate the offer of help. We can always use help.

A couple of things. One is we have significantly stepped up our effort to crack down on fraud. Last year we stopped \$14 billion in potentially either fraudulent or mistaken credits from going out the door.

The specific report that you referenced, I just want to point out a couple of things.

There was an Inspector General report a couple of years earlier that showed that there was huge error rate on the 1098's, which are the education reports we get.

While that report said there could have been that level of fraud, there is also a recognition that the documents they were using to match might not have been accurate documents, meaning the education institutions often do not send in the right information, so it is not always clear the student was not there, even though it came up.

With that said, the answer to what we can get to help, if we want to block a credit because we think there is not right documentation, if we do not have math error authority, we have to go through a full fledged audit, which is resource intensive, and it comes to people.

Even if we see an issue, if we do not have people who will follow up, answer the phone, engage with the taxpayer, we cannot block it, because we cannot change their return.

If we have math error authority tied to certain provisions, then we can block it and change the return without going through a full fledged audit.

We requested in this budget math error authority for a couple of things.

The second that you mentioned, prisoners, authorization for us to share information with prisons, so there can be a real punishment for a prisoner, like losing privileges or put in solitary confinement if they try to defraud the system, our authorization in Congress to actually share information back with prisons so we can have that kind of dialogue expired at the end of last year.

Re-upping that authorization is another thing you all could do to help.

Mrs. BLACK. This math error authority, you need to be given that. Is that by law?

Mr. SHULMAN. Yes.

Mrs. BLACK. We do have to change the law. Do you already have the authority to require there be a Social Security number on that form?

Mr. SHULMAN. That is a whole different issue. Certain tax credits, you have to have a Social Security number. Certain tax credits, you do not.

The ones you are mentioning, you do not. It is not a requirement. If Congress decides that only people with Social Security numbers can get that credit, then that would have to be up to Congress. We cannot stop it because it is not a requirement at this point.

Mrs. BLACK. Okay. I know some ways we can help you. Thank you.

Mr. SHULMAN. Thank you.

Chairman BOUSTANY. [Presiding] Commissioner Shulman, good to see you. I apologize for arriving very late to this hearing.

Before I recognize Mr. Reed for his questions, I want to take a moment to recognize Floyd Williams for his 15 years of service at the IRS. I think it is a total of what, 35 years of Government service? Sir, we want to thank you as you move on to what I hope is a good retirement. Thank you for your service.

With that, Mr. Reed, you are recognized for five minutes.

Mr. REED. Thank you very much, Mr. Chairman. Thank you, Commissioner, for being here with us today.

Commissioner, I would like to explore—I really try to rely on data when we make decisions here in Congress.

One thing that I have a concern with is on the enforcement initiatives, you have certain projections on return of investment for those enforcement initiatives.

I am sure you are familiar with the issue we are going to talk about here.

I believe for 2013 you proposed an enforcement initiatives' return on investment will be 1.9 to 1. 2015, you project, it is my understanding, the return on the investment for those enforcement initiatives will be 4.3 to 1.

Historically, I read some reports that projected that by 2012, there was supposed to be a 7.8 return on investment to a dollar.

Do you confirm those numbers, those estimates, those projections with actual data? If you do, how do you do that? If you do not, why do you not do that?

Mr. SHULMAN. It is a great question. Let me give you how I think about return on investment and exactly what backs it up.

First of all, we are very conservative in the numbers we give you. The people that we know do those jobs, a rolling ten year average on the exact enforcement initiatives.

If we are going to hire 20 Grade 13 examiners for an excise tax, we look at ten year rolling average, how much revenue comes in directly from those people making adjustments that actually comes into the Treasury.

It is a look back ten year rolling average of those numbers.

I actually think those way understate the impact because the real game of running the tax system and the real objective is the \$2.4 trillion that comes in every year, which most of those people we do not engage with in that kind of activity.

Our job is to run good service, so when people call, they get answers to questions. Compliance coverage where there is the most risk, so that if you get an audit, your neighbors know that you get an audit around specific issues and it drives voluntary compliance.

Another way to look at our numbers is a \$12 billion budget, give or take, \$2.4 trillion in revenue, every dollar invested brings you \$200, or a smaller way to look at it is we have what we call our turk numbers, which are real dollars in the door every year.

Last year, it was about \$55 billion. The year before, it was 57. The year before, it was 49. That is literally people go out, make an adjustment, people go through the adjudicatory process, and bring money into us. That is a 5 to 1 return.

The numbers you gave us are based on very specific activities in a granular way based on the kind of people that do those activities, looking back ten years, how does that tie to those turk numbers.

Mr. REED. Is it fair to say your testimony is they are based on actual data where you go back and confirm the numbers?

You are looking at actual data, when you project the 1.9 to 1 for 2013, return on investment, you will be able to show us at the end of 2013 the actual data that confirms whether or not you had an 1.9 to 1 return on investment?

Mr. SHULMAN. I think we will be able to—what I said was I think it is very good numbers. It is ten year rolling averages. I think things spike and they move, so this is an estimate.

2013 might not be exactly that. It might be higher in 2013 or lower, but over a ten year period, I think you are going to see it average out to be that amount.

