

**FINANCIAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2016**

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**TUESDAY, MARCH 3, 2015**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 2:35 p.m., in room SD-124, Dirksen Senate Office Building, Hon. John Boozman (chairman) presiding.  
Present: Senators Boozman, Moran, Coons, and Mikulski.

**DEPARTMENT OF THE TREASURY**

**OFFICE OF THE SECRETARY**

**STATEMENT OF HON. JACOB LEW, SECRETARY**

**OPENING STATEMENT OF SENATOR JOHN BOOZMAN**

Senator BOOZMAN. The Subcommittee on Financial Services and General Government will come to order.

Good afternoon. The subcommittee, as I said, will come to order. Today marks the first hearing of the Financial Services and General Government Subcommittee for the 114th Congress. This is also my first hearing as subcommittee chairman, and I am pleased to serve alongside the new ranking member, my good friend Senator Coons.

I would also like to acknowledge the other members of our subcommittee—Senator Moran, Senator Lankford, and Senator Durbin. Although our subcommittee is small, the number of agencies we fund is large, and their impact on our economy is significant. I am confident that our members are up to the task before us.

As we begin this important hearing to review the budget request of the Department of the Treasury and the Internal Revenue Service, we welcome our witnesses, Secretary Jacob Lew, Commissioner John Koskinen—Koskinen. I will bet I am not the first one that struggled with that a little bit. Boozman? Boozman?

VOICE. It took me 4 years to learn it. So you got more time.

Senator BOOZMAN. Very good. And the Treasury Inspector General for Tax Administration, J. Russell George.

Thank you for being here. We look forward to your testimony.

As members of this subcommittee, we have a tremendous responsibility to ensure the hard-earned tax dollars from millions of Americans are spent appropriately. Unfortunately, the President has put forth a budget that is out of touch with the needs and con-

cerns of hard-working taxpayers. In his budget for fiscal year 2016, the President proposes to create \$2.1 trillion in new taxes, increase spending by 65 percent, and add \$8.5 trillion to the debt over the next 10 years.

While hard-working Arkansans have been forced to cut their spending significantly in the last few years, the President has been unwilling to do the same in Washington. Our country is in need of serious budgeting. All too often, Washington loses sight of the fact that every dollar the Government spends comes out of the pocket of the taxpayer and is one less dollar that a taxpayer could spend to provide for their family, grow their businesses, or help their neighbor.

As members of this subcommittee, we have a responsibility to ensure that decisions about Federal funding are made with those taxpayers in mind. Nowhere is the need for oversight more apparent than in the agencies before us today.

When the Internal Revenue Service (IRS) takes actions that breach the trust of the American people, it undermines taxpayers' faith in the impartiality of the agency. This self-inflicted damage harms the credibility that is essential for our voluntary compliance system to function.

Americans have lost faith in the institution, and you have a responsibility to regain their trust. We have all heard too often that investigations into these issues are distracting and that everyone should move on. Unfortunately, to taxpayers, these responses appear to reflect a continued lack of accountability and a lack of leadership.

To repair that damage, there has to be fundamental change in the agency's culture, and that change must begin with complete transparency and acceptance of responsibility. And unfortunately, there is continued evidence of a culture that is simply out of touch with taxpayers.

For example, hiring employees with past performance or conduct issues undermines the public trust in tax administration. Additionally, it weakens the public's confidence in the IRS's ability to safeguard taxpayers' rights and privacy.

Making bonuses a priority does not help the IRS regain the trust of taxpayers or raise confidence that the agency will enforce tax laws impartially without regard to an individual's exercise of their constitutional rights.

As was the case in the previous fiscal year, in 2015, one of the IRS's first actions after the enactment of their appropriations bill was to announce they would pay out \$67 million in awards to employees. Once again, IRS management seems to have forgotten that their most important customers aren't their own employees. They are the American people.

It is disappointing to see that the IRS budget request is again unrealistic. The President's request for the IRS for fiscal year 2016 is almost \$12.9 billion, a \$2 billion increase.

Under the Budget Control Act, the discretionary spending caps for fiscal year 2016 limit nondefense spending to \$493 billion. This represents an increase of \$1.1 billion over the fiscal year 2015 level for nondefense departments and agencies.

Yet for fiscal year 2016, the IRS has increased, has requested—I am sorry. Yet for fiscal year 2016, the IRS has requested a base increase that is higher than the total increase available for all non-defense discretionary spending. Also troubling is the request for an additional \$667 million above the limit on spending set by current law.

Treasury and the IRS are fully aware that such cap adjustments were not included in the Budget Control Act of 2011. No cap adjustment for the IRS has been authorized since then.

Given this fact, submitting an unrealistic request simply sets unreasonable expectations. This is even more troubling when funding for critical work—for example, to protect taxpayers in the future from the trauma of identity theft—is left to be funded through a cap adjustment.

The American people want a government that works for them, not against them. They want us to curb Washington's wasteful spending habits; make the Government more efficient, effective, and accountable; and pursue policies that create economic opportunities for everyone.

These are the priorities of the American people. They will be reflected in the critical oversight we conduct as we consider the fiscal year 2016 budget request for all of the agencies within our jurisdiction.

And with that, I yield back and turn to Senator Coons.

STATEMENT OF SENATOR CHRISTOPHER A. COONS

Senator COONS. Thank you, Mr. Chairman.

Thank you for bringing us together today. I look forward to working with you, and I hope that with new blood, new energy, and a new approach, we might build a strong partnership on the subcommittee.

I would like to welcome our witnesses. Secretary Lew, Commissioner Koskinen, and Inspector General George, I look forward to your testimony. You have important and difficult jobs under challenging scenarios, and I just want to thank you for your service at the outset.

Responsible stewardship of taxpayers' hard-earned money is among the most important obligations we have in public service. As members of the Appropriations Committee, it is important we work diligently and together to uphold the trust our constituents put in us. I recognize there will be areas where we disagree, but it is my sincere hope we can approach our work with the seriousness it deserves.

Today, we consider the budget for the Treasury Department, an agency central to our Government's stability and our Nation's fiscal health. I welcome the chance to examine Treasury's budget request and have what I hope will be a frank discussion about what is required to fulfill your responsibilities.

Now I am eager to learn how Treasury has adapted to budget constraints and how you will deal with resource competition and competing demands. Much of Treasury's budget goes to the IRS, but there are a number of important bureaus and functions I look forward to hearing about.

Three in particular, I am pleased the President requested strengthening the Community Development Financial Institutions Fund, the CDFI Bond Guarantee Program, and the State Small Business Credit Initiative. I believe programs like these can provide access to capital for small businesses around the country and help them to grow jobs and support affordable housing and develop communities. I look forward to talking more about those.

I do have concerns about the Department's proposal to cut funding for the Office of Terrorism and Financial Intelligence, given pressing issues and the sanctions enforcement against Iran and Russia. I look forward to hearing your thoughts on that topic.

No Government agency is more visible to the American people than the Internal Revenue Service. It collects the revenues that fund 95 percent of our Federal Government, and each year, more than 80,000 public servants at the IRS make hundreds of millions of contacts with taxpayers as the face of Government to more Americans than any other agency.

It is my hope, as the National Taxpayer Advocate has suggested, that the IRS could be best described as the accounts receivable department of our Government, and not by less positive monikers. For fiscal year 2016, the President's budget requests an 18 percent funding increase for the IRS.

On this point, I think it is valuable that we reflect on the fact that while there is, I think, a broad bipartisan dislike of paying taxes, we shouldn't cut off our nose to spite our face. The more we cut IRS funding, the harder it becomes for the agency to respond to the needs of taxpayers, to investigate tax fraud or abuse.

I hear from Delawareans who are frustrated when their calls go unanswered or it takes an interminably long time to connect and get responsible answers to questions. I am sure many other Senate offices have the same experience.

Every dollar cut from the IRS budget results in \$7 fewer revenue collected, by one estimation by former IRS Commissioner Douglas. That was a 2011 estimate.

So we have a lot to discuss today, ways that we can improve the functioning and operation of the IRS, its responsiveness and engagement, ways that we can improve the functioning and operation of the Treasury Department.

The fiscal year 2016 funding forecast is not encouraging, as significant budgetary constraints do remain in place, and I look forward to hearing Secretary Lew and Commissioner Koskinen's perspectives on what is required to deliver top-notch service to taxpayers and to enforce our laws with integrity and fairness.

#### PREPARED STATEMENT

I look forward to working with you, Chairman Boozman, and to having an open exchange of ideas as our hearings progress.

Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF SENATOR CHRISTOPHER A. COONS

Thank you, Mr. Chairman, for bringing us together today. I'm looking forward to working together with you and hope that with new blood, new energy, and new enthusiasm we can build a strong partnership on this subcommittee.

I'd like to welcome our witnesses, Secretary Lew, Commissioner Koskinen, and Inspector General George. You have incredibly difficult and important jobs under challenging scenarios, so I am thankful for your service and appreciate you joining us here today.

Responsible stewardship of taxpayers' hard earned money is among the most important obligations we have in public service. And as members of the Appropriations Committee it is critical that we work diligently, together, to uphold the trust our constituents have put in us. Of course, I recognize there will be areas where we disagree, but it is my sincere hope that we can approach our work with the seriousness and humility it deserves.

Today, on this subcommittee, we consider the budget for the Treasury Department, an agency that is central to our Government's stability and our Nation's fiscal health.

I welcome today's opportunity to examine the Treasury Department's budget request and have what I hope will be a frank discussion about where the Department is today, where it needs to be, and how we can work together to help Treasury fulfill its vital and broad responsibilities.

At a time of constrained budgets, I am eager to learn from our witnesses about how Treasury has adapted. I know that a gap has remained in recent years between what the Department has requested and how much funding it has received. If that persists, what will be the impact on Treasury's ability to carry out its important missions? How will Treasury prioritize scarce resources amid competing demands?

I'd encourage our witnesses to use today's public forum as an opportunity to clearly articulate their most compelling case for what they need and why.

It's critical that we gain a deeper understanding and appreciation for how funding and management decisions will affect Treasury's operations in the next year and in the years to come.

Now, while most of the Treasury Department's funding will go to the IRS, the Department includes a number of other bureaus and offices that carry out a wide array of important activities, from forecasting economic indicators and managing the Federal Government's spending, to combatting money laundering and fighting financial crimes.

There are three programs in particular, for which I'm pleased the President has requested increased funding or strengthening—the Community Development Financial Institutions fund, CDFI bond guarantee program, and the State Small Business Credit Initiative. Programs like these provide access to capital for small businesses around the country. They help businesses create jobs, build affordable housing, develop our communities, and grow our economy, especially in economically distressed neighborhoods.

I do have concerns, however, about the Department's proposal to cut funding for the Office of Terrorism and Financial Intelligence, which has the critical responsibility of enforcing economic sanctions. At a time when sanctions regimes with Iran and Russia are at the forefront of our foreign policy, it's crucial that we track and halt the financing of terrorist groups like ISIL, we need to ensure we devote to the office adequate funding. I will be interested to hear from the witnesses how the requested level of funding will support this office and its mission.

Now, there is of course no Government agency that is more visible to the American people, than the Internal Revenue Service. The IRS collects the revenues that fund more than 95 percent of our Federal Government's operations, public services, and programs. Each year, the more than 80,000 public servants at the IRS make hundreds of millions of contacts with American taxpayers and businesses. As the face of Government to more American citizens than any other agency, it is apt that the National Taxpayer Advocate has described the IRS as the "Accounts Receivable Department" of our Government.

For fiscal year 2016, the President's budget requests an 18 percent funding increase, which would fund the IRS at a total of \$12.93 billion. On this point I'd like to make an important observation. It won't be lost on anyone here that this is a fairly substantial funding increase—one that asks for an adjustment on previous budget caps. But what we need to remember is that in our dislike of paying taxes—which is a bipartisan dislike—we shouldn't cut off our nose to spite our face. The more we cut IRS funding, the harder it becomes for the agency is to respond swiftly to the needs of taxpayers or investigate tax fraud or abuse.

My office often hears from Delawareans who are frustrated when their calls to the IRS go unanswered or it takes a long time to connect with an official at the IRS. I would imagine many Senate offices hear from constituents with similar concerns. Nationally, less than half of the callers to the IRS actually reach someone on the other end, and those who do have to wait an average of more than half an hour. And as former IRS Commissioner Douglas Shulman stated in 2011, every dol-

lar that is cut from the IRS budget results in seven fewer dollars of revenue collected. So I'd remind us all that funding the IRS at the levels it needs does not lead to a more intrusive government or higher taxes—it leads to a less wasteful, less responsive government.

We have a lot to discuss today, and some important ground to cover. The fiscal 2016 funding forecast is not encouraging as budgetary constraints remain in place. It will be helpful to hear Secretary Lew and Commissioner Koskinen's perspectives on what is required to deliver top notch service to taxpayers and to enforce our tax laws with integrity and fairness to all. I know Delawareans expect no less.

I look forward to working with you, Chairman Boozman, and to having an open exchange of ideas as our fiscal 2016 process continues. Thank you.

Senator BOOZMAN. Thank you, Senator Coons.

And now we turn to Secretary Lew and look forward to his testimony.

#### SUMMARY STATEMENT OF HON. JACOB LEW

Secretary LEW. Thank you, Chairman Boozman, Ranking Member Coons, members of the subcommittee. It is a pleasure to be here to discuss the Treasury's budget.

As we meet here today, our economy and our country have made considerable progress that we can all take pride in. By almost every metric—from job creation, economic growth, and deficit reduction to manufacturing, exports, and energy independence—America has come a long way.

The fact is, in 2014, we saw the best year of job growth since the 1990s, and over the past 5 years, America's businesses have created nearly 12 million new jobs, the longest stretch of sustained private sector job growth in our Nation's history.

Our economy continues to expand, with healthy growth in 2014 and forecasts projecting above-trend growth for this year. We continue to outperform our trading partners, many of which are still struggling to recover from the global economic crisis.

American exports set another record last year for goods and services sold overseas, and this record was largely driven by small businesses. Our deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year. These achievements underscore America's enduring economic strength, and we can keep this progress going with the right policies and with bipartisan cooperation.

The President's budget is a blueprint for Washington to work together, and it not only lays out a path to find common ground, it puts forward sensible solutions to make sure every American who works hard has a chance to get ahead.

This budget knocks down barriers for working families so things like child care, mortgage payments, and a college education are more affordable. It modernizes our job training system, fuels research and development, and repairs our roads, bridges, and ports so more companies will invest, locate, and hire in the United States. It reforms our tax system so we can eliminate special interest loopholes, strengthen the middle class, and level the playing field for business.

The bipartisan Budget Act of 2013 reversed a portion of sequestration and allowed for higher investments in 2014 and 2015, but it did nothing to alleviate sequestration in 2016. Sequestration imposed arbitrary spending cuts that are bad for our economy and for our security.

These across-the-board cuts were never intended to go into effect. Rather, they were purposely unpalatable to create pressure to pass balanced, responsible deficit reduction. Congress should act to provide acceptable funding to meet our domestic and national security requirements.

As part of the President's approach, Treasury's budget will allow the department to carry out its vast responsibilities efficiently and effectively. Treasury is instrumental in helping shape and implement the President's economic policies, and today's request will allow the department to promote economic prosperity, fiscal responsibility, and a resilient financial system even as it addresses our national security objectives and bolsters stability at home and abroad.

The Treasury Department touches the lives of virtually every American through our work to responsibly manage the Government's finances, streamline and reform the tax system, fuel lending to small businesses, spur economic development in struggling communities, advance our strategic interests, make Social Security payments, and produce our Nation's currency.

Since President Obama took office, the Treasury Department has had to marshal its resources to confront deep domestic and global challenges, and we have consistently met our obligations efficiently and at the lowest cost to taxpayers. This budget request continues to achieve savings and fund vital programs alongside strategies that will make the Department more effective.

The primary area where we are requesting additional resources is in the Internal Revenue Service. Funding for the IRS has been cut dramatically over the past 5 years. These cuts amount to a total of \$1.2 billion, or 10 percent of the agency's budget.

As a result, taxpayers now face longer and unacceptable wait times on the phone, and it takes the IRS longer to respond to taxpayer correspondence. A sustained deterioration in taxpayer service, combined with reduced enforcement activity, presents serious long-term risks for the U.S. tax system, which is based on voluntary compliance.

The Treasury budget request restores funding to the IRS so it can provide an acceptable level of customer service that the American taxpayers deserve, as well as continued modernization to meet legislative mandates set by Congress. These funds will help the IRS to update antiquated computer systems and protect taxpayer information.

In addition, we are seeking an adjustment of the program integrity cap to allow the IRS to invest in enforcement initiatives, investments that will generate a sizable return. To be specific, it will yield \$60 billion in additional revenue at a cost of \$19 billion, meaning it will reduce the deficit by \$41 billion over the next 10 years.

This budget also includes additional funding so Treasury can meet its obligations under the Digital Accountability and Transparency Act and provide Americans with the most accurate information about Government spending. On top of that, we are requesting a reauthorization of programs that have proven results.

For instance, the budget proposes an extension of the Community Development Financial Institution Fund's Bond Guarantee

Program, which unlocks long-term financing for financial institutions in underserved communities. It proposes a new investment in the State Small Business Credit Initiative, which leverages private lending to strengthen small businesses nationwide.

PREPARED STATEMENT

In closing, I want to thank the talented team of public servants at the Treasury Department. They are dedicated to the work of the Department and committed to the American people. I am proud to represent them here today, and on behalf of these hard-working men and women, I want to say how much we appreciate the support of this committee.

Thank you, and I look forward to answering any questions that you have.

[The statement follows:]

PREPARED STATEMENT OF HON. JACOB J. LEW

Chairman Boozman, Ranking Member Coons, members of the subcommittee, thank you for giving me the opportunity to appear before you today to discuss Treasury's fiscal year 2016 budget.

As we meet here this morning, our economy and our country have made considerable progress that we can all take pride in. By almost every metric—from job creation, economic growth, and deficit reduction to manufacturing, exports, and energy independence—America has come a long way. The fact is, in 2014, we saw the best year of job growth since the 1990s, and over the past 5 years, America's businesses have created nearly 12 million new jobs—the longest stretch of sustained private sector job growth in our Nation's history. Our economy continues to expand, with healthy growth in 2014 and forecasts projecting above-trend growth for this year. We continue to outperform our trading partners, many of which are still struggling to recover from the global economic crisis. American exports set another record last year for goods and services sold overseas, and this record was largely driven by small businesses. And our deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year.

These achievements underscore America's enduring economic strength, and the continued progress we can make with the right policies and bipartisan cooperation. The President's budget is a blueprint for Washington to work together. It not only lays out a path to find common ground, it puts forward sensible solutions to make sure every American who works hard has a chance to get ahead.

This budget knocks down barriers for working families so things like child care, mortgage payments, and a college education are more affordable. It modernizes our job training system, fuels research and development, and repairs our roads, bridges, and ports so more companies will invest, locate, and hire in the United States. And it reforms our tax system so we can eliminate special-interest loopholes, strengthen the middle class, and level the playing field for businesses.

At the end of 2013, policymakers came together on a bipartisan basis to partially reverse sequestration and to pay for higher discretionary funding levels with long-term reforms. We have seen the positive consequences of that bipartisan agreement for our ability to invest in areas ranging from research and manufacturing to strengthening our military. We have also seen the positive consequences for the economy, with an end to mindless austerity and manufactured crises contributing to the fastest job growth since the late 1990s. The President's budget builds on this progress by reversing sequestration, paid for with a balanced mix of commonsense spending cuts and tax loophole closers, while also proposing additional deficit reduction that would put debt on a downward path as a share of the economy.

Meanwhile, the President has made clear that he will not accept a budget that reverses our progress by locking in sequestration going forward. Locking in sequestration would bring real defense and non-defense funding to the lowest levels in a decade. As the Joint Chiefs and others have outlined, that would damage our national security, ultimately resulting in a military that is too small and equipment that is too old to fully implement the defense strategy. It would also damage our economy, preventing us from making pro-growth investments in areas ranging from basic research to early childhood education and our Nation's infrastructure. As the President has stated, he will not accept a budget that severs the vital link between



our national and economic security, both of which are important to the Nation's safety, international standing, and long-term prosperity.

As part of the President's approach, Treasury's budget request will allow the department to carry out its vast responsibilities efficiently and effectively. Treasury plays a key role in shaping and implementing the President's economic policies. Today's request will allow the department to promote economic prosperity, fiscal responsibility, and a resilient financial system even as it advances our national security objectives and bolsters stability at home and abroad. The Treasury Department touches the lives of nearly every American through our work to responsibly manage the Government's finances, streamline and reform the tax system, fuel lending to small businesses, spur economic development in struggling communities, advance our strategic interests, make Social Security payments, and produce and modernize our Nation's currency.

Since President Obama took office, the Treasury Department has had to marshal its resources to confront deep domestic and global challenges, and we have consistently met our obligations efficiently and at the lowest cost to the taxpayer. Treasury's fiscal year 2016 budget continues to achieve savings and fund vital programs alongside strategies that will make the department more effective. The request includes strategic investments in improved taxpayer services, enforcement, and technology at the Internal Revenue Service (IRS); funding for select high priorities such as implementing the Digital Accountability and Transparency Act of 2014; and increasing the availability of healthy food options for low-income communities via the Healthy Food Financing Initiative.

#### INVESTING IN A HIGH-PERFORMING INTERNAL REVENUE SERVICE

Despite the IRS's critical role of collecting more than 90 percent of the Federal revenue, Congress has continually reduced funding for the agency over the last 5 years by a total of \$1.2 billion or 10 percent. A sustained deterioration in taxpayer services combined with reduced enforcement activity could create serious long-term risk for the U.S. tax system, which is based on voluntary compliance.

The fiscal year 2016 Treasury budget includes a \$1.3 billion increase within the discretionary caps to begin restoring taxpayer services to acceptable levels. Funds are also included to continue major IT projects, which aim to protect taxpayer information, modernize antiquated systems, continue development of a state-of-the-art online taxpayer experience, and build efficiencies throughout the agency. Finally, funds are included for initiatives that are critical to full and effective IRS implementation of legislative mandates including the Affordable Care Act and the Foreign Account Tax Compliance Act.

In addition, the budget includes \$667 million—financed by a proposed program integrity cap adjustment for enforcement initiatives—that provide a high return on investment. This proposed cap adjustment funds strategic investments that will help close the tax gap and return \$6 for every dollar invested, once fully implemented in fiscal year 2018. This multi-year effort is expected to generate \$60 billion in additional enforcement revenue at a cost of \$19 billion, thereby reducing the deficit by \$41 billion over the next 10 years.

Treasury's request includes substantial investments to help strengthen taxpayer services and to adequately fund tax enforcement to make sure all taxpayers play by the same rules.

#### INCREASING TRANSPARENCY IN FEDERAL FINANCIAL MANAGEMENT

The Treasury budget also includes funding for efforts to increase transparency and accountability in Federal financial management and to implement the Digital Accountability and Transparency Act of 2014 (DATA Act). The DATA Act requires additional Federal spending data to appear on [USAspending.gov](http://USAspending.gov) as well as the establishment of government-wide financial data standards for any Federal funds made available to or expended by Federal agencies and entities receiving these funds.

#### STRENGTHENING THE ECONOMY AND CREATING JOB OPPORTUNITIES

The Treasury budget request makes key investments that will help spur economic growth and job creation and increase financial access and capability for local communities and small businesses, while boosting confidence in the safety and soundness of the U.S. financial system.

Our request includes \$233.5 million for the Community Development Financial Institutions (CDFI) Fund, which promotes economic development investments in low-income communities. The budget proposes to extend the CDFI Bond Guarantee program through fiscal year 2017, to provide a source of long-term capital to finan-

cial institutions that support lending in underserved communities. Of the total request, \$35 million for the Healthy Food Financing Initiative will support the growth of businesses that improve the availability of affordable, healthy food options in low-income communities.

The Treasury budget also supports small business growth through reauthorization of the State Small Business Credit Initiative (SSBCI). From fiscal year 2011 to fiscal year 2013, SSBCI programs in all 50 States supported over \$4.1 billion in loans and investments to 8,500 small businesses across the country—creating or saving more than 95,000 American jobs. To continue our support for State economic development agencies' work to boost lending to small businesses, the budget proposes a new investment of \$1.5 billion for SSBCI. This additional funding would be awarded in two allocations, with \$1 billion awarded on a competitive basis to States best able to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results. An additional \$500 million will be allocated to States according to a need-based formula. A new authorization of the SSBCI program will keep local economic development efforts strong and allow States to continue to support small businesses, job creation, and leverage greater levels of private lending and investments.

Treasury also proposes an authorization of \$300 million for Pay for Success projects that demonstrate measurable outcomes, resulting in greater Federal savings and programmatic efficiency.

#### PROTECTING NATIONAL SECURITY INTERESTS AND PREVENTING ILLICIT USE OF THE FINANCIAL SYSTEM

Treasury's financial intelligence, sanctions policy, and enforcement activities play a significant role in protecting our financial system from threats to our national security.

The budget proposes \$109.3 million for the Office of Terrorism and Financial Intelligence (TFI) to oversee and marshal Treasury's intelligence, enforcement, and economic sanctions functions in support of U.S. national security policies and interests. Our funding request reflects Treasury's continued efforts to combat rogue nations, terrorist facilitators, money laundering, drug trafficking, and other crime as well as other threats to our Nation's security. These efforts include disrupting the Islamic State of Iraq and the Levant's (ISIL) finances, enforcing sanctions against Iran, implementing sanctions against Russia in support of Ukraine's stability, and enhancing global financial transparency.

Treasury's request also includes \$113 million for the Financial Crimes Enforcement Network (FinCEN) to support Treasury's efforts to safeguard the financial system from illicit use, combat money laundering, and support national security interests through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

#### SUPPORTING INTERNATIONAL ASSISTANCE PROGRAMS

Finally, while not under this subcommittee's jurisdiction, I also want to note that Treasury's request on its International Programs aims to promote our national security, open new markets for U.S. exporters, and address global challenges such as food insecurity, the environment, and poverty. Treasury proposes to increase the U.S. quota in the International Monetary Fund (IMF) and simultaneously reduce, by an equal amount, U.S. participation in the IMF's New Arrangements to Borrow. The administration believes that a strong and well-resourced IMF is in the U.S. vital interests. Our priority has been and remains to secure congressional support as soon as possible to implement the 2010 reforms. The immediate ratification of these reforms is essential to modernizing the IMF's governance and bolstering its ability to respond to urgent international crises—and will preserve the United States' influence in the institution without increasing our financial commitment. Failure to ratify will hurt our national security both today and in the future.

#### FURTHERING WALL STREET REFORM, CONSUMER PROTECTION AND FINANCIAL STABILITY

Reforms like increased capital standards and limits on excessively risky practices, among others, are transforming the way Wall Street operates, strengthening our financial system and making it more resilient. In the coming year, Treasury will continue to work with the Federal agencies to finalize efforts in areas such as compensation reform. Likewise, through the Financial Stability Oversight Council, we will continue to work across the member agencies to assess risks to financial stability and work to mitigate them where needed. Going forward, we must remain

vigilant to potential new threats to the stability of the financial system, constantly monitoring how risks change and evolve.

#### CONCLUSION

The fiscal year 2016 Treasury budget reflects key investments needed to create economic and job opportunities, protect our national security interests, and the integrity of the financial system, and manage and reform the U.S. Government's Federal financial management and tax systems.

The Treasury budget plays an important role in the President's budget, which aims to bring middle class economics into the 21st Century. It is carefully designed to make our economy stronger while maintaining a responsible fiscal course. What is more, it is an opportunity for bipartisan cooperation to achieve meaningful reform that will help hard-working Americans share in our economic gains.

In closing, I want to thank the talented team of public servants at the Treasury Department. They are dedicated to the work of the department and committed to the American people. I am proud to represent them here today, and on behalf of these hard-working men and women, I want to say how much we appreciate the support of this subcommittee.

Thank you, and I look forward to answering any questions that you have.

Senator BOOZMAN. Thank you very much, Mr. Secretary.

At this time, we will proceed to our questioning, where each Senator will have 7 minutes per round. If there is sufficient interest from our members for additional rounds of questions today, we will try to accommodate them.

I read your testimony and appreciate it. In there, you mentioned the need for finding common ground, and I think you mention infrastructure, you know, things like that, which, again, I would agree on totally and very much support infrastructure. Now we have different viewpoints as to how you get the dollars to get that done, and that is a sticking point.

But the other thing is, and let me do this in the form of a question, it concerns our community bankers. I feel like the backbone of America is small business, but the backbone of small business is community banks. And a number of community bankers and credit unions have expressed concerns about the cost of complying with what they feel like are onerous regulatory burdens.

Community banks are the backbone of small business, as I said and, again, the backbone of our—which are also the backbone of our communities. Harvard University researchers released a report in February about the plight of community banks in the United States and how poor regulatory coordination and inappropriately designed regulations are stifling community banks.

This is of particular concern to States like Arkansas, where there are 96 towns with only one physical banking location, and two-thirds of these communities have less than 1,000 residents. What do you propose, what is the administration doing to ease the burdens and compliance cost facing community banks?

Secretary LEW. Mr. Chairman, we very much share with you the view that community banks not only play an important part in our communities, but in the fabric of our national economy. I think if you look at the design of many of the laws and the rules, you will see that there are standards that reflect the differences between smaller and larger financial institutions. There are exemptions in many cases for smaller institutions, and there are bars that are easier to clear for smaller institutions that do not present the same level of financial risk.

I know the regulators, as they look at the discretion that they have, are always looking for whether there is flexibility and whether or not there is a risk they need to be concerned about. They have consistently made judgments to have the burden on smaller financial institutions reflect the, in general, lower level of risk.

But I do think we have to be careful to remember the purposes of financial reform. The purpose of financial reform was to make sure we never again face the kind of economic crisis that we had in 2008. I think the standards that we use have to be mindful of the fact that the architecture that was put in place was designed to prevent the taking of risks that could add up to a risk to the country.

The relatively easier standards for smaller institutions I think is appropriate, but I do think the oversight that we have now is more appropriate than where we were in 2008, when, frankly, we had a lapse in our ability to see risks developing and to respond in a way to protect the U.S. economy. So I think financial reform, both the legislation and the rules have been quite effective at making our financial system safer and sounder, and we have tried to do it in a way that is mindful of the burdens on smaller banks and smaller communities.

Senator BOOZMAN. I guess my concern is, is that when you get out and you visit and you go to various institutions like this, if you go to these 96 towns, you know, small towns with one bank and then other towns with a few banks, again, it is universal. You know, they feel like that things have changed dramatically.

And I would argue that these types of community banks just didn't have anything at all to do with the meltdown that we experienced several years ago. So I really wish that you would look at that. It is something that we are looking at. We are having kind of a one size fits all, and again, I think the idea, like I said, that these banks are somehow responsible for that, I simply don't agree with.

Recent cybersecurity reports revealed that a cyber criminal ring from Russia, China, Ukraine, and other parts of Europe has stolen \$1 billion from up to 100 banks and e-payment systems in our countries around the world, including the United States, since 2013. So cybersecurity is a huge thing that we are very, very concerned about.

In your opinion, is America's personal and financial information at banks safe from cyber attacks?

Secretary LEW. Senator, I think cybersecurity is an enormously important and difficult issue, and it is one that I know I worry about every day. And when I talk to CEOs of financial institutions, retail businesses, they worry about every day.

I think that we are doing an awful lot that is the right kind of defense against cyber attack. But the cyber criminals are always honing their attacks, and we cannot think that we can get ahead of them. You know, our challenge is going to be to keep up with them, to make sure that we have good practices in place to detect attacks so that we have the ability to respond when there are attacks and to share information so that best practices can be available throughout the system.

We have legislation pending that the President has proposed which we think would go a long way towards providing the ability to share information, which we think would make the system safer. I think the financial sector is probably in a better position now than other sectors are, but I do not think anyone can sit back and rest comfortably.

Mr. Chairman, I cannot help but notice that the ranking member of the committee came in while I have been responding to your question. I hope I can take just a moment to welcome her and thank her for her service and wish her well.

Senator MIKULSKI. Thank you. I will have more to say in a minute.

But I am here for 2 years, Jack. So we are going over these line items. Look forward to working with you, and even particularly with all of the issues. So we will talk in a minute.

Senator BOOZMAN. Thank you.

Very quickly and very shortly—I am running over my time—but I am encouraged by recent steps to reform the U.S.-Cuba relationship. Boosting our commercial ties would have significant benefits for both of our economies.

My home State of Arkansas exported nearly \$34 million in goods to Cuba in 2004 before payment restrictions were tightened in 2005. Earlier this year, researchers at the University of Arkansas estimated expanded trade and travel to Cuba would bring an additional \$50 million in economic gains to Arkansas.

What is being done to ease payment restrictions, and how will this impact U.S. agriculture exports to Cuba?

Secretary LEW. Mr. Chairman, the actions that the President announced just a few months ago regarding easing of some of our sanctions against Cuba we think will help U.S. businesses. But mostly, we think it will help advance the kind of positive change in Cuba, which could be positive in terms of making a difference where the old policies were not. We have tried to make it easier for the kinds of transactions that have been frustrating for American agriculture to go forward, consistent with the legal restrictions that remain in place.

I think that there are opportunities for Americans in agriculture and other sectors to do business in Cuba, but I think the bigger story in terms of U.S.-Cuba relations is it is a chance for Cuba to be more exposed to U.S. values and U.S. ways of doing business and U.S. freedoms in a way that will be more effective at pushing back on the practices of Cuba that still need to change, than the old policies, which were both not productive in terms of changing Cuba and hurting U.S. interests.

Senator BOOZMAN. Senator Coons.

Senator COONS. Thank you. Thank you, Chairman Boozman.

Thank you, Secretary Lew, for your testimony.

On the theme that Chairman Boozman started with about access to capital in small towns and how community banks can make a significant difference, just describe briefly, if you would, how the Community Development Financial Institutions Fund is used to help rebuild distressed neighborhoods and support small businesses and what the CDFI Bond Guarantee Program, if it were to ramp up to \$1 billion, might be able to do and how they might play

a constructive role in providing access to capital in small communities, first.

Second, Senator Boozman asked about the burden, the regulatory burden on smaller banks. I have heard from a number of folks from the financial community who believe that once banks obtain more than \$50 billion in assets, they suddenly become subject to all the regulatory oversight of the mega banks.

And while I am a strong supporter of the steps taken in Dodd-Frank to prevent future crises, I wonder if that is really quite accurate or whether there is a step series where you sort of steadily ratchet up regulations in accordance with growing size and would welcome your insights into that point as well.

Secretary LEW. Thank you, Senator.