Mr. REED. I guess that is my question. In 2012, it was projected to be a 7.8 to 1 return on investment. Was it 7.8? What was the number for 2012 on your enforcement initiatives' return on investment?

Mr. SHULMAN. Again, I do not think you want to look at these things as year point in time, and you do not want to encourage us to do that.

What you want to encourage us to do is get the right resources that over time are going to drive the right taxpayer behavior.

These numbers are ones we certainly consult with GAO and OMB on. I think we are very comfortable with these numbers, and we have ongoing dialogue.

Mr. REED. You bring up a great point when you bring GAO into the conversation. My understanding in reading some of their materials is they are very concerned that you are not using actual data to confirm those projected return on investment numbers that you are giving to us.

Mr. SHULMAN. I would not characterize it as very concerned. I think they have said we can together work on methodology, and we are actually having those staff conversations on a regular basis.

Mr. REED. Okay. You are working with GAO to come to some sort of—

Mr. SHULMAN. Absolutely, but again, I feel very comfortable in our numbers, and if anything, I think they understate the return.

Mr. REED. I appreciate that. I appreciate the work you do, Commissioner, I really do. I appreciate all the work you do over there. It is a tough job.

Mr. SHULMAN. Yes, I know. Thank you. These are great questions because we need to be accountable for delivering results.

Mr. REED. Thank you. With that, Mr. Chairman, I yield back. Chairman BOUSTANY. Thank you. Commissioner Shulman, again, welcome.

Does the IRS have available resources with the current budget to tackle new enforcement responsibilities? Do you have the resources available to take on new enforcement responsibilities?

Mr. SHULMAN. Earlier I was saying we try to do the best we can with the budget that Congress gives us. Obviously, we have a big job to do, and we try to balance across the board all the things we do.

We have requested in the 2013 budget some new resources for some of the new legislation that has come through, and we are quite hopeful we will get that.

Chairman BOUSTANY. In reviewing the President's 2013 budget proposal, this proposes saddling the IRS with additional enforcement responsibilities by shifting alcohol and tobacco tax and trade bureau duties of enforcing tax provisions related to alcohol and tobacco to the IRS with no funding allocated in this budget to pursue those kinds of violations.

Is that something you have had internal discussions with others in the Administration about?

Mr. SHULMAN. I am sorry, Mr. Chairman. What are you referring to in the budget? I do not think there is a major shift in the budget.

Chairman BOUSTANY. I think the 2013 budget proposes giving you additional enforcement responsibilities by shifting alcohol and tobacco tax and trade bureau duties to the IRS.

Mr. SHULMAN. I should get back to you on this. I do not think there is a full shift proposed.

In the past, we have been reimbursed to have some of our investigators help them with some investigations, and that is what I am aware of that has happened in the past.

Chairman BOUSTANY. If you could just get me some clarification on that, I would appreciate it.

Mr. SHULMAN. Sure.

Chairman BOUSTANY. One other question. It has come to my attention and I have gotten a number of letters just recently.

We have seen some recent press allegations that the IRS is targeting certain Tea Party groups across the country requesting what have been described as onerous document requests, delaying approval for tax exempt status, and that kind of thing.

Can you elaborate on what is going on with that? Can you give us assurances that the IRS is not targeting particular groups based on political leanings?

Mr. SHULMAN. Thanks for bringing this up. I think there has been a lot of press about this and a lot of moving information. I appreciate the opportunity to clarify.

First, let me start by saying yes, I can give you assurances. As you know, we pride ourselves on being a non-political, non-partisan organization.

I am the only—me and our chief counsel are the only presidential appointees, and I have a five year term that runs through presidential elections, just so we will have none of that kind of political intervention in things we do.

For 501(c)(4) organizations, which is what has been in the press, organizations do not need to apply for tax exemption. Organizations can actually hold themselves out as 501(c)(4) organizations and then file a 990 with us.

The organizations that have been in the press are all ones that are in the application process. First of all, I think it is very important to emphasize that all of these organizations came in voluntarily.

They did not need to engage the IRS in a back and forth. They could have held themselves out, filed a 990, and if we would have

seen an issue, we would have engaged, but otherwise, we would not.

The basic rules around 501(c)(4) organizations are they need to be primarily engaged in promoting the common good and general welfare of their community. They can be involved in political and campaign activity, but it cannot be their primary purpose.

When people apply for 501(c)(4) status, what we do is engage them in a number of questions about making sure we understand their primary purpose around this and other sorts of engagement.

What has been happening has been the normal back and forth that happens with the IRS. None of the alleged taxpayers, and obviously, I cannot talk about individual taxpayers, and I am not involved in these, are in an examination process. They are in an application process, which they moved into voluntarily.

There is absolutely no targeting. This is the kind of back and forth that happens when people apply for 501(c)(4) status.

Chairman BOUSTANY. Finally, is it fair to say that there has been no change in IRS practice with regard to what triggers audits and so forth with regard to tax exempt organizations as a whole?

Mr. SHULMAN. So, as a whole, we have audits based on risk criteria, coverage requirements, et cetera. In the area of political activities, just to make extra sure that folks are very insulated, we actually have a committee of three career professionals who are not based in Washington, D.C., that any time an audit will be triggered because of potential political activity or if there is a referral from a Member of Congress and other kinds of things that could be viewed as political, that group of three actually first looks at it, so no single individual can launch an audit. It has to be agreement amongst three.

Then the decision would be made for an audit based on resources, risk, allegations, facts, et cetera, and it would be shipped out to an auditor to do that audit.

That has been the practice for many years for anything to do with political activity, and that is the practice now.

Chairman BOUSTANY. I thank you for your answer. Mr. McDermott, do you want to inquire? You may inquire.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

I want to shift the questions just a little bit or the issues you have been dealing with here.

I have a lot of LGBT clients or constituents. They have been approaching me about the problems of dealing with the IRS on how to file their income taxes, and are having the experience of having more than one source give them a different answer.

They are not quite sure—they are spending some of them twice as much as a married couple would spend to get their income tax done. They have gotten married under the law, but suddenly, when they ask questions about certain things, it is just not clear what the answer is.

I am wondering, is there any single place or perhaps should there be a single place where they can call and find out the answer to a question or some place in the IRS where somebody takes this issue and begins to give definitive answers?

Mr. SHULMAN. Great question. I am aware of the issue. We have actually tried to do a bunch.

First of all, it is a very complex issue for these taxpayers because under state law, these taxpayers have a different legal status than under Federal law, because of some of our Federal laws.

Under state law, they often split the income but under Federal law, they have to actually file separately.

We recognized there was a lot of confusion, so we actually consolidated and put a group together who worked and put out a whole set of frequently asked questions that answered a lot of these questions.

We realized that as laws have changed around the country, this has been an issue. We have been engaging with the community around this, and I think we have clarified a lot of questions.

Let me just say until you have state laws and Federal laws recognizing couples the same way, this is going to remain difficult for people.

Some of the things people have asked us to do, we cannot do under the law.

Mr. MCDERMOTT. When they are filing their income tax federally, I suppose if you have a different thing at the state level, but federally, if they are doing it together, they cannot do it together. Is that what you are saying?

Mr. SHULMAN. It all depends. Different states have different domestic partnership laws. State returns often piggy back on Federal returns, but recognizing couples as couples is different depending on which state and also Federal laws are different.

Mr. MCDERMOTT. The piggy backing off the Federal tax return sort of works in reverse at the state level. They are going to have to change some state laws to actually make this rational.

Mr. SHULMAN. It adds complexity to these taxpayers filing. We have tried very hard to make sure we do our job, like we do with all taxpayers, which is we have a set of taxpayers with specific issues, we get a team together. We worked on these things. We did outreach and engagement, and we tried to really clarify what we could clarify.

Mr. MCDERMOTT. If I had a question, what number would I call to get the answer?

Mr. SHULMAN. You would dial our 800 number.

Mr. MCDERMOTT. That number should get you to somebody who will give you the same answer day after day, you will not get two different answers?

Mr. SHULMAN. That is our hope. We track accuracy and consistency, and they are always in the high 90s.

Mr. MCDERMOTT. All right. I appreciate that. It is an issue I hear from the District a lot, and I want to know what it is that you have tried to do, and we will see if we need to do something about it and we need to look at it.

Thank you.

Chairman BOUSTANY. With your indulgence, Commissioner Shulman, Mr. Becerra has one follow up question.

Mr. BECERRA. Mr. Chairman, thank you for generously allowing me to ask one last question.

Commissioner, two weeks ago, I sat down with my tax preparer and went over my taxes in preparation to file. He has been doing

this forever. He is an enrolled agent. He is licensed and all the rest.

He said to me, you know, I was always supportive of what you all were doing with regard to the tax preparer's, trying to get us to be a more defined group.

He gets folks who come in to correct taxes that have been filed improperly by folks who prepared these things and charged people money and did it the wrong way.

He asked me a question. He said it seems to me like a lot of us who have done this for a long time are the ones that are being asked to go through the process to certify that we are competent and all the rest.

I said to him my sense is that everyone is going to be at some point touched by the IRS as it is moving toward the effort of trying to certify that folks are competent to be out there representing themselves as qualified preparer's of tax returns for money.

The Chairman was gracious enough to indulge me. I am wondering if you can tell us what the status is of the initiative at the IRS to try to help do the bird dogging, the oversight, of tax preparer's, and maybe respond to the question of who is being contacted in the tax preparer world by the IRS to follow up?

He said he had to go through some courses or programs to test his qualifications and so forth.

If you could just give us a quick sense of where things stand.

Mr. SHULMAN. Sure. First, similar to what I talked about with the real time system, this is a big initiative. We had multiple public hearings around the country, vetted it with a report, put out regulations with lots of public comment, so we have had a lot of engagement with the preparer community around this.

This is really about partnering with the preparer community to make sure taxpayers are served well.

Status is we have had about 840,000 people apply and receive PTINs, which is preparer tax identification number. About 60 percent of those were not already an enrolled agent, a CPA, or a lawyer.

Mr. BECERRA. Wow.