CDFI, I think, has been an enormously effective program, both because of what it does directly and because of the institution-building role it plays in the communities it serves. Just looking at the raw numbers, in 2014, we made \$146 million in awards, and it produced 50,000 new jobs, almost 10,000 businesses were financed.

In the communities where they are present, there is a financial institution that local businesses can go to. So in places where community banks were not able to have a foothold, it has created access to the benefits of what community banks offer.

The CDFI Bond Guarantee Program addresses one of the fundamental challenges in revitalizing communities. In many low-income and underserved communities, access to long-term, fixed-rate financing is just hard to find or impossible to find. The guarantee program to date has guaranteed \$525 billion in bonds through the program to help CDFIs provide financing needs for the community.

So I think it is a very well-leveraged and successful program, which is why we have proposed the reauthorization again.

And Senator, with regard to the threshold question that you asked about, I think you are totally correct. It is not a hard line where everything happens to an institution if they pass the \$50 billion threshold. There are many requirements from which institutions remain exempt. There are other cases in which there are standards that are modified to reflect the lower level of risk.

With that said, and as I said to the chairman, we remain very much focused on what can we do to make that burden even less without creating risks to the kind of general architecture of financial security. It is an area that I know all the regulators are focused on and we are focused on at Treasury.

Senator COONS. Well, good. Because I share that concern, that we find ways to provide better access to capital, more lending at the community banking level, without increasing risk to the financial system as a whole and without making basic changes to what I think are important safety and soundness protections.

Let me just briefly ask you about sanctions. I made reference in my opening statement. In a hearing in the last Congress, Senator Mikulski was—Vice Chairman Mikulski was central in advocating for a significant increase to make sure that we have got the resources in the Office of Terrorism and Financial Intelligence.

I was struck, given the ongoing issues with Russia in the Ukraine, with Syria, and in particular with Iran, that the budget

proposes a reduction. Why does it propose to cut funds for this office, knowing there are these significant threats? Do you believe it is over resourced? And given the real potential that we may return to enforcing sanctions against Iran, do we have the resources that this office needs?

Secretary LEW. Senator, I think the work that our Office of Terrorism and Financial Intelligence does is enormously important, and the sanctions programs we administer have added to this President's and all future Presidents' arsenal of tools that are extraordinarily effective and powerful, and I must say that when I think of how much time I spend working in this area, it is a bit of a surprise to me how much of my time goes into this because of the world we live in today.

As far as resources go, we requested the resource level as a floor, not as a ceiling. And we proposed putting it in the departmental offices so that we would have a little bit more flexibility. There were some one-time expenditures last year that may or may not recur.

As far as the Iran sanctions go, we have not lessened our level of activity on Iran sanctions. So we are fully funded on Iran sanctions, and the Russia sanctions were a new start this year. I do not think we missed a beat in terms of any of the other sanction programs we administer, and we came up to speed very quickly when there was a need for Russia sanctions.

I am very proud of our team for having mastered the intricacies of both Russia's financial institutions, its interconnection to the global financial system, and how we could use targeted and really surgical sanctions to put the maximum pressure on the targets of the sanctions with the minimal spillover to Europe and the rest of the world.

So I think we have funded it at the right level. But it is a floor, not a ceiling, and you know, we appreciate the support that this committee has given for this very important function.

Senator COONS. I think, just speaking for myself, this is an area I intend to follow closely. And I want to be continually reassured you have more than adequate resources for the fight.

Two quick questions in closing, if I might. Just your IT investments, which are significant, relative to the total increase requested and DATA Act implementation. I share the chairman's concerns about cybersecurity. These two strike me as ways that you can modernize and strengthen your IT systems and the transparency of your budget.

And then last, I have a question about master limited partnerships (MLPs). So if you would briefly talk about your IT investments?

Secretary LEW. Yes, I agree. I think the investment in the DATA Act is extremely important. We worked with Congress on the development of that legislation. We are eager to implement it well. I do not think we can implement it without resources. We cannot implement it as well as we should without the resources to do it properly.

I do think it helps to safeguard our systems to invest in cybersecurity by having better systems to begin with, and as you know, many of our systems are quite old.

Senator COONS. I was struck that the budget proposes eliminating master limited partnerships as a structure. As you know, I have long been an advocate on a bipartisan basis for instead opening them to renewable energy. I think it is a technology-neutral, politically feasible way to provide long-term financing support for renewable energy.

I wondered if you had a comment?

Secretary LEW. Senator, it is an area that I would be happy to follow up with you on. Our proposal—obviously, we have many proposals to promote renewable energy, both in terms of financing and research and development. With regard to master limited partnerships, we have had concerns over the years, and I would look forward to discussing it with you.

Senator COONS. Thank you, Mr. Chairman.

Senator BOOZMAN. The Senator from Kansas is recognized.

Senator MORAN. Mr. Chairman, thank you very much.

Mr. Secretary, welcome. Before asking any questions, since I last saw the Senator from Maryland, she has announced her intentions not to seek reelection, and I just wanted to use this as an opportunity to thank her for her service. I have enjoyed your tenure as Chairwoman of the Appropriations Committee and appreciate the tenacity with which you have tackled our spending and the continual attempt to get us in the appropriations process back to regular order.

So thank you very much and appreciate the way you have treated me for the last several years.

Mr. Secretary, I think three relatively quick questions. As I was walking in, I was told that the chairman was questioning you about community banking regulations. I would add my voice to that issue.

My understanding is that your response was something along the lines that community banks are better regulated today than they previously were. I would indicate that I don't think that is the case. I think community banks have been caught up in a broader regulatory scheme than they deserve to be in. The consequences are significant to the economy.

In a State like mine in which community banks provide necessary capital to a growing business, to a start-up, the relationship banking is very important. And the example that I use that has become so annoying to me and so devastating is that many of my community banks have made the decision no longer to make home loans, home mortgage loans to individuals who want to buy a home in their hometown where the bank is located because of the significant regulatory environment which they now operate in.

I doubt that Dodd-Frank intended consequence was to reduce the availability of mortgage credit in a town of several thousand people, but that has been the end result. It is not only the regulatory environment, but also the consequences if there is a failure by the bank to cross every T and dot every I.

And the reason that it is necessary for me to bring this kind of issue to you is that so many of the regulators are not subject to appropriations. Therefore, in this setting, you are our one opportunity to express concern about things that are happening certainly



within the Treasury Department, but broader in the bank regulatory environment that those banks face.

Secretary LEW. Senator, I understand the concern about community banks and share the concern because I agree with all of you who have expressed the view that community banks are an enormously important part of the fabric of our economic system in our communities. I do think, as we were discussing a few moments ago, what happens at the cut-off points is not quite as dramatic as sometimes it is described because there are different rules for smaller institutions.

With specific regard to the housing issue you mentioned, I know that some of the regulators are reviewing some of the rules that have been of concern to community banks. I do not think the intention was to stop the lending that you described.

It was intended to put burdens on lenders to know their clients better and to offer different kinds of products, but it was not to shut down the lending. I know that things like looking at put-back risk, regulators have been trying to take some of that unknown out of the system by being clear what would and would not be considered an actionable kind of error.

So I think the regulators are attuned to it. Obviously, most of this is not directly in the jurisdiction of Treasury, but I am very much concerned, both as Chair of the Financial Stability Oversight Council (FSOC), but also as someone who cares deeply about the health of our banking and financial system and would look forward to working with you. But I do think we have to be careful not to undo the architecture that has made our system so much safer than it was in 2008.

Senator MORAN. Is there anyone that answers to you at the Treasury Department that would be a good person for us to talk to about this issue?

Secretary LEW. Yes. We have an Office of Domestic Finance, and we have people who work on these banking issues, and I am happy to have them be in contact with your staff.

Senator MORAN. I appreciate that. Thank you.

And part of the review that is underway is a Government Performance and Results Act (GPRA) in which banking regulations are now being considered on a periodic review, and I would welcome a report back as to how that process is going and whether we are headed in a direction that would eliminate or modify existing rules and regulations as they affect—

Secretary LEW. Senator, I am very much focused on that. When I was the Office of Management and Budget (OMB) Director, we did a look-back of rules across the Federal Government, and we didn't have the ability to reach into the independent regulatory agencies. So I am now pleased to see this process underway where independent regulatory agencies are doing the same thing.

I know from the conversations I had that the heads of these agencies are very focused on it. They are participating in regional hearings, and I think it will be very interesting to see what they come back with.

Senator MORAN. I am pleased by your smile to the question, and I am pleased by your interest in this topic. And the OMB, I wasn't sure that you would know about this process, but I guess you

would know that, hopefully as Treasury Secretary, but also certainly as Director of OMB.

Let me ask a question. This Congress passed last year, last session, the Tribal General Welfare Exclusion Act. What was going on was IRS activity on Native American lands involving their activities.

That legislation requires that a tribal advisory committee be established to advise you on matters related to taxation of Indians and establishing a training and educational system for the IRS field agents. It seems to me that the Treasury Department is going out of its way to not have Native Americans on the advisory committee. Would you dispel me of that belief?

Secretary LEW. Well, I am not sure where that notion comes from. We filed the charter for the Treasury Tribal Advisory Committee, and we have issued a call for nominations for the three members to be appointed by the Treasury Secretary. We have expressly contacted tribal leaders for their nominations, and the deadline for the nomination applications is April 28.

So we are still very much in the process of reviewing candidates.

Senator MORAN. Do you have any belief that tribal leaders should or should not be involved in that as members of that advisory committee?

Secretary LEW. You know, I do not start out with a preconceived notion. I think we should review the applicants that come in and look for the most qualified and strongest candidates.

Senator MORAN. That is a good answer, and I would suggest that tribal leaders—at least in part of that make-up of that advisory committee, tribal leaders would be a significant and important component in providing you and the Treasury Department, the IRS, advice.

Secretary LEW. I must say I did have a meeting with tribal leaders several months ago, and it was a good exchange, and I think the feedback I got was that they welcome the interaction with the Treasury Department, and we will continue to stay very much working with them.

Senator MORAN. Thank you.

Do you want me to stay on time? Okay.

Senator BOOZMAN. The Senator from Maryland.

Senator MIKULSKI. Thank you, Mr. Chairman and my colleagues, for your kind words.

And Secretary Lew, I could thank you for your service. We have been together a really long, long time.

Secretary LEW. A long time.

Senator MIKULSKI. Yes. Back when we were discussing earmarks in the old VA-HUD bill. So, again, thank you for your words and also for your own service.

I want to reiterate some questions about community banks that I see as a common theme here among all of our colleagues on both sides of the aisle. And perhaps, Mr. Chairman, it is going to require maybe a meeting with this Domestic Finance. Maybe not a hearing, but a conversation.

So, Mr. Lew, let me get to my questions. I am concerned that, one, the shrinking number of community banks. And number two, I am also concerned about the shrinking number of minority-owned

community banks that have demonstrated solvency and stability. But I know since even the last year, we have gone from 47 to the number in their 20s.

So I think these are issues we need to really be looking at. We could talk about the merits of a community bank, as compared to being, you know, a regional or franchise banking in our community.

Well, let me get you to my question. One of which is where the very rules of Government are interfering with banks being able to get back on their feet. A specific question that I have is that there is a community bank in Maryland that needs the approval from the Federal Reserve Bank of Richmond in order to buy back what they had gotten in the Troubled Asset Relief Program (TARP).

They are told that they can't buy it back, but it could make it ripe for a hedge fund to come along and buy the bank. Well, they have got the money to buy it back. They have been prudent, and I don't want to get into individual cases. But it is where the very rules of Government seem to be either torpedoing or derailing community banks to move out of the recession and get their own solvency, which we are absolutely committed to, and so on.

Do you have any thoughts about what Treasury is telling people about buying back preferred stock and the regulators kind of might view on actions on this?

Secretary LEW. Senator, from a Treasury perspective, we obviously have been working our way through the TARP assets, trying to resolve them so that we can recover taxpayer investments fully wherever possible. We have worked with community institutions and have no objection when community institutions are able to do that.

I am not sure of what the regulatory issue is, what you are describing, but I would be happy to look into it. We obviously do not have any authority over the Fed decisions. But I will—

Senator MIKULSKI. No, but one of the things is how the Fed really does have to coordinate with Treasury.

Secretary LEW. Yes.

Senator MIKULSKI. I would like to get you a formal letter on this.

Secretary LEW. Sure.

Senator MIKULSKI. So that you could review—

Secretary LEW. I would be happy to look into it.

Senator MIKULSKI [continuing]. And be aware of it.

Two other points that are very specific to the Maryland-DC area, just to bring to your attention and ask you to look into them, and then I have a pretty big question. One of which is that the retired DC firefighters have called my office, as along with Eleanor Holmes Norton, that there is an accounting—an old accounting error was discovered, and several retirees are getting notifications that their benefits might be reduced.

These are the pensions that you are responsible for. So I would like to get you a letter on that and a letter from Eleanor Holmes Norton. You know, that is the last that they need. I am not asking for a response there.

The other is the Treasury I know is merging Financial Management Service with the Bureau of Public Debt. The Financial Management Service is in Hyattsville. I was able to negotiate a 5-year delay with Treasury in terms of this move, but we hear that there

are employees at Treasury so grouchy about what I did to protect those people so that we could sort this out that they are being demoted, intimidated, and pushed out.

Could you take a look at that?

Secretary LEW. I will take a look at it. It obviously would be unacceptable if that were true. I think the merger has been effective, but there should be no—no kind of treatment like you have described.

Senator MIKULSKI. Well, you know, they were looking for \$8 an hour accountants in West Virginia. I don't think any accountant is \$8 an hour, but I am not going to get into the legacies of Bob Byrd. I can assure you I am going to have as many legacies of Barbara Mikulski as I can.

Now the other is a larger question for my colleagues. You and I have lived through two appropriations together when I was the chair, now the vice chair. Could you tell me the impact of crisis-driven appropriations, with last-minute agreements through an omnibus? Very well organized. I have nothing but excellent words to say about my colleagues and, of course, Congressman Hal Rogers.

But it was a hell of a time, and I wonder, as you as the Secretary of the Treasury, our domestic economy and our global economy, what is the impact of crisis-driven appropriations, just what I would like to raise and just as colleague Moran has raised about getting back to regular order?

Secretary LEW. Well, Senator, I think that is an extraordinarily important question, and I commend you for the work you did last year to put together an omnibus appropriation bill with funding levels that were designed to meet current needs, which is so important in terms of having our system maintain its responsiveness and its agility. Continuing resolutions do not have that ability.

I think when you look at the deadline-driven, crisis-driven funding decisions that have been made over the last number of years, it has caused substantial anxiety not just in the United States, but around the world. I think that when one looks at the business investment environment, it is psychology. Psychology is about confidence.

The sense that Government is behaving in the way that a reasonable set of institutions should behave adds to confidence. The sense that we are hurtling off of a cliff destroys that sense of confidence.

I detected considerable improvement in both the United States and internationally in confidence in the U.S. as a system and its economy since we have seen a return to something that approaches regular order. I think maintaining regular order is extraordinarily important to keeping the recovery we have going and having the investment decisions that depend on people thinking will things be going in the right direction in a year, 2 years, 3 years? Not just in a week, a month, or for maybe part of this year.

I applaud the efforts that you went through to put an omnibus together. If Congress can meet the requirements to fund the Government, to make sure that our debt does not become an issue of anxiety again, that would be very important.

Senator MIKULSKI. Mr. Chairman, I know my time is up, but I have got more late-breaking news. This is good news. The Senate version of the Homeland Security bill cleared the House 257 to 167. It is on its way to the President.

So that means that we—on the Appropriations Committee, we now have passed 12 bills, and we have completed now today our fiscal year 2015 work.

Secretary LEW. Congratulations.

Senator BOOZMAN. Thank you, Mr. Secretary, for being here. We appreciate you coming and testifying, and I think that we got some really valuable information.

We will follow up with additional questions for the record that our members may have in the future. We would appreciate your timely responses, as always.

Senator BOOZMAN. In order to move through the witnesses today, would the next panel—

Secretary LEW. Thank you very much, Mr. Chairman.

Senator BOOZMAN. So thank you again for being here.

Commissioner Koskinen, I now invite you to present your testimony on behalf of the Internal Revenue Service.

## INTERNAL REVENUE SERVICE

### STATEMENT OF HON. JOHN KOSKINEN, COMMISSIONER

Mr. KOSKINEN. Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to discuss the IRS budget and current operations.

#### BUDGET REDUCTIONS

I remain deeply concerned that the significant reductions in our budget over the last 5 years are undermining the agency's ability to continue to deliver on its mission both this filing season and in the future. As you know, IRS funding has been reduced by \$1.2 billion over the last 5 years, dropping to \$10.9 billion for fiscal year 2015.

At the same time, the number of taxpayers has increased by over 7 million, and the IRS has been given significant additional responsibilities. These include implementation of the Foreign Account Tax Compliance Act and the Affordable Care Act.

The disconnect between our funding levels and our responsibilities is illustrated in some way by the fact that just 3 days after cutting our budget by about \$350 million, Congress passed legislation requiring the IRS to design and implement two new programs by July 1. Implementation of the ABLE Act and the certification requirement for professional employer organizations is occurring while we are in the middle of our most complicated filing season in years.

In discussing our need for adequate funding, I understand we have an obligation to be careful stewards of the taxpayer dollars we receive, and we must be as efficient as possible. The IRS has, in fact, made considerable efforts for several years to find efficiencies in our operations, both in regard to personnel and nonlabor spending. Through cuts in office space, contracts, printings, and mailings, we are saving over \$200 million a year.

#### FILING SEASON

We have also made significant progress over the past few years in moving millions of taxpayer inquiries from our call centers and walk-in sites to our significantly updated and improved Web site. Already this filing season, there have been more than 150 million visits to IRS.gov and more than 2.7 million visits to the section devoted to the Affordable Care Act.

We have had over 125 million hits on our "Where's My Refund?" site, the electronic tracking tool on IRS.gov. Also, more than 11 million copies of previously filed tax information have been obtained online with our "Get Transcript" application. In the past, all of these inquiries would have inundated our phone lines and resulted in even longer lines at our walk-in sites.

I would also emphasize that we have taken seriously issues raised about inappropriate actions and activities in the past by making necessary changes and improvements in our policies and procedures to ensure that these situations do not recur. We have cut conference spending by 80 percent. We have established review boards for video productions and training expenses. We have ensured that those who willfully fail to meet their tax obligations are not eligible for performance awards.

We are reviewing our hiring process to ensure, to the extent possible by law, that former employees with serious prior conduct issues are not rehired. We now require that all contractors maintain the same high standards for tax compliance as our employees, and we have implemented the recommendations of the Inspector General with regard to the serious management failures surrounding the review of applications by organizations seeking to achieve social welfare status.

But there is a limit to how much we can do in finding cost effectiveness. This year, we reached the point of having to make very critical performance tradeoffs. There was simply no way around the severity of the budget cuts without taking difficult steps, which have had negative impacts on service, enforcement, and information technology.

The funding cuts have also limited our ability to work toward giving taxpayers a more complete online filing experience. Taxpayers, in our view, ought to have the same level of service from the IRS that they have now from their financial institutions, whether it is a bank, mortgage company, or brokerage firm.

#### BUDGET REQUEST

The President's fiscal year 2016 budget request for the IRS, which totals \$12.9 billion, would help the agency move ahead in all of these critical areas. For example, we would be able to bring our phone level of service up from the current 43 percent to 80 percent. We would also significantly increase enforcement and collection activities, generating over \$2 billion more in increased Government revenues every year, and we would be able to take steps toward building a more modern interface between the agency and taxpayers.

I understand and appreciate the concerns raised over the past few years about activities of the agency, but I took this job 15 months ago because I also understand the critical role the IRS plays in the lives of taxpayers and in the collection of the revenues that fund the Government.

#### PREPARED STATEMENT

I know I speak for the thousands of professional, experienced, and dedicated employees of the agency when I say that we are committed to working with you and the other members of Congress to lead the agency effectively and appropriately into the future. But we need your help and support if we are going to be successful.

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

[The statement follows:]

## PREPARED STATEMENT OF HON. JOHN A. KOSKINEN

## INTRODUCTION

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the Internal Revenue Service (IRS) budget and current operations.

After 15 months as IRS Commissioner, it remains an honor for me to lead this great institution. My respect for the agency's role and admiration for its workforce continue to grow. I'm pleased to report that the 2015 tax filing season opened on schedule on January 20th, and is going well so far.

Opening the current filing season on schedule was a major accomplishment, given the challenges we faced. I attribute this achievement to the dedication, commitment and expertise of the IRS workforce. Along with normal filing season preparations, there was a significant amount of extra work to get ready for tax changes relating to the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA). We also had to update our systems to reflect the passage of the tax extender legislation in December.

Even with the demonstrated capacity of our workforce to meet these challenges to successfully open filing season on time, I remain deeply concerned that the significant reductions in the IRS budget will degrade the agency's ability to continue to deliver on its mission during filing season and beyond. In fact, one of my highest priorities since becoming Commissioner has been to advise Congress about the ramifications of continued substantial cuts to our funding, and that is what I will focus on in my testimony today.

IRS funding has been reduced \$1.2 billion over the last 5 years, dropping to \$10.9 billion in fiscal year 2015. That level is \$346 million below the enacted level for fiscal year 2014. But the total reduction from fiscal year 2014 is actually closer to \$600 million when accounting for nearly \$250 million in mandatory costs and inflation.

The IRS is now at its lowest level of funding since fiscal year 2008. When inflation is taken into account, the current funding level is comparable to that of 1998. Since then, however, the number of individual and business tax filers has increased by more than 30 million, or 23 percent, along with an increase in the number of legislative mandates that the IRS is required to implement.

## IMPACT OF BUDGET CUTS ON FISCAL YEAR 2015 OPERATIONS

There is simply no way around the severity of the budget cuts without taking some difficult steps. Essentially, we are at the point of having to make very critical performance tradeoffs. I recently worked with IRS senior leadership to determine how to allocate our limited resources based on our final fiscal year 2015 budget numbers. We reviewed our operations to determine where we could make cuts that would have the smallest possible impact on taxpayers and tax administration. In making these decisions, we strove to maintain a balanced and fair approach, keeping in mind the needs of both service and enforcement, to avoid overly harming one part of our mission in the attempt to maintain another.

Let me now describe for this subcommittee the difficult decisions we made to absorb the latest round of budget cuts, and the impact of those decisions.

—*Delays to critical information technology (IT) investments of more than \$200 million.*—We anticipate that these delays will reduce taxpayer service and cost-efficiency efforts, as well as reduce outside contractor support for critical IT projects. For example, we are being forced to delay replacement of aging IT systems. While we have made some progress in modernizing these systems, more than 50 applications are still in need of replacement. Delays to our IT investment harm our ability to protect taxpayer data; combat tax fraud and schemes; address non-compliance that contributes to the tax gap; and fight against cyberattacks. In addition, we will not be able to invest upfront money to develop future capabilities, such as improved Web services that would enable taxpayers to more easily obtain information and improve their interaction with the IRS.

—*Enforcement cuts of more than \$160 million.*—We estimate the agency will lose through attrition about 1,800 key enforcement personnel during fiscal year 2015 that we will not be able to replace. We anticipate the outcome will be fewer audits and fewer resources focused on collection. We estimate that as a result of these enforcement cuts the Government will lose at least \$2 billion in revenue. In addition to this loss, the curtailment of enforcement programs is extremely troublesome because these programs help create a deterrent effect that is the key to preserving high levels of voluntary compliance and maintaining the integrity of the Nation's tax system.



—*Reductions in staffing during filing season totaling more than \$180 million.*—

Normally, the IRS uses employee overtime and temporary staff to provide the extra resources needed during the busy filing season. However, the IRS will be reducing overtime and seasonal staff hours during fiscal year 2015. We anticipate that these cuts will result in delays in refunds for some taxpayers. People who file paper tax returns could wait an extra week—or possibly longer—to see their refund. Taxpayers with errors or questions on their returns that require additional manual review will also face delays in getting their refunds. It is also expected that taxpayers will have to wait longer to get answers to their questions from the IRS. Responses to written correspondence will take longer, and taxpayers will have more difficulty getting through to the IRS on the phone and in person. Our phone level of service (LOS) was at 54 percent at the start of the current filing season. As we have gotten further into the filing season, LOS has continued to deteriorate, dropping below 50 percent. This means that fewer than half of the people who try to reach the IRS by phone, will end up getting through. That is significantly below the fiscal year 2014 average of 64 percent, which was itself below desired levels. Those who do reach the IRS are facing extended wait times that are unacceptable to all of us.

—*Continuing the agency hiring freeze.*—The IRS is extending the exception-only hiring freeze that began in fiscal year 2011 through fiscal year 2015. As a result, and assuming normal attrition rates, the IRS expects to lose approximately 3,000 additional full-time employees in fiscal year 2015. That would bring the total reduction in full-time staffing since fiscal year 2010 to over 16,000. This reduction in staffing will have continued negative impacts on taxpayer service and enforcement as noted above.

Even with all of these reductions, the IRS still faces a significant budget shortfall for fiscal year 2015. We have taken and continue to take steps to try to close this gap. As stated in the past, one of our concerns has been the possibility of a shutdown of IRS operations for 2 days later this fiscal year, which would involve furloughing employees on those days. If this does become necessary, our goal will be to minimize disruption to taxpayers, employees, and our operations. We have made it clear we would do the best we can to avoid taking this drastic action. We have been monitoring the situation on a regular basis, and at this point we are hopeful we can avoid a shutdown of the agency this fiscal year.

In discussing the agency's budget, it is important to point out that the IRS has been working and continues to work to find savings and efficiencies wherever possible, so as to absorb the reductions to our funding that have occurred since fiscal year 2010. This has not been easy, because labor costs are by far the largest portion of the IRS budget. In fact, approximately 75 percent of our budget represents staffing, which is critical to providing adequate levels of taxpayer service and maintaining robust compliance programs. Moreover, it is not possible to shift enforcement personnel into service jobs, or vice versa, without providing them with substantial training, which, of course, is resource-intensive. Nonetheless, the IRS has for several years made considerable effort to find efficiencies in our operations. For example, the IRS has implemented significant reductions in its non-labor spending.

The agency reduced annual travel and training expenditures by \$248 million, or 74 percent, between fiscal year 2010 and 2014. Any such expenses of \$50,000 or more must be reviewed and approved personally by me and then by the Treasury Department. Therefore, at this point, I am satisfied that there are no excesses in these areas, and that there have been none for quite some time.

Additionally, in an effort to promote more efficient use of the Federal Government's real estate assets and to generate savings, in 2012 the agency began a sweeping office space and rent reduction initiative. We estimate that these measures have reduced rent costs by more than \$47 million each year and reduced total IRS office space by more than 1.8 million square feet.

We will continue our efforts to find savings and efficiencies wherever we can. For example, we continue to evaluate our space needs, and under the processes we now have in place, each time a lease comes up for renewal we carefully consider whether to renew it. In fact, a few weeks ago the agency cancelled a lease in New York City, which will save us about \$4.5 million in fiscal year 2015, and \$15 million over the life of that lease. We will continue to review all upcoming real estate transactions to make sure we are as cost effective as possible.

But there is a limit to how much we can do in the area of finding cost efficiencies. And as I said in my testimony to the Appropriations Committees almost 1 year ago, the cuts to the IRS are so significant that efficiencies alone cannot make up the difference.

## THE ADMINISTRATION'S FISCAL YEAR 2016 BUDGET REQUEST

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

It is fair to ask what value the American taxpayer would receive for this increase in funding requested by the President. Let me detail for you several notable examples of how the IRS intends to spend these additional funds:

*Improve taxpayer service: \$301.5 million.*—This additional funding will allow the IRS to meet the expected increase in demand for taxpayer services in fiscal year 2016, through the hiring of approximately 3,000 additional staff to increase the telephone level of service to an acceptable level of 80 percent. Resources are also needed to meet the increased demand for taxpayer face-to-face assistance resulting from ACA implementation; expand staffing to assist with managing the ACA submission processing workload; and provide advanced technology to electronically receive amended returns.

*Leverage new technologies to advance the IRS mission and enhance service options for taxpayers: \$107.8 million.*—This additional funding combines two programs that leverage new technologies, one of which (\$91.6 million) will assist the IRS in advancing its mission generally and another (\$16.2 million) that will enhance service options. Together the programs will provide the foundation for the IRS to develop, over several years, an IT-based strategy that will help improve the online filing experience for taxpayers. The strategy will focus on enhancing the filing experience by understanding taxpayers' service channel preferences. By creating new digital capabilities and reducing the burden on taxpayers, the strategy will allow for earlier and more efficient engagement between the IRS and taxpayers. This initiative will improve the speed and convenience of interacting with the IRS. The funding will be used to implement a new Enterprise Case Management (ECM) solution for performing standard case management functions across the IRS, which will allow us to operate more efficiently; expand the capabilities of the existing Customer Account Data Engine (CADE 2) database; provide secure digital communications between taxpayers and the IRS; and continue development of the fraud detection, resolution, and prevention Return Review Program (RRP).

*Improve upfront identification and resolution of identity theft returns: \$18.9 million.*—This additional funding will strengthen the integrity of the tax system by improving the IRS' ability to detect and prevent improper refunds. Resources will allow the IRS to expand programs to prevent identity theft-related refund fraud, protect taxpayer identities and assist victims of identity theft.

*Implement ACA: \$490.4 million.*—This additional funding, the majority of which is for required information technology upgrades, will allow the IRS to increase efforts to ensure compliance with a number of tax-related provisions of the ACA, including the premium tax credit and individual shared responsibility provision. The funding will provide enhanced technology infrastructure and applications support, and allow necessary, major modifications to existing IRS tax administration systems. A portion of the funding also addresses new audit requirements related to the employer shared responsibility provision.

*Implement FATCA: \$71.0 million.*—With this additional funding, the IRS will invest in advanced technology to allow the agency to continue implementing FATCA, which in turn will provide more information to us on offshore accounts of U.S. citizens. FATCA includes new reporting and withholding requirements for foreign financial institutions. In order to properly process and analyze the data we receive as a result of these new requirements, the IRS will need to build new technology systems and modify existing systems. This initiative provides funding for enforcement staff to implement FATCA's new reporting and disclosure requirements, and thus will allow the IRS to address foreign withholding compliance and expand coverage of international tax return filings. As a result of these activities, we project additional annual enforcement revenue of \$155.1 million once new hires reach full potential in fiscal year 2018, an ROI of \$2.3 to \$1.

*Sustain critical IT infrastructure: \$188.5 million.*—This initiative will restore resources for mainframes, servers, laptops, network devices, and communication equipment to keep IT infrastructure (hardware and software) current for existing

and newly developed IRS IT systems. The IRS' IT division provides technology services and solutions that drive effective tax administration, improve service, modernize systems, and ensure the security and resiliency of IRS information systems and data. With this funding, the IRS will be able to enhance systems security to help anticipate and protect against evolving threats; increase reliability of enterprise infrastructures to support increased electronic filing; increase the use of cloud and virtual environments; and expand the use of the next generation of advanced telecommunication technologies.

*Program integrity enforcement and compliance increases.*—Enactment of the program integrity cap adjustment proposal would facilitate funding for high return on investment (ROI) revenue-producing enforcement and compliance initiatives, including the following:

- Prevent refund fraud and identity theft: \$82.2 million.*—This additional funding will provide for additional staffing and investments in advanced technologies needed to handle the increased workload associated with identity theft and refund fraud. Specifically, the funding will help the agency improve upfront identification and resolution of identity theft; address the backlog of identity theft cases associated with pre-refund and post-refund compliance activities; recover erroneous refunds due to fraud; prevent prisoner tax refund fraud; stop refund fraud by limiting the number of refunds that can be sent to a single bank account; continue the expansion of the specialized Criminal Investigation (CI) Identity Theft Clearinghouse that processes identity theft leads; and invest in information technology projects to reduce identity theft and stop fraudulent tax refunds before they are paid. We project that investment in these activities will protect nearly \$1 billion in revenue once the new hires carrying out these activities reach full potential in fiscal year 2018, a return on investment (ROI) of \$13.2 to \$1.
- Address offshore tax evasion: \$40.7 million.*—This additional funding will allow us to expand our efforts to identify and pursue U.S. taxpayers with undisclosed offshore accounts. Funding will allow the IRS to: promote voluntary compliance with U.S. laws through strategic enforcement actions directed at identifying U.S. taxpayers involved in abusive offshore tax schemes through banks, other financial institutions and third party structures; expand information gathering and data analysis to identify promoters or facilitators of abusive offshore schemes; and expand the pursuit of international tax and financial crimes as well as grow the IRS attaché presence. We estimate these activities will produce additional, direct annual enforcement revenue of approximately \$159.6 million once the new hires carrying out these activities reach full potential in fiscal year 2018. That is an ROI of \$3.7 to \$1.
- Increase audit coverage: \$161.8 million.*—This additional funding will allow the IRS to hire additional personnel to improve our examination efforts in regard to individuals. Tight budget constraints have eroded the examination staff available to conduct audits, causing the individual audit coverage rate to decline below 0.9 percent. Reduced coverage causes increased risk to the integrity of the voluntary compliance system. The funding will help the agency begin the multiyear process of reversing that trend, by providing additional field employees. The funding will also allow the agency to increase individual and business document matching programs to identify and reduce income misreporting. These activities are expected annually to produce additional enforcement revenue of approximately \$1.3 billion once the new hires reach full potential in fiscal year 2018, an ROI of \$8 to \$1.
- Improve audit coverage of large partnerships: \$16.2 million.*—This additional funding will allow the IRS to increase the number of agents with specialized knowledge in partnership law, strengthen enforcement activities relating to flow-through entities, and improve compliance by enhancing IRS processes and procedures with respect to Tax Equity and Fiscal Responsibility Act (TEFRA) partnerships. As a result, we expect to produce additional annual enforcement revenue of approximately \$129.1 million once the new hires reach full potential in fiscal year 2018, an ROI of \$7.6 to \$1.
- Enhance collection coverage: \$122.8 million.*—This additional funding will help the IRS work its collection inventory and bring taxpayers who fail to pay their tax debts into compliance. IRS will address growing collection case inventories and call volumes that have resulted from reduced staffing levels in recent years; increase coverage of the growing number of employment tax collection cases with respect to business taxpayers; provide resources to reach out to taxpayers earlier in the collection process; help taxpayers experiencing economic hardship resolve their liabilities through the Offers in Compromise (OIC) program; and improve the capability to identify nonfilers of business returns. As a result of

these activities, we project additional annual, direct enforcement revenue of approximately \$1.2 billion once new hires reach full potential in fiscal year 2018, an ROI of \$9.0 to \$1.