Mr. SHULMAN. Enrolled agents, your preparer and CPAs and lawyers who already had higher level qualifications, had already gone through their own set of competency testing, already had ongoing continuing education requirements, were not required to take the test, because they have already taken a test, or have continuing education.

Your preparer should not have had to take a test if he was already an enrolled agent.

We have about 840,000 people who have signed up. Last Fall, we started administering the competency examination, and we have a number of people through that.

One of our promises to the American people was that we were not going to cut out preparer services. We wanted to make sure people still could get service.

There are a lot of very competent preparer's who have been preparing returns for 20 to 30 years who have not taken a test in a while, so we gave them three years to pass the test.

People are now starting to pass the test. You do not actually become a registered tax return preparer until you pass the test. All you do is have the PTIN right now.

Now people are starting to move through the test, and we have had several thousand who have taken the test, and we expect that number to grow.

We started approving continuing education providers. This year, continuing education requirements kick in.

We are well on our way to move there. The last thing I would say is this filing season, we had the PTIN. We had CADE processing everything faster. We have a lot better data analytics.

We were able to look at preparer's who had really egregious problems with their returns, go out to them immediately, in late January, with visits, letters, phone calls, and really start to engage the preparer community to make sure they are treating taxpayers well.

We are very pleased with the status of the initiative, and that is a broad overview.

Mr. BECERRA. Thanks very much. Mr. Chairman, thank you very much.

Chairman BOUSTANY. Mr. Kind, you may inquire.

Mr. KIND. Thank you, Mr. Chairman. I apologize. I was a little bit late. I was tied up in another meeting.

Commissioner Shulman, thank you for your testimony and for the work you are doing. We really appreciate it.

Obviously, there are a lot of issues that are pending. I had a chance to review the National Taxpayer Advocate Report, and I am sure you all at the IRS pay attention to that as well.

Obviously, some of the disturbing trends that they see in that report is mainly the inadequacy of funding for the IRS in order to do your job adequately and serve the citizens of our country.

In particular, they were concerned because of funding cuts and the inadequacy of resources, what that means to the IRS' ability to address the non-compliance issue.

The concern is it is only going to go wider, if there is a lack of confidence or belief in the IRS when it comes to compliance measures, it is only to exacerbate the situation.

Do you agree with what the report was stating in regards to enforcement of non-compliance?

Mr. SHULMAN. Well, we had budget cuts. We try to do the best we can with those budget cuts. We talked for a while before about service. We have not really talked a lot about compliance.

Clearly, we are doing less exam's this year, and we have to triage and find places. We are doing less collection activities. It is going to result in less money coming in than otherwise would have come in.

The big trend I am worried about is if we do not stem the tide in the 2013 and 2014 budget, you get to a point where there is enough news about compliance rates being so low, but still, a lot of people are going to pay their taxes because they are honest, hard working Americans, and they want to pay into the society they feel benefits them.

But if people want to push the envelope, which some do, and want to cut corners, if they think we are not on the job, then they will do so.

I think the general comments about you cannot have a long term trend of degrading compliance resources, because that really starts to hit voluntary compliance, and I think the specific of just less funding means less dollars in the door. That is simple math.

Mr. KIND. Let me ask you a couple of questions. We are approaching the second anniversary of passage of the Affordable Care Act.

One of the provisions is they did allow tax credits to small businesses who do provide health care coverage for their workers, 35 percent this year. It is supposed to go to 50 percent in 2014 with the creation of the exchanges.

There are moments back home when some small business owners come to me and complain about the complexity of that tax credit and having to fill that out.

What is your opinion on that? Is that an item where the IRS or us working with you can try to simplify that process to make it easier for small businesses to qualify for that tax credit?

Mr. SHULMAN. Yes. One, it is obviously an important tax credit for small businesses, to help them afford paying for health coverage for their workers, which is a key component of the Affordable Care Act.

I think it is a very complex credit. We have heard from a lot of practitioners and small businesses that the phase out's around that and other issues have made it very hard for people to (a) understand if they can hit the sweet spot where you get the credit, and (b) sometimes discourages people from actually taking advantage of the credit.

The President's budget actually has a simplification proposal in it, which works on the phase out's and other issues to make it hopefully much more attractive to small businesses, and Congress taking up and passing that, I think, would be beneficial.

Mr. KIND. You think that makes a lot of sense, what the Administration has looked at and what they are proposing?

Mr. SHULMAN. Yes.

Mr. KIND. What about in 2014, with the exchanges, there is going to be a lot of credits for the individuals within the exchange market?

Is the IRS making preparations in order to deal with that, and are you on track?

Mr. SHULMAN. Yes. We are making preparations. We are on track. The majority of the work we are doing and the people we have to hire is to build technology systems to interact with the state exchanges and the Federal exchange, so that an estimated 30 million people can get over a ten year period \$400 billion of tax credits.

I testified yesterday before our Appropriations Committee. What I said to them is I understand there is heartfelt policy debate about the Affordable Care Act, and there are some Members of Congress who do not like it. There are members who like it.

The bottom line is come 2014, there is going to be a lot of constituents in every District who are going to expect a tax credit

when they show up at the exchange, and we need to get funded appropriately in the 2013 budget to prepare for that.