- Improve efforts in the tax-exempt sector: \$23.5 million.*—This additional funding will help the IRS to build and maintain public trust by: anticipating and addressing the tax-exempt sector’s needs; encouraging voluntary compliance; and effectively enforcing the law to ensure compliance. The IRS will be able to accomplish the following: enhance the streamlined application process for exempt organizations seeking tax-exempt status; protect participants in retirement plans and their assets, which total more than \$23 trillion; provide voluntary correction opportunities related to employment taxes and retirement plans; improve service and compliance by integrating three separate determination application systems into one end-to-end system; and focus resources on areas with the greatest risk, so that resources in the Tax Exempt and Government Entities arena are developed and deployed appropriately.
- Pursue employment tax and abusive tax schemes: \$17.2 million.*—This additional funding will improve our efforts in the core enforcement areas of corporate fraud, employment tax, and abusive tax schemes, which will increase the number of convictions and assessments of unpaid tax. A portion of the funding will be used to acquire computer software that will enable the IRS to detect corporate fraud and abuse. With this software tool, the IRS will be able to identify schemes by linking together multiple potentially fraudulent returns or information items. These resources will improve the sharing of information among the agency’s operating divisions, and expand the IRS’ capability to identify significant tax cases.
- Consolidate and modernize IRS facilities: \$85.5 million.*—This initiative will provide space renovation resources needed to alter and reduce office space throughout the IRS inventory and realize an estimated annual rent savings of \$23 million. The IRS plans to reinvest the rent savings from this initiative to fund rent increases for the remaining buildings and for other new space reduction projects. Space reductions and consolidation strategies include reducing workstation size in accordance with revised National Workplace Standards; workspace sharing for frequent teleworkers and employees who work outside of their assigned post of duty more than 80 hours per month; realignment of occupied workspace; and consolidation of vacant workspace.
- Improve IRS financial accounting systems: \$12.2 million.*—This additional funding will help the IRS with more timely and accurate reporting of data on the revenue we collect. The funding will also be used to make necessary system and programming changes to comply with various Federal mandates, and to stay current with internal changes made to IRS’s tax processing systems for tax administration that also affect financial reporting.

Along with the funding request, we are also asking for Congress’s help legislatively. In that regard, let me highlight several important legislative proposals in the President’s fiscal year 2016 budget that would help to narrow the tax gap and reduce erroneous and fraudulent refunds, including fraud resulting from identity theft. Overall, the legislative proposals to strengthen tax administration, improve compliance by business, and expand information reporting would increase revenue by \$84 billion over the next 10 years, of which \$60 billion would come from enacting program integrity cap adjustments.

- Acceleration of information return filing due dates.*—Under current law, most information returns, including Forms 1099 and 1098, must be filed with the IRS by February 28 of the year following the year for which the information is being reported, while Form W-2 must be filed with the Social Security Administration (SSA) by the last day of February. The due date for filing information returns with the IRS or SSA is generally extended until March 31 if the returns are filed electronically. The budget proposal would require these information returns to be filed earlier, which would assist the IRS in identifying fraudulent returns and reduce refund fraud, including fraud related to identity theft.
- Correctible error authority.*—The IRS has authority in limited circumstances to identify certain computation errors or other irregularities on returns and automatically adjust the return for a taxpayer, commonly known as “math error authority.” At various times, Congress has expanded this limited authority on a case-by-case basis to cover specific, newly enacted tax code amendments. The IRS would be able to significantly improve tax administration—including reducing improper payments and cutting down on the need for costly audits—if Congress were to enact the budget proposal to replace the existing specific grants of this authority with more general authority covering computation errors and incorrect use of IRS tables. Congress could also help in this regard by creating

a new category of “correctible errors,” allowing the IRS to fix errors in several specific situations, such as when a taxpayer’s information does not match the data in certain government databases.

- Authority to regulate tax return preparers.*—The budget proposal would provide the agency with explicit authority to regulate all paid tax return preparers. The regulation of all paid tax return preparers, in conjunction with diligent enforcement, would help promote high quality services from tax return preparers, improve voluntary compliance, and foster taxpayer confidence in the fairness of the tax system.
- Preparer penalty.*—Under current law, the penalty imposed on preparers for understatement of tax on a Federal return due to an unreasonable position taken on the return is the greater of \$1,000 or 50 percent of the income derived by the preparer from preparation of the return. A separate penalty can be imposed if the understatement is due to the preparer’s willful or reckless conduct. That penalty is the greater of \$5,000 or 50 percent of the income derived by the preparer from preparation of the return. The administration’s proposal would increase the penalty in cases of willful or reckless misconduct to the greater of \$5,000 or 75 percent of the income derived by the preparer (instead of 50 percent). This proposal is necessary because in many cases, 50 percent of income derived by the preparer is far greater than the fixed dollar penalties imposed, so that, under the present penalty regime, preparers who engaged in reckless or willful conduct would end up paying the same dollar penalty as preparers whose conduct did not rise to that level.
- Due diligence.*—Return preparers who prepare tax returns on which the Earned Income Tax Credit (EITC) is claimed must meet certain due diligence requirements. In addition to asking questions designed to determine eligibility, the preparer must complete a due diligence checklist (Form 8867) for each taxpayer, which is filed with the taxpayer’s return. The administration’s proposal would extend the due diligence requirements to all Federal income tax returns claiming the Child Tax Credit (CTC) and the Additional Child Tax Credit. The existing checklist would be modified to take into account differences between the EITC and CTC.

There are a number of other legislative proposals in the administration’s fiscal year 2016 budget request that would specifically assist the IRS in its efforts to combat identity theft. They include the following:

- Providing Treasury and the IRS with authority to require or permit employers to mask a portion of an employee’s Social Security Number (SSN) on W-2s, an additional tool that would make it more difficult for identity thieves to steal SSNs;
- Adding tax-related offenses to the list of crimes in the Aggravated Identity Theft Statute, which would subject criminals convicted of tax-related identity theft crimes to longer sentences than those that apply under current law; and
- Adding a \$5,000 civil penalty to the Internal Revenue Code for tax-related identity theft cases, to provide an additional enforcement tool that could be used in conjunction with criminal prosecutions.

In discussing legislative proposals in the President’s fiscal year 2016 budget, it is also important to mention streamlined critical pay authority. The IRS Restructuring and Reform Act of 1998 increased the IRS’ ability to recruit and retain a handful of key executive-level staff by providing the agency with streamlined critical pay authority. This allowed the IRS, with approval from Treasury, to hire well-qualified individuals to fill positions deemed critical to the agency’s success, and that required expertise of an extremely high level in an administrative, technical or professional field. This authority expired at the end of fiscal year 2013, and the President’s fiscal year 2016 budget proposes reinstating it. We greatly appreciate the action taken last year by the Senate Appropriations Committee to renew streamlined critical pay, the absence of which has created major challenges for us.

The agency has already lost or will soon lose several senior experts in areas such as international tax, IT cyber security, online services and analytics support. Streamlined critical pay authority is an invaluable tool in our effort to replace them with people of the same high caliber expertise. It is my hope that this critical program, which ran effectively for 14 years before it expired, will be reinstated. Again, I appreciate the Appropriations Committee’s support for streamlined critical pay authority, and hope that support will be forthcoming again this year.

#### CRITICAL NEED TO FURTHER MODERNIZE IT SYSTEMS

In looking to the future, we believe that it is not an option to stay at our current level of funding, given the extent to which both taxpayer service and enforcement

will suffer as a result. It is especially troubling to me that these cuts prevent us from fully improving and modernizing our IT infrastructure and operations support. This hurts taxpayers and the entire tax community.

Earlier in this testimony I described some examples of IT projects that must be deferred as a result of budget reductions in fiscal year 2015. But the problem is much broader. We are operating with antiquated systems that are increasingly at risk, as we continue to fall behind in upgrading both hardware infrastructure and software. Despite more than a decade of upgrades to the agency's core business systems, we still have very old technology running alongside our more modern systems. This compromises the stability and reliability of our information systems, and leaves us open to more system failures and potential security breaches.

In regard to software, we still have applications that were running when John F. Kennedy was President. Also, we continue to use a decades-old programming language that was already considered outdated back when I served as chairman of the President's Council on Year 2000 Conversion, and it is extremely difficult to find IT experts who are versed in this language. I give our IT employees a tremendous amount of credit, as keeping things going in the face of these challenges is really a major accomplishment.

It is important to point out that the IRS is the world's largest financial accounting institution, and that is a tremendously risky operation to run with outdated equipment and applications. Our situation is analogous to driving a Model T automobile that has satellite radio and the latest GPS system. Even with all the bells and whistles, it is still a Model T. Our core IT systems are not sustainable without significant further investment over the next few years, and I look forward to working with you on this in the future.

The concerns I have about the IRS' IT funding level relate not only to the negative impact these cuts have on the present operations of the agency, but also the impact on our ability to advance the agency into the future and provide a more up-to-date and efficient tax filing process for the taxpaying public.

The experience that taxpayers have with the IRS should give them confidence in knowing they can take care of their tax obligations in a fast, secure, transparent, and consistent manner. This is not an unrealistic goal. We're not trying to go to the moon. We're simply saying that people should expect the same level of service when dealing with the IRS as they have now from their financial institution, whether it's a bank, brokerage, or mortgage company.

To the extent possible within our budget constraints, the IRS has already made some significant improvements in its technology to better serve taxpayers. For example, one of the most popular features on IRS.gov is the "Where's My Refund?" electronic tracking tool, which reduces phone traffic the IRS receives regarding questions about refunds. Taxpayers have already used this tool more than 125 million times so far this year.

Another good example is IRS Direct Pay, which provides taxpayers with a secure, free, quick, and easy online option for making tax payments, thereby reducing the need for the IRS to process payments by check. Still another example is Get Transcript, a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of minutes, which saves taxpayers time and reduces IRS resources needed to process paper requests for transcripts.

While these are important steps forward, more needs to be done. We have begun to ask ourselves what the online filing experience ought to look like 3 to 5 years down the road, and what it would take to make that a reality. In the future, most things that taxpayers do to fulfill their tax obligations could be done virtually, and there would be much less need for in-person help or for calling the IRS. The idea is that taxpayers would have an account at the IRS where they could log in securely, get all of the information about their account, and interact with the IRS as needed.

Improving service to taxpayers in this way can also help us on the compliance side of the equation. In this future state, the IRS could identify problems in tax returns shortly after a return is filed, and interact with taxpayers as soon as possible. That way, those issues could be corrected while tax records are available without costly follow-up contact or labor-intensive audits.

While the President's fiscal year 2016 budget makes important investments in IT to help build this approach, it is not an approach that we will be ready to fully implement within the next year. We want to make it a reality in the future, some years from now. Of course, how quickly we can deliver on this vision will depend on future levels of agency funding.

## CONCLUSION

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you again for the opportunity to discuss the IRS budget and current operations. Given the impacts we are already seeing on our ability to deliver on our mission, I believe it is vital that we find a solution to our budget problem, so that the IRS can be put on a path to a more stable and predictable level of funding. I look forward to working with Congress to do just that. This concludes my statement, and I would be happy to take your questions.

Senator BOOZMAN. What I would like to do is go ahead and go to you, Senator.

Senator MIKULSKI. Go ahead, and then if I could—you go ahead, and then I will come in.

Senator BOOZMAN. Okay. Thank you very much.

Thank you again for being here today, and I appreciate your testimony.

## IRS ACCOUNTABILITY

The problem is, is lack of confidence, and we can go all through these things. But IRS targeting, hiring people that had left, rehiring people that had left with bad records. Some of them actually having marked on their file “don’t hire.”

Tax refunds for prisoners, 25 percent earned income tax credit fraud. The IG, no safeguards—or not no safeguards, but not enough safeguards on sensitive information. One employee taking home over \$1 million—over a million not dollars, a million records, and the list goes on and on.

Whistleblower programs in shambles. Cybersecurity, licensures wasting billions of dollars, bonuses to people for poor performance records, taking of bank accounts from people with little evidence of wrongdoing, still having tax entities that are waiting for tax deductions for literally years. And still no execution plan on how to implement the ACA that we have been aware of.

So, again, the problem is, is accountability and getting some confidence back. So in your budget request, you are asking for almost \$12.9 billion for the IRS. Even without the request for \$667 million above current spending limits, you are still asking for a \$1.3 billion increase.

For comparison under the Budget Control Act, total nondefense discretionary spending for the entire Federal Government will increase by only \$1.1 billion. Given current budget constraints and past history, is it clear—it is clear that this request favors hope over reality.

The question is, are you developing contingency plans on how to carry out your mission based on a more realistic budget expectation?

Mr. KOSKINEN. Well, first, I would note that the difference between the IRS and the other agencies is if you give us money, we give you more money back. So that in terms of deficit reduction, which is a critical issue going forward, it is counterproductive when the more the budget and support for the IRS get cut, the greater the difficulty we have in collecting revenues.

But I do take the point, and we are continuing to assume that one of the options going into the future is that we will, in fact, stay at the flat level. In fact, that was our assumption going into 2015

when we ended up with a budget cut of \$350 million, the only major agency in the Government with a cut.

And in fact, we are the only major agency in the Government that was not restored to the presequester level. So combined together with the cut, we have, in effect, had the impact of two sequesters while everyone else is waiting to see what happens with the next sequester.

So as I have told OMB, we are two sequesters ahead of everybody else, and so, to that extent, we already have had to deal with a very difficult reality—

Senator BOOZMAN. Very good. Thank you.

Mr. KOSKINEN. So we are—we are prepared. All I can tell you, last year when I testified, I said if we did not get the increase in funding requested for customer service, for example, the customer service level was going to drop below 50 percent, and it has done that.

To the extent that we do not get additional funding for enforcement, I can tell you that the enforcement revenues available to the Government are going to decrease by six to eight times more than the cut in the budget.

But we are prepared. As I have always said, we will play the hand that is dealt to us. Whatever decisions you make, we will abide with them. I will tell you that there are great threats to taxpayer service, tax enforcement, and information technology.

Cybersecurity has been a critical issue for us. We get attacked 145 million times a year. There is no database that is more attractive than our database, and yet we are dealing with less and less support for our IT system than we think is appropriate.

So we will deal with whatever you give us, but I can tell you that we are significantly underfunded at this point already.

Senator BOOZMAN. Right. How much money did you waste in licensure?

Mr. KOSKINEN. In where?

Senator BOOZMAN. In licensure last year.

Mr. KOSKINEN. In licensure?

Senator BOOZMAN. Yes.

Mr. KOSKINEN. I don't know if we wasted any money in licensure. I don't know. In what sense? You mean in terms of IT licensure?

Senator BOOZMAN. Yes.

Mr. KOSKINEN. There is an IT report that we had disagreement with in terms of use of licenses for software as to whether, in fact, we had lost money on those software licenses by not using them, and it was an issue of how you measured it. But we have taken actions to make sure, because I am a big supporter of IGs, that when they raise an issue like that, we deal with it.

Senator BOOZMAN. Right. And we will visit with the IG about that.

#### IMMIGRATION

But during a hearing last month, Senator Grassley asked you about the tax consequences of the President's unilateral actions on immigration and whether it would allow individuals to claim billions of dollars in tax benefits for unauthorized work.



Your follow-up letter to him last week that individuals may claim up to 3 years of refunds on income even if they were working off the books or never paid taxes is truly startling. Why are you allowing individuals who cheated by not paying any taxes to now claim a refund that will be financed by hard-working Americans who have been paying taxes all along?

Mr. KOSKINEN. It has to be clear that you are eligible for the earned income tax credit only if you had earnings and earnings that meet the requirements of the statute. We have 700,000 undocumented residents who pay taxes every year. They use what is called an Individual Taxpayer Identification Number (ITIN), which is an identification number for them. They are paying even though they are undocumented, and they are already paying into the system.

Anyone who now under the President's program is provided a Social Security number would be eligible to file an amended return. But they have to then demonstrate that they actually had earnings, and they have had to pay taxes on those earnings or rather at least file a return. And only then would they be eligible.

A single employee at the low end of the scale without a family is eligible to a little less than \$600 a year in the earned income tax credit. So you have to have worked in those 3 years. If you file an amended return, you have to provide the evidence and the documentation that you worked. You have to file taxes on what you earned to be eligible, in fact, for any kind of an earned income tax credit payment.

Senator BOOZMAN. So the statement then that individuals may claim up to 3 years of refunds on income even if they were working off the books or never paid taxes is not true?

Mr. KOSKINEN. No. If they want to file an amended return, they have to file for the income they earned. As I noted, there are 700,000 undocumented residents filing taxes every year with us.

So to qualify for the earned income tax credit, you have to have worked. And if you file a return, you have to provide us the documentation that showed you actually had earnings that year. You will file taxes on those earnings, and it will be factored into then what, if any, earned income tax credit you are entitled to. There is not an automatic payment.

Senator BOOZMAN. The Senator from Maryland.

Senator MIKULSKI. Thank you, Mr. Chairman.

And thank you, Mr. Koskinen.

First of all, I really appreciate that someone of your caliber has decided to continue a life of public service and to do it at IRS. The IRS has taken a beating, both in the budget, by Members of Congress. We have demonized the men and women who work there, and then we underfund it and give them an impossible job. And when they can't do the impossible, we punish them by giving them even less money. So the impossible goes to the catastrophic.

So I really want to appreciate you just showing up every day and trying to run this ship. I really do think the President's budget, if not—if we don't fund at the least the full close to \$13 billion, we are talking about the need to add more money in taxpayer service, beefing up enforcement, strengthening operations, and looking at these new technologies.

## EMPLOYEE AND FUNDING LEVELS

So let me get to my question, which goes to service. I am concerned that by giving you less money, we end up with more fraud and abuse. So tell me how many people have been—what is the staff level reduction since 2010?

Mr. KOSKINEN. Since 2010, we have lost 13,000 employees. We estimate we will lose another 3,000 at the end of fiscal year 2015. So we will be down a total of an estimated 16,000 employees.

Senator MIKULSKI. Sixteen thousand employees in 4 years?

Mr. KOSKINEN. Five years, since 2010.

Senator MIKULSKI. Five years. And then, having looked at that, I understand from the Taxpayer Advocate that for every dollar spent on tax enforcement, we get \$6 back. But I am concerned about the fraud issues, as I know you are. We have talked about it.

Mr. KOSKINEN. Right.

Senator MIKULSKI. You know, the guys in prison who come up with dummy accounts. This recent thing with TurboTax. The—we could go through one fraudulent thing after another. What is the impact of shrinking amount of money, both in the area of enforcement and then the investigation staff and all that you have?

Mr. KOSKINEN. Well, it cuts across the board because we have no choice but to cut across the board. Three-quarters of our budget is people. So as we have fewer people, we have to have fewer people everywhere.

We have tried to support and maintain the number of people helping taxpayers who have been victims of fraud, but the underfunding of our information technology means we have made less progress in the development of our filters and our system capable of dealing with the influx of those returns. We have 5,000 fewer revenue agents, officers, and criminal investigators.

So while, again, an increasing percentage of our criminal investigation work is focused on tracking down identity thieves and those responsible for refund fraud, there is a limit to what our revenue agents can do. There is a limit to what our criminal investigators can do.

There is a reference to the earned income tax credit, a problem I am very greatly concerned about, and as noted in my testimony, we need help from Congress in terms of legislative fixes. But there, again, we have a limited number of people to do audits in that area as well.

Senator MIKULSKI. Well, with this double sequester and the reductions that we have—Congress has forced upon you, are you having a hard time recruiting people?

Mr. KOSKINEN. Well, at this point, we have some difficulty. Our only way to get through this year is that, except for emergencies, we are not hiring anybody. So when people leave—

Senator MIKULSKI. So do you have a freeze?

Mr. KOSKINEN. We have a freeze, total freeze. I said we have taken 10 percent of what we would save with a total freeze for emergencies because it makes no sense, obviously, when division heads or senior managers leave not to replace them. But as a general matter, we are basically not replacing anyone when they leave.

Senator MIKULSKI. Well, and when you have a freeze and people leave, like in the enforcement area, the investigation area, do you replace them?

Mr. KOSKINEN. No.

Senator MIKULSKI. So it is not only a freeze, but it is a freeze on replacement?

Mr. KOSKINEN. It is a freeze on replacement—so we are having—

Senator MIKULSKI. It is not only that you don't hire more—

Mr. KOSKINEN. The way we are going to lose 3,000 people this year is by simply not replacing those who leave. We have 1,000 people right now who have applications in to retire. They will retire in the near-term future. They won't be replaced. That is a significant amount of experience going out the door that won't be replaced.

My concern in the long run is we are going to have an employee base that has a kind of baby bust in the middle of it because we have been replacing only one in every five over the last 2 years. So as you look out into the future, there is going to be a time at which we are going to have a gap in our experience level. And 3 to 5 years from now, that is going to start to be a serious problem for the agency, no matter what we do now.

#### PAYROLL PROVIDER FRAUD

Senator MIKULSKI. Well, let me go to the impact. I don't know—I want to raise an issue related to helping victims of the payroll provider fraud problem.

I have many constituents who were victims of a crime related to a company called AccuPay. And as you know, when they hire a company, a small business, whether it was a brew pub or a home improvement agency, they hire someone to do their books. I mean, that is the way they talk about it.

And then this company, AccuPay, took their money that they gave them to pay the taxes, didn't pay IRS, and then kind of disappeared. I got into it. I have been trying to get it straight. And what I find is that approximately 500 to 600 businesses were scammed in my State.

The IRS has only offered 54 offers in compromise to these businesses. Remember, they paid the company, who didn't pay IRS. So IRS comes back and goes after the brew pub, the home improvement, the beauty shop. You know, this is the kind of—when we say small business, it is that really Main Street, strip mall type business.

And I put in legislation that requires IRS to do more, but they haven't. They just haven't follow my laws. I mean, followed my laws, and it has even become an issue with the National Taxpayer Advocate and for the Most Serious Problem (MSP) Number 21.

The IRS does not comply with the law regarding victims of payroll service provider failure. Can you help me out with this, and can you help them out?

Mr. KOSKINEN. Yes. We now have a new requirement that is a very thoughtful, sensible one in that every time a tax preparer, an intermediary payroll provider, makes any change in the taxpayer's

residence, we will actually notify the constituents that their payroll provider has changed their address.

We also, again within the constraints of personnel, are trying not only in this area but across the board. Whenever anyone misses an estimated tax payment, rather than waiting until the end of the year and then chase people, we are going to try to more affirmatively reach out and identify when payments are not made on a quarterly basis so that we can catch these problems earlier.

Part of the problem with AccuPay was nobody had actually known there was a problem until well after the end of the year. So now what we are going to try to do with, again, with limited resources, to the extent we can, identify where we are not getting the quarterly payments of employee taxes that we should be getting and both notify the payers as well as the intermediaries.

Senator MIKULSKI. That is the solution. But can I ask you to really look into what the Taxpayer Advocate says that they are not complying with the law. Your agency is not implementing the law.

Mr. KOSKINEN. I will be delighted to look into that. As I said, I know we are now in the process of notifying people when there are address changes to make sure that people know about that.

Senator MIKULSKI. No, I got that. But—

Mr. KOSKINEN. I will be happy to talk to the Taxpayer Advocate. I meet with her regularly and will ensure that we do that.

Senator MIKULSKI. Yes.

Mr. KOSKINEN. In fact, I have asked her last year and this year as well to take her 23 most significant challenges that she lists every year and to give me the list of those we could implement without having to spend more money. Last year, she gave me that list, and we implemented most of them, including the Taxpayer Bill of Rights. And I have made the same offer to her this year.

I have told her, I said, "Nina, if you will give me your list of things that we should do, the things we could do without any expenditure of money, which we obviously don't have, we will make a serious effort to do those things." And this would be one of those.

Senator MIKULSKI. Thank you.

Do you want to take this over? We will give it to you right now.

Senator BOOZMAN. Thank you.

Senator MIKULSKI. Thank you.

Senator BOOZMAN. Thank you, Senator. I think you brought up an excellent point.

The Senator from Kansas.

#### VETERANS ORGANIZATIONS

Senator MORAN. Mr. Chairman, thank you very much.

Commissioner, a couple of topics. First of all, dealing with veterans. My understanding is that the American Legion, the National American Legion has been required by the IRS to provide tax identification numbers from every post across the country when they file their return, and that, they are incapable of doing.

Their charter indicates that they are not a parent organization for various American Legion posts across the country, and they have been trying to sort this out with the IRS without any success. A number of letters and requests have been made to the IRS, and if you could bring me up to date on this topic?

And then I would also say that I met with you or your predecessor back in 2013 in which the topic was American Legion posts across the country were being required to provide the DD-214, the service-connected discharge document for every veteran that was a member of their post. And my understanding was that practice was coming to a conclusion, that the IRS had concluded that wasn't a beneficial use of their limited resources.

I just, in fact, before I walked in this hearing, came from a meeting with VFW members who indicate that that circumstance is again occurring across the country, that VFW posts now, like American Legion posts, are being required to provide the DD-214 for every post member, which is something very difficult, if not impossible, to accomplish. That is the issue that arose in 2013 that I was assured had come to an end.

And then, more recently, the American Legion being told they must provide the tax-exempt status documentation from every post across the country, which they are incapable of doing, but also have been unable to receive a response to their inquiry from the IRS.

Mr. KOSKINEN. I am happy to assume responsibility for everything the IRS does, even before I got there at the end of 2013. So whatever the discussions were in 2013, obviously, I am not privy to them.

I thought we had resolved the issue on the DD-214. If your staff would get us the background information, we would be delighted to make sure.

Obviously, our challenge is, again with our limited resources and the limited resources of the tax-exempt organizations, is to try to ensure, to the extent we can and they can, that they are operating within the realm of their charters and their exemption. And that involves for veterans organizations confirmation that they are basically dealing with veterans and not expanding their operations to include nonveterans.

But I take the point, and I thought we had taken the point in the past that this has to be done in a reasonable way. We can't be layering impossible burdens on top of people.

So if you will get me the details about that, I would be happy to both look into it and get back to you promptly.

Senator MORAN. Does the second and larger aspect of American Legion, the national posts, the National American Legion being required to provide information from every post across the country to the IRS, which is a different issue than the one you and I just described, do you know anything about that topic?

Mr. KOSKINEN. I have not heard that problem. To the extent that they are not in control and don't charter and don't establish posts across the country, obviously, and don't have the records, that wouldn't make much sense either. Again, the Employer Identification Number (EIN) issue is primarily for payroll taxes and withholding and employee taxes.

But again, I would be happy to look at both those issues for you and let you know the status of them and get back to you quickly.

Senator MORAN. Commissioner, based upon your tone and words, your response, my assumption is this appears to be something that ought to be able to be resolved quickly and satisfactorily toward veteran service organizations?

Mr. KOSKINEN. Yes. Again, I am not an expert at where we are in that and the details of it. But our goal in a lot of these areas is primarily to try to make it easy for people to establish that they are still operating, serving—within their charters and serving the people they were meant to. But we ought to be able to figure out how to do that with them in a way that works out efficiently.

Senator MORAN. I was surprised because, again, as I say, I think in 2013 I think it was your predecessor, the Acting Commissioner, assured me that this practice was coming to a conclusion. I hadn't heard about it at the local level until, as I say, this meeting right before.

I said, "I got to go question the IRS Commissioner," and immediately, they had a request. And this apparently is three VFW posts in New York State.

Mr. KOSKINEN. I would be happy to look into it. If Acting Commissioner Werfel said the process was coming to an end, it should have come to an end.

Senator MORAN. All right.

Mr. KOSKINEN. If there are residual elements out there, I would be delighted to look into them.

Senator MORAN. Thank you very much.

#### TRIBAL ORGANIZATIONS

Then in regard to a similar question that I asked Secretary Lew on this legislation that Congress passed, the Tribal General Welfare Exclusion Act, the law stipulates that all audits related to benefits under the general welfare exclusion should be suspended until tribal advisory committees are established and the IRS field agents are properly trained and educated in Federal law and how it relates to sovereign tribal—I am sorry, sovereign Indian tribes.

What this issue is, and maybe you are familiar with it?

Mr. KOSKINEN. I am familiar.

Senator MORAN. You are? All right.

Mr. KOSKINEN. And I met with the tribal leaders late last fall when they were here in Washington. It may have been the first time an IRS Commissioner had done that.

Senator MORAN. Well, thank you for doing that. I think the concern that exists is that the IRS audits continue, even though the tribes believe that the issues that are being audited are related to the general welfare exclusion. And so, my question to you is can you provide me with the standards being used to determine whether an audit relates to the general welfare exclusion and confirmation that deference is being provided to the tribal governments based upon that exclusion?

Mr. KOSKINEN. I will be delighted to get you that information. My understanding was that had been made clear, that the general welfare exclusion applied, and that we would honor that. But again, I am delighted to be able to go back, check on that, and get back to you quickly.

So, again, if your staff could just let us know the details of where they are hearing that from, again, I can't talk about an individual case, but clearly, that was our understanding when I met with the tribal leaders that we were going to try to have a better working relationship, understand the significance of their sovereignty, and

make sure that our people, as you note, were properly trained and respectful of that sovereignty.

Senator MORAN. Do you have an idea of how many audits have been suspended as a result of this requirement of the Exclusion Act?

Mr. KOSKINEN. I do not.

Senator MORAN. Okay.

Mr. KOSKINEN. But I cannot believe there are——

Senator MORAN. And I guess I would ask another question is as you provide me information, in addition to how many audits have been put on hold, suspended as a result of awaiting the training and the appointment of the advisory committees, I would ask that if there is a tribe that believes that they—that the audit is improper, how do they appeal the decision that they are being audited?

They, in their conversations with me, seemed to have no recourse. The IRS is here. They shouldn't be auditing us, but we don't know what to do about it.

So if you could respond——

Mr. KOSKINEN. I would be delighted to do that. Every taxpayer has a right to our appellate process, which is totally independent of our compliance process. But if you will include that in your inquiry, we will be delighted to get them the roadmap as to what they should be doing to make sure they feel they have an appropriate way to raise their concerns.

Senator MORAN. Thank you for responding to both my Native American as well as my veteran questions. Thank you.

Mr. KOSKINEN. Delighted.

Senator BOOZMAN. Senator Coons.

Senator COONS. Thank you, Chairman Boozman.

And I would associate myself with Senator Moran's expressed concerns about the veteran issues in particular, would appreciate follow-up on that.

And although she has departed, I joined the Appropriations Committee in no small part because of the fervor and the passion and the commitment that the chair and now vice chair, Senator Mikulski, demonstrated towards returning us to regular order, and her very effective leadership in that will be sorely missed at the end of these 2 years.

#### IDENTITY THEFT

You identified service and enforcement and IT as sort of three core themes where you think funding shortfalls have caused real challenges for IRS and taxpayers, and I want to touch on a few of those. Take to the Treasury Inspector General for Tax Administration identified security for taxpayer data as its number-one priority challenge for you this year, and I assume that is not unrelated to your IT investments.

Let me talk, if I could, for a moment about identity theft and combating refund fraud. Your estimate was you paid out \$5.8 billion in identity theft refunds in tax year 2013. Just tell me a little bit more about your strategy for dealing with refund fraud and identity theft.

Is it comprehensive enough and aggressive enough to keep pace with fraudsters who keep finding more and more sophisticated ways either to hack in and access or to take advantage of different schemes? And what measures would help the IRS better detect fraud and halt fraud schemes before they get out of hand?

Mr. KOSKINEN. Right. It has been historically a growing problem. It exploded in the 2010 to 2012 timeframe and overwhelmed law enforcement as well as the IRS. We have made significant progress, but to some extent, the point you raise is the important one to know. That, as I have said, we have gotten over 2,000 convictions of people going to jail for an average of 40 months or higher. And we have gotten a lot of the individuals, including prisoners, identified and prosecuted.

But what we are finding, not surprisingly, because it is consistent across all the cyber areas, is that we are increasingly dealing with organized crime syndicates here and around the world. We are dealing with people not filing just one return at a time, but people filing 500 returns at a time. People who are reverse engineering our filters, trying to figure out what gets through, and adjusting accordingly as they go.

So we have continued over the last 3 or 4 years to increase our investigations and prosecutions on the one hand, while increasing the level of sophistication of our filters on the other. Last year, we stopped approximately 5 million refunds before they went out because of suspicions about identity theft and refund fraud. Unfortunately, we estimate that 300,000 to 500,000 taxpayers will have their identity stolen, and refund fraud as a result of that, as we go forward.

We have doubled, even with the resource constraints, the number of people helping taxpayers. We have got over 3,000 people focused on working with taxpayers with identity theft. It used to take us a year. Now our goal is to get them resolved in less than 120 days.

Part of our challenge with the funding is while this is a high priority, there is a limit to all of the priorities we have. So we have been slower at developing more sophisticated fraud filters and detection devices than we would like to have been, but we are making progress.

This year, we are stopping more returns at the front end before they are processed than we did last year as a result of the improvements. But if we had the funding we are suggesting for next year, we would actually be able to get to a point where we would be even more effective.

In terms of additional tools, across the board, if we got W-2 information returns earlier, it would help us significantly. We also are working on legislation requirements that if we could get, in effect, unique identifiers to every W-2, which would be easy enough to do, we would be able to identify legitimate W-2s.

There is a move afoot by criminals to form false corporations, get false EINs, and file false W-2s, for which they would then file a return against those. So both those legislative fixes would be significantly important for us.

Senator COONS. Well, thank you for the input.

Let me just raise with you the Taxpayer Advocate, in terms of dealing with those who have been victims of identity fraud, has ad-



vocated an approach that would assign a single account representative to tax-related identity theft of victims to help them navigate the case rather than be frustrated by having several different IRS employees handle it.

Is that something you are intending to implement? What is the direction on that?

Mr. KOSKINEN. Well, we have done what we think is the appropriate response to that over the last couple years. That is, and we are just completing it now, is move all of the refund fraud activity into a single location. It used to be spread throughout the agency. So there is, in fact, a single point of contact working these issues.

The Taxpayer Advocate's suggestion is then we have an individual employee who is assigned to each of the 300,000 to 500,000 taxpayers, working their way through. We disagree with that only in the sense if you think of your experience dealing with call centers anywhere else, whether you call Amazon or a bank or someone else, when you get assistance, you get a case number. You get help. But the next time you call back, you don't ask for Joan or Susan because Joan or Susan may be on vacation. They may be talking to somebody else. They may be out of the office.

What you want to be able to do is call back in and make sure that when you call back in to the single point of contact, they know who you are. You don't have to start all over again.

In the past, many taxpayers have had that experience. They got moved from one part of the agency to another. They had to start all over again. We don't think—

Senator COONS. Let me ask—

Mr. KOSKINEN. Besides not being cost-effective, we don't think if you had to track down your single appointed IRS employee that that is a help.

#### TAXPAYER SERVICE

Senator COONS. Commissioner, in the time I have got left, just service levels is a significant concern to me. My impression is that roughly a decade ago, the IRS answered 87 percent of calls in a wait time of 2½ minutes.

Your projection, given the significant reduction in your workforce, for this taxpaying season is that less than half the callers seeking advice and assistance, answers to tax questions will ever succeed in having their calls answered, and there is an average wait time of 33 minutes.

What do you think would be an acceptable level of service for taxpayers calling the toll-free line trying to get a question answered? What dollar amount of increased funding would be required to return you to your 2004 service level? And what are the consequences—revenue consequences, social consequences—of having those who are trying to figure out how to comply voluntarily unable to get their questions answered?

Mr. KOSKINEN. In the budget, we identify if we had \$380 million applicable in that area, we would be able to bring our TAC level of service to 80 percent. We actually think that 85 percent, 87 percent is the ultimate right number. You don't want to be at 100 percent because then you've got a lot of people just sitting around waiting for the calls.

But the waiting time ought to be less than 5 minutes. You ought to be able to call, be comfortable you are going to get a live assister in less than 5 minutes.

The impact that we are concerned about, that I am personally concerned about, is we focus on how much money we collect with our activities and you get six or eight times as much as the cost. But enforcement revenues on the one hand and activities around taxpayer service on the other, trying to help people figure out what they owe and how to pay it, are two sides of the compliance coin. And the number I am concerned about is that we collect \$3 trillion a year in a voluntary compliance system.

If the compliance rate goes down by 1 percent, either because people think the chances of getting caught are down or because they can't find out the right information or they just get aggravated with us, a 1 percent decline in the compliance rate costs the Government \$30 billion annually. On the 10-year window we are looking at, it is \$300 billion, besides the fact that it is not an on/off switch.

That goes to the chairman's concern, which I have as well, and if people lose confidence in the agency, if they lose confidence in the fairness of the system, the risk to us is not that our collections will go down, although they will, the real risk is what happens to the overall compliance rate? What happens to that \$3 trillion number?

And I am concerned about it. The people most concerned about our taxpayer level of service are our employees because they view the service the taxpayers ought to get, they are committed to. And as I go around the country, I have talked to 13,000 individual IRS employees, and the biggest concern I have is not that they are overworked. The biggest concern I hear from them is there aren't enough people to be able to provide the services to taxpayers that they think is important.

Senator COONS. Thank you, Commissioner.

I have additional questions, but I will submit them for the record. Thank you, Commissioner.

Senator BOOZMAN. Thank you for your testimony today, Commissioner. I know you have got a big job, and we really look forward to working with you in an effort to serve and protect the American taxpayer. So thank you for appearing here today.

At this time, I would like to call forward Inspector General George to present his testimony.

Thank you.

Mr. KOSKINEN. Thank you, Mr. Chairman.

Senator BOOZMAN. Inspector General, please proceed.

TREASURY INSPECTOR GENERAL FOR TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY

**STATEMENT OF HON. J. RUSSELL GEORGE, INSPECTOR GENERAL**

Mr. GEORGE. Thank you. Mr. Chairman, Ranking Member Coons, thank you for the opportunity to appear today.

In my testimony, I will address the Internal Revenue Service's fiscal year 2016 budget request and specific areas where it could perform its mission more effectively. I will also address the fiscal year 2016 budget request for TIGTA, the Treasury Inspector General for Tax Administration.

The proposed IRS budget requests appropriated resources of \$12.9 billion. This is an increase of \$2 billion from fiscal year 2015 enacted levels. This proposed increase is intended to improve taxpayer service levels and enforcement efforts. It also provides for critical information technology changes related to the Affordable Care Act and other requirements to sustain information technology infrastructure.

We have reported that a trend of lower budgets and reduced staffing has affected the IRS's ability to deliver its priority program areas, including customer service and enforcement. At the same time, it has increased responsibilities of implementing certain provisions of the Affordable Care Act.

The IRS also continues to dedicate significant resources to detect and review potential identity theft tax returns and assist victims. IRS employees who work the majority of identity theft cases are telephone assisters who also respond to taxpayers' calls to the IRS's toll-free telephone lines.

This has contributed to the IRS's inability to timely resolve victims' cases, as well as the continued decline in its ability to timely respond to taxpayers' written correspondence. As of February 14, 2015, the average wait time for the IRS to answer a call was 28 minutes, the level of service was only 43 percent, and its over-age correspondence inventory was 1.3 million.

While the IRS faces many resource challenges, TIGTA has recently reported on several areas where the IRS can operate more effectively. For example, we believe the IRS could save about \$17 million per year if it allowed taxpayers to electronically file amended tax returns, rather than only allowing paper returns.

This would also enable the IRS to use the same validation processes that it utilizes to verify originally filed tax returns. TIGTA estimates that this could prevent the issuance of more than \$2.1 billion in potentially erroneous refunds over the next 5 years.

The IRS could also make more informed business decisions when determining how to use its limited resources. For example, the IRS eliminated or reduced services at taxpayer assistance centers. Al-

though the IRS stated that the services eliminated or reduced were in part the result of the IRS's anticipated budget cuts, the IRS plans did not show to what extent the services cut would lower costs. Moreover, it later had to reverse certain decisions.

TIGTA also found that the IRS's field work collection process is not designed to ensure that cases with the highest collection potential are identified. Additionally, changing the law to require third parties to file information returns earlier would provide the IRS the opportunity to use the information contained on these forms to verify tax returns at the time they are processed rather than after refunds are issued.

However, even if the third-party information returns are received more timely, the IRS still needs certain authorities to more efficiently and effectively use this data. Generally, the IRS must audit any tax return it identifies with a questionable claim before the claim can be adjusted or denied, even if the IRS has reliable data that indicates the claim is erroneous.

The Department of the Treasury has included a legislative proposal as part of the IRS's budget request since fiscal year 2013 to obtain correctable error authority, which would permit the IRS to systematically deny all tax claims for which the IRS has reliable data showing the claim is erroneous.

TIGTA estimates that this authority, along with the expanded use of the National Directory of New Hires, part of the Department of Health and Human Services, could have prevented the issuance of more than \$1.7 billion in questionable earned income tax credit claims in tax year 2012.

TIGTA's fiscal year 2016 proposed budget requests appropriated resources of \$167 million, an increase of 5.7 percent compared to the fiscal year 2015 enacted budget. TIGTA's budget priorities include mitigating risks associated with tax refund fraud and identity theft, monitoring the IRS's implementation of the Affordable Care Act and other tax law changes, and assessing the IRS's efforts to improve tax compliance involving foreign financial assets and offshore accounts.

#### PREPARED STATEMENT

In addition, investigating allegations of serious misconduct and criminal activity by IRS employees, ensuring IRS employees are safe, and IRS facilities, data, and infrastructure are secure and not impeded by threats of violence, and protecting the IRS against external attempts to corrupt or otherwise interfere with tax administration will continue to take priority.

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to share my views. I am happy to take your questions.

[The statement follows:]

#### PREPARED STATEMENT OF HON. J. RUSSELL GEORGE

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to testify on the Internal Revenue Service's (IRS) fiscal year<sup>1</sup> 2016 budget request, our recent work related to the most significant chal-

<sup>1</sup>The Federal Government's fiscal year begins on October 1 and ends on September 30.

lenges currently facing the IRS, and the Treasury Inspector General for Tax Administration's (TIGTA) fiscal year 2016 budget request.

The Treasury Inspector General for Tax Administration, also known as "TIGTA," is statutorily mandated to provide independent audit and investigative services necessary to improve the economy, efficiency, and effectiveness of the IRS, including the IRS Chief Counsel and the IRS Oversight Board. TIGTA's oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA's role is critical in that we provide the American taxpayer with assurance that the approximately 91,000<sup>2</sup> IRS employees, who collected over \$3.1 trillion in tax revenue, processed over 242 million tax returns and other forms, and issued \$374 billion in tax refunds<sup>3</sup> during fiscal year 2014, perform their duties in an effective and efficient manner while minimizing the risks of waste, fraud, or abuse.

#### OVERVIEW OF THE IRS'S FISCAL YEAR 2016 BUDGET REQUEST

The IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS's budget request supports the Department of the Treasury's Strategic Goal of fairly and effectively reforming and modernizing Federal financial management, accounting and tax systems and the Department of the Treasury Agency Priority Goal of increasing self-service and electronic service options for taxpayers.

The IRS Strategic Plan for fiscal year 2014–2017 provides a central direction for the agency and guides program and budget decisions. The IRS's strategic goals are to: (1) deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance, and (2) effectively enforce the law to ensure compliance with tax responsibilities and combat fraud. To achieve these goals, the proposed fiscal year 2016 IRS budget requests appropriated resources of approximately \$12.9 billion.<sup>4</sup> The total appropriation amount is an increase of \$2 billion, or approximately 18 percent more than the fiscal year 2015 enacted level of approximately \$10.9 billion. This increase is illustrated in Table 1. The budget request includes a net staffing increase of 9,245 Full-Time Equivalents (FTE)<sup>5</sup> for a total of approximately 90,524 appropriated FTEs.

TABLE 1—IRS FISCAL YEAR 2016 BUDGET REQUEST INCREASE OVER FISCAL YEAR 2015 ENACTED BUDGET

[In thousands]

Appropriations account	Fiscal year 2015 enacted	Fiscal year 2016 request	\$ change	% change
Taxpayer Services .....	\$2,156,554	\$2,408,803	\$252,249	11.7
Enforcement .....	4,860,000	5,399,832	539,832	11.1
Operations Support .....	3,638,446	4,743,258	1,104,812	30.4
Business Systems Modernization .....	290,000	379,178	89,178	30.8
<b>Total Appropriated Resources .....</b>	<b>10,945,000</b>	<b>12,931,071</b>	<b>1,986,071</b>	<b>18.2</b>

Source: Treasury Inspector General for Tax Administration's analysis of the IRS's Fiscal Year 2016 Budget Request, Operating Level Tables.

The three largest appropriation accounts are Taxpayer Services, Enforcement, and Operations Support. The Taxpayer Services account provides funding for programs that focus on helping taxpayers understand and meet their tax obligations, while the Enforcement account supports the IRS's examination and collection efforts. The Operations Support account provides funding for functions that are essential to the overall operation of the IRS, such as infrastructure and information services. Finally, the Business Systems Modernization account provides funding for the development of new tax administration systems and investments in electronic filing.

<sup>2</sup>Total IRS staffing as of January 24, 2015. Included in the total are approximately 19,000 seasonal and part-time employees.

<sup>3</sup>IRS, *Management's Discussion & Analysis, Fiscal Year 2014*, page 2.

<sup>4</sup>The fiscal year 2016 budget request also includes approximately \$127 million from reimbursable programs, \$33 million from non-reimbursable programs, \$450 million from user fees, \$386 million in available unobligated funds from prior years, and a transfer of \$5 million to the Alcohol and Tobacco Tax and Trade Bureau for a total amount of \$13.9 billion in available resources.

<sup>5</sup>A measure of labor hours in which one FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year.

As shown in Table 1, the Operations Support budget request for fiscal year 2016 increased by over 30 percent or \$1.1 billion and 1,820 FTE compared to fiscal year 2015. The three largest components driving this increase are as follows:

- \$495 million (975 FTE) for Information Technology changes related to the Affordable Care Act and other requirements to sustain critical information technology infrastructure;
- \$118 million (164 FTE) for improved taxpayer service and return processing, including efforts to address the projected growth in demand for traditional taxpayer services as well as to improve taxpayer assistance;
- \$85 million (74 FTE) for consolidating and modernizing IRS facilities, including reducing office space to realize an estimated annual rent savings of \$23 million.

#### REDUCTIONS IN THE IRS'S FISCAL YEAR 2015 BUDGET

The IRS's appropriated funding was reduced by \$346 million over the last year, from \$11.3 billion in the fiscal year 2014 enacted budget to \$10.9 billion in fiscal year 2015. To address this, the IRS reduced planned spending in a variety of key areas for fiscal year 2015. The areas with the largest cuts are total personnel compensation (\$142 million), equipment (\$65 million), communication and utilities (\$55 million), and operation and maintenance of equipment (\$42 million). The IRS also reduced overall net spending on services by \$40 million.<sup>6</sup> Finally, the IRS had an exception-only hiring freeze in place during fiscal year 2014 which also remains in place in fiscal year 2015.

Even with these reductions, the IRS Commissioner testified on February 3, 2015<sup>7</sup> that the IRS still faces a significant budget shortfall for fiscal year 2015. As a result, the IRS is planning for the possibility of a shutdown of IRS operations for two days later this fiscal year, which will involve furloughing employees on those days. The IRS Commissioner also testified that these budget cuts will have negative impacts on taxpayer service and enforcement. For example, the Commissioner stated the IRS will delay replacement of aging information technology systems, increasing the risk of downtime and negatively affecting taxpayer service. In addition, the Commissioner indicated reduced staffing will result in decreased audits and collection activities, as well as delays in customer service during the 2015 filing season.

#### CHALLENGES FACING THE IRS

Achieving program efficiencies and cost savings is imperative, as the IRS must continue to carry out its mission with a significantly reduced budget. TIGTA reported that implementation of the mandated sequestration,<sup>8</sup> coupled with a trend of lower budgets, reduced staffing, and the loss of supplementary funding for the implementation of the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the Affordable Care Act or ACA)<sup>9</sup> affected the IRS's ability to deliver its priority program areas, including customer service and enforcement activities.<sup>10</sup>

For example, the IRS's toll-free Level of Service<sup>11</sup> decreased from 68 percent in fiscal year 2012 to 61 percent in fiscal year 2013. As of February 14, 2015, more than 26 million taxpayers contacted the IRS during the 2015 Filing Season by calling various Accounts Management toll-free telephone assistance lines<sup>12</sup> seeking help to understand the tax law and meet their tax obligations. The IRS answered more than 9.3 million calls through automated scripts and more than 2.6 million calls by an IRS assistor. The Average Speed of Answer for an IRS assistor-answered telephone call was 28 minutes. As of February 14, 2015, the IRS reported a 43 percent Level of Service for calls answered by an assistor. In addition, as of February 14, 2015, the over-age correspondence inventory totaled more than 1.3 million.

<sup>6</sup>The overall net reduction in services includes a decrease of \$100.2 million in other services from non-Federal sources and an increase of \$60.3 million in advisory and assistance services.

<sup>7</sup>Written Testimony of John A. Koskinen, Commissioner of the IRS, before the Senate Finance Committee, dated February 3, 2015.

<sup>8</sup>Sequestration involves automatic spending cuts of approximately \$1 trillion across the Federal Government that took effect on March 1, 2013.

<sup>9</sup>Public Law No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of Internal Revenue Code and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Public Law No. 111-152, 124 Stat. 1029.

<sup>10</sup>TIGTA, Ref. No. 2014-10-025, *Implementation of fiscal year 2013 Sequestration Budget Reductions* (June 2014).

<sup>11</sup>The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.

<sup>12</sup>The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

Key examination and collection statistics also declined. Examinations of individual tax returns decreased approximately 5 percent from fiscal year 2012 to fiscal year 2013. In addition, collection activities initiated by the IRS, such as liens, levies, and property seizures, decreased approximately 33 percent during the same period. Our analysis of select customer service and enforcement statistics indicates that the downward trend in these areas may continue.

For example, budget cuts have resulted in significant declines in the IRS collection program.<sup>13</sup> From fiscal year 2010 to fiscal year 2014, the budgets for the Automated Collection System (ACS)<sup>14</sup> operations and Field Collection were reduced by over \$269 million. ACS staffing has been reduced by 24 percent since fiscal year 2011, and the number of revenue officers has decreased 24 percent since fiscal year 2011. As a result, in fiscal year 2014 revenue officers closed 34 percent fewer cases and collected \$222 million less than in fiscal year 2011. ACS contact representatives answered 25 percent fewer calls in fiscal year 2014 than in fiscal year 2011 and collected \$224 million less in fiscal year 2014 than in fiscal year 2011.

At the same time the IRS is operating with a reduced budget, it continues to shoulder increased responsibilities as it implements and administers provisions of the Affordable Care Act. This filing season represents the first time taxpayers must report on their tax returns whether they and their dependents maintained minimum essential healthcare insurance coverage or face a tax penalty for not maintaining this coverage. The IRS must also ensure that the more than 6 million individuals who purchased insurance from a Health Care Exchange<sup>15</sup> accurately reconcile on their tax returns advance payments of the Premium Tax Credit (PTC)<sup>16</sup> they may have received.

Since enactment of the Affordable Care Act, these responsibilities have required the IRS to develop new information technology, modify existing computer systems, and establish new or revised filing, reporting, and compliance processes and procedures. The IRS's fiscal year 2016 budget request includes \$490 million to fund 2,539 FTEs for continued efforts related to the implementation of ACA. The largest components of this increase are \$306 million to implement information technology changes to deliver ACA tax credits; \$101 million to improve taxpayer service and return processing; and \$67 million to address the impact of new ACA statutory requirements.

In addition, the IRS continues to dedicate significant resources to detect and review potential identity theft tax returns as well as to assist victims. Resources have not been sufficient for the IRS to work identity theft cases dealing with refund fraud, which continues to be a concern. IRS employees who work the majority of identity theft cases are telephone assistants who also respond to taxpayers' calls to the IRS's toll-free telephone lines. This has contributed to the IRS's inability to timely resolve victims' cases as well as the continued decline in its ability to respond to taxpayers' written correspondence. The allocation of limited resources requires difficult decisions, with a focus on balancing taxpayer assistance on the toll-free telephone lines during the filing season with other various priority programs, such as identity theft and aged work.

For example, the IRS previously reallocated ACS staff, who attempt to collect taxes through telephone contact with taxpayers, to work the growing inventory of identity theft cases. The combination of fewer resources and the need to continue answering telephone calls has contributed to trends that have been unfavorable to several ACS business results over the past 4 years. Specifically, we determined that inventory is growing because new inventory is outpacing case closures; cases in inventory are aging because inventory is taking longer to close; revenue declined while more cases were closed as uncollectible; and fewer enforcement actions (liens and levies) were taken.<sup>17</sup>

During the past several years, the IRS has continued to take steps to more effectively detect and prevent the issuance of fraudulent refunds resulting from identity

<sup>13</sup>TIGTA, Audit No. 201330013, *Budget Cuts Resulted in Significant Declines in Key Resources and Unfavorable Trends in Collection Program Performance*, report planned for April 2015.

<sup>14</sup>The Automated Collection System consists of 15 call sites with contact representatives to engage taxpayers and their representatives on resolving unpaid tax debts. Field Collection consists of over 400 offices across the country through which revenue officers contact taxpayers in person to resolve tax debts and secure unfiled returns.

<sup>15</sup>Exchanges are intended to allow eligible individuals to obtain health insurance, and all Exchanges, whether State-based or established and operated by the Federal Government, are required to perform certain functions.

<sup>16</sup>A refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Affordable Insurance Exchange.

<sup>17</sup>TIGTA, Ref. No. 2014-30-080, *Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results* (Sep. 2014).

theft tax return filings. The IRS reported that in Filing Season 2013, its efforts prevented between \$22 billion and \$24 billion in identity theft tax refunds from being issued.<sup>18</sup> This is a result of the IRS's continued enhancement of filters used to detect tax returns with a high likelihood of involving identity theft at the time the returns are processed. For example, the IRS used 11 filters in Processing Year (PY) 2012 to identify tax returns with a high likelihood of involving identity theft, compared to 114 filters used in PY 2014. The use of these filters assists the IRS in more effectively allocating its resources to address identity theft tax refund fraud.

The IRS has also taken steps to more effectively prevent the filing of identity theft tax returns by locking the tax accounts of deceased individuals to prevent others from filing a tax return using their name and Social Security Number. The IRS has locked approximately 26.3 million taxpayer accounts between January 2011 and December 31, 2014. In addition, the IRS issues an Identity Protection Personal Identification Number (IP PIN) to any taxpayer who is a confirmed victim of identity theft or who has reported to the IRS that he or she could be at risk of identity theft. Once the IRS confirms the identity of a victim or "at-risk" taxpayer, the IRS will issue the taxpayer an IP PIN for use by the taxpayer when filing his or her tax return. The presence of a valid IP PIN on the tax return tells the IRS that the rightful taxpayer filed the tax return, thus reducing the need for the IRS to screen the tax return for potential identity theft. The IRS has issued more than 1.5 million IP PINs for PY 2015.

Despite these improvements, the IRS recognizes that new identity theft patterns are constantly evolving and, as such, it needs to adapt its detection and prevention processes. The IRS's own analysis estimates that identity thieves were successful in receiving over \$5 billion in fraudulent tax refunds in Filing Season 2013. This will require the continued expenditure of resources that could otherwise be used to respond to taxpayer telephone calls, answer correspondence, and resolve discrepancies on tax returns.

In addition, TIGTA reported that not all eligible individuals are receiving an IP PIN and victims continue to experience delays and errors in receiving refunds. Specifically, we reported that the IRS did not provide an IP PIN to 557,265 eligible taxpayers for PY 2013.<sup>19</sup> Excluding eligible taxpayers from the IP PIN program will delay IRS processing of their tax returns and receipt of their tax refund. We also reported that the IRS continues to make errors on the tax accounts of victims of identity theft.<sup>20</sup> These errors further delayed refunds issued to taxpayers and required the IRS to reopen cases and expend limited resources to resolve the errors.

Another challenging area is the ongoing IRS impersonation scam. Between October 2013 and January 31, 2015, TIGTA has logged approximately 300,000 contacts from taxpayers who reported that they received telephone calls from individuals claiming to be IRS employees. The impersonators told the victims that they owed additional tax and, if the tax was not immediately paid, they would be arrested, lose their driver's licenses, or face other consequences. As of January 31, 2015, more than 3,000 victims have reported an aggregate loss in excess of \$15 million dollars. While TIGTA investigates these complaints, we have worked closely with the IRS, the Federal Trade Commission and local media outlets to publish press releases, warnings, and other public awareness announcements in order to warn taxpayers of the scam. The sheer volume of contacts from concerned taxpayers is an additional strain on IRS resources.

The IRS must continue to identify and implement innovative and cost-saving strategies to accomplish its mission of providing America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness.

#### EFFECTIVENESS AND EFFICIENCY OF THE IRS

While the IRS faces many challenges, TIGTA has recently reported on several other areas where the IRS can achieve cost savings, more efficiently use its limited resources, and make more informed business decisions. In addition, timelier reporting of third-party data and additional authority would assist the IRS in improving tax administration.

<sup>18</sup> IRS Identity Theft Taxonomy, dated September 15, 2014, page 1.

<sup>19</sup> TIGTA, Ref. No. 2014-40-086, *Identity Protection Personal Identification Numbers Are Not Provided to All Eligible Taxpayers* (Sep. 2014).

<sup>20</sup> TIGTA, Audit No. 201340036, *Identity Theft Victim Assistance—Follow-Up*, report planned for March 2015.



*Opportunities Exist for Additional Cost Savings*

In August 2012, TIGTA reported that the IRS can achieve additional cost savings by better managing its real property costs. TIGTA reported that the IRS completed 17 space consolidation and relocation projects from October 2010 through December 2011, which the IRS estimated would result in \$2.8 million of realized rent savings in fiscal year 2012. However, we reported that the IRS continues to incur rental costs for more workstations than required. TIGTA estimated that if the employees the IRS allows to routinely telework on a full- or part-time basis shared their workstations on days they were not in the office, 10,244 workstations could potentially be eliminated. The sharing of these workstations could allow the IRS to reduce its long-term office space needs by almost one million square feet, resulting in potential rental savings of approximately \$111 million over 5 years. The IRS agreed with our recommendations and indicated it would revise interim and long-range portfolio strategies for future space needs at sites to include workstation sharing as appropriate.<sup>21</sup>

In September 2014, TIGTA also reported that potential cost savings could be achieved from expanded electronic filing of business returns.<sup>22</sup> IRS efforts have resulted in considerable growth in the electronic filing of individual tax returns, which stood at an 81 percent rate in PY 2012. In comparison, the electronic filing rate of business tax returns in Tax Year (TY) 2012 was 41 percent. Employment tax returns provide the most significant opportunity for growth in business electronic filing. For TY 2012, more than 21.1 million (71 percent) employment tax returns were paper-filed. The Electronic Federal Tax Payment System (EFTPS) has been used in the past to facilitate the e-filing of employment tax returns for Federal agencies. TIGTA recommended that the IRS consider this option for business taxpayers. Providing businesses the ability to electronically file their tax returns concurrently with payment of their tax due on the same system could provide one-stop service which would benefit business filers.

The IRS did not agree to implement this recommendation and offered as an explanation that the Modernized e-File system has been established as the system for receiving employment tax returns electronically. This system provides taxpayers with the ability to remit tax payments when submitting their returns. Notwithstanding this explanation, the implementation of this system has not resulted in a significant increase in the e-filing rate for these tax returns. Moreover, this system does not accept quarterly employment tax deposits.

In September 2014, TIGTA reported that the IRS does not effectively manage server software licenses and is not adhering to Federal requirements and industry best practices. Until the IRS addresses these issues, it will continue to incur increased risks in managing software licenses. TIGTA estimates that the inadequate management of server software licenses potentially costs the Government between \$81 million and \$114 million, based on amounts spent for licenses and annual license maintenance that were not being used.<sup>23</sup> While the IRS agreed with our recommendation to improve the management of server software licenses, it believes it has subsequently mitigated some of these issues.

Finally, TIGTA estimates that the IRS may have issued more than \$439 million in potentially erroneous tax refunds claimed on 187,421 amended returns in fiscal year 2012. Currently, amended tax returns can only be filed on paper and are manually processed. TIGTA's review of a statistical sample of 259 amended tax returns identified 44 tax returns (17 percent) with questionable claims. TIGTA reported that the processes the IRS uses to verify originally filed tax returns would have identified most of the 44 questionable amended returns TIGTA identified as needing additional scrutiny before the refund was paid. TIGTA forecasts using these same processes could prevent the issuance of more than \$2.1 billion in erroneous refunds associated with amended tax returns over the next 5 years. In addition, TIGTA reported that the IRS could have potentially saved \$17 million in fiscal year 2012 if it allowed taxpayers to electronically file amended tax returns.<sup>24</sup> The IRS agreed with TIGTA's recommendation to expand electronic filing of amended tax returns.

<sup>21</sup>TIGTA, Ref. No. 2012-10-100, *Significant Additional Real Estate Cost Savings Can Be Achieved by Implementing a Telework Workstation Sharing Strategy* (Aug. 2012).

<sup>22</sup>TIGTA, Ref. No. 2014-40-084, *A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing* (Sep. 2014).

<sup>23</sup>TIGTA, Ref. No. 2014-20-042, *The Internal Revenue Service Should Improve Server Software Asset Management and Reduce Costs* (Sep. 2014).

<sup>24</sup>TIGTA, Ref. No. 2014-40-028, *Amended Tax Return Filing and Processing Needs to Be Modernized to Reduce Erroneous Refunds, Processing Costs, and Taxpayer Burden* (Apr. 2014).

*The IRS Could Take Actions to More Efficiently Use Its Limited Resources*

TIGTA has identified other opportunities for the IRS to more efficiently use its available resources. For example, TIGTA identified potential improvements in the efficiency of the ACS.<sup>25</sup> The ACS plays an integral role in the IRS's efforts to collect unpaid taxes and secure unfiled tax returns. ACS employees are responsible for collecting unpaid taxes and securing tax returns from delinquent taxpayers who have not complied with previous notices. The number of ACS contact representatives in fiscal year 2013 was 39 percent less than in fiscal year 2010 due either to attrition or reassignment, and these resources are needed to answer incoming telephone calls and work identity theft cases. This resulted in fewer resources available to devote to the collection of unpaid taxes. However, the IRS's overall collection inventory practices were not changed to reflect the reduced workforce and, as a result, new inventory continued to be sent to the ACS without interruption, even though inventory was infrequently worked. This has had a substantial impact on the amount of Federal taxes that remain uncollected.

The IRS agreed with our recommendations to re-examine the ACS's role in the collection workflow process, including inventory delivery to the ACS as well as case retention criteria, and to align ACS resources accordingly. In addition, the IRS also agreed to establish performance metrics for ACS call data to measure the impact that answering taxpayer calls has on compliance business results. Capturing these data could allow ACS management to assess the impact of prioritizing call handling versus working inventory and of limiting enforcement actions in order to reduce the volume of incoming calls to the ACS.

TIGTA also found that the IRS's fieldwork collection process is not designed to ensure that cases with the highest collection potential are identified, selected, and assigned to be worked.<sup>26</sup> Although the IRS has begun some initiatives intended to improve the workload selection process, TIGTA believes further action is warranted.<sup>27</sup> With significant growth in delinquent accounts and a reduction in the number of employees, it is essential that the field inventory selection process identify the cases that have the highest risk and potential for collection.

TIGTA is currently following up on our recommendations regarding inappropriate criteria the IRS used to identify organizations applying for tax-exempt status for review in the area of political campaign intervention. TIGTA has determined that the IRS has taken significant actions to (1) eliminate the selection of potential political cases based on names and policy positions, (2) expedite processing of Internal Revenue Code Section 501(c)(4) social welfare applications, and (3) eliminate unnecessary information requests.<sup>28</sup>

*Better Processes and Information Would Assist the IRS in Making Informed Decisions*

TIGTA has also identified areas in which the IRS could make more informed business decisions when determining how to use its limited resources. For example, the IRS eliminated or reduced services at Taxpayer Assistance Centers, or TACs. This move was completed to balance taxpayer demand for services with the IRS's anticipated budget cuts, redirect taxpayers to online services, enable assistants to dedicate more time to answer tax account-related inquiries, and offer other services at the TACs, such as identity theft services and acceptance of payments. Although the IRS stated that the services eliminated or reduced were, in part, the result of the IRS's anticipated budget cuts, TIGTA reported that the IRS's plans did not show to what extent the service cuts would lower the costs.

The services the IRS reduced or eliminated at the TACs include preparation of tax returns, refund inquiries, transcript requests, and assistance with tax law questions.<sup>29</sup> These services were reduced or eliminated without evaluating the burden that the changes would have on the low-income, elderly, and limited-English-proficient taxpayers who seek face-to-face service. For example, management decided to stop providing tax transcripts at the TACs, informing customers that they should use its online application "Get Transcript." However, this decision was made with

<sup>25</sup> TIGTA, Ref. No. 2014-30-080, *Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results* (Sep. 2014).

<sup>26</sup> The IRS's Collection function has the primary responsibility for collecting delinquent taxes and tax returns while ensuring that taxpayer rights are protected.

<sup>27</sup> TIGTA, Ref. No. 2014-30-068, *Field Collection Could Work Cases With Better Collection Potential* (Sep. 2014).

<sup>28</sup> TIGTA, Audit Number 201410009, *Status of Actions Taken to Improve the Processing of Tax-Exempt Applications Involving Political Campaign Intervention*, report planned for April 2015.

<sup>29</sup> TIGTA, Ref. No. 2014-40-038, *Processes to Determine Optimal Face-to-Face Taxpayer Services, Locations, and Virtual Services Have Not Been Established* (June 2014).

no analysis of the anticipated increase in traffic to this online application to ensure that it could meet the increased demand. In February 2014, IRS management modified its plan to stop providing transcripts at the TACs, based on concerns about the expected volume of online requests for transcripts as well as concerns raised regarding the launch of another Federal Government Web site. Management subsequently changed its position, alerting assistors at the TACs to encourage taxpayers to use the “Get Transcript” application but also indicated it will not turn away taxpayers who request transcripts.

Furthermore, we reported that a process has not been developed to expand Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at remote locations. Taxpayers can use this technology to obtain many of the services available at the TACs. The IRS’s stated goals for Virtual Service Delivery are to enhance the use of IRS resources, optimize staffing, and balance its workload. We recommended that the IRS establish a process to identify the best locations for virtual face-to-face services. However, the IRS did not agree to follow through on this recommendation because, in its view, it has established a process to identify the best locations for virtual face-to-face services. However, we believe that the IRS’s geographic coverage methodology does not identify optimal underserved areas across the country that would benefit the most from Virtual Service Delivery expansion.

TIGTA also found that the IRS’s use of cost/benefit information in managing its enforcement resources could be significantly improved.<sup>30</sup> The allocation of enforcement resources represents an increasingly complex challenge for the IRS in light of significant reductions in its budget. Return on investment (ROI) information, including both estimated ROI for new enforcement initiatives and cost/benefit calculations based on actual program results and costs, is an important tool available to assist IRS senior executives in managing enforcement resources. Although cost/benefit information is considered in making resource allocation decisions, the IRS does not document how or to what extent it uses the information and has no policies or procedures to guide this process. TIGTA also found that the IRS continues to be unable to measure actual revenue from new enforcement initiatives funded in prior years.

We also determined that the IRS’s processes do not ensure that corporations accurately claim carryforward general business credits.<sup>31</sup> During PY 2013, corporate filers claimed more than \$93 billion in general business credits. These credits offset taxes owed by more than \$21 billion. TIGTA identified 3,285 e-filed Forms 1120, *U.S. Corporation Income Tax Return*, filed in PY 2013 on which corporations claimed potentially erroneous carryforward credits totaling more than \$2.7 billion. We recommended the IRS develop processes to address the deficiencies identified in our report. The IRS does not plan to implement this recommendation due to lack of information technology resources and competing priorities.

In addition, TIGTA recently reported that the IRS hired some former employees with prior substantiated conduct or performance issues.<sup>32</sup> The practice of rehiring former employees with known conduct and performance issues presents increased risk to the IRS and taxpayers. For example, TIGTA found that nearly 20 percent of the rehired former employees TIGTA sampled who had prior substantiated or unresolved conduct or performance issues also had new conduct or performance issues after being rehired. This is significant because the time spent by IRS managers addressing performance and conduct issues is time taken away from serving taxpayers and enforcing the law.

The IRS is also dedicating significant resources toward addressing what it believes to be the most significant risks to compliance, such as the challenge presented by taxpayers’ increasing use of flow-through entities, such as partnerships.<sup>33</sup> In the IRS’s 2014–2017 Strategic Plan,<sup>34</sup> one of its stated goals is to ensure compliance with tax responsibilities and to combat fraud, and one of its stated measures of success is an increase in voluntary compliance by 3 percent from 83 percent to 86 percent by 2017.

<sup>30</sup>TIGTA, Ref. No. 2013–10–104, *The Use of Return on Investment Information in Managing Tax Enforcement Resources Could Be Improved* (Sep. 2013).

<sup>31</sup>The general business credit is offered as an incentive for a business to engage in certain kinds of activities considered beneficial to the economy or the public at large and is used to reduce a corporation’s regular tax liability. A carryforward is the amount of the general business credit that is unused because of the tax liability limit for claiming the credit.

<sup>32</sup>TIGTA, Ref. No. 2015–10–006, *Additional Consideration of Prior Conduct and Performance Issues Is Needed When Hiring Former Employees* (Dec. 2014).

<sup>33</sup>Between 2008 and 2012, the number of business partnership filings increased by 21 percent.