We are on track. We are spending money now based on authorization that came through the bill, but we are going to need to get financial support because we have a big job to do.

Again, we are not involved in health policy. We are involved in moving the money to help make the law work.

Mr. KIND. Thank you, Commissioner. Thank you, Mr. Chairman.

Chairman BOUSTANY. You know, this broader question of the complexity of the Tax Code should give impetus to all of us to look at fundamental tax reform.

I know the Chairman has set that as a goal. I think it is something we should do in a bipartisan way.

Commissioner Shulman, thank you for appearing before us today. As is customary, please be advised that members may have additional questions that they may submit to you in writing, and those questions and your responses will be made part of the official record.

With that, we will conclude the Subcommittee hearing.

[Whereupon, at 10:39 a.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

The Honorable Scott R. TiptonSCOTT R. TIPTON
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NATURAL RESOURCES
SMALL BUSINESS**Congress of the United States
House of Representatives
Washington, DC 20515-0603**

March 23, 2012

The Honorable Charles W. Boustany
Chairman of the Subcommittee on Oversight Committee on Ways and Means
1101 Longworth HOB, Washington DC, 20515

Dear Chairman Boustany:

I appreciate you holding the March 22, 2012, hearing on Internal Revenue Service Operations and the 2012 Tax Return Filing Season. Unfortunately, due to scheduling conflicts I was unable to attend. However, I would sincerely appreciate you including my comments in the Congressional Record for this hearing.

I am concerned with IRS efforts in relation to compliance that seem to be targeting the tax-exempt sector through new requests for additional information, as well as what I'm told is an unnecessary increase in audits on this particular sector.

I would like to submit for the Congressional Record one example of the additional information requests that are being made of numerous groups in my state and congressional district. I find these additional requests to be extremely burdensome, invasive, and irrelevant when it comes to determining the status of these 501C3 and 501C4 organizations. I have heard from several Tea Party and liberty groups, who would appear to be unfairly targeted, about these practices and after examining the questions, many of these seem irrelevant with respect to determining their status. Requesting extremely detailed information with regards to certain membership activities, candidate forums, and even civic voter registration drives is worrisome, and it is my hope that this is legitimate and not intended to complicate the filing process for political reasons.

I am further troubled, as your staff indicated, that the IRS did not respond to your October 11, 2011, letter or your March 1, 2012, letter that posed many good questions and requested more information on these practices.

In summary, it is my hope that the IRS would respond to your previous questions, explain the rationale behind the collection of such information, and also explain what groups are being forced to answer these additional information questions.

Thank you in advance for taking the time to consider my comments. Moving forward please let me know if you have any questions or need any additional information. I look forward to working with you during my tenure in Congress.

Sincerely,


Scott Tipton
Member of Congress

National Community Tax Coalition



NATIONAL COMMUNITY TAX COALITION

Helping low-income families and businesses

Maintaining Quality Tax Services in the 2012 Filing Season

Comments on the 2012 Tax Return Filing Season for the House Ways & Means Subcommittee on Oversight

By Jackie Lynn Coleman, Executive Director, National Community Tax Coalition

April 2, 2012

Chairman Boustany, Ranking Member Lewis and Members of the House Ways and Means Subcommittee on Oversight: Thank you for the opportunity to share our thoughts on tax-filing matters and Internal Revenue Service (IRS) operations, in conjunction with your March 22 hearing on these subjects.

The National Community Tax Coalition (NCTC) is the nation's largest, most comprehensive network of community-based providers offering free tax preparation and financial services to low- and moderate-income working families through Volunteer Income Tax Assistance (VITA). In the 2011 filing season, our member organizations operated more than 6,200 Community VITA sites that leveraged the help of more than 53,000 trained and certified volunteers throughout the country. These efforts helped households meet their tax obligations by filing about 1.5 million federal returns, obtaining more than \$2 billion in tax refunds.

In our comments, we'd like to briefly address three main points:

- NCTC and Community VITA programs have approached this filing season with a heightened commitment to accuracy and quality for the taxpayers we serve.
- We identified and expressed concerns about service problems experienced by taxpayers early in this filing season, but are encouraged by the progress IRS is making in responding to many of these challenges.
- The IRS cannot adequately handle its increasing responsibilities with fewer resources.

NCTC and Community VITA programs have approached this filing season with a heightened commitment to accuracy and quality for the taxpayers we serve. This is particularly important in light of last year's annual audit of the VITA program by the Treasury Inspector General for Tax Administration (TIGTA).

The TIGTA audit raised several concerns about quality and accuracy in a review of 36 returns that were filed by VITA and Tax Counseling for the Elderly (TCE) sites. These concerns were treated very seriously by both the VITA field and the IRS Stakeholder Partnerships, Education and Communication (SPEC) office, which oversees the VITA program.