<sup>34</sup>IRS Strategic Plan Fiscal Year 2014–2017.

TIGTA continues to audit the efficiency and effectiveness of the IRS's efforts to reduce the Tax Gap<sup>35</sup> and improve voluntary tax compliance. In the area of partnership compliance, for example, the IRS initiated its Partnership Strategy in July 2012 to improve the partnership audit process in light of the significant increase in partnership filings and complexities associated with auditing partnership returns. TIGTA recently completed a review of the partnership audit program and found that the IRS has no effective way to assess the productivity of its partnership audits since many complex partnerships have multiple layers of flow-through entities.<sup>36</sup> In order to track partnership audits, the IRS uses a decade's old system that is unable to provide information on the total amount of taxes that are ultimately assessed to the taxable partners as a result of adjustments made to the partnership returns. Therefore, the IRS is unable to assess the full impact of its partnership compliance activities.

The IRS agrees that this is a significant problem but asserts that a new information technology system is the only means to obtain the necessary information on the productivity of its partnership compliance program. Until such time as the IRS upgrades its systems, TIGTA believes the IRS could make better use of the significant research capacity within the IRS to address this formidable tax compliance challenge. Although the IRS has requested over \$16 million as part of its fiscal year 2016 budget request to increase the number of agents with specialized experience in auditing large partnerships, it has not taken the steps to improve the tracking of the results of its partnership audits so that it can make the best use of its resources devoted to this area.

*More Timely Third-Party Reporting and Correctable Error Authority*

Each year, the IRS receives information returns filed by third parties such as employers and educational institutions. These returns provide the IRS the information needed to verify taxpayers' claims for benefits such as the Earned Income Tax Credit (EITC) and the American Opportunity Tax Credit (AOTC). However, information returns are generally not filed with the IRS until after most taxpayers file their annual tax returns. As a result, the IRS cannot use the information contained on these information returns to verify tax returns until after those tax returns are processed and refunds are issued.

For example, the IRS estimates that in fiscal year 2013, 30 percent of (or \$4.35 billion) in improper EITC payments resulted from verification errors associated with the IRS's inability to identify taxpayers who misreport their income to erroneously claim the EITC. TIGTA's review of TY 2012 tax returns identified more than \$1.7 billion in potentially erroneous EITC claims on tax returns for which no third-party Forms W-2, *Wage and Tax Statement*, supporting the wages reported had been received by the IRS. However, the IRS does not have the Forms W-2 information at the time most of these tax returns are processed. Employers who file paper Forms W-2 are not required to file these forms until February of each year. Employers who e-file Forms W-2 have until the end of March each year to file.

TIGTA also estimates that the IRS issued more than \$3.2 billion in potentially erroneous education credits in TY 2012 for students for whom the IRS did not receive a Form 1098-T, *Tuition Statement*, from a postsecondary educational institution.<sup>37</sup> Educational institutions are required to provide a Form 1098-T to students who attend their institution and file a copy of Form 1098-T with the IRS. The Form 1098-T provides the name and Employer Identification Number of the institution, the name and Taxpayer Identification Number of the student who attended, and information on whether the student attended half-time or was a graduate student. However, these forms are not available at the time the tax returns are filed. Consequently, the IRS is not able to use this information to identify potentially erroneous claims when tax returns are processed. As with the Form W-2, Forms 1098-T generally do not have to be filed with the IRS until the end of March each year.

Requiring third parties such as employers and educational institutions to file information returns earlier will provide the IRS with the opportunity to use the information contained on these forms to verify tax returns at the time they are processed rather than after refunds are issued. This could significantly improve the IRS's abil-

<sup>35</sup>The Tax Gap is the difference between what all taxpayers owe and what they pay. The IRS estimated the net tax gap (after factoring in forced collections) to be approximately \$385 billion annually.

<sup>36</sup>TIGTA, Audit No. 201430027, *Additional Improvements Are Needed to Measure the Success and Productivity of the Partnership Audit Process*, report planned for March 2015.

<sup>37</sup>TIGTA, Audit Number 201440015, *Billions of Dollars in Potentially Erroneous Education Credits Continue to be Claimed for Ineligible Students and Institutions*, report planned for March 2015.

ity to prevent the issuance of billions of dollars in erroneous tax benefits, including the EITC and education credits.

However, even if the third-party information returns are received more timely, the IRS still needs certain authorities to more efficiently and effectively use these data to address taxpayer noncompliance. Generally, the IRS must audit any tax return it identifies with a questionable claim before the claim can be adjusted or denied, even if the IRS has reliable data that indicate the claim is erroneous. However, the number of tax returns the IRS can audit is limited to available resources and the need to provide a balanced enforcement program among all taxpayer segments.

The IRS does have math error authority<sup>38</sup> to systemically address erroneous claims that contain mathematical or clerical errors or EITC claims with an invalid qualifying child's Social Security Number. The IRS estimates that it costs \$1.50 to resolve an EITC claim using math error authority, compared to \$278 to conduct a pre-refund audit.

However, the majority of erroneous claims that the IRS identifies do not contain the types of errors for which it has math error authority. For example, in TY 2011, the IRS identified approximately 6.6 million potentially erroneous EITC claims totaling approximately \$21.6 billion that it could not address using existing math error authority. In addition, the number of potentially erroneous EITC claims that the IRS can audit is further reduced by its need to allocate its limited resources among the various areas of taxpayer noncompliance to provide a balanced tax enforcement program. As a result, billions of dollars in potentially erroneous EITC claims go unaddressed each year.

The Department of the Treasury has included a legislative proposal to obtain correctable error authority as part of the IRS's budget requests each year since fiscal year 2013, which would permit the IRS to disallow tax benefit claims when Government data sources do not support information on the tax return, or when taxpayers have failed to include required documentation with their tax return or exceeded the lifetime limit for claiming a deduction or credit. This authority would enable the IRS to systemically deny all tax claims for which the IRS has reliable data showing the claim is erroneous. The data available for IRS use in verifying tax returns go beyond that which is provided to the IRS on information returns such as the Form W-2.

For example, the Affordable Care Act requires Health Care Exchanges to provide data to the IRS on a monthly basis for each individual enrolled in the Exchange who purchased a qualified health insurance plan, including the amount of advance Premium Tax Credits (PTC) received. The Department of Health and Human Services estimates more than 6 million individuals purchased insurance through an Exchange in Calendar Year 2014. The Exchange data are available at the time tax returns are processed and can be used to ensure taxpayers have purchased insurance through an Exchange as required and have properly reconciled advance PTC payments on their tax returns before refunds are paid. However, the IRS was not given the authority to use the Exchange data to systemically disallow a PTC claim for which the data show the claim is erroneous. As a result, the IRS must audit these tax returns.

The IRS has authority to use the Department of Health and Human Services National Directory of New Hires (NDNH) which contains wage information to verify EITC claims. However, the IRS does not have the authority to systemically disallow an EITC claim that is not supported by NDNH data. Therefore, the IRS must audit the EITC claims it identifies for which NDNH data indicate the income reported is potentially erroneous. TIGTA estimates the use of correctable error authority along with expanded use of the NDNH could have potentially prevented the issuance of the more than \$1.7 billion in questionable EITC claims in TY 2012 for which the IRS had no Form W-2 from an employer. TIGTA forecasted that these processes could prevent the issuance of more than \$8.5 billion in potentially erroneous EITC claims over the next 5 years.

A similar issue also exists with education credits. To qualify for an education credit, students must attend a postsecondary educational institution that is certified by the Department of Education to receive Federal student aid funding. The Department of Education Postsecondary Education Participants System (PEPS) database includes all educational institutions certified to receive Federal student aid funding. TIGTA's comparison of TY 2012 tax returns with the Department of Education PEPS database identified more than 1.6 million taxpayers who received education credits totaling approximately \$2.5 billion for students who attended institutions

<sup>38</sup>Under current law, the IRS can adjust tax returns on which the taxpayer has made a math error utilizing summary assessment procedures.

that are not certified to receive Federal student aid funding. As with the EITC, the IRS must audit these tax returns before the erroneous claim can be denied.<sup>39</sup>

Despite the IRS's numerous efforts, it is unlikely that it will achieve any significant reduction in erroneous payments without more timely access to third-party information and the ability to systemically deny erroneous claims at the time a tax return is processed. Given the scope of the improper payments that the IRS reports each year, in addition to the improper payments that remain unreported, changes in existing compliance methods could have a significant financial impact by enabling the IRS to more efficiently and effectively address this problem.

#### TIGTA BUDGET REQUEST FOR FISCAL YEAR 2016

As requested by the subcommittee, I will now provide information on our budget request for fiscal year 2016.

TIGTA's fiscal year 2016 proposed budget requests appropriated resources of \$167,275,000, an increase of 5.7 percent from the fiscal year 2015 enacted budget. TIGTA will continue to focus on its mission of ensuring an effective and efficient tax administration. The fiscal year 2016 budget resources include funding to support TIGTA's critical audit, investigative, and inspection and evaluation priorities, while still maintaining a culture that continually seeks to identify opportunities to achieve efficiencies and cost savings.

During fiscal year 2014, TIGTA's combined audit and investigative efforts have recovered, protected, and identified monetary benefits totaling \$16.6 billion,<sup>40</sup> including cost savings, increased revenue, revenue protection,<sup>41</sup> and court-ordered settlements in criminal investigations, and have affected approximately 3.6 million taxpayer accounts. Based on TIGTA's fiscal year 2014 budget of \$156.4 million, this represents a return on investment of \$106-to-\$1.

#### *TIGTA's Audit Priorities*

TIGTA's audit priorities include mitigating risks associated with tax refund fraud and identity theft, monitoring the IRS's implementation of the Affordable Care Act and other tax law changes, and assessing the IRS's efforts to improve tax compliance involving foreign financial assets and offshore accounts.

Recent audit work has shown that the IRS could develop or improve processes that will increase its ability to detect and prevent the issuance of fraudulent tax refunds resulting from identity theft. In addition, TIGTA has concerns about the security of tax data provided to the Exchanges and is also concerned that the potential for refund fraud and related schemes could increase as a result of processing ACA Premium Tax Credits.

Several key ACA provisions became effective in fiscal year 2015, and the IRS must ensure that the tax administration system is able to fully implement these provisions. Consequently, TIGTA has implemented a multi-year audit strategy to assess the IRS's implementation of the ACA. This strategy includes coordination with other agencies, including the Department of Health and Human Services Office of Inspector General. TIGTA is conducting or planning to initiate 10 ACA-related audits during fiscal year 2015.

The tax compliance of business and individual taxpayers involved in international transactions remains a significant concern for the IRS. Complex transfer pricing issues and identifying U.S. taxpayers with hidden foreign assets and accounts continue to demand additional IRS resources. TIGTA will continue to perform audit work to assess the IRS's compliance with provisions of the Foreign Account Tax Compliance Act<sup>42</sup> and its efforts to improve tax compliance involving foreign financial assets and offshore accounts.

<sup>39</sup>TIGTA, Audit Number 201440015, *Billions of Dollars in Potentially Erroneous Education Credits Continue to be Claimed for Ineligible Students and Institutions*, report planned for March 2015.

<sup>40</sup>This figure includes dollars potentially compromised by bribery; dollar amount of tax liability for taxpayers who threaten and/or assault IRS employees; dollar value of resources protected against malicious loss; dollar amount of embezzlement or taxpayer remittance theft; dollar value of Government property recovered; dollar value of court ordered criminal and civil penalties, fines, and restitution; and dollar value of seizures, forfeitures, and recoveries from contract fraud.

<sup>41</sup>Recommendations made by TIGTA to ensure the accuracy of the total tax, penalties, and interest paid to the Federal Government.

<sup>42</sup>Public Law No. 111-147, Subtitle A, 124 Stat 97 (2010)(codified in scattered sections of 26 U.S.C.).

*TIGTA's Investigative Priorities*

TIGTA's investigative priorities include investigating allegations of serious misconduct and criminal activity by IRS employees; ensuring that IRS employees are safe and IRS facilities, data and infrastructure are secure and not impeded by threats of violence; and protecting the IRS against external attempts to corrupt or otherwise interfere with tax administration.

IRS employees are entrusted with the sensitive personal and financial information of taxpayers. It is particularly troubling when IRS employees misuse their positions in furtherance of identity theft and other fraud schemes. TIGTA will continue to proactively review the activities of IRS employees who access taxpayer accounts for any indication of unauthorized accesses that may be part of a larger fraud scheme and conduct investigations into suspected wrongdoing.

For TIGTA's investigators, our experience has shown that the IRS's expanded role under the ACA may spark a new wave of animosity directed toward IRS employees that could result in threats of violence or the actual assault of IRS employees and attacks on IRS facilities. For example, TIGTA has investigated threats made by taxpayers to IRS employees as a result of the IRS offsetting their Federal tax refunds for the repayment of student loans or court-ordered child support payments. As ACA provisions start to take effect, additional resources will be dedicated to investigating related threats.

Shortly after the Supreme Court upheld the constitutionality of the ACA, the media reported that criminals impersonated a Federal agency in an attempt to fraudulently obtain personally identifiable information from unsuspecting taxpayers. Criminals could use such sensitive information to further their identity theft schemes and other crimes under the guise that the information was required for ACA compliance. Based upon our experience investigating this type of criminal activity, TIGTA anticipates a significant increase in the number of ACA-related impersonation attempts as the IRS begins its role in ACA compliance activity.

Between fiscal years 2011 and 2014, TIGTA processed over 10,240 threat-related complaints and conducted over 4,990 investigations of threats made against IRS employees. TIGTA will continue to aggressively investigate individuals who threaten the safety and security of the IRS and its employees.

As mentioned earlier, the TIGTA Hotline has received over 300,000 reports from taxpayers victimized by individuals impersonating IRS employees in an effort to defraud them. As of January 31, 2015, more than 3,000 victims have reported an aggregate loss in excess of \$15 million dollars. TIGTA will continue to investigate these crimes against taxpayers and alert the public to this scam to ensure that innocent taxpayers are not harmed by these criminals.

We at TIGTA are committed to our mission of ensuring an effective and efficient tax administration system and preventing, detecting, and deterring waste, fraud, and abuse. As such, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively and investigate any instances of IRS employee misconduct or fraud in IRS operations.

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to share my views.

Senator BOOZMAN. Thank you very much.

I know that Senator Coons has a classified briefing that he is supposed to be at. So we will go to him on this round.

Senator COONS. That is very kind of you. Thank you, Chairman. And I will try to be brief, if I might.

Mr. George, TIGTA identified security of taxpayer data as the number-one management challenge facing the IRS. What are your key concerns about the adequacy of their information security, and how responsive has the IRS been to your recommendations to bolster its systems? And what would you recommend they make their top priority in terms of responding to this concern?

Mr. GEORGE. They have been responsive, Senator. The new Commissioner and I have had a long-term relationship, meaning we have worked together in various capacities. He listens to the concerns that we provide. They don't agree with 100 percent of them, but they agree with enough so that I feel secure or confident at least that some of the issues that we identify are addressed.

I think it is very important to note, as the Commissioner noted, they are under attack on a daily basis hundreds of times. Fortunately, we have not yet detected any breaches to the tax system that would undermine it, which obviously would be devastating to this Nation. So, in that sense, we feel confident.

Three, limited resources and their having to make difficult choices as to what to focus on is going to put some of what I just said to you possibly at risk or make it completely inaccurate, depending upon what happens day to day. So—

Senator COONS. Given the response to your concerns, criticisms, suggestions, what level of confidence do you have that increased investment, increased available resources in this area might actually result in a significant increase in the security of this vital data?

Mr. GEORGE. There is no question if they had additional resources to devote to this, it would enhance my confidence that it would be more secure, sir.

Senator COONS. You identified implementing the ACA as the number-two management challenge, and I just wondered what your chief concerns are about the capacity of the IRS to meet their responsibilities both for implementing rule writing and administering the new responsibilities, and what recommendations have you offered IRS on how to improve their responsiveness here?

Mr. GEORGE. At the request of Congress, we are now in the process of working both with the Inspector General of the Department of Health and Human Services, as well as with my people on this very important issue, sir. This is unprecedented territory for the Internal Revenue Service, and so at this stage, I am not in a position to give you a definitive answer. All I can say is that we are monitoring it, and we will be reporting out information in the very near future.

Senator COONS. And last, because I don't want to impose too much on the chairman's kindness, the tax gap is estimated at about \$450 billion. That is about a 17 percent noncompliance rate, which is really striking. What are your views on the adequacies of the IRS's strategy to narrow the gap, and what are the impediments that most need to be dealt with to attack this or to deal with this, given the declining resources available to the IRS?

Mr. GEORGE. First of all, we believe that that figure, which is an IRS-produced figure, is actually understating the problem. We believe that the international aspect of the tax gap is not adequately included in that figure, and there is no question that some of the many recommendations that we made in this area and will continue to make include third-party reporting.

There is a figure or a few figures, and I beg your indulgence because it is so important that I think people understand that, and this is according to the Internal Revenue Service, there is such a high correlation between tax compliance and third-party information reporting and withholding of taxes.

The IRS estimates individuals whose wages are subject to withholding report 99 percent of their wages. Self-employed individuals who operate nonfarm businesses are estimated to report only 68 percent of their income for tax purposes. But the most striking figure, sir, is self-employed individuals operating on a cash basis are estimated to report just 19 percent of their income.



So there is no question this is a tax policy question. If everyone were required to fill out a form when someone cut their lawn or painted their home, this third-party reporting would help increase the amount of money that is reported as tax—as income, rather, and ultimately taxes paid to the Federal Government. But this is just one aspect of, what can be done to address the tax gap.

Senator COONS. Well, thank you, and I look forward to working with you this year and in the future to make sure that your recommendations are being responded to appropriately by the IRS.

Mr. Chairman, I was going to ask consent. There was a statement received, I understand, by the subcommittee from the president of the National Treasury Employees Union, just that that be made a part of the record.

Senator BOOZMAN. Sure. Without objection.  
[The statement follows:]

#### PREPARED STATEMENT OF THE NATIONAL TREASURY EMPLOYEES UNION

Chairman Boozman, Ranking Member Coons and distinguished members of the subcommittee, I would like to thank you for allowing me to provide comments on the Internal Revenue Service (IRS) budget request for fiscal year 2016. 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.

Mr. Chairman, 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 funding reductions in recent years.

Since fiscal year 2010, IRS funding has been cut by almost \$1.2 billion, or 17 percent after adjusting for inflation. The funding reductions have forced the IRS to operate under an exception-only hiring freeze since December 2010, and will have forced the Service to reduce the total number of full-time, permanent employees by 17,000 by the end of the fiscal year. In particular, the number of employees assigned to answer telephone calls from taxpayers fell from 9,400 in 2010 to 6,900 in 2014, a 26 percent drop. And despite the critical role they play in maximizing taxpayer compliance and generating revenue, the total number of Revenue Officers and Revenue Agents was down more than 3,600 at the end of fiscal year 2013, and without additional resources, the IRS has warned it will lose another 1,800 enforcement personnel through attrition by the end of fiscal year 2015. The lack of sufficient staffing has strained IRS' capacity to carry out its important taxpayer service and enforcement missions.

The drastic cuts to IRS' budget come at a time when the IRS workforce is already facing a dramatically increasing workload with staffing levels down by 13,000 since 2010, and more than 26 percent below what they were just 18 years ago. In 1995, the IRS had a staff of 114,064 to administer tax laws and process 205 million tax returns. By the close of 2013, staffing had fallen to 83,613 to administer a more complicated tax code and process 242 million much more complex tax returns and other forms. The IRS predicts it will lose another 4,000 full-time employees by the end of fiscal year 2015.

#### INTERNAL REVENUE SERVICE FISCAL YEAR 2016 BUDGET REQUEST

NTEU was pleased to see that the administration's budget request for the IRS would provide the agency with a total of \$12.9 billion in funding for fiscal year 2016, including \$12.3 billion in base funding and \$667 million via a program integrity cap adjustment. The \$12.9 billion in funding would represent an increase of more than \$1.9 billion over the current fiscal year 2015 level, which would help restore funding for important taxpayer service and enforcement activities that have been slashed in recent years. These funding reductions have adversely impacted IRS' ability to meet its mission, and without action by Congress, IRS' ability to serve taxpayers and enforce our Nation's tax laws will continue to erode.

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 fiscal year 2016, the Oversight Board has recommended \$13.5 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.

#### TAXPAYER SERVICES

Providing quality taxpayer service is a critical component of the IRS' efforts to help the taxpaying public understand their tax obligations while making it easier to participate in the tax system. Unfortunately, the IRS' ability to provide excellent taxpayer service has been severely challenged due to reduced funding in recent years and the cuts mandated by sequestration. Without additional resources, further degradation in taxpayer services will occur, jeopardizing our voluntary compliance system.

##### *Impact of Inadequate Funding on Taxpayer Services*

In the past few years, many experts in the tax community, including the National Taxpayer Advocate, IRS Oversight Board and the IRS Advisory Council have all warned of the dangers of underfunding the IRS and the adverse impact it has had on taxpayer service.

In January, the National Taxpayer Advocate, Nina Olson, released her 2014 Annual Report to Congress which identifies the decline in IRS taxpayer services due to reduced funding as the #1 most serious problem facing taxpayers. The report describes in detail the severe reduction to taxpayer services caused by repeated cuts to the IRS budget. Among the report findings are:

- In fiscal year 2015, the IRS predicts that it will be able to answer less than 50 percent of calls from taxpayers seeking assistance—down from 87 percent in fiscal year 2004.
- Taxpayers who do manage to get through are expected to wait on hold for 30 minutes on average, up from 2.6 minutes in fiscal year 2004.
- During the upcoming filing season, the IRS will not answer any tax-law questions except “basic” ones. After the filing season, the IRS will not answer any tax-law questions at all, leaving the roughly 15 million taxpayers who file later in the year unable to get answers to their questions by calling or visiting IRS offices.
- The IRS historically has prepared tax returns for taxpayers seeking its help, particularly for low income, elderly, and disabled taxpayers. Eleven years ago, it prepared some 476,000 returns. That number declined significantly over the past decade, and last year the IRS announced it will no longer prepare returns at all.
- The IRS has also said the funding reductions could result in delays in refunds for some taxpayers. Those taxpayers who file paper returns could wait an extra week or longer to see their refund. Taxpayers with errors or questions on their returns that require additional manual review will also face delays.

Mr. Chairman, it is evident that funding reductions in recent years have seriously eroded the IRS' ability to provide taxpayers with the services they need. Without the additional funding proposed in the administration's budget request, taxpayers will continue experiencing a degradation of services, including longer wait times to receive assistance over the telephone, increasing correspondence inventories, including letters from taxpayers seeking to resolve issues with taxes due or looking to set up payment plans.

That is why we strongly support the President's request of \$2.4 billion in funding for taxpayer services in fiscal year 2016, a \$252 million increase over the current level. We believe this increase will allow the IRS to restore customer service levels to meet rising taxpayer demand and help taxpayers understand their obligations, correctly file their returns, and pay taxes due in a timely manner.

##### *Enforcement*

Mr. Chairman, the funding reductions to the IRS budget in recent years have also negatively impacted its ability to maximize taxpayer compliance, prevent tax evasion and reduce the deficit.

##### *Impact on Voluntary Compliance and Tax Gap*

NTEU strongly believes our system of voluntary tax compliance is most effective when the IRS is able to assist those trying to meet their obligations under the law. In particular, by assisting taxpayers with their tax questions before they file their returns, the IRS can help prevent inadvertent noncompliance and reduce burdensome post-filing actions, such as audits and penalties.

Unfortunately, as noted previously, funding reductions have resulted in the inability of millions of taxpayers to get answers from IRS call centers and at taxpayer assistance centers (TACs), which lessens their ability to meet their tax obligations.

The National Taxpayer Advocate has previously warned that limited resources were impeding IRS' ability to conduct education and outreach to taxpayers, including small businesses, which is critical to ensuring they are able to understand and comply with their tax obligations. For example, she has repeatedly warned staffing levels at TACs across the country are woefully inadequate, with taxpayers lining up to enter IRS offices well before those offices were even open and with some people being turned away.

Inadequate staffing and the lack of availability of services at TACs has long been a problem at the IRS and disproportionately impacts the most vulnerable in our population who use TACs most often, including non-English speaking taxpayers, the elderly and low income individuals and families, who often need additional assistance in understanding and meeting their tax responsibilities. If these taxpayers are not provided the assistance they need to understand their tax obligations, they may inadvertently file an incorrect return which could necessitate the need for IRS to undertake post-filing actions that are costly and burdensome to both the taxpayer and the IRS.

Incorrect filings could also result in taxpayers paying less than they owe, further hampering efforts to close the tax gap, which is the amount of tax owed by taxpayers that is not paid on time.

The adverse impact on IRS' capacity to collect revenue critical to reducing the Federal deficit is clear. In fiscal year 2014, on a budget of \$11.2 billion, the IRS collected \$3.1 trillion, roughly 93 percent of Federal Government receipts. According to the IRS, every dollar invested in IRS enforcement programs generates roughly \$7 in return, but reduced funding for enforcement programs in recent years has led to a steady decline in enforcement revenue since fiscal year 2007. In fiscal year 2014, IRS enforcement activities brought in \$57.1 billion, down more than \$2 billion from the \$59.2 billion in fiscal year 2007.

The \$345 million reduction to IRS' budget for fiscal year 2015 will further reduce IRS' ability to collect revenue and would result in the loss of billions in revenue in fiscal year 2015 alone. That lost revenue could otherwise be invested in critical Government programs or be used to reduce the Federal deficit.

The IRS has warned that enforcement staffing will continue to be a significant concern under the fiscal year 2015 funding level and has cautioned that under this insufficient level of funding, the IRS will lose another 1,800 enforcement personnel in fiscal year 2015. The impact of the reduced staffing in enforcement will result in at least 46,000 fewer individual and business audit closures and more than 280,000 fewer Automated Collection System and Field Collection case closures.

That is why NTEU was happy to see the administration's budget request would provide a \$539 million increase in funding for IRS tax enforcement above the current level. This increase includes a program integrity cap adjustment which provides critical funding designed to protect revenue by identifying fraud and preventing issuance of questionable refunds, including tax-related identity theft, addressing offshore noncompliance, and improving collection coverage rates. According to the administration, the additional funding provided via the cap adjustment is expected to generate \$2.8 billion in additional annual enforcement revenue, resulting in a return on investment (ROI) of more than 6 to 1, once new hires reach full potential in fiscal year 2018. 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.

#### CONCLUSION

Chairman Boozman, Ranking Member Coons and members of the subcommittee, thank you for the opportunity to provide NTEU's views on the administration's fiscal year 2016 budget request for the IRS. NTEU believes that only by restoring critical funding for effective enforcement and taxpayer service programs can the IRS provide America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the Federal deficit.

[This statement was submitted by Colleen M. Kelley, *National President*.]

Senator COONS. And let me thank you very much for your forbearance, allowing me to get to this classified briefing.

Senator BOOZMAN. Good luck in your meeting.

Senator COONS. Thank you very much.

And thank you for your testimony.

Senator BOOZMAN. Hopefully, you will learn a little.

Senator COONS. I hope.

Senator BOOZMAN. Thank you very much, Mr. George, for being here.

Mr. GEORGE. Certainly, sir.

Senator BOOZMAN. The earned income tax credit has previously been declared a high-risk program by OMB. The IRS estimates that 24 percent of all payments made in fiscal year 2013, or \$14.5 billion, were paid in error.

In addition, the IRS estimates that it has paid between \$124 billion and \$148 billion in improper EITC payments, earned income tax payments, in fiscal years 2003 to 2013. The IRS has developed a strategy in an attempt to reduce the improper payments that focuses on early intervention to ensure that individuals claiming the credit are in compliance with the earned income tax credit rules.

However, despite those efforts, the estimated improper payment rate has remained relatively unchanged since fiscal year 2003, and the amount of tax credit claims paid in error has literally grown. I guess the question is the IRS noted that it cannot fully address the earned income tax credit noncompliance by simply auditing returns and must pursue alternatives to traditional compliance efforts.

Have you made any recommendations to the IRS as to how to combat the problem?

PREPARED STATEMENT

Mr. GEORGE. We have, sir. And you know, what I would like to do at this point is allow or seek permission to include a report that we have conducted on the earned income tax credit into the record.

Senator BOOZMAN. Without objection.

[The information follows:]

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**TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION**



***Existing Compliance Processes Will  
Not Reduce the Billions of Dollars in  
Improper Earned Income Tax Credit and  
Additional Child Tax Credit Payments***

September 29, 2014

Reference Number: 2014-40-093

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

**Redaction Legend:**

2 = Risk Circumvention of Agency Regulation or Statute

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**Phone Number** / 202-622-6500

**E-mail Address** / [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

**Website** / <http://www.treasury.gov/tigta>



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 29, 2014

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Michael E. McKenney*

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments (Audit # 201340031)

This report presents the results of our review to assess the Internal Revenue Service's efforts to identify and address the root causes of erroneous Earned Income Tax Credit and Additional Child Tax Credit payments. This audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Fraudulent Claims and Improper Payments.

Management's complete response to the draft report is included in Appendix IX.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me if you have questions or Russell Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

## HIGHLIGHTS

Final Report issued on September 29, 2014

Highlights of Reference Number: 2014-40-093 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) are refundable credits designed to help low-income individuals reduce their tax burden. The IRS estimated that it paid \$63 billion in refundable EITCs and \$26.6 billion in refundable ACTCs for Tax Year 2012. The IRS also estimated that 24 percent of all EITC payments made in Fiscal Year 2013, or \$14.5 billion, were paid in error.

### WHY TIGTA DID THE AUDIT

This audit was initiated because the IRS is required to identify and take actions to address the root causes of improper payments in Federal programs identified as being at high risk for improper payments. The only IRS program identified as a high risk is the EITC. The overall objective of this review was to assess the IRS's efforts to identify and address the root causes of erroneous EITC and ACTC payments.

### WHAT TIGTA FOUND

Processes have been developed to identify improper EITC payments and their root causes. However, the IRS has not developed processes to quantify or identify the root causes of improper ACTC payments.

The IRS has continually rated the risk of improper ACTC payments as low. However, TIGTA's assessment of the potential for ACTC improper payments indicates the ACTC improper payment rate is similar to that of the EITC. Using IRS data, TIGTA estimates the potential ACTC improper payment rate for Fiscal Year 2013 is between 25.2 percent and 30.5 percent, with potential ACTC improper payments totaling between \$5.9 billion and \$7.1 billion. In addition, IRS enforcement data show the root causes of improper ACTC payments are similar to those of the EITC.

Significant changes in IRS compliance processes would be necessary to make any significant reduction in improper payments. Expanded authority to make corrections to tax returns when data obtained from the Department of Health and Human Services indicate the taxpayer's refundable credit claims are not valid would help reduce improper payments. TIGTA estimates such authority could have potentially allowed the IRS to prevent more than \$1.7 billion in questionable EITC payments in Tax Year 2012.

#### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure that the results of the ACTC Improper Payment Risk Assessment accurately reflect the high risk associated with ACTC payments, identify the root causes of the improper ACTC payments, and establish a plan to reduce erroneous payments. Furthermore, if correctable error authority is granted, the IRS should contract with the Department of Health and Human Services to obtain the complete National Directory of New Hires database.

In addition, the IRS should work with the Assistant Secretary of the Treasury for Tax Policy to consider a legislative proposal to obtain expanded National Directory of New Hires database authority to systemically verify claims for other income-based refundable credits (*e.g.*, the ACTC).

The IRS agreed with our recommendation to pursue expanded National Directory of New Hire authority. The IRS did not agree with our other recommendations. TIGTA's concerns with the IRS's response to the recommendations are noted in the report.

#### ABBREVIATIONS

ACTC	Additional Child Tax Credit
CTC	Child Tax Credit
DDV	Due Diligence Visit
EITC	Earned Income Tax Credit
HHS	Department of Health and Human Services
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
NDNH	National Directory of New Hires
NRP	National Research Program
OMB	Office of Management and Budget
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

#### BACKGROUND

Refundable credits are designed to help low-income individuals reduce their tax burden or to provide incentives for other activities. The number of these credits has varied over time because some credits are available for a limited period that is set by law. The Internal Revenue Service (IRS) reported that the amount of refundable tax credits claimed by taxpayers has grown from approximately \$9.4 billion in fiscal year <sup>1</sup> 1993 to more than \$104 billion in fiscal year 2013.

<sup>1</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

The two largest refundable credits designed to help low-income individuals are the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC). The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment. The ACTC is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases. The EITC and the ACTC combined have increased almost 40 percent from Tax Year<sup>2</sup> 2007 to Tax Year 2012. The IRS estimated that it paid \$47.5 billion in refundable EITCs and \$16.4 billion in refundable ACTCs for Tax Year 2007 compared to \$63 billion and \$26.6 billion, respectively, for Tax Year 2012.

#### *The EITC*

Congress created the EITC in 1975. Since then, the EITC has been modified a number of times to help improve the administration of the credit and to make the law less complex. For example, the initial eligibility requirements were revised to make taxpayers ineligible to receive the credit when the taxpayer has a Social Security Number (SSN) that is not valid for employment.<sup>3</sup> Congress also implemented a uniform definition of a qualifying child that applied to most child-related tax provisions. Most recently, the EITC was expanded to provide for a temporary increase in the EITC and expansion of the credit for workers with three or more qualifying children.

Taxpayers use Form 1040 (Schedule EIC), *Earned Income Credit*, to report the EITC qualifying child information. Taxpayers must meet specific criteria to qualify for the EITC that includes having a valid SSN. Additional criteria apply for those taxpayers who have qualifying children, including certain age, relationship, and residency tests. The resulting amount of the EITC a taxpayer can receive is based on the taxpayer's earned income and the number of qualifying children. Appendix V lists the rules taxpayers must meet to qualify for the EITC.

#### *The ACTC*

The Child Tax Credit (CTC) and the ACTC (the refundable portion of the CTC) were enacted by the Taxpayer Relief Act of 1997.<sup>4</sup> Congress believed that a tax credit for families with dependent children would reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values. To qualify for the CTC, a taxpayer must have a qualifying child.<sup>5</sup> Taxpayers use Schedule 8812, *Child Tax Credit*, to compute the ACTC and document whether the children claimed on the tax return who have an Individual Taxpayer Identification Number<sup>6</sup> meet the qualifying eligibility tests of substantial presence in the United States. The amount of the ACTC a taxpayer may receive, if any, is dependent on the total amount of the taxpayer's CTC and the taxpayer's earned income.

The CTC can reduce an individual's taxes owed by as much as \$1,000 for each qualifying child.<sup>7</sup> Because the CTC is nonrefundable, the amount that can be claimed is limited to an individual's reported tax liability. The ACTC is the refundable portion of the CTC and is provided to qualifying individuals even if no income tax is withheld or paid; that is, the credit can exceed the tax liability. Appendix VI lists the basic eligibility and qualifying child requirements for the CTC and the ACTC.

Like the EITC, Congress has changed the CTC and the ACTC several times since they were enacted in Calendar Year 1997. These changes allowed more families to be eligible for the ACTC. For example, the American Recovery and Reinvestment Act of 2009<sup>8</sup> reduced the minimum earned income amount used to figure the ACTC

<sup>2</sup>A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

<sup>3</sup>Non-U.S. citizens who do not have an employment authorization must prove a valid nonwork reason for requesting an SSN in order to receive one, generally for obtaining Government benefits (Federal, State, or local) to which the individual is entitled.

<sup>4</sup>Public Law No. 105-34, 111 Stat. 788.

<sup>5</sup>A qualifying child for purposes of the CTC is a child who must be claimed as a dependent on your tax return and meets other specific eligibility tests, such as relationship, age, filing status, and support. See Appendix VI for qualifying criteria.

<sup>6</sup>An Individual Taxpayer Identification Number is an IRS-issued identification number available to individuals who are required to have a Taxpayer Identification Number for tax purposes but who do not have and are not eligible to obtain an SSN because they are not authorized to work in the United States.

<sup>7</sup>The CTC amount has been \$1,000 since Tax Year 2003.

<sup>8</sup>Public Law No. 111-5, 123 Stat. 115.



to \$3,000.<sup>9</sup> Reducing the amount to \$3,000 expanded the number of taxpayers who could then qualify for the ACTC as well as increased the amount of the ACTC they could receive. The \$3,000 minimum earned income amount has been extended by law through Tax Year 2017.

*Improper payments of refundable credits*

The Office of Management and Budget (OMB) defines an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. Various ways have been put forth to identify, measure, and reduce Federal improper payments, including laws specifically addressing improper payments, an Executive order, and guidance by certain oversight agencies such as the OMB. In addition, agency Inspectors General serve a role by evaluating agency information related to improper payments. For example:

- The *Improper Payments Information Act (IPIA) of 2002*<sup>10</sup> requires Federal agencies, including the IRS, to estimate the amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments.
- The *Improper Payments Elimination and Recovery Act (IPERA) of 2010*,<sup>11</sup> enacted on July 22, 2010, amended the IPIA by strengthening agency reporting requirements and redefining “significant improper payments.” Significant is defined as gross annual improper payments, i.e., the total amount of overpayments plus underpayments, made in the program during the fiscal year reported that exceeded (a) both 2.5 percent of program outlays and \$10 million of all program or activity payments or (b) \$100 million.
- Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, signed by the President on November 20, 2009, further increases Federal agencies’ accountability for reducing improper payments while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries.
- The *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012*,<sup>12</sup> enacted in January 2013, further expanded agency improper payment requirements to foster greater agency accountability. The IPERIA requires the OMB to designate the programs with the most egregious cases of improper payments as high-priority and requires agencies to develop additional or supplemental measures for tracking progress in reducing improper payments in these programs.

The OMB’s improper payment reporting guidance<sup>13</sup> requires agencies that identify programs with a high risk of improper payments to report root causes of these errors using the following three categories:

- Documentation and Administrative Errors*.—Errors caused by the absence of supporting documentation necessary to verify the accuracy of a payment or errors caused by incorrect inputting, classifying, or processing of applications or payments by a relevant Federal agency, State agency, or third party who is not the beneficiary.
- Authentication and Medical Necessity Errors*.—Errors caused by an inability to authenticate eligibility criteria through third-party databases or other resources because no databases or other resources exist, or providing a service that was not medically necessary given the patient’s condition.
- Verification Errors*.—Errors caused by the failure or inability to verify recipient information, including earnings, income, assets, or work status, even though verifying information does exist in third-party databases or other resources (in this situation, as contrasted with “authentication” errors, the “inability” to verify may arise due to legal or other restrictions that effectively deny access to an existing database or resource), or errors due to beneficiaries failing to report correct information to an agency.

For fiscal year 2011 reporting and beyond, agencies with programs that are susceptible to significant improper payments under the IPIA are required to report information on the three categories of errors annually in their Performance and Accountability Report or Agency Financial Report. Furthermore, both the IPERA and Executive Order 13520 require the Treasury Inspector General for Tax Administra-

<sup>9</sup>Taxpayers must deduct the minimum earned income amount from their earned income before applying the percentage allowed to figure the refundable ACTC.

<sup>10</sup>Public Law No. 107–300, 116 Stat. 2350.

<sup>11</sup>Public Law No. 111–204, 124 Stat. 2224.

<sup>12</sup>Public Law No. 112–248.

<sup>13</sup>OMB Circular A–123, *Requirements for Effective Measurement and Remediation of Improper Payments*, Part III to Appendix C (Mar. 22, 2010).

tion (TIGTA) to annually review the IRS's compliance with improper payment assessment and reporting requirements.

*The process to identify IRS programs for improper payment risk assessment*

The Department of the Treasury identifies the programs that the IRS must assess for the risk of improper payments. The IRS used the Improper Payments Elimination and Recovery Risk Assessment Questionnaire for fiscal year 2013 (the Questionnaire) and related guidance provided by the Department of the Treasury to assess the level of risk for each identified program. The Questionnaire computes a risk score for each program based on the IRS's response to the questions contained in the Questionnaire. The risk score determines whether there is a low, medium, or high risk of improper payments in a program. The Department of the Treasury establishes the level of risk for improper payments in a program based on the risk score ranges and considers programs with a risk score of 0 to 11 as low risk, 12 to 28 as medium risk, and 29 and greater as high risk.

The IRS is required to forward the results and documentation for all risk assessments to the Department of the Treasury. For any program identified as having a high risk for improper payments, the IRS must provide the following information to the Department of the Treasury for inclusion in the Department's annual Agency Financial Report:

- The rate and amount of improper payments.
- The root causes of the improper payments.
- Actions taken to address the root causes.
- Annual improper payment reduction targets.
- A discussion of any limitations to the IRS's ability to reduce improper payments.

The EITC has previously been declared a high-risk program by the OMB and as such the annual Improper Payments Elimination and Recovery Risk Assessment Questionnaire is not required to be prepared for this program. The EITC is currently the only IRS program identified as having a high risk for improper payments for the purposes of the IPERA and the only program with information included in the Agency Financial Report. The IRS estimates that 24 percent of all EITC payments made in fiscal year 2013, or \$14.5 billion, were paid in error.<sup>14</sup> In addition, the IRS estimates that it paid between \$124 billion and \$148 billion in improper EITC payments in fiscal years 2003 through 2013.

This review was performed at IRS National Headquarters Office of Research, Analysis, and Statistics in Washington, DC, and in the Office of Return Integrity and Correspondence Services in Atlanta, Georgia, during the period May 2013 through July 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

## RESULTS OF REVIEW

### *Processes Have Been Developed to Identify Root Causes of Improper Earned Income Tax Credit Payments*

The IRS has determined that EITC improper payments primarily result from two root causes—authentication and verification. Authentication errors include errors associated with the IRS's inability to authenticate qualifying child requirements, taxpayers' filing status, and EITC claims associated with complex or nontraditional living situations. Verification errors relate to the IRS's inability to identify individuals improperly reporting income to erroneously claim an EITC amount to which they are not entitled. Verification errors include underreporting and overreporting of income by wage earners as well as taxpayers who report they are self-employed. For fiscal year 2013, the IRS estimates that 70 percent, or \$10.15 billion, in improper EITC payments resulted from authentication errors and the remaining 30 percent, or \$4.35 billion, resulted from verification errors.

The IRS uses the following methods to identify the root causes of EITC improper payments:

<sup>14</sup>The estimated EITC improper payment range for fiscal year 2013 was from 22 to 26 percent and from \$13.3 billion to \$15.6 billion.

- National Research Program (NRP)*.—The NRP Individual Income Tax Reporting Compliance Study, also known as the NRP 1040 Study, is performed annually and involves the IRS examining a statistically representative sample of tax returns. The NRP allows the IRS to estimate taxpayers' compliance with the EITC and to estimate the improper payment rate each year. The NRP is designed to ensure consistency, uniformity, and thoroughness in the examination process in order to ensure a reasonable chance to uncover the noncompliance that is actually present on a return. Complete and accurate examination results are the foundation of good estimates.
- Compliance Studies*.—The IRS conducted a series of studies in the 1990s to better understand compliance issues specific to the EITC and to aid EITC administration. These studies culminated in the IRS report *Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns* (referred to as the 1999 Compliance Study).<sup>15</sup> In addition to providing estimates of EITC overclaims, this report was used to develop strategies to improve the administration of the credit. Since its release, the 1999 Compliance Study has been the authoritative source on the nature of EITC compliance. The IRS recently updated the 1999 Compliance Study using data from the NRP for Tax Years 2006 through 2008. The study results provide information about overall compliance of taxpayers claiming the EITC with specific emphasis on the nature of errors made. The IRS plans to use the updated study data to further explore and understand the nature of the errors and formulate future actions to address noncompliance.
- In response to the IRS's identification of root causes of EITC improper payments, it has developed a strategy in an attempt to reduce EITC improper payments. This strategy focuses on early intervention to ensure that individuals claiming the credit are in compliance with the EITC rules. The IRS's strategy includes:<sup>16</sup>
- Education and outreach*.—Programs designed to educate taxpayers and tax return preparers on the legal requirements for EITC eligibility so they can apply the law accurately. For example, the IRS hosts annual EITC Awareness Days to market the EITC to lower income taxpayers and the Nationwide Tax Forum EITC Training for tax return preparers on EITC due diligence requirements and qualifying child requirements.
- Enforcement actions*.—Programs intended to contribute to the broader strategy of identifying errors as early in the process as possible, which include math error authority, an automated process to match reported income to third-party documents, and audits.
- Paid tax return preparer compliance initiative*.—An EITC paid preparer strategy that focuses on tax return preparers who are not compliant with the EITC due diligence requirements. The EITC due diligence requirements are intended to assist tax return preparers in accurately determining their clients' eligibility for the EITC and require that preparers maintain proof that they complied with the due diligence requirements.
- Legislative proposals*.—The IRS has proposed legislative changes to enable it to put into place processes and programs that are needed to enable it to do its job more effectively and to address the root causes of EITC improper payments.

According to the IRS, the above efforts reached more than 1.8 million taxpayers and 10,000 tax return preparers and identified and protected almost \$4 billion in erroneous EITC claims during fiscal year 2013.<sup>17</sup> However, despite the IRS's efforts, the estimated EITC improper payment rate has remained relatively unchanged since fiscal year 2003 (the first year the IRS was required to report estimates of these payments to Congress), and the amount of EITC claims paid in error has grown. The IRS estimates that improper EITC payments totaled from \$9.5 billion to \$11.5 billion in fiscal year 2003<sup>18</sup> and from \$13.3 billion to \$15.6 billion in fiscal year 2013.<sup>19</sup> The IRS estimates the total EITC paid in error over these 11 years is between \$124 billion and \$148 billion.

As previously discussed, the IRS has processes to identify the causes of improper EITC payments and to identify erroneous EITC payments. However, the IRS does not have the resources nor does it have alternative compliance tools needed to adequately address the erroneous EITC payments identified. As we have previously re-

<sup>15</sup> Dated Feb. 28, 2002.

<sup>16</sup> See Appendices VII and VIII for more details.

<sup>17</sup> See Appendices VII and VIII for detailed results of the various IRS programs to address EITC improper payments.

<sup>18</sup> EITC improper payment estimates obtained from the *Department of the Treasury Performance and Accountability Report for fiscal year 2003*.

<sup>19</sup> EITC improper payments estimates obtained from the *Department of the Treasury fiscal year 2013 Agency Financial Report*.

ported, the IRS will be unable to make any significant reduction in erroneous payments. In the IRS's April 2014<sup>20</sup> report to TIGTA on its efforts to reduce erroneous EITC payments, IRS management acknowledged the limitations faced in significantly reducing noncompliance using the traditional process of auditing tax returns. The IRS noted that it cannot fully address EITC noncompliance by simply auditing returns and must pursue alternatives to traditional compliance efforts.

*Annual Risk Assessments Do Not Accurately Reflect the Risk Associated With Additional Child Tax Credit Improper Payments*

Each year since fiscal year 2011, the IRS has continually rated the risk of improper payments associated with the ACTC as low. However, our review of the IRS's own enforcement data indicates that the ACTC improper payment rate is similar to that of the EITC. We estimate that the ACTC improper payment rate for fiscal year 2013 is between 25.2 percent and 30.5 percent, with potential ACTC improper payments totaling between \$5.9 billion and \$7.1 billion.

The Department of the Treasury has selected the ACTC as one of the revenue program funds<sup>21</sup> for which the IRS must perform a risk assessment to assess the level of improper payment risk. The Department of the Treasury selected the ACTC based on its materiality to the IRS's financial statements. On March 20, 2014, the OMB issued supplemental improper payment guidance to the Department of the Treasury clarifying the requirement for annual risk assessments of all refundable tax credits. Although the IRS has conducted the annual risk assessment of the ACTC as required by the Department of the Treasury, the methodology that the IRS uses to conduct the risk assessment continues to provide an inaccurate assessment of the risk of ACTC improper payments.

To determine the potential risk of ACTC improper payments, we used the same data sources and methodologies to the extent possible that the IRS uses to estimate the EITC improper payment rate to compute an estimate of the potential ACTC improper payment rate. For example, we used the results of the IRS's NRP 1040 Study for Tax Year 2009, which is the same study the IRS used to estimate the fiscal year 2013 EITC improper payment rate. The IRS was unable to provide an estimate of the amount of ACTC overclaims recovered through compliance programs for Tax Year 2009; therefore, we used the same ratio of overclaims recovered to improper payments that the IRS used to compute its fiscal year 2013 EITC improper payment rate.<sup>22</sup> Finally, we computed the estimated amount of potential ACTC improper payments by applying our estimate of the potential ACTC improper payment rate to the OMB budget estimates that are consistent with the budget estimates used by the IRS to compute fiscal year 2013 EITC improper payments. Figure 1 shows the methodology we used to estimate the potential ACTC improper payment rate for fiscal year 2013.

<sup>20</sup>IRS, *Report on Earned Income Tax Credit (EITC) Improper Payments Executive Order 13520: Reducing Improper Payments* (April 15, 2014).

<sup>21</sup>The IRS's custodial activity includes revenues collected and refunds disbursed. However, in this report the general term "revenue" is used in place of "custodial." The revenue program funds for which the IRS performed risk assessments generally represent specific individual tax credits or refund payments.

<sup>22</sup>The IRS ratio of EITC overclaims recovered to EITC improper payments for fiscal year 2013 was 13.5 percent.

*Figure 1: Methodology Used to Compute the Potential ACTC Improper Payment Rate for Fiscal Year 2013*

$$\text{Potential ACTC Improper Payment Rate} = \frac{\text{ACTC Improper Payments—ACTC Overclaims Recovered}}{\text{Total ACTC Claims}}$$

*ACTC Improper Payments.*—The amount of the difference between the amount of the ACTC claimed by the taxpayer on his or her tax return and the amount the taxpayer should have claimed based on NRP results for Tax Year 2009. This amount includes ACTC overclaims and ACTC underpayments. This amount totaled \$8.07 billion.

*ACTC Overclaims Recovered.*—The amount of ACTC overclaims that the IRS prevents from being paid through activities such as math error processing and prerefund examinations or recovers after being paid through Automated Underreporter document matching and post-refund examinations. This amount was estimated by applying the ratio of EITC overclaims recovered to EITC improper payments from the IRS's Fiscal Year 2013 EITC improper payment rate calculation. Using the EITC overclaims recovered ratio of 13.5 percent, we estimated the ACTC overclaims recovered to total \$1.09 billion.

*Total ACTC Claims.*—The amount of the ACTC claimed on all tax returns based on the NRP results for Tax Year 2009. This amount totaled \$25.03 billion.

$$\text{Potential ACTC Improper Payment Dollars} = \frac{\text{Estimated ACTC Claims} \times \text{Potential ACTC Improper Payment Rate}}$$

*Source: TIGTA analysis of Tax Year 2009 1040 NRP ACTC data and the IRS's calculation of the Fiscal Year 2013 EITC improper payment rate.*

The IPERA defines a program as having significant improper payments when improper payments exceed both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or \$100 million at any percent of program outlays.

*Audit results indicate a high degree of noncompliance with ACTC eligibility requirements*

The IRS's rating of the ACTC as low risk for significant improper payments is contrary to its own enforcement data, which show that in fiscal year 2013 the IRS adjusted<sup>23</sup> over \$347 million of ACTC claims on returns also claiming the EITC. Our review of EITC closed audit data found that there is a close relationship between taxpayers' compliance with the EITC and the ACTC. According to the IRS, 283,806 (59 percent) of the 482,468 tax returns it audited in fiscal year 2013 with an EITC claim also included an adjustment record for the ACTC. Figure 2 shows the results of the IRS's EITC audits.

<sup>23</sup>The ACTC can be adjusted if it was not claimed or if it was claimed incorrectly on the taxpayer's tax return.

Figure 2: Results of EITC Audits of Tax Returns That Also Include an ACTC Adjustment—Fiscal Year 2013

Audit Disposition	Number of Returns	ACTC Dollars Adjusted	Percentage of Returns Adjusted
EITC/ACTC Tax Returns Audited .....	283,806	\$347,844,351	100%
ACTC Disallowed <sup>24</sup> .....	279,306	\$350,324,178	98.41%
Additional ACTC Allowed .....	2,916	(\$2,479,827)	1.03%
No Change .....	1,584	0	0.56%

Source: IRS Examination Operational Automated Database.<sup>25</sup>

When we provided our estimate of the potential ACTC improper payment rate to IRS management as well as our concern that the risk assessment process did not accurately reflect the risk associated with ACTC payments, the IRS raised the following concerns related to our estimate. We do not agree with the IRS's conclusions. We respond to each concern below.

—An assessment of the ACTC improper payment rate must also include an assessment of the validity of the CTC.

In March 2014, the OMB issued improper payment guidance to the IRS clarifying that *all refundable credits* are subject to IPERA requirements as they represent an additional outlay of funds by the Government. The CTC is a non-refundable credit that reduces an individual's tax liability and represents an offset of excess taxes that were already paid to the Government and therefore does not result in an additional budget outlay. The ACTC is a refundable tax credit and therefore represents an additional expense or outlay to the Government because it is paid in excess of a taxpayer's net tax liability. As a result, it is appropriate per OMB guidance to consider only the refundable ACTC for purposes of assessing the risk of improper payments and estimating the improper payment rate.

—The NRP 1040 Study was not designed to meet IPERA precision requirements for computing an ACTC improper payment rate.

Our estimate of the potential ACTC improper payment rate was computed to show that the IRS's improper payment risk assessment process should have ranked the ACTC Program as a high risk instead of low risk. We agree that the NRP 1040 Study was not designed to meet IPERA precision requirements. However, the 2,041 ACTC claims that the IRS audited as part of the NRP 1040 Study were selected by the IRS as part of a statistically valid sample of all Forms 1040, *U.S. Individual Income Tax Return*. As such, these tax returns are representative of the general tax return population for Tax Year 2009.

—The potential ACTC improper payment rate does not account for recovered revenue.

Our ACTC improper payment rate does account for recovered revenue. As we previously mentioned, the IRS was unable to provide us the data for the ACTC for Tax Year 2009. As such, we estimated the ACTC overclaims recovered using the same ratio of overclaims recovered to improper payments that the IRS used to compute the fiscal year 2013 EITC improper payment rate. Therefore, our calculation of the potential ACTC improper payment rate is consistent with the IRS's calculation of the EITC improper payment rate.

Prior audits raise concerns with the reliability of the IRS's improper payment risk assessment process

In January 2013, TIGTA reported that the IPERA risk assessment process did not provide a reliable assessment of improper payment risk for IRS revenue program funds.<sup>26</sup> Specifically, we concluded that the risk assessments were not performed in compliance with Department of the Treasury guidelines and that the Questionnaire did not effectively address risks associated with tax refund payments.

<sup>24</sup>Includes full disallowance of 269,561 returns for a total of \$342,622,748 and partial disallowance of 9,745 returns for a total of \$7,701,430

<sup>25</sup>Provided by the IRS on February 27, 2014.

<sup>26</sup>TIGTA, Ref. No. 2013-40-015, *Improper Payments Elimination and Recovery Act Risk Assessments of Revenue Programs Are Unreliable* (Jan. 2013).

In response to our audit recommendations, the IRS met with the Department of the Treasury to revise the risk assessment Questionnaire for revenue funds. In addition, the IRS Office of the Chief Financial Officer established guidelines for retaining risk assessment documentation and worked with the business unit executives to ensure that the appropriate subject matter experts were identified and participated in the review process.

In March 2014, we reported<sup>27</sup> that the IRS performed risk assessments for each of the 25 program fund groups identified by the Department of the Treasury for review for fiscal year 2013—six administrative program funds and 19 revenue program funds.<sup>28</sup> However, we again concluded that the process still may not provide a valid assessment of improper payments in tax administration because the EITC remains the only revenue program fund to be considered a high risk for improper payments despite numerous indicators that other refundable tax credits, *e.g.*, the ACTC, also potentially result in significant improper payments.

### *Recommendation*

*Recommendation 1:* The Commissioner, Wage and Investment Division, should ensure that the results of the ACTC Improper Payment Risk Assessment accurately reflect the high risk associated with ACTC payments and provide a reliable estimate of improper payments. Completion of the ACTC Improper Payment Risk Assessment should include an evaluation of available NRP and enforcement data when determining the overall risk of improper payments.

*Management's Response:* The IRS disagreed with this recommendation. IRS management stated that the Improper Payment Risk Assessment is completed for the ACTC following the guidance of the Department of Treasury and the OMB. The IRS stated that the assessment questionnaire and scoring methodology reflect operational risks associated with administration of the credit. The IRS already considers enforcement data and overall risks associated with administration of the ACTC by its inclusion in the Tax Gap estimate.

*Office of Audit Comment:* As we have repeatedly reported, the risk assessment process performed by the IRS does not provide a reliable assessment of improper payments. The IRS has previously acknowledged this in its response to a prior review. Moreover, the IRS's own enforcement data clearly contradicts the IRS conclusion that the risk of ACTC improper payments is low.

### *Data Show Root Causes of Additional Child Tax Credit Improper Payments Are Similar to Those of the Earned Income Tax Credit*

The IRS indicated that it does not have the same level of detail regarding the source of ACTC errors as it does for EITC claims. The IRS noted that for the NRP EITC audits, all aspects related to the credit are verified as part of the audit. As a result, the IRS has very detailed information about the condition that caused the EITC claim to be in error. Although the IRS has not developed a strategy to identify the root causes of ACTC improper payments, we believe it has information that indicates that the root causes are similar to those of the EITC. As discussed previously, 283,806 (59 percent) of the 482,468 EITC tax returns the IRS audited in Fiscal Year 2013 also included an adjustment record for the ACTC. The IRS adjusted the ACTC on 282,222 (99.4 percent) of these 283,806 EITC returns.

The correlation between causes of EITC and ACTC improper payments results from the commonality in many of the eligibility requirements. Figure 3 is a comparison of the eligibility requirements for the EITC and the ACTC.

<sup>27</sup>TIGTA, Ref. No. 2014-40-027, *The Internal Revenue Service fiscal year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act* (Mar. 2014).

<sup>28</sup>The EITC Program has been declared a high-risk program for improper payments by the OMB; therefore, no formal risk assessment is required for it.

Figure 3: Comparison of the Eligibility Requirements for the EITC and the ACTC for Tax Year 2013

Eligibility Test	The EITC	The ACTC
Relationship .....	Son, daughter, stepchild, foster child, or a descendant of any of them (for example, your grandchild). Brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew). Adopted child. An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption.	Same
Joint Return .....	The child does not file a joint return for the year (or files jointly to claim a refund).	Same
Age .....	A qualifying child must be: —Under age 19 at the end of Tax Year 2013 and younger than you (or your spouse, if filing jointly); —Under age 24 at the end of Tax Year 2013, a student, and younger than you (or your spouse, if filing jointly); or —Permanently and totally disabled at any time during 2013, regardless of age.	A qualifying child must be: —Under age 17 at the end of the tax year.
Residency <sup>29</sup> .....	The child must have lived with the claimant in the United States for more than half of the year.	The child must have lived with claimant for more than half of the year. <sup>30</sup>
Qualifying Child Required?	No	Yes
SSN Required?	Yes	No—The IRS allows individuals issued an Individual Taxpayer Identification Number to receive the ACTC.

Source: IRS Publication 972, *Child Tax Credit*, and IRS Publication 596, *Earned Income Credit (EIC)*, for use in preparing Tax Year 2013 Returns.

### Recommendation

*Recommendation 2:* The Commissioner, Wage and Investment Division, should, as required by the IPERA, identify the root causes of the improper ACTC payments, determine if tools and/or resources are available to address erroneous ACTC payments, and establish a plan to reduce the erroneous payments and then meet that plan.

<sup>29</sup> Exceptions apply.

<sup>30</sup> There are some exceptions to the residence test, which can be found in IRS Publication 972.



*Management's Response:* The IRS disagreed with this recommendation and stated that the OMB acknowledges that it already conducts analysis of the Tax Gap that incorporates these credits. According to the IRS, refundable tax credit noncompliance is included in the Tax Gap estimate and in the assessment and regular updating of its compliance strategies. The IRS considers available tools, resources, and alternative treatment options when preparing and updating compliance strategies. The IRS stated that reduction of erroneous payments is a primary goal of those activities.

*Office of Audit Comment:* Because of the substantial number and amount of ACTC improper payments, excluding this credit from the IRS's assessment results in a substantial understatement of improper payments. We estimate this understatement to be in the range of \$5.9 billion to \$7.1 billion. If the IRS includes improper payments in its Tax Gap study, it should be clear on what portion of the Tax Gap is due to improper payments. Furthermore, the IRS advised us that the Tax Year 2006 Tax Gap estimation methodology did not estimate the number or amount of disallowed ACTC claims. Instead, it provides an aggregate estimate for the net misreported amount for all tax credits. As such, it cannot ensure that its Tax Gap strategy accurately identifies and addresses the causes of ACTC improper payments as required by the IPERA. The IPERA requires agencies to identify the root causes for improper payments for all programs for which improper payments exceed both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or \$100 million.

### *New Compliance Processes Are Needed to Make Any Significant Reduction in Improper Payments*

As we have previously reported,<sup>31</sup> the IRS continues to report significant improper EITC payments each year. For example, \$13.3 billion to \$15.6 billion in erroneous EITC payments were estimated to have been paid in fiscal year 2013. Compliance resources are limited, and additional alternatives to traditional compliance methods have not been developed. Consequently, the IRS does not address the majority of potentially erroneous EITC claims. This is despite the fact that the IRS has processes that successfully identify billions of dollars in potentially erroneous EITC payments. For example, the IRS identified more than 6.6 million potentially erroneous EITC claims totaling approximately \$21.6 billion for Tax Year 2011. \*\*\*\*\*2\*\*\*\*\*.

In addition to limited compliance resources and the reliance on traditional compliance methods, statutory requirements further limit the IRS's ability to ensure that EITC claims are valid before they are paid. The Internal Revenue Code requires the IRS to process tax returns and pay any related tax refunds within 45 calendar days of receipt of the tax return or the tax return due date, whichever is later. Because of this requirement, the IRS cannot conduct extensive eligibility checks similar to those that occur with other Federal programs that typically certify eligibility prior to the issuance of payments or benefits.

*Some actions have been taken to address recommendations made in a prior TIGTA report*

In our fiscal year 2009 report,<sup>32</sup> we recommended the IRS conduct a study to identify alternative processes that will expand its ability to effectively and efficiently address erroneous EITC claims for which data show that the taxpayer does not meet the EITC qualifying child relationship and/or residency tests. We also recommended that the IRS work with the Assistant Secretary of the Treasury for Tax Policy to obtain the authority necessary to implement alternative processes to adjust erroneous EITC claims for which data show that the taxpayer does not meet the EITC qualifying child relationship and/or residency tests.

In response to our recommendations, the IRS analyzed the information included in the Federal Case Registry<sup>33</sup> and found that, although the information in the registry provides information as to a child's custodial/noncustodial parent, the database

<sup>31</sup>TIGTA, Ref. No. 2014-40-027, *The Internal Revenue Service fiscal year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act* (Mar. 2014).

<sup>32</sup>TIGTA, Ref. No. 2009-40-024, *The Earned Income Tax Credit Program Has Made Advances; However, Alternatives to Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments* (Dec. 2008).

<sup>33</sup>The Federal Case Registry is a national database that aids the administration and enforcement of child support laws. It consists of records that identify children, custodial parties, non-custodial parents, and putative (assumed) parents along with other relevant information.

cannot be solely relied upon to systemically adjust a potentially erroneous EITC claim.

*Math error authority is not sufficient to effectively address erroneous EITC claims*

The IRS, in conjunction with the Assistant Secretary of the Treasury for Tax Policy, has requested additional authority (hereafter referred to as correctable error authority) to systemically disallow a tax claim, including the EITC, when information contained in reliable Government data sources does not support the claim. According to the IRS, reliable Government data sources include information obtained from the Social Security Administration, the Department of Health and Human Services (HHS), the Federal Bureau of Prisons, and the States' Departments of Corrections. The IRS requested correctable error authority as part of its fiscal year 2015 budget submission. However, as of May 2014, the IRS has not been provided any additional authority or tools to expand its ability to prevent the issuance of improper EITC payments.

Currently, under the Internal Revenue Code, the IRS can use its math error authority to address erroneous EITC claims by systemically correcting mathematical or clerical errors on EITC claims, such as correcting entries made on the wrong line on the tax return or mathematical errors in computing income or the EITC. In addition, the IRS can use math error authority to adjust an EITC claim if a qualifying child's SSN is not valid. However, the majority of potentially erroneous EITC claims the IRS identifies do not contain the types of errors for which it has math error authority. For example, the IRS identified approximately 6.6 million potentially erroneous EITC claims totaling approximately \$21.6 billion in Tax Year 2011 for which it does not have math error authority. In Tax Year 2011, the IRS used math error authority to identify and systemically correct only 270,492 (.009 or less than 1 percent)<sup>34</sup> of more than 27.4 million EITC claims. The 270,492 returns claimed the EITC totaling \$314 million.

While the IRS has the authority to audit potentially erroneous EITC claims for which it does not have math error authority, doing so is more costly than the math error process. The IRS estimates that it costs \$1.50 to resolve an erroneous EITC claim using math error authority compared to \$278 to conduct a prerefund audit.<sup>35</sup> In addition, the number of potentially erroneous EITC claims the IRS can audit is further reduced by its need to allocate its limited resources among the various segments of taxpayer noncompliance to provide a balanced tax enforcement program. As a result, billions of dollars in potentially erroneous EITC claims go unaddressed each year.

*National Directory of New Hires Wage and Employment Data Along With Correctable Error Authority Could Significantly Reduce Improper Payments*

Significant changes in IRS compliance processes would be necessary to reduce improper payments. Expanded authority to make corrections to tax returns when data obtained from the HHS indicate the taxpayer's refundable credit claims are not valid would significantly reduce improper payments. For example, the information could be used at the time tax returns are filed to identify those individuals who claim the EITC based on wages that do not appear to be valid. For example, our review of Tax Year 2012 tax returns identified more than \$1.7 billion in potentially erroneous EITC claimed on tax returns with no third-party Forms W-2, *Wage and Tax Statement*, received by the IRS supporting the wages reported. As we have noted previously, the IRS estimates that verification errors, *i.e.*, underreporting and overreporting of income by wage earners, account for 30 percent, or \$4.35 billion, of EITC improper payments.

The IRS is granted the authority to use the National Directory of New Hires (NDNH) to verify EITC claims. However, the IRS does not have the authority to systemically disallow an EITC claim that is not supported by NDNH data (\*\*\*\*\*2\*\*\*\*\*). Therefore, the IRS must audit the EITC claims it identifies for which NDNH data indicate the income reported is potentially erroneous. The number of EITC claims the IRS can audit is limited to available resources and the need to provide a balanced enforcement program. As such, the IRS's use of the NDNH to identify potentially erroneous EITC claims is limited to only those EITC claims it has

<sup>34</sup> An additional 59,024 EITC claimants received approximately \$21 million more in EITCs than claimed.

<sup>35</sup> Cost to use math error authority as of June 25, 2014, as provided by the IRS. The IRS provided the cost of a prerefund audit based on fiscal year 2010 financial data, which are the most current estimate available.

the resources to address. The IRS does not have the authority to use the NDNH to verify any other refundable credit.

The Social Security Act, 42 U.S.C. Section 653(i)(3), grants authority to the Secretary of the Treasury to use the HHS NDNH to verify an individual's claim of employment with regard to the EITC. The Act states:

*The Secretary of the Treasury shall have access to the information in the National Directory of New Hires for purposes of administering section 32 of the Internal Revenue Code of 1986, or the advance payment of the earned income tax credit under section 3507 of such Code, and verifying a claim with respect to employment in a tax return.*

The NDNH is a national database of wage and employment information. The NDNH file contains the following information:

- New Hire (W-4) File:* The New Hire File contains information on all newly hired employees reported by employers to each State Directory of New Hires. Federal agencies report directly to the NDNH.
- Quarterly Wage (QW) File:* The Quarterly Wage File contains quarterly wage information on individual employees from the records of State workforce agencies and Federal agencies.
- Unemployment Insurance (UI) File:* The Unemployment Insurance File contains unemployment insurance information on individuals who have received or applied for unemployment benefits as reported by State workforce agencies.