Corrective actions were taken immediately when auditors uncovered problems during the 2011 filing season; these included mid-season closures of three tax preparation sites. IRS SPEC implemented – and the VITA field voluntarily adopted – several other important actions for this filing season to ensure high standards and the best quality of services for taxpayers, including:

- **New ethics requirements for VITA providers** – To curb future instances of inappropriate behavior, SPEC adopted mandatory ethics training for all VITA volunteers and certified staff, who are also now required to pass an ethics exam. The training and exam have been successfully implemented throughout the VITA field.
- **NCTC Quality Pledge** – In the wake of the TIGTA report, NCTC's Quality Assurance Working Group helped develop a new Quality Pledge for the VITA field. It allows programs and volunteers to publicly reaffirm their commitments to quality and accurate tax-return preparation. Several programs have directly responded to NCTC with their commitments and have been featured in our publications and on our website; NCTC is now moving to make Pledge commitments a mandatory part of our affiliates' membership and membership-renewal processes.
- **2012 NCTC "Formula Five for the Field"** – NCTC annually releases to VITA programs our collective recommendations for ensuring continued improvements in quality of services to taxpayers. This year's recommendations were:
 1. **100% Quality Review** – It is critical that every single tax return is properly reviewed, as required by regulations, and all reviewer checklists are completed.
 2. **Quality Review Procedures and Training** – All sites have developed and implemented clear procedures for review and have provided staff and volunteers with practical training on these procedures.
 3. **Utilize Quality Review Results** – Programs should recognize and respond swiftly to any errors in tax preparation, as they occur, and use quality reviews for ongoing volunteer training throughout the season.
 4. **Research Tax Issues** – Staff are staying on top of the latest tax information and disseminating new information as it arises, to keep volunteers well-informed and well-educated, eliminating guesswork in tax preparation.
 5. **Limit Tax Issues** – It is crucial that the only returns prepared are those within the scope of knowledge of volunteers and the level of expertise at the site.

For a more complete picture of SPEC's responses to audit concerns – as well as other positive actions taken by SPEC – we would refer you to the full TIGTA audit, which is posted online at www.treasury.gov/tigta/auditreports/2011reports/201140094fr.pdf. NCTC would like to reiterate our members' commitment to quality, accuracy and high standards in our important work of helping low- and moderate-income, working families to meet their tax obligations.

We take great heart in the fact that the IRS' own, statistically valid review of 724 returns prepared by VITA – known as the Quality Statistical Sample – revealed an 87 percent accuracy rate for the entire population of tax returns prepared at volunteer sites last year, reflecting a 2 percentage-point increase from the previous year. In fact, evaluations consistently rank VITA's accuracy rates among the highest rates for all types of tax preparation services. Our goal is to continue building upon such successes, for the well-being of the individuals and families served by VITA – work benefitting greatly from the support of Congress.

We identified and expressed concerns about service problems experienced by taxpayers early in this filing season, but are encouraged by the progress IRS is making in responding to many of these challenges.

As filing began in mid-January, some taxpayers seeking information about free tax preparation from the IRS hotline established for that purpose were experiencing delays of up to 50 minutes in having their calls answered. Others could not find the information they needed on the IRS web page designed for that purpose.

NCTC raised these matters with the IRS and SPEC leadership, and – by early February – some improvements already were noted. Hotline wait times appear to have shrunk considerably, and the online VITA locator page no longer is missing entire states' worth of site information.

We applaud these improvements and other positive steps the IRS has taken to deal with such challenges as computer-driven delays in taxpayer refunds. We pledge to work with the agency to apply lessons already learned from this tax season toward the improvement of filing in 2013, and we already have shared with the IRS several relevant ideas. These include further upgrades in the VITA hotline, as well as upgrading the "IRS2Go" mobile-device application with VITA-location functionality to provide low- and moderate-income taxpayers with another avenue for finding free tax-filing assistance.

The IRS cannot adequately handle its increasing responsibilities with fewer resources.

Finally, as IRS representatives have related, their workload and obligations are increasing even as their budget has been cut. The agency has about 5,000 fewer employees today than just a few short years ago – about 3,000 fewer enforcement staff and 2,000 fewer in taxpayer services. Obviously, these moves cannot come without ill effects. Through March 3, Taxpayer Assistance Centers had served 5 percent fewer taxpayers than they had the previous year, and are actively referring people to VITA sites for help. VITA is forced to shoulder increasing responsibilities when TACs and other assistance are unable or unavailable to help taxpayers – even though VITA's own federal resources are not growing, and its state and local dollars are being slashed.

We urge Congress to avoid further cuts in the IRS, and instead to invest further in the agency and its capacity and services for helping taxpayers to comply with their responsibilities. A strong IRS supports the collection of a strong revenue stream, which is more necessary than ever to sustain a strong nation.



National Treasury Employees Union



Statement of Colleen M. Kelley

National President

National Treasury Employees Union

On

**“Internal Revenue Service Budget for FY 2013 and the 2012
Tax Filing Season”**

Submitted to

House Ways and Means Subcommittee on Oversight

March 22, 2012

Chairman Boustany, Ranking Member Lewis and distinguished members of the Subcommittee, I would like to thank you for allowing me to provide comments on the Administration's FY 2013 budget request for the Internal Revenue Service (IRS) and the 2012 tax filing season. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

IRS FY 2013 BUDGET REQUEST

Mr. Chairman, NTEU strongly supports the Administration's FY 2013 budget request for the IRS. We believe that the President's request will allow the IRS to continue helping taxpayers meet their tax obligations while also improving enforcement of the tax law.

We are particularly pleased the Administration's budget request would provide critical increases for Service enforcement and taxpayer service activities that have been reduced in recent years, and would allow the IRS to rebuild its workforce which is down by almost 25,000 since 1995.

I would also note that in previous years, NTEU has supported the budget recommendations proposed by the IRS Oversight Board which have generally called for additional resources above that requested by the Administration. For FY 2013, the Oversight Board has recommended \$13.764 billion in funding for the IRS. While we have not seen the specific details of the Board's proposal, we would be inclined to support providing additional funding for the IRS above the Administration's request and look forward to reviewing the Board's recommendation.

IMPACT OF UNDER FUNDING THE IRS

Mr. Chairman, as you know, despite the critical role that the IRS plays in helping taxpayers meet their tax obligations and generating revenue to fund the federal government, the IRS' ability to continue doing so has been severely challenged due to the lack of adequate funding in FY '11 and FY '12.

For FY '11, the full year CR provided IRS with \$12.121 billion in funding, roughly its' FY '10 level of \$12.146 billion, less a 0.2% rescission, which strained IRS' capacity to carry out its important enforcement and taxpayer service missions and led to a general freeze on hiring.

In FY '12, funding for the IRS was again reduced by almost \$330 million below its FY '10 level. In addition to hampering IRS' ability to collect revenue and assist taxpayers in a timely manner, the FY '12 funding reductions resulted in the loss of more than 3,800 FTE's below the FY '11 enacted level at a time when the workload is dramatically increasing and staffing levels are more than 20% below what they were 15 years ago. In 1995, the IRS had a staff of 114,064 to administer the tax law and process 205 million returns. Today, they have just 90,711, yet must administer a much more complicated tax code and process approximately 236 million, much more complicated, tax returns.

The dangers associated with underfunding the IRS cannot be overstated and have been highlighted in recent reports by the IRS Oversight Board, IRS Advisory Council, and most recently, by the National Taxpayer Advocate. In her most recent Annual Report to Congress, the National Taxpayer Advocate identified inadequate funding for the IRS as the most serious problem facing taxpayers. The report noted that a lack of sufficient resources, coupled with a rising workload and increasingly complex tax code, was negatively impacting IRS' ability to carry out its taxpayer service mission and assist efforts to reduce the federal deficit.

In particular, Olson noted that IRS' capacity to respond to taxpayer inquiries has been severely diminished, to the extent that now the IRS is unable to answer three out of every ten calls it receives, and nearly half of all taxpayers who write to the IRS must wait more than 6 1/2 weeks for a reply. In addition, recent funding cuts resulted in a drop in the telephone level of service from 74 to 70 percent between FY '10 to FY '11. Because of expected higher call demand and new legislation requiring more training for telephone assistants, the Administration's FY'13 target level of service is 63 percent.

In addition to delays in correspondence and reduced telephone levels of service, NTEU has also received reports from our members about abnormally long wait times for taxpayers seeking assistance at many of the walk-in Taxpayer Assistance Centers (TACs) around the country due to insufficient staffing. According to the IRS, 107 out of the 398 TACs located around the country are currently being staffed by just one or two employees, while overall staffing at many TACs is half of what it was just 8 years ago. The lack of sufficient staffing has greatly increased wait times at the TACs and has hampered the ability of TAC employees to provide taxpayers with the personal one-on-one assistance that they need. Inadequate staffing and availability of service at TACs has long been a problem at the IRS and has previously been highlighted by the National Taxpayer Advocate as a serious problem disproportionately impacting the most vulnerable populations who use TACs most often, including low income taxpayers, those with language barriers, the elderly and the less educated.

In addition to the adverse impact on taxpayer services, the Taxpayer Advocate's Report also noted that the lack of adequate resources was also undermining IRS' ability to effectively implement its enforcement and compliance initiatives, hampering its ability to maximize revenue collection and close the tax gap. Because of the IRS' unique role in generating revenue that funds the federal government, Olson urged Congress to view providing sufficient resources for the IRS as an investment rather than an expense.

We are pleased the President's budget proposal acknowledges the importance of providing IRS with the necessary resources to generate critical revenue for the federal government and devotes a significant portion of the increase from FY '12 to restoring lost revenue resulting from reductions in funding over the past two years.

TAXPAYER SERVICES

NTEU strongly believes that helping taxpayers understand their tax reporting and payment obligations is the foundation of taxpayer compliance. Through a variety of channels, the IRS is able to provide year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call

centers, the IRS.gov web site and Taxpayer Assistance Centers (TACs). These efforts have enabled the IRS to continue raising the standard of service to America's taxpayers and assisted in efforts to improve voluntary compliance even during this challenging budget environment.

The IRS' comprehensive approach to taxpayer service played a critical role in allowing it to deliver a successful 2011 filing season, despite the challenges presented by reduced funding and enactment of tax legislation in late December 2010. During this time, IRS employees processed more than 144.7 million individual returns and issued 109 million refunds, totaling \$345 billion; answered more than 42 million automated calls and 34.2 million assistor calls; responded accurately to 93.4 percent of tax law questions and 96 percent of account questions; and helped millions of taxpayers at the 398 Taxpayer Assistance Centers located around the country.