*Analysis identified more than \$1.7 billion in potentially erroneous EITC claimed on tax returns with no Forms W-2 to support wages*

Because of its current processes for using the NDNH, the IRS was only able to resolve approximately \$20 million in potentially erroneous EITC claims on 3,728 tax returns between January and June 2013. However, the NDNH could be used to identify and resolve many more claims. Our analysis of the 26.7 million EITC claims received by the IRS for Tax Year 2012 identified approximately 23.6 million (88 percent) tax returns with EITC claims totaling more than \$53.8 billion for which the taxpayer claimed wages as the source income to support the EITC. Of the 23.6 million tax returns with wages reported, we identified 676,992 (3 percent) tax returns for which third-party Forms W-2 were not sent to the IRS by the employer for either the taxpayer and/or spouse listed on the tax return.<sup>36</sup> These 676,992 tax returns claimed EITCs totaling more than \$1.7 billion. We forecast the IRS could prevent the payment of more than \$8.5 billion in questionable EITC claims over the next 5 years.<sup>37</sup>

The IRS initially found the NDNH data to be valuable in identifying tax returns for which the income used to claim the EITC was potentially fraudulent. However, the IRS believes it is no longer cost beneficial to continue to use the NDNH to verify EITC claims. As such, it has decided not to renew the contract to use NDNH data with the HHS for fiscal year 2015. The IRS's decision to discontinue the NDNH contract is based on two primary factors:

- Improvements in the IRS's fraud detection filters to incorporate the characteristics of EITC claims the NDNH helps identify have increased the IRS's ability to more accurately detect EITC claims that appear to be based on potentially fraudulent income.
- The use of the NDNH does not result in a significant resource savings because the IRS must continue to incur additional resource costs to verify the income and subsequently audit EITC claims even when NDNH data indicate the claim is erroneous. For example, the average cost to obtain NDNH data is more than \$1.6 million per fiscal year. During the period January 1, 2013, through June 30, 2013,<sup>38</sup> the IRS submitted NDNH data requests for 136,175 EITC claims totaling more than \$787 million. However, the IRS was only able to close 3,728 (2.7 percent) claims totaling more than \$20 million based exclusively on NDNH data. The remaining 132,447 (97.3 percent) EITC claims required the IRS to use additional resources other than NDNH data to verify the claim and close the case because either the NDNH contained no data for the taxpayer or the data were not sufficient to verify the amount of income claimed.

<sup>36</sup> Some of the tax returns we identified could also be the result of employer errors or employer nonreporting.

<sup>37</sup> See Appendix IV. The 5-year forecast is based on multiplying the base year by five and assumes, among other considerations, that economic conditions and tax laws do not change.

<sup>38</sup> The IRS obtains NDNH data for EITC claims filed between January and June each year. After this period, the IRS has access to income information documents filed by third parties, including employers, for use in verifying income.

*The NDNH data have the potential to significantly reduce EITC improper payments*

The IRS can use NDNH data during the processing of tax returns to significantly increase its ability to identify potentially erroneous EITC claims on tax returns with unsupported wages. However, to realize the full potential of NDNH data, the IRS needs to:

- Obtain the authority to systemically disallow EITC claims for which NDNH data do not support the claim. Through legislative proposals, the IRS has requested correctable error authority to deny taxpayers' claims without conducting an audit when reliable Government data sources do not support information on the tax return. However, the IRS has not yet been granted this authority.
- Modify the processes it uses to obtain and use NDNH data. The IRS process to obtain NDNH data is a transactional manual process and is limited to the verification of only electronically filed tax returns with an EITC claim. If it obtained a copy of the complete NDNH database, the IRS could systemically verify all EITC claims to the NDNH.

Figure 4 provides a comparison of the IRS's current transactional-based processes to use the NDNH to identify a potentially erroneous EITC claim compared to the systemic processes that could be implemented if the IRS obtained a copy of the NDNH database.

*Figure 4: Comparison of Existing NDNH Processes to Identify Potentially Erroneous EITC Claims to a Systemic NDNH Process*

Existing NDNH Processes to Identify Potentially Erroneous EITC Claims	Potential Systemic NDNH Processes to Identify Potentially Erroneous EITC Claims
The IRS evaluates EITC claims for potential fraud using established fraud filters.	The IRS evaluates all EITC claims regardless of fraud potential.
EITC claims with specified characteristics are suspended from processing and NDNH data are requested from the HHS for the taxpayer.	The IRS systemically matches all EITC claims for which income reported is wages to an NDNH file the IRS obtains from the HHS to verify the taxpayer's claim of employment.
The IRS evaluates the NDNH data and determines the income claimed is potentially erroneous.	The IRS identifies those EITC claims for which the NDNH indicates the taxpayer was not employed during the tax year.
The IRS conducts additional analysis to verify the amount of income claimed.	The IRS systemically disallows the EITC claim on the basis that the claim is unsubstantiated.
The IRS audits the EITC claim on those tax returns for which the income claimed is determined to be erroneous.	Taxpayer is sent a notice detailing adjustment made to the tax return and is provided with a telephone number and mailing address to contact the IRS if he or she questions the validity of the adjustment.

*Source: Existing processes provided by the IRS. Potential systemic processes are a hypothetical example of how the IRS could use the NDNH if correctable error authority was provided.*

Receiving a copy of NDNH data rather than using a transaction-based process may result in a lower cost to the IRS. The cost to obtain NDNH data under the current information sharing agreement with the HHS includes a set user fee and an additional transactional-based component. As such, the cost to obtain NDNH data increases as the number of data requests sent to the HHS increases. The cost to obtain NDNH data under this current information sharing agreement averaged more than \$1.6 million a year for fiscal years 2010 through 2013. By receiving a complete copy of NDNH data, the IRS can eliminate the transactional cost associ-

ated with the existing agreement. Because the IRS has not pursued this option, the potential cost savings of doing so is unknown.

It should be noted that the IRS has processes in place for taxpayers to dispute systemic adjustments. For example, our review of this process in July 2011<sup>39</sup> found that when the IRS makes math error adjustments to a taxpayer's tax return, it sends a notice, generally a Computer Paragraph 11 Notice (Balance Due (Over \$5.00)) or a Computer Paragraph 12 Notice (Overpayment of \$1.00 or More), to the taxpayer explaining the error(s) identified and the amount of any resulting adjustment(s). The math error notice includes an account statement showing how the changes affected the tax return and showing the corrected tax return information compared to what was reported on the original tax return. In addition, the math error notice provides both a telephone number and mailing address for the taxpayer to contact the IRS if he or she questions the validity of the adjustments.

Taxpayers who question the validity of the adjustments are given 60 calendar days from the date of the notice to respond to the IRS disputing the validity of the adjustments made to their tax returns. During this 60-day period, the IRS will place a freeze on the taxpayer's account to prevent the issuance of the portion of the refund associated with the error(s) identified or prevent the initiation of collection action resulting from any balance due. Once a math error adjustment is made, any subsequent action depends on the response from the taxpayer and can include:

- Agreed Response*: The taxpayer agrees with the math error adjustments made to his or her tax return. This includes taxpayers who do not respond to the IRS notice. The IRS removes the freeze from the taxpayer's account, which will then release any refund or initiate collection of a balance due of taxes.
- Substantiated Response*: The taxpayer disagrees with the math error adjustments and either provides the IRS with written correspondence/documentation or information via telephone contact supporting his or her disagreement. The IRS agrees with the taxpayer based on the information provided and reverses the math error adjustments. The IRS removes the freeze from the taxpayer's account, which will release any refund or initiate collection of a balance due of taxes.
- Unsubstantiated Response*: The taxpayer disagrees with the math error adjustments. However, the taxpayer does not provide adequate support for his or her disagreement. Generally, the IRS reverses the math error adjustments and places an examination freeze on the taxpayer's account resulting in his or her tax return being referred to the Examination function for further review.

### Recommendations

If the IRS is granted correctable error authority, the Commissioner, Wage and Investment Division, should:

*Recommendation 3*: Contract with the HHS to obtain a complete copy of the NDNH database for use during tax return processing to systemically identify unsupported wages reported on tax returns to erroneously claim the EITC.

*Management's Response*: The IRS disagreed with this recommendation. The IRS stated that the cost of obtaining the limited NDNH is significant and, under current limitations on the IRS's use of the data, the IRS does not consider it to be a cost-beneficial tool. The IRS also disagreed with our outcome measure of \$1.7 billion in potential cost savings, stating that the outcome is contingent on the IRS receiving expanded legislative authority and that its review of data from the recent EITC Compliance Study covering Tax Years 2006 through 2008 found that a significant portion of EITC claims on returns with reported wages and no Form W-2 were accurate or disallowed for reasons other than misreported income.

*Office of Audit Comment*: The IRS's disagreement is not consistent with its response to Recommendation 4 of this report in which the IRS states that it is pursuing expanded NDNH authority for use of the entire NDNH database as well as correctable error authority. Moreover, the EITC Compliance Study to which the IRS refers above excludes many EITC claims, such as fraudulent claims. Our analysis includes all EITC claims for which wages were reported and a Form W-2 was not filed by an employer for either the taxpayer or the taxpayer's spouse.

<sup>39</sup>TIGTA, Ref. No. 2011-40-059, *Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately* (Jul. 2011).

*Legislative Recommendation*

*Recommendation 4:* Work with the Assistant Secretary of the Treasury for Tax Policy to consider a legislative proposal to obtain expanded NDNH authority to systematically verify claims for other income-based refundable credits (e.g., the ACTC) based on NDNH employment data.

*Management's Response:* The IRS agreed with this recommendation. The IRS stated that the *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* presents a legislative request for expanded use of the NDNH database. The IRS's proposal would amend the Social Security Act to expand IRS access to NDNH data for general tax administration purposes, including data matching and verification of taxpayer claims during return processing. The IRS believes this proposal addresses the recommendation.

## APPENDIX I

## DETAILED OBJECTIVE, SCOPE, AND METHODOLOGY

Our overall objective was to assess the IRS's efforts to identify and address the root causes of erroneous EITC and ACTC payments. To accomplish our objective, we:

- I. Determined what actions the IRS has taken to identify the root causes of improper payments for the EITC and the ACTC and the results of its efforts.
  - A. Contacted the Office of Research, Analysis, and Statistics and the Office of Return Integrity and Correspondence Services to obtain copies of refundable credit studies conducted from Tax Year<sup>1</sup> 2008 to the present, including any NRP Compliance Studies for the past 5 years.
  - B. Reviewed reports provided by the IRS to determine if root causes for EITC and ACTC improper payments were identified. We evaluated the root causes identified by the IRS to determine if causes identified were actually root causes or just symptoms of root causes.
  - C. Reviewed the Department of the Treasury's Agency Financial Reports for fiscal years<sup>2</sup> 2012 and 2013 to identify changes made between the two reports, and determined if the causes the IRS identified for EITC improper payments are the same as reported in the Executive Order and other studies.
  - D. Reviewed data available on the IRS Office of Research, Analysis, and Statistics NRP and Compliance Data Warehouse Web sites to obtain guidance on conducting the annual NRP review, information available on the NRP methodology, format of the NRP electronic audit case files, and instructions to obtain direct access to NRP review data or how to obtain a data extract of the NRP review data.
  - E. Determined information, if any, the Office of Return Integrity and Correspondence Services uses and actions taken based on the data obtained in Steps I.B, I.C, and I.D above to identify the causes of taxpayer noncompliance with the EITC and the ACTC. Specifically, we:
    1. Discussed what efforts have been taken to identify root causes of improper payments for the EITC and the ACTC or refundable credits in general and any reasons why efforts have not been made to identify root causes.
    2. Obtained and reviewed copies of relevant documentation to include methodology, procedures, and reports unavailable on the Web sites.
  - F. Obtained access to NRP data through a TIGTA Strategic Data Services Division extract request and performed analysis of the types of information available to identify the reasons the EITC and the ACTC were denied and to verify the IRS's assessment of the root causes for improper payments.
- II. Determined what actions the IRS has taken to address the identified root causes for EITC and ACTC improper claims.
  - A. Reviewed the results of TIGTA and Government Accountability Office reports related to the EITC and the ACTC issued over the past 5 years to determine any IRS efforts to identify root causes or if any root causes were identified by TIGTA or the Government Accountability Office.
  - B. Reviewed the IRS's study results of the feasibility of using the Federal Case Registry dated October 2011 to identify potentially erroneous EITC claims.
  - C. Reviewed IRS guidance to determine what policies and procedures the IRS has in place to address the identified root causes.
  - D. Interviewed IRS personnel for current and planned efforts to address the identified root causes. Based on the IRS's input, we researched current initiatives, determined if EITC claims are analyzed for income misreporting to include overreported and underreported income, and determined if the IRS's initiatives present new alternatives or rely on traditional compliance efforts.
    1. Identified math error authorizations and determined if the IRS has presented any additional requests for tax policy changes.
    2. To determine how the IRS is using the NDNH, we met with the HHS and the IRS to determine if the IRS has restricted NDNH access and the amount the IRS pays for access to the NDNH. We obtained and reviewed a copy of the Memo of Understanding that the IRS has with the

<sup>1</sup>A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

<sup>2</sup>Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

- HHS for use of the NDNH. We also reviewed the IRS's current periodic report submitted to the HHS on the effectiveness of the NDNH in identifying potentially false EITC claims.
- E. Analyzed what action the IRS has taken to measure the impact of any actions taken, assessed the challenges the IRS faces in addressing the root causes identified, and determined if the IRS's efforts to address noncompliance are appropriate to address the identified root causes.
- III. Determined if there are root causes for EITC or ACTC improper payments that the IRS has not identified.
    - A. Reviewed legislation and IRS guidance to determine the EITC and ACTC eligibility requirements.
    - B. Conducted tests to identify additional root causes for improper refundable credits.
      1. Analyzed applicable Taxpayer Notice Code volumes for Tax Year 2011 returns.
      2. Requested the Dependent Database<sup>3</sup> rule break volumes for Tax Year 2011.
    - C. Evaluated potential fraud.
      1. Identified Tax Year 2012 returns claiming the EITC and wages on the Individual Return Transaction File and matched to the Individual Master File<sup>4</sup> to identify those individuals who actually received the credit.
      2. Matched the tax returns identified in Step III.C.1 to the Tax Year 2012 Form W-2 File to identify returns for which the wages claimed on the tax return are not supported by a third-party Form W-2. We quantified the number of returns and amount of the EITC claimed on tax returns for which the wages are not supported.
  - IV. Determined an ACTC improper payment rate. Using data from the IRS NRP 1040 Study for Tax Year 2009 and the OMB budget reports used by the IRS to estimate EITC improper payments, we computed the potential ACTC improper payment rate and dollars for fiscal year 2013. To the extent possible, we used the same methodology the IRS uses to estimate the EITC improper payment rate and dollars to compute the potential ACTC improper payment rate. The potential ACTC improper payment rate was computed with the assistance of the TIGTA contract statistician.

#### *Data validation methodology*

During this review, we relied on data extracted from the IRS's Individual Master File for Tax Year 2012, Individual Returns Transaction File for Processing Year<sup>5</sup> 2013, and the Form W-2 File for Tax Year 2012 located on the TIGTA Data Center Warehouse. We also relied on a data extract of Tax Year 2012 Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*,<sup>6</sup> from the IRS's Information Returns Processing database and a data extract of Tax Year 2008 EITC NRP data from the IRS's Compliance Data Warehouse that was provided by the TIGTA Office of Investigations' Strategic Data Services Division. Additionally, we used Tax Year 2009 1040 NRP data that were provided by the IRS's NRP staff. We were able to verify a random sample of each data set to the IRS's Integrated Data Retrieval System. As a result of our testing, we determined the data used in our review were sufficiently reliable.

#### *Internal controls methodology*

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: controls in place to identify and address the root causes of erroneous EITC and ACTC payments. We evaluated these controls by interviewing management, reviewing policies and procedures, and reviewing the process used to identify root causes and any initiatives taken to address root causes identified.

<sup>3</sup>The Dependent Database is a risk-based audit selection tool used by the IRS to identify tax returns for audit. The Dependent Database scoring system uses business rules to identify EITC noncompliance at the point of filing through use of internal and external data elements.

<sup>4</sup>The IRS database that maintains transactions or records of individual tax accounts.

<sup>5</sup>The calendar year in which the tax return or document is processed by the IRS.

<sup>6</sup>We specifically requested information on Form 1099-R with a Distribution Code 3 for disability income.



## APPENDIX II

## MAJOR CONTRIBUTORS TO THIS REPORT

Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services)  
 Deann L. Baiza, Director  
 Sharla J. Robinson, Audit Manager  
 Roy E. Thompson, Audit Manager  
 Sandra L. Hinton, Lead Auditor  
 Linda L. Bryant, Senior Auditor  
 W. George Burleigh, Senior Auditor  
 Jennie G. Choo, Senior Auditor  
 Johnathan D. Elder, Auditor  
 Nathan J. Smith, Auditor  
 James M. Allen, Information Technology Specialist  
 Kevin O'Gallagher, Information Technology Specialist

## APPENDIX III

## REPORT DISTRIBUTION LIST

Assistant Secretary of the Treasury for Tax Policy  
 Commissioner C  
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 Deputy Commissioner for Services and Enforcement SE  
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 Deputy Commissioner, Wage and Investment Division SE:W  
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 Audit Liaisons:  
     Chief, Program Evaluation and Improvement, Wage and Investment Division  
     SE:W:S:PEI  
     Director, Communications and Liaison, National Taxpayer Advocate TA:CL

## APPENDIX IV OUTCOME MEASURE

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

*Type and Value of Outcome Measure:*

—Funds Put to Better Use—Potential; \$1,712,725,533 in questionable EITC claims paid on 676,992 Tax Year<sup>1</sup> 2012 tax returns; \$8,563,627,665<sup>2</sup> in questionable EITC claims issued over 5 years. This outcome is potential because it depends on whether the IRS is granted correctable error authority and obtains the complete NDNH database to verify these claims.<sup>3</sup>

*Methodology Used to Measure the Reported Benefit:*

We conducted computer analysis of the Tax Year 2012 Individual Master File to identify 26,715,006 tax returns that received EITC totaling \$61,989,202,110.<sup>4</sup> Of the 26,715,006 tax returns, approximately 23,571,365 (88 percent) included EITCs totaling \$53,773,385,436 for which the taxpayers claimed wages on Line 7 of their Form 1040 as the source of EITC supporting income.

We matched the 23,571,365 tax returns to the IRS's Form W-2 File on the TIGTA Data Center Warehouse for Tax Year 2012 using both the primary and secondary SSNs to determine if a Form W-2 was on file that would support the wages being claimed on Line 7 of the Form 1040.<sup>5</sup> Of the 23,571,365 tax returns with wages reported, we identified 676,992 (3 percent) tax returns for which third-party Forms W-2 were not sent to the IRS by the employer for either the taxpayer and/or spouse listed on the tax return.<sup>6</sup> These 676,992 tax returns received EITC totaling \$1,712,725,533. We forecast that the IRS could prevent the issuance of \$8,563,627,665 in questionable EITC claims over the next 5 years (\$1,712,725,533 × 5).

This outcome is achievable if: (1) the IRS is granted expanded legislative authority to systemically disallow EITC claims based on NDNH employment results and (2) the IRS obtains an entire copy of the NDNH database for use during tax return processing to systemically identify unsupported wages reported on tax returns to erroneously claim the EITC.

The actual amount of questionable EITC claims the IRS will identify and prevent is dependent on the actions the IRS takes to obtain needed authority and access to NDNH data and will not be known until such authority and data use are implemented.

<sup>1</sup>A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

<sup>2</sup>The 5-year forecast for potential funds put to better use is based on multiplying the base year by five and assumes, among other considerations, that economic conditions and tax laws do not change.

<sup>3</sup>The amount may also be affected by employer reporting errors or employer nonreporting.

<sup>4</sup>Our analysis did not include taxpayers who had an EITC reversed on their account.

<sup>5</sup>We removed tax returns on which disability payments were reported on the Form 1040, Line 7—Wages which were supported by Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, with a Distribution Code 3 for disability income.

<sup>6</sup>Some of the tax returns we identified could also be the result of nonreporting of income and withholding by the employer.

APPENDIX V  
EARNED INCOME TAX CREDIT ELIGIBILITY RULES

Taxpayers claiming the EITC must meet specific criteria to qualify for the credit. Additional criteria apply for those taxpayers who have qualifying children. Figure 1 lists the basic EITC eligibility requirements. Figure 2 shows the additional eligibility tests of age, relationship, residency, and joint return requirements that must be met by taxpayers claiming the EITC with a qualifying child. The maximum EITC available for Tax Year 2013 ranges from \$487 for taxpayers with no qualifying children to \$6,044 with three or more qualifying children.

*Figure 1: Basic EITC Eligibility Requirements*

First, you must meet all the rules in this column	Second, you must meet all the rules in one of these columns, whichever applies		Third, you must meet the rule in this column
	Rules if you have a qualifying child	Rules if you do not have a qualifying child	
1. Your adjusted gross income must be less than: —\$46,227 (\$51,567 for married filing jointly) if you have three or more qualifying children, —\$43,038 (\$48,378 for married filing jointly) if you have two qualifying children, —\$37,870 (\$43,210 for married filing jointly) if you have one qualifying child, or —\$14,340 (\$19,680 for married filing jointly) if you do not have a qualifying child. 2. You must have a valid SSN. 3. Your filing status cannot be married filing separately. 4. You must be a U.S. citizen or resident alien all year. 5. You cannot file Form 2555, <i>Foreign Earned Income</i> , or Form 2555-EZ, <i>Foreign Earned Income Inclusion</i> (relating to foreign earned income). 6. You must have earned income. 7. Your investment income must be \$3,300 or less.	8. Your child must meet the relationship, age, residency, and joint return tests. 9. Your qualifying child cannot be used by more than one person to claim the EITC. 10. You cannot be a qualifying child of another person.	11. You must be at least age 25 but under age 65. 12. You cannot be the dependent of another person. 13. You cannot be a qualifying child of another person. 14. You must have lived in the United States more than half of the year.	15. Your earned income must be less than: —\$46,227 (\$51,567 for married filing jointly) if you have three or more qualifying children, —\$43,038 (\$48,378 for married filing jointly) if you have two qualifying children, —\$37,870 (\$43,210 for married filing jointly) if you have one qualifying child, or —\$14,340 (\$19,680 for married filing jointly) if you do not have a qualifying child.

*Source: IRS Publication 596, Earned Income Credit (EIC), for use in preparing 2013 Returns.*

Figure 2: Additional EITC Eligibility Tests of Age, Relationship, Residency, and Joint Return Requirements

Eligibility Test	Qualifying Child Criteria
Relationship .....	<p>Must meet one of the following relationship tests:</p> <ul style="list-style-type: none"> <li>—Son, daughter, stepchild, foster child, or a descendant of any of them (for example, your grandchild), or</li> <li>—Brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them (for example, your niece or nephew).</li> </ul> <p><i>Adopted child.</i> An adopted child is always treated as your own child. The term “adopted child” includes a child who was lawfully placed with you for legal adoption.</p>
Age .....	<p>Must meet one of the following age tests:</p> <ul style="list-style-type: none"> <li>—Under age 19 at the end of Tax Year 2013 and younger than you (or your spouse, if filing jointly),</li> <li>—Under age 24 at the end of Tax Year 2013, a student, and younger than you (or your spouse, if filing jointly), or</li> <li>—Permanently and totally disabled at any time during Tax Year 2013, regardless of age.</li> </ul>
Residency .....	<p>Your child must have lived with you in the United States for more than half of Tax Year 2013.</p>
Joint Return .....	<p>The child cannot file a joint return for the year. <i>Exception:</i> An exception to the joint return test applies if your child and his or her spouse file a joint return only to claim a refund of income tax withheld or estimated tax paid.</p>

Source: IRS Publication 596.

**APPENDIX VI**  
**QUALIFYING CHILD CRITERIA FOR THE CHILD TAX CREDIT OR THE**  
**ADDITIONAL CHILD TAX CREDIT**

The CTC can reduce an individual's taxes owed by as much as \$1,000 for each qualifying child. For Tax Year 2013, the ACTC is equal to the lesser of the CTC that was not allowed or 15 percent of earned income that is more than \$3,000.<sup>1</sup> Figure 1 shows the seven eligibility tests a child must meet to qualify for the CTC or the ACTC.

Eligibility Test	Qualifying Criteria
Age .....	A qualifying child must be <i>under</i> age 17 at the end of the tax year.
Relationship .....	The child must be the taxpayer's son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, a grandchild, niece, or nephew) and an adopted child (includes a child lawfully placed for legal adoption).
Support .....	The child must not have provided more than one-half of their own support for the tax year.
Dependent .....	The taxpayer must claim the child as a dependent on the Federal tax return.
Citizenship .....	The child must be a U.S. citizen, U.S. national, <sup>2</sup> or U.S. resident alien. <sup>3</sup>
Joint Return .....	The child does not file a joint return for the year (or files joint to claim a refund).
Residence .....	The child must have lived with claimant for more than one-half of the year. <sup>4</sup>

*Source: IRS Publication 972, Child Tax Credit, for use in preparing 2013 returns.*

*Limitations:* The CTC is limited if modified adjusted gross income is above a certain amount (which varies depending on the taxpayer's filing status).<sup>5</sup> In addition, the CTC is generally limited by the amount of the income tax owed as well as any alternative minimum tax owed.

<sup>1</sup>Tax-exempt combat pay is included as earned income when calculating the ACTC.

<sup>2</sup>A U.S. national is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

<sup>3</sup>Publication 519, *U.S. Tax Guide for Aliens*, states that an individual will be considered a U.S. resident for tax purposes if they meet the substantial presence test for the calendar year. To meet this test, the individual must be physically present in the United States on at least 31 calendar days during the current year and 183 calendar days during the three-year period that includes the current year and the 2 years immediately before.

<sup>4</sup>There are some exceptions to the residence test, which can be found in IRS Publication 972.

<sup>5</sup>For married taxpayers filing a joint return, the phase-out begins at \$110,000. For married taxpayers filing a separate return, it begins at \$55,000. For all other taxpayers, the phase-out begins at \$75,000.

## APPENDIX VII

EFFORTS TO ADDRESS THE ROOT CAUSES OF EARNED INCOME TAX  
CREDIT IMPROPER PAYMENTS

The IRS has several programs to address the root causes of EITC improper payments. The IRS considers these programs as part of its overall strategy to ensure compliance with the rules. Many of these programs are aimed at identifying and preventing erroneous payments once a tax return is filed rather than correcting the underlying reason that the error is occurring.

*Outreach and Education.*—Programs designed to educate taxpayers and tax return preparers on the legal requirements for EITC eligibility so they can apply the law accurately.

—*Annual EITC Marketing Campaign.*—This campaign, which includes the EITC Awareness Day, targets underserved populations and includes print and media tours.

—*EITC Due Diligence Training Modules.*—A Web-based initiative in which tax return preparers can earn a certificate of completion.

—*Nationwide Tax Forum EITC Training.*—Annual seminars that educate tax return preparers on EITC due diligence requirements and qualifying child requirements.

—*External Stakeholders.*—The IRS works with external stakeholders including the tax return preparer community to share information regarding the EITC in an effort to identify trends and improve compliance.

*Enforcement.*—Programs intended to contribute to the broader strategy of identifying errors as early in the process as possible. The IRS's prevention activity focuses on three main areas:

—*Audits.*—The IRS identifies returns for examination usually before the refund is released. Because of the refundable nature of the credit, the high error rate, and the high dollar amount associated with the credit, returns with EITC claims are twice as likely to be audited as other individual taxpayer returns. According to the IRS, 70 percent of the examinations the IRS conducts each year are prerefund examinations in which the IRS determines the validity of the EITC claim before the EITC refund is issued. The remaining 30 percent of the examinations are conducted post refund.

—*Math Error.*—An automated process performed while tax returns are being processed and before refunds are sent to taxpayers in which the IRS identifies math or other irregularities and automatically prepares an adjusted return for a taxpayer filing on paper and generally rejects electronic returns. The IRS currently has limited legislative authority to use this process.

—*Document Matching.*—The IRS matches income claimed on tax returns to income reported by employers and other third parties to identify discrepancies that involve instances in which EITC claimants underreport income.

Figure 1 shows the main EITC compliance activities and the resulting total revenue protected for fiscal years<sup>1</sup> 2008 through 2014.

<sup>1</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

*Figure 1: EITC Compliance Activities and Total Revenue Protected (Dollars in Billions) for Fiscal Years 2008 Through 2014*

Compliance Activity	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012 <sup>2</sup>	Fiscal Year 2013 <sup>3</sup>	Fiscal Year 2014 <sup>4</sup>	Fiscal Years 2008–2014 Total
Examination Closures .....	503,755	508,180	473,999	483,574	487,408	483,139	483,000	3,423,055
Math Error Notices <sup>5</sup> .....	432,797	355,416	341,824	293,450	270,492	240,000	210,000	2,143,979
Document Matching .....	727,916	688,087	904,920	1,178,129	985,172	906,994	907,000	6,298,218
Amended Returns <sup>6</sup> .....	32,473	25,395	19,347	14,317	13,284	8,129	8,000	120,945
Total Revenue Protected (in Billions) ....	\$ 3.74	\$ 3.79	\$ 3.87	\$ 3.75	\$ 3.95	\$ 3.84	\$ 3.69	\$ 26.63

Source: The Department of the Treasury's Agency Financial Report for Fiscal Year 2013.

<sup>2</sup> Restated actual.

<sup>3</sup> Preliminary estimates.

<sup>4</sup> Estimated based on fiscal year 2013 preliminary data.

<sup>5</sup> The EITC withheld from the claimant; includes decreases in the amount of the EITC claimed as well as disallowance of the full EITC claim.

<sup>6</sup> Amended returns are a subset of Examination Closures.

## APPENDIX VIII

## EARNED INCOME TAX CREDIT TAX RETURN PREPARER STRATEGY

As part of its efforts to address EITC improper payments, the IRS developed an EITC paid preparer strategy that focuses on tax return preparers who are not compliant with the EITC due diligence requirements. Figure 1 provides results of this strategy for Fiscal Year 2013.

*Figure 1: Results of the EITC Tax Return Preparer Strategy for Fiscal Year 2013*

Treatment	Description	Program Results	Penalties Proposed (in millions)	EITC Revenue Protected (in millions)
Due Diligence Visit (DDV) <sup>1</sup> .	Prefiling season DDVs	540 visits 86 percent penalty rate	\$14.9	\$43.8
	Filing season DDVs	300 visits 81 percent penalty rate	Almost \$2.9	\$7.5
	Filing season follow-up DDVs <sup>2</sup>	27 visits 67 percent penalty rate	More Than \$200,000	Not Measured <sup>3</sup>
Knock and Talk Visit.	Visits made by auditors and Criminal Investigation agents to educate EITC preparers on EITC laws and due diligence requirements.	105 visits	None <sup>4</sup>	\$10.0
EITC Due Diligence Injunction.	Court action to prevent egregious preparers from filing future returns.	4 injunctions	\$0	\$15.4
DDV Warning Letter.	Prefiling season letters to advise preparers of EITC due diligence problems.	9,453 letters	\$0	\$275.1
	Filing season letters to advise preparers of continuing EITC due diligence problems.	1,781 letters	\$0	\$16.9

*Source: The Internal Revenue Service Filing Season 2013 EITC Real Time Return Preparer Initial Finding and Fiscal Year 2013 Executive Order Report.*

<sup>1</sup> Field examiners audit EITC preparers to verify that they are meeting their due diligence requirements and assert penalties as warranted.

<sup>2</sup> A filing season follow-up DDV is for continuing noncompliant preparers who received an educational visit.

<sup>3</sup> Insufficient sample size.

<sup>4</sup> Integrated approach for educational purposes.



APPENDIX IX  
MANAGEMENT'S RESPONSE TO THE DRAFT REPORT



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30306

SEP 10 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland *Debra S. Holland*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Existing Compliance Processes Will  
Not Reduce the Billions of Dollars in Improper Earned Income  
Tax Credit and Additional Child Tax Credit Payments  
(Audit # 201340031)

Thank you for the opportunity to review and respond to the subject draft report on the challenges of administering the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the Additional Child Tax Credit (ACTC) through traditional tax compliance processes and treatments. To detect and stop potentially fraudulent claims for the credits and to improve taxpayer compliance with the provisions of the Tax Code authorizing them, we continue to explore alternative strategies to supplement the traditional tax administration authority provided to us and to maximize the use of limited compliance resources.

We agree with the Treasury Inspector General for Tax Administration (TIGTA) that new and innovative processes are needed to achieve significant reductions in the amount of improper payments. The tax system, as established by the Internal Revenue Code (the Code) is based on the premise that taxpayers will voluntarily comply with its provisions in self-reporting their tax liabilities. The administrative provisions of the Code allow for the examination of tax returns to assess the accuracy of reported liabilities and to serve as an incentive for voluntary compliance. This balancing control, however, is subject to the constraints of limited resources and statutory provisions that assure taxpayers of their rights for the review of assessments of additional tax, or denials of credits by the U.S. Tax Court before the assessments or denials occur. Since February 2005<sup>1</sup>, the IRS has submitted legislative proposals that would permit expanded access and use of the National Directory of New Hires database, as recommended by the TIGTA in this report. With the March 2014 release of the administration's Fiscal Year 2015 revenue proposals<sup>2</sup>, the IRS has submitted legislative proposals for supplemental authority that would provide for correctable error authority, similar to math error authority, in situations when information provided by taxpayers does not match the information contained in government databases. The IRS also requested acceleration of the filing dates of information returns to make the information available to the IRS earlier, the authority to regulate return preparers, increases in return preparer penalties for will-

<sup>1</sup> *General Explanations of the Administrative's Fiscal Year 2006 Revenue Proposals*, 132, February 2005, <http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2006.pdf>.

<sup>2</sup> *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals*, March 2014, 229230, 245–246, <http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2015.pdf>.

ful or reckless misconduct, and extending due diligence requirements to include the EITC, CTC, and ACTC.

Considering the unique attributes of refundable credits claimed and payable through the tax system, the IRS has prepared annual risk assessments under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) for the specific outlays identified by the Office of Management and Budget (OMB), under guidance provided by the Department of the Treasury. Additional guidance provided by the OMB recognizes Treasury's assertion that there is significant complexity and difficulty in separately reporting the refunded amount of each credit claimed and paid through the tax system. The OMB further acknowledges that the IRS already conducts analysis of the tax gap that incorporates these credits. Refundable tax credit non-compliance is included in the tax gap estimate, and in the assessment and regular updating of our compliance strategies.

Since 2005, the IRS has been reporting separate estimates for the EITC because this program was determined to be high risk under the Improper Payments Information Act, a predecessor to IPERIA. All overclaims of refunds, including refundable credits, are included in the IRS tax gap estimate. The IRS' overall compliance strategy includes efforts to reduce the EITC error rates separately, but also takes into account efforts to improve compliance overall, including refundable credits claimed on the tax return. The OMB confirmed in March 2014 that this is permissible so long as the IRS explains in its Annual Financial Report why there is no further break out. This OMB agreement is based on the recognition of how tax returns are administered, including refundable credits, as being integral to the IRS assessment of compliance with tax reporting requirements. This allows for the appropriate resource focus within the IRS compliance strategy, since the largest component of the tax gap falls outside of traditional refundable tax credit payments. If the IRS compliance strategy required IPERIA reporting and compliance standards for all refundable tax credits, the IRS would need to divert a disproportionate amount of compliance resources to satisfy those requirements.

Refundable tax credits differ from other Federal outlays, such as Federal vendor or grant payments, in that the potential outlay can be fully or partially absorbed by taxpayers' tax liabilities, and can be combined with other refundable and/or non-refundable tax credits in arriving at the net tax due or overpayment to be refunded. Some refundable tax credits, such as income tax withheld from wages, Federal tax deposits, and estimated tax payments, are recorded as reductions of receipts rather than as outlays.<sup>3</sup> Refundable tax credits are reported as outlays when they exceed the tax liability and are a part of the refund. When refunds are due, the IRS issues a single payment for the net refund amount.