But, without the additional funding proposed in the Administration's budget request, NTEU believes taxpayers will continue experiencing a degradation of services including difficulty seeking telephone assistance, delays in responses to letters, including those seeking to resolve issues with taxes due, delayed responses to small business owners or individual taxpayers looking to set up payment plans, and difficulties for those seeking answers on tax deductions and credits due under the tax codes. As noted previously, IRS' ability to respond to taxpayer inquiries has already been diminished due to the FY '12 funding cuts which are resulting in a very challenging filing season.

NTEU strongly believes providing quality services to taxpayers is an important part of any overall strategy to improve compliance, and that the President's request for additional funding for taxpayer services will help prevent further degradation of services and enable the IRS to deliver a successful filing season next year.

ENFORCEMENT

Mr. Chairman, NTEU believes that in the current budgetary environment, it is critical that the IRS has the resources it needs to maximize taxpayer compliance, reduce the tax gap and generate critical revenue for the federal government.

IRS' ability to generate critical revenue necessary to reduce the federal deficit is clear. In FY '11, on a budget of \$12.1 billion, the IRS collected \$2.42 trillion, 92 percent of federal government receipts. This means that, for every \$1 that Congress appropriated for the IRS, the IRS collected about \$200 in return.

However, reductions in enforcement funding in FY '11 and FY '12 have undermined IRS' ability to maximize taxpayer compliance and bring in much needed federal revenue. In FY '11, the IRS generated \$55 billion in enforcement revenue, down from \$57.6 billion in FY '10. The reduction in revenue can be partly attributed to a reduction in the total number of revenue officers (ROs) and revenue agents (RAs). Despite the critical role they play in maximizing taxpayer compliance and generating revenue, the total number of ROs and RAs were reduced by almost 450 between FY '10 and FY '11, and are down almost 20 percent since 1995.

The need for sufficient enforcement staffing is more important than ever. In January the IRS released a new set of tax gap estimates for tax year 2006. The tax gap is defined as the amount of tax owed by taxpayers that is not paid on time and is the most comprehensive and up to date data that IRS has on noncompliance. According to the IRS, the amount of tax not timely paid is \$450 billion, translating to a noncompliance rate of almost 17 percent.

While the tax gap can never be completely eliminated, even an incremental reduction in the amount of unpaid taxes would provide critical resources for the federal government.

That is why NTEU was happy to see the Administration's budget request would provide a \$402 million increase in funding for IRS tax enforcement above the FY 2012 level, including additional resources made available through a program integrity cap adjustment.

The increased funding will be invested in Service enforcement programs designed to increase compliance by addressing offshore tax evasion, reduce the underreporting tax gap, and restore revenue lost from FY '12 reductions to examination audit and collection programs. According to the IRS, these investments are expected to generate \$1.48 billion in additional annual enforcement revenue, resulting in a return on investment (ROI) of more than 4 to 1, once new hires reach full potential in FY 2015. This estimate does not account for the deterrent effect of IRS enforcement programs, estimated to be at least three times larger than the direct revenue impact.

At a time when Congress is debating painful choices of program cuts and tax increases to address the federal budget deficit, we believe it makes sense to invest in one of the most effective deficit reduction tools: collecting revenue that is owed, but hasn't yet been paid.

NTEU urges support for the Administration's request for an additional \$691 million in enforcement funding for FY '13 through a program integrity cap adjustment for high revenue generating enforcement activities. This \$691 million in funding, coupled with additional investments through 2022, will support a variety of compliance activities, including new initiatives that deepen and broaden IRS' focus on international tax compliance of high net worth individuals and entities. These investments are expected to generate an additional \$44 billion in additional tax revenue over ten years.

In recent years, both Democratic and Republican Administrations have requested and Congress has approved, integrity cap adjustments for IRS enforcement activities. President Bush's FY 2006 budget proposal included a program integrity cap adjustment for IRS enforcement of \$446 million. Congress approved that amount and in 2007 the IRS stated in Congressional testimony, "much of the enforcement success in FY 2006 was the direct result of this increased funding provided by the program integrity cap adjustment." Congress also approved an \$890 million cap adjustment in FY 2010.

The Budget Control Act of 2011 specifically allows for other program integrity cap adjustments for Social Security disability claim reviews and health care fraud and abuse programs. The Senate version of the Budget Control Act also included an IRS enforcement program integrity cap adjustment, but it was not included in the final legislation. Clearly, Congress recognized the wisdom of small spending increases when they will be more than offset

by large returns on investment. NTEU strongly supports the President's request for additional enforcement funding for FY '13 above the current level, including additional funding made available via a program integrity cap allocation adjustment.

CONCLUSION

Mr. Chairman, thank you for the opportunity to provide NTEU's views on the Administration's FY 2013 budget request for the IRS and the 2012 tax filing season. We believe that by restoring critical funding for demonstrably effective enforcement and taxpayer service programs, the Administration's request will allow the IRS to continue providing America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the federal deficit.