Another important difference between refundable tax credits and other Federal outlays subject to the IPERIA is that taxpayers self-certify their eligibility for the applicable credits through the act of filing a tax return. Amounts reported on tax returns or required tax forms are based on voluntary compliance and are signed by taxpayers under penalty of perjury, attesting that the information provided is complete and accurate. The IRS is legally obligated<sup>4</sup> to refund amounts collected from taxpayers and refundable tax credits Congress has authorized qualifying taxpayers to claim in excess of the taxpayer's income tax liability within 45 days of processing a taxpayer's request. Otherwise, IRS must pay interest to the taxpayer. This contrasts with other contractual or benefit payments where the eligibility for payment and the accuracy of the amount to be paid are reviewed and approved prior to disbursement of the funds.

The IRS has compliance processes in place to identify questionable refunds and stop their issuance. To the extent permitted by law, the IRS uses other government data sources to identify questionable claims for refundable tax credits and address them appropriately. For claims of EITC, CTC, and ACTC, refunds are stopped and the returns are referred to the IRS Examination functions for review. Examiners will contact taxpayers to request documentation to support their claims for the credit(s) and, when taxpayers are found to be ineligible, the examiners will make the requisite adjustments to the return to eliminate the unallowable credit. Claims disallowed by these pre-refund examinations are not improper payments because the refunds were not issued.

In addition to performing examinations of questionable claims, approximately 70 percent of which are performed before the refund is issued, soft notices are used to alert taxpayers to questionable items and encourage improved future compliance. Several fraud detection filters are in place specifically to help detect issues with claims for the EITC, CTC, and ACTC. Last year, the IRS detected specific patterns

<sup>3</sup> OMB Circular A-11 Section 20.10.

<sup>4</sup> 31 U.S.C. § 1324.

indicating potential fraud in returns with Individual Taxpayer Identification Numbers and developed filters during the filing season to stop those refunds from being issued.

Approximately 57 percent of returns claiming the EITC are prepared by tax return preparers, and we are supplementing our traditional return preparer initiatives with strategic programs intended to improve compliance with the EITC and other refundable credit provisions. Compliance and warning notices are sent before and during the filing season to preparers who prepare large numbers of returns claiming the EITC to educate them on their responsibilities and the consequences of non-compliance. Preparer audits are performed by field examiners to ensure preparers are complying with EITC due diligence rules. We are also using data analytics to identify tax return preparers with a history of submitting incorrect or potentially fraudulent tax returns falsely claiming the EITC and related tax credits. Intervention methods used to address these preparers include letters, telephone calls, and site visits, both before and during the filing season, to allow the preparers to immediately adjust their practices. During its pilot year in 2012, this process reduced improper EITC payments by an estimated \$198 million. The program was expanded in 2013 and is estimated to have prevented another \$590 million in improper payments.

We disagree with the TIGTA's potential outcome measure estimate of \$1.7 billion as funds put to better use for two reasons. First, as noted in the report, the outcome cannot be achieved without changes to existing legislation; an action that is beyond the control of the IRS. Second, our review of data from the recent EITC Compliance Study, covering Tax Years 2006 through 2008, found that a significant portion of EITC claims on returns without a Form W-2, *Wage and Tax Statement*, sent to the IRS and with wages reported on the return were either accurate or disallowed for reasons other than misreported wages.

Attached is our response to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Jodi L. Patterson, Director, Return Integrity and Correspondence Services, Wage and Investment Division, at (404) 338-8961.

Attachment

## ATTACHMENT

### *Recommendation*

*Recommendation 1:* The Commissioner, Wage and Investment Division, should ensure that the results of the ACTC Improper Payment Risk Assessment accurately reflect the high risk associated with ACTC payments and provide a reliable estimate of improper payments. Completion of the ACTC Improper Payment Risk Assessment should include an evaluation of available NRP and enforcement data when determining the overall risk of improper payments.

*Corrective Action:* We disagree with this recommendation. The Improper Payment Risk Assessment is completed for the Additional Child Tax Credit (ACTC) following the guidance of the Department of Treasury and the Office of Management and Budget (OMB). The assessment questionnaire and scoring methodology reflect operational risks associated with administration of the credit. Enforcement data and overall risks associated with administration of the ACTC are already considered by its inclusion in the tax gap estimate.

*Implementation Date:* N/A

*Responsible Official:* N/A

*Corrective Action Monitoring Plan:* N/A

### *Recommendation*

*Recommendation 2:* The Commissioner, Wage and Investment Division should, as required by the IPERA, identify the root causes of the improper ACTC payments, determine if tools and/or resources are available to address erroneous ACTC payments, and establish a plan to reduce the erroneous payments and then meet that plan.

*Corrective Action:* We disagree with this recommendation. The OMB acknowledges that IRS already conducts analysis of the tax gap that incorporates these credits. Refundable tax credit non-compliance is included in the tax gap estimate and in the assessment and regular updating of our compliance strategies. The IRS considers available tools, resources, and alternative treatment options when preparing and

updating compliance strategies. The reduction of erroneous payments is a primary goal of those activities.

*Implementation Date:* N/A

*Responsible Official:* N/A

*Corrective Action Monitoring Plan:* N/A

### *Recommendations*

If the IRS is granted correctable error authority, the Commissioner, Wage and Investment Division, should:

*Recommendation 3:* Contract with the HHS to obtain a complete copy of the NDNH database for use during tax return processing to systemically identify unsupported wages reported on tax returns to erroneously claim the EITC.

*Corrective Action:* We disagree with this recommendation. The limited National Directory of New Hires (NDNH) data is used now in our filters when third party wage information is not yet available to the IRS on the Information Returns Master File (IRMF). An analysis was performed to determine the extent to which the NDNH data is beneficial in processing claims for the EITC. The analysis revealed that the data was being used on only a small percentage of the claims filed, and that volume is decreasing each year as wage information is posted earlier to the IRMF. The cost of obtaining the limited NDNH is significant and, under current limitations on our use of the data, we do not consider it to be a cost beneficial tool. However, as we respond to the recommendation below, we agree and are pursuing legislative authority to expand our access to and authority for use of the entire NDNH database which will be useful for identifying noncompliance, identity theft, and refund fraud.

*Implementation Date:* N/A

*Responsible Official:* N/A

*Corrective Action Monitoring Plan:* N/A

### *Legislative Recommendation*

*Recommendation 4:* Work with the Assistant Secretary of the Treasury for Tax Policy to consider a legislative proposal to obtain expanded NDNH authority to systemically verify claims for other income-based refundable credits (e.g. ACTC) based on NDNH employment data.

*Corrective Action:* We agree with this recommendation. The *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* presents a legislative request for expanded use of the NDNH database. The proposal would amend the Social Security Act to expand IRS access to NDNH data for general tax administration purposes, including data matching and verification of taxpayer claims during return processing. We believe this proposal addresses the recommendation.

*Implementation Date:* Implemented

*Responsible Official:* Director, Return Integrity and Correspondence Services, Wage and Investment Division

*Corrective Action Monitoring Plan:* We will monitor this corrective action as part of our internal management control system.

Mr. GEORGE. But suffice it to say, as a refundable credit, all refundable credits that the IRS issues are so difficult to manage because once the money is out of the door, it is so much more expensive for the IRS to reclaim it, recoup it. It is they have to make a cost-benefit analysis as to whether or not it is worth doing.

Now there are ways that the IRS could address this, which we have recommended in the past, and that included, you know, earlier reporting of earnings under—per the W-2 form. So, again, the earlier the IRS has information on what people are paid, the earlier they can address problems that they ultimately find.

But this is in conjunction with the request that the Treasury Department as well as recommendations that we have made and the IRS has made for what is known as correctable error authority. So, for example, once the tax filing season begins, which, in effect, is

the second or third week in January, depending on the year, people can file their tax return and seek a refund.

The IRS is not required to receive from the payee, the employer or whomever, for another 3 months, sometime in March, that same information on that individual. Now if the individual claims a different amount than what the employer claims, that individual could receive more money and then receive a refundable credit, whether it is the EITC or the additional child tax credit or an education credit, what have you.

Now if the IRS had what is known as correctable error authority, it does not have to necessarily wait until again, as I pointed out in my opening statement, that all of the information is in hand and what have you. They could automatically hold off paying that refund and making the corrections themselves. And of course, the taxpayer would still have the right to contest the IRS's decision if they believe it is inaccurate, but so it is a symbiotic relationship in terms of legislation that the IRS and the Department of the Treasury is seeking.

So there are ways to address this, but it is obviously a very delicate area for all involved.

Senator BOOZMAN. I guess the frustration is this is an area where throwing money at it is not—won't help in the sense of, you know, making it more—we have a program that is in error 24 percent of the time, which is, you know, certainly unacceptable.

In the past, TIGTA has identified refund fraud committed by prisoners that is a significant problem for tax administration. Just last fall, a report noted that refund fraud associated with prisoner Social Security numbers remains a serious problem.

The number of fraudulent tax returns filed using a prisoner's Social Security number that were identified by the IRS increased from more than 37,000 tax returns in calendar year 2007 to more than 137,000 tax returns in calendar year 2012. The refunds claimed on these tax returned increased from \$166 million to \$1 billion.

I understand that Treasury has the authority to share information with the Federal Bureau of Prisons and State Departments of Corrections to help determine if prisoners may have filed or helped the filing of a fraudulent return. Would you please give us an update on the effectiveness of the IRS efforts to reduce these improper payments to prisoners?

Mr. GEORGE. Yes, and thank you for posing this question, Mr. Chairman. Because I have to admit, this is one of the areas where I am most disappointed. Because this was one of the first subjects that I testified before Congress on almost a decade ago about the problem that existed and that has since just continued to grow.

Congress did empower the IRS to take actions to address this by forming agreements with various States and Federal penitentiary or correctional organizations. And they have—they did at some point take positive steps to doing so. Some of those expired. Others, again, just fell by the wayside.

But this is a multi-billion dollar problem. It is still going on. And a lot of these individuals have so much time on their hands and, in all candor, really have nothing left to lose that they are not going to stop.

And until something more tangible is done, meaning further prosecutions or more authority or, in all candor, the IRS somehow feeling the pinch if they don't take action with signing up what data information sharing programs and the like with States, this problem will continue to grow and metastasize.

Senator BOOZMAN. I read the IG report, you know, talking about this, and one of the recommendations was I think there was 300 and some odd prisoners that they had identified to—you know, to essentially give that information—to make it such that that group that they had, you know, that they could fix it where they couldn't do it, and they refused to do that. Is that correct?

Mr. GEORGE. I don't know whether they refused to do it. But again, at one point, they did not have the authority to do it. And so, and I am not sure what you are describing predates the authority that Congress did ultimately provide or not. But I can get back to you with clarity.

Senator BOOZMAN. It is fine. Again, it is just a frustration, you know, among the many things that we talked about.

One last question, and then we will let you go. I know that you have got lots of stuff to do. TIGTA has identified significant concerns about fraudulent claims to premium tax credits and security of Federal tax data as the IRS provides data to health exchanges. The IRS will also have to administer penalties related to the individual mandate and try and seek collection of premium tax credits provided to ineligible taxpayers and collection of overpayments of tax credits.

According to your audits, the IRS continues to report that more than 20 percent—we talked about this—of the earned income tax credit is a problem, issued improperly. Again, \$15 billion, and \$13 billion to \$15 billion in 2013 in improper payments, as we discussed earlier.

Do you believe that there is the potential for similar problems with implementation of the premium tax credit?

Mr. GEORGE. Most definitely, sir. And—and it starts from the outset. The bottom line is if someone is able to provide fraudulent information at the outset, when they first apply for this credit, that starts the ball rolling downhill.

Now to its credit, the IRS has established some filters in their system to try to weed these out. And so, I hope the magnitude of the problem isn't anything like the other—well, the refundable credits we referred to earlier. But we are—TIGTA is in the process now of evaluating this very issue to see whether the IRS has adequate processes, both in formation and ultimately in effect because this could be a budget buster, sir.

Senator BOOZMAN. Very much. Thank you so much for your testimony today. Thank you for being here. We really do appreciate it. Appreciate your hard work.

As again, all of the witnesses that have testified, I know that everybody is doing their best to work in a very difficult situation, again trying to restore confidence in the agency.

I want to thank again the other two witnesses for being here. Appreciate hearing from these individuals with the Treasury Department, the IRS, the IG's office, and having the opportunity to explore a number of important and very timely issues.

Today's discussion will be helpful as we move forward with our work on the fiscal year 2016 funding and especially in light of the answer to the last question about getting these things straight on the front end, or we are going to have real problems and not let history repeat itself.

PREPARED STATEMENTS

At this time, I ask unanimous consent that a statement by the Taxpayer Advocate, Nina Olson, be included in the hearing record.

I ask unanimous consent that a report prepared for the subcommittee by the Government Accountability Office (GAO) and the IRS fiscal year 2016 budget request and the 2015 filing season also be included in the record.

As there is no objection, they will be included.

[The statements follow:]

PREPARED STATEMENT OF NINA E. OLSON, NATIONAL TAXPAYER ADVOCATE

Chairman Boozman, Ranking Member Coons, and distinguished members of this subcommittee:

Thank you for inviting me to submit this statement regarding the proposed budget of the Internal Revenue Service for fiscal year 2016.<sup>1</sup>

In my 2014 Annual Report to Congress, I designated inadequate taxpayer service as the #1 most serious problem for our Nation's taxpayers. This year, taxpayers are receiving the worst levels of taxpayer service since at least 2001, when the IRS implemented its current performance measures.

I do not think it is hyperbolic to say we are facing a crisis in taxpayer service. Many metrics bear this out, but to cite the most obvious: From January 1 through February 21, the IRS answered only 40 percent of the calls it received from taxpayers seeking to speak with a customer service representative, and those who managed to get through waited on hold for an average of about 26 minutes.<sup>2</sup> By comparison, 76 percent of taxpayers got through and waited on hold an average of about 11 minutes during the same period last year.<sup>3</sup>

The proposition that the Government should provide taxpayers with high quality service may seem obvious, but it is worth considering why taxpayer service is so important. In my view, there are two related but independent reasons.

First, good service is, very simply, the right thing for the Government to provide for its taxpayers. The requirement to file a return and pay taxes is generally the most significant burden a government imposes on its citizens. The Government therefore has a duty to make compliance as simple and painless as possible.

Second, it is in the Government's self-interest to facilitate voluntary compliance, because voluntary compliance is far more cost-effective than enforced compliance. For context, more than 98 percent of all tax revenue collected by the Government is paid voluntarily and timely. Less than 2 percent is collected through enforcement action.<sup>4</sup> If the IRS were to collect 10 percent less in enforcement revenue, tax revenue would decline by less than \$6 billion. If voluntary tax payments were to drop by 10 percent, tax revenue would decline by more than \$300 billion.

<sup>1</sup>The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

<sup>2</sup>IRS Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 21, 2015).

<sup>3</sup>*Id.*

<sup>4</sup>In fiscal year 2014, the IRS collected total tax revenue of about \$3.1 trillion. Of that amount, it collected \$57.1 billion through enforcement actions. Government Accountability Office (GAO), GAO-15-173, *Financial Audit: IRS's Fiscal Years 2014 and 2013 Financial Statements* 29 (Nov. 2014), at <http://www.gao.gov/assets/670/666863.pdf>.

There are three factors that explain why the IRS is unable to meet taxpayer needs:

1. *Tax-Law Complexity.* The complexity of the tax code as it stands today is overwhelming, making compliance difficult for taxpayers and enforcement difficult for the IRS. With a simpler tax code, taxpayers would not need as much help complying, and the IRS could deliver on its revenue-collection mission with a smaller budget. For purposes of this hearing, I will not discuss tax reform in detail, but I continue to believe it should be a top priority.<sup>5</sup>
2. *Resource Constraints and Increasing Workload.* Because of a combination of sequestration and concerns about IRS management practices, Congress has been cutting the IRS's budget, and IRS funding now stands about 17 percent lower on an inflation-adjusted basis than in fiscal year 2010. At the same time, the IRS's workload has been increasing in recent years due to a variety of factors, including implementation of basis reporting and merchant-card reporting laws, the Patient Protection and Affordable Care Act, and the Foreign Account Tax Compliance Act. In short, the combination of more work and reduced resources has produced declining performance.
3. *Questionable Resource-Allocation Decisions.* While I believe the IRS requires more funding, I also believe it is incumbent on the IRS to spend the resources it has as effectively and efficiently as possible. The IRS must be able to demonstrate that it is making responsible decisions in allocating its existing resources; that it is basing these decisions on research data that is comprehensive, not just on what is convenient for the IRS; and that it has a strategic and creative vision for the future—one that considers the needs of taxpayers even as it tries to go about doing its work efficiently. For example, the IRS has substantially stopped providing answers to tax-law questions by phone and in its walk-in offices. It decided to answer only "simple" questions during the filing season and to answer no questions at all after the filing season, despite the fact that about 15 million taxpayers obtain proper extensions or otherwise file later in the year. One would think that answering tax-law questions would be viewed as a core function the Federal tax agency should perform, yet I do not believe the IRS undertook a comprehensive analysis comparing the cost savings associated with curtailing answers to tax-law questions against other ways of achieving equivalent savings.

Overall, I believe the solution to the crisis in taxpayer service is a combination of more funding and better resource-allocation decisions in the near term and comprehensive tax reform over the longer term.

In my testimony today, I will elaborate on the following key points:

1. The IRS is currently failing to meet taxpayer needs, which erodes taxpayer trust in the system and undermines voluntary compliance.
2. The IRS is making resource-allocation decisions without hard data to show that its decisions are the best ones to drive voluntary compliance and collect revenue in an effective and efficient manner.
3. Understanding the taxpayer base is key to providing effective taxpayer service and to maintaining and enhancing voluntary compliance.
4. IRS compliance initiatives are often based on outdated or unproven assumptions and can generate significant volumes of rework for the IRS and tremendous burden for taxpayers.
5. The IRS is undertaking a review of its approach to tax compliance and service delivery, but greater transparency and Congressional oversight would improve taxpayers' confidence and trust in the tax system.
6. The IRS requires funding to acquire modern IT systems, particularly case management systems, in order to meet taxpayer needs and improve productivity.

<sup>5</sup>I have written and testified extensively about the need for comprehensive tax reform. See National Taxpayer Advocate 2012 Annual Report to Congress 3–23 (Most Serious Problem: *The Complexity of the Tax Code*); Testimony of Nina E. Olson, National Taxpayer Advocate, at *Hearing on Fundamental Tax Reform Before H. Comm. On Ways and Means*, 112th Cong. (2011), at <http://waysandmeans.house.gov/calendar/eventsingle.aspx?EventID=219701>; National Taxpayer Advocate 2010 Annual Report to Congress 3–14 (Most Serious Problem: *The Time for Tax Reform Is Now*); National Taxpayer Advocate 2010 Annual Report to Congress 365–372 (Legislative Recommendation: *Enact Tax Reform Now*); National Taxpayer Advocate 2005 Annual Report to Congress 375–380 (Key Legislative Recommendation: *A Taxpayer-Centric Approach to Tax Reform*); Presentation of Nina E. Olson, National Taxpayer Advocate, at Public Meeting of the President's Advisory Panel on Federal Tax Reform (Mar. 3, 2005) at <http://www.taxreformpanel.gov/meetings/meeting-03032005.shtml>. Over the past decade, the National Taxpayer Advocate's annual reports have contained dozens of additional proposals to simplify particular sections or areas of the tax code.



## I. The IRS Is Currently Failing to Meet Taxpayer Needs, Which Erodes Taxpayer Trust in the System and Undermines Voluntary Compliance.

The tax code as it stands today is overwhelming in its complexity and thus poses a significant compliance barrier for taxpayers. Large numbers of taxpayers contact the IRS for assistance. In addition to publishing forms and instructions, the IRS now typically receives more than 100 million telephone calls,<sup>6</sup> 10 million letters,<sup>7</sup> and five million visits from taxpayers each year.<sup>8</sup>

The IRS reached its high-water mark in providing taxpayer service in fiscal year 2004, when it answered 87 percent of the calls it received from taxpayers seeking to speak with an assistor and hold times averaged 2.5 minutes;<sup>9</sup> it responded to a wide range of tax-law questions from taxpayers both on its toll-free lines and in its roughly 400 walk-in sites; it prepared nearly 500,000 tax returns for taxpayers who requested help, particularly low income, elderly, and disabled taxpayers;<sup>10</sup> and it maintained a robust outreach and education program, estimating that its outreach efforts touched 72 million taxpayers.<sup>11</sup>

By comparison, the IRS's service expectations for fiscal year 2015 are as follows:

- The IRS is unlikely to answer even 50 percent of the telephone calls it receives.<sup>12</sup>
- For taxpayers who manage to get through, wait times are expected to be at least 30 minutes on average<sup>13</sup> and will run considerably longer during peak periods.
- The IRS will answer far fewer tax-law questions than it used to. During the filing season, it will not answer any questions except “basic” ones. After the filing season, it will not answer any tax-law questions at all, leaving the roughly 15 million taxpayers who file later in the year unable to get any answers to their questions by calling or visiting IRS offices.<sup>14</sup>
- The IRS has eliminated return preparation.<sup>15</sup>
- The IRS has reduced its training funds by 83 percent since fiscal year 2010, leaving employees less equipped to do their jobs properly.<sup>16</sup>

The following chart shows the IRS's performance in handling telephone calls from January 1—February 14, 2015, and the comparable period during 2014:

### IRS Telephone Performance—Jan. 1–Feb. 21, 2015<sup>17</sup>

JANUARY 1, 2015–FEBRUARY 21, 2015

Line	2014				2015				2014 to 2015 Change	
	Net Attempts (includes calls answered by automation)	Assistor Calls Answered	Customer Service Rep LOS	Avg. Speed of Answer (Minutes)	Net Attempts (includes calls answered by automation)	Assistor Calls Answered	Customer Service Rep LOS	Avg. Speed of Answer (Minutes)	LOS Change (Percentage Point)	ASA Change (Minutes)
Accounts Management .....	22,044,858	4,594,021	76%	11	20,570,926	3,131,536	40%	26	–36%	15

<sup>6</sup> IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for fiscal year 2008 through fiscal year 2014).

<sup>7</sup> IRS, Joint Operations Center, *Adjustments Inventory Reports: July-September Fiscal Year Comparison (Fiscal Year 2008 through Fiscal Year 2014)*.

<sup>8</sup> IRS Wage & Investment Division, Business Performance Review 7 (4th Quarter—Fiscal Year 2014, Nov. 6, 2014).

<sup>9</sup> IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (Sept. 30, 2004).

<sup>10</sup> This data was provided to TAS by the IRS Wage & Investment Division in connection with the National Taxpayer Advocate 2007 Annual Report to Congress 162–182 (Most Serious Problem: *Service at Taxpayer Assistance Centers*). TAS does not have data on tax-law questions asked outside the filing season for more recent years.

<sup>11</sup> IRS Data Book, Fiscal Year 2004, Table 23.

<sup>12</sup> Email from Commissioner Koskinen to All Employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014).

<sup>13</sup> *Id.*

<sup>14</sup> IRS, e-News for Tax Professionals—Issue Number 2013–49, Item 4, *Some IRS Assistance and Taxpayer Services Shift to Automated Resources* (Dec. 20, 2013), available at <http://www.irs.gov/uac/Some-IRS-Assistance-and-Taxpayer-Services-Shift-to-Automated-Resources>. These restrictions were implemented in 2014.

<sup>15</sup> *Id.*

<sup>16</sup> IRS Chief Financial Officer, Corporate Budget.

<sup>17</sup> IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 14, 2015).

## JANUARY 1, 2015–FEBRUARY 21, 2015—Continued

Line	2014				2015				2014 to 2015 Change	
	Net Attempts (includes calls answered by automation)	Assistor Calls Answered	Customer Service Rep LOS	Avg Speed of Answer (Minutes)	Net Attempts (includes calls answered by automation)	Assistor Calls Answered	Customer Service Rep LOS	Avg Speed of Answer (Minutes)	LOS Change (Percentage Point)	ASA Change (Minutes)
Individual Income Tax Line										
TAX-1040 .....	3,046,235	819,409	83%	9	3,986,631	498,914	26%	22	-57%	13
Refund Hotline (1954) .....	10,241,288	33,499	52%	8	6,947,594	26,008	33%	23	-19%	15
W&I Individual Customer Response Line .....	819,733	312,061	74%	9	910,023	179,356	34%	23	-40%	14
NTA (4778) .....	86,146	36,023	58%	10	143,049	36,281	34%	27	-24%	18
Practitioner Priority Line (PPS) .....	268,689	166,960	73%	21	257,793	99,570	45%	56	-28%	35

The official measure of IRS telephone performance is based on calls made to the “Accounts Management” telephone lines. So far this year, the IRS has answered only 40 percent of calls from taxpayers seeking to speak with a telephone assistor, and wait times for those who got through averaged 26 minutes.<sup>18</sup> That is an extraordinary decline from last year, when the IRS answered about 76 percent of its calls, with an average wait time of 11 minutes for the comparable period. The other rows on the chart show important telephone lines that are subsets of the Accounts Management total.

As the filing season has kicked into higher gear, the IRS’s telephone performance has dropped below the year-to-date average. For the week ending February 7, the IRS answered 34 percent of its calls.<sup>19</sup> For the week ending February 14, it answered 36 percent.<sup>20</sup> And for the week ending February 21, it answered 31 percent.<sup>21</sup>

The IRS’s ability to timely process taxpayer correspondence has also been declining. The following chart shows open inventory levels and the percentage of the inventory that was not handled within established timeframes for two key programs run by the Accounts Management function:

IRS Correspondence Performance—Jan. 1–Feb. 21, 2015<sup>22</sup>ACCOUNTS MANAGEMENT CORRESPONDENCE INVENTORIES  
(WEEKS ENDING 02/22/2014 AND 02/21/2015)

Key AM Programs	2014			2015			2014 to 2015 Change	
	Total	Overage	Percentage Overage	Total	Overage	Percentage Overage	Overage Change	Overage Change (Percentage Point)
Individual Taxpayer Correspondence ..	177,504	82,083	46%	247,699	162,141	65%	80,058	19%
Amended Return/Duplicate Filing .....	126,901	65,833	52%	158,618	107,419	68%	41,586	16%

In both programs, at least 65 percent of the inventories are overage (*i.e.*, have not been handled within established timeframes), which represents a substantial increase over last year’s already-high levels. These lengthy backlogs in processing taxpayer correspondence often lead to adverse taxpayer impact. For a taxpayer who owes additional tax, interest charges and penalties generally will continue to accrue. For a taxpayer who has overpaid, a delay in processing correspondence may translate into a delay in receiving a refund.

<sup>18</sup>The percentage of calls answered from taxpayers seeking to speak with a customer service representative is referred to as the Customer Service Representative Level of Service, which is abbreviated as “Customer Service Rep LOS” on the above chart. The wait time for callers who get through to a customer service representative is referred to as the Average Speed of Answer, which is abbreviated as “Avg Speed of Answer (Minutes)” on the above chart. In both cases, we have rounded to the nearest whole numbers, but the LOS change and ASA change columns were computed using decimals and therefore do not all total exactly.

<sup>19</sup>IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 7, 2015).

<sup>20</sup>IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 14, 2015).

<sup>21</sup>IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 21, 2015).

<sup>22</sup>IRS, Customer Account Services Accounts Management Paper Inventory Reports, *Inventory Age Report—All Programs* (week ending Feb. 21, 2015).

Overall, the decline in the IRS's taxpayer service levels results from a combination of more work and reduced resources. On the workload side, the IRS is receiving 11 percent more returns from individuals,<sup>23</sup> 18 percent more returns from business entities,<sup>24</sup> and 70 percent more telephone calls (through fiscal year 2013) than a decade ago.<sup>25</sup> Implementation of the Patient Protection and Affordable Care Act<sup>26</sup> during the current filing season will add considerable new work.

On the funding side, the IRS's budget has been reduced by about 17 percent in inflation-adjusted terms since fiscal year 2010.<sup>27</sup> As a consequence, the IRS has already cut its workforce by nearly 12,000 employees,<sup>28</sup> and projects it will have to cut several thousand additional positions during fiscal year 2015.<sup>29</sup>

I believe the IRS, like any agency, can operate more effectively and efficiently in certain areas. However, I do not see any substitute for sufficient personnel if the IRS is to provide high-quality taxpayer service. The only way the IRS can assist the tens of millions of taxpayers seeking to speak with an IRS employee is to have enough employees to answer their calls. The only way the IRS can timely process millions of taxpayer letters is to have enough employees to read the letters and act on them. And the only way the IRS can meet the needs of the millions of taxpayers who visit its walk-in sites is to have enough employees to staff them.

I believe that Congress and the IRS have a shared responsibility to ensure that the taxpayers who pay our Nation's bills receive the assistance they need when they seek to meet their tax obligations. As I wrote in my recent report, I do not think it is acceptable for the Government to tell millions of taxpayers who seek help each year, in essence, "We're sorry. You're on your own."

#### *Recommendations*

I recommend that Congress:

- Over the short term, carefully monitor taxpayer service trends and ensure that the IRS receives the oversight and funding it requires to meet the needs of U.S. taxpayers.
- Over the longer term, enact comprehensive tax reform to reduce the complexity of the Internal Revenue Code and reduce compliance burdens on taxpayers and the IRS alike.

## II. The IRS Is Making Resource-Allocation Decisions Without Hard Data to Show That Its Decisions Are the Best Ones to Drive Voluntary Compliance and Collect Revenue in an Effective and Efficient Manner.

While I believe the IRS requires more funding, I also believe it is incumbent on the IRS to spend the resources it has as effectively and efficiently as possible. Doing so is always important, but in light of Congress's concerns about IRS management decisions, it is particularly important now for the IRS to demonstrate that it is a good steward of the funding it is given. Funding reductions, even significant ones, do not provide a blanket justification for service reductions. Reductions in service always should be made with the goal of minimizing the impact on taxpayers and performance. The IRS has had to make difficult choices and it is trying hard, but

<sup>23</sup> See IRS Data Books, Table 2 (showing return totals for fiscal year 2005 through fiscal year 2013). Data for fiscal year 2014 are projections made by the IRS Office of Research, Analysis, and Statistics; see IRS Publication 6292, FYReturn Projections for the United States 2014–2021, at 4 (Fall 2014).

<sup>24</sup> *Id.*

<sup>25</sup> The majority of the additional calls were handled by automation. The increase in calls seeking to speak with a customer service representative was 23 percent. See IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of fiscal years 2005 and 2013) (indicating that the number of calls seeking to reach a representative on the Account Management telephone lines increased from about 40.4 million to about 49.8 million). The percentage increase in calls seeking to reach an assistor likely would have been considerably higher absent IRS policies that have increasingly restricted personal service options.

<sup>26</sup> Public Law No. 111–148, 124 Stat. 119 (2010).

<sup>27</sup> In fiscal year 2010, the agency's appropriated budget stood at \$12.1 billion. In fiscal year 2015, its budget was set at \$10.9 billion, a reduction of about 9.9 percent. Inflation over the same period is estimated at about 9.4 percent. Adjusting for the interactive effects of these cuts and the impact of the Federal pay freeze, we estimate the inflation-adjusted reduction in funding was about 17 percent.

<sup>28</sup> IRS Chief Financial Officer, Corporate Budget. This reduction represents actual full-time equivalent employees realized through appropriated dollars.

<sup>29</sup> Email from Commissioner Koskinen to All Employees, *Fiscal Year 2015 Funding* (Dec. 17, 2014). The IRS anticipates it can make these reductions through attrition.

I am not convinced it is making the right choices for taxpayers or for itself. I question the decisions to substantially stop providing answers to tax-law questions by phone or in its walk-in offices. One would think that answering tax-law questions would be seen as a core function the Federal tax agency should perform, and I do not believe the IRS undertook a comprehensive analysis, comparing the cost savings associated with curtailing answers to tax-law questions, against other ways of achieving equivalent savings.

Another concern is the IRS's decision to cut back the availability of the forms and publications taxpayers require to prepare their returns. Not only has the IRS reduced the number and types of forms, instructions, and publications that it will print and distribute this year, but it is delaying the delivery of those documents to its Taxpayer Assistance Centers (TACs) and its Tax Form Outlet Partners (TFOPs), including libraries and post offices. Forms will not be available at these sites until February 28, almost halfway through the filing season.<sup>30</sup> Moreover, the IRS ordered fewer forms this year than in previous years and decided not to stock Form 1040EZ in its own walk-in sites. Once a TAC or TFOP runs out of forms or publications, it cannot order more.

In an alert to all employees on February 10, 2015, the IRS acknowledged that these changes have “created questions and concerns from taxpayers.”<sup>31</sup> The IRS has advised its employees that they should not give out the 1-800 number for ordering tax forms and publications unless the taxpayer affirmatively states that he or she does not have a computer or Internet access or otherwise presses the IRS employee about ordering by telephone.<sup>32</sup>

The IRS has also decided to cease widespread distribution of Publication 17, *Your Federal Income Tax for Individuals*, which consolidates information about individual tax issues into one helpful document. The IRS based this decision on the fact that taxpayers could obtain Publication 17 content through other publications,<sup>33</sup> thus imposing on taxpayers the burden of locating information dispersed throughout multiple publications and instructions. Each TFOP will receive one copy of Publication 17; taxpayers will have to pay to make photocopies. The IRS has advised its employees that when asked about Publication 17, they are not to tell the taxpayer about limitations on availability but instead remind the taxpayer that he or she can access the publication online or through the Government Publishing Office (GPO). Taxpayers can attempt to purchase Publication 17 for \$23 from the GPO, but there is no guarantee of success. When a TAS employee recently placed an order for Publication 17 through the GPO, she received a postcard advising her that her order was cancelled and her check would be returned. As best we can tell, the IRS did not order sufficient copies to meet the demand of taxpayers willing to pay \$23 for help in complying with the tax laws.

The reductions in service on the phones go beyond taxpayers trying to call in. Tax professionals who are acting on behalf of clients in attempting to resolve problems with the IRS are reporting long wait times on the Practitioner Priority Service (PPS) hotline. In recent weeks, practitioners have reported to the National Taxpayer Advocate about hold times of up to 6 hours. One practitioner reported she used her office phone to dial the PPS hotline first thing in the morning so she could get in the queue, and conducted other client business on her cell phone while waiting on hold. Once she got through to the IRS and completed her business for that taxpayer, she would immediately re-dial the PPS hotline to get in the queue for her next case. Another practitioner, who had information prepared to resolve issues for six different taxpayers, reported reaching a live assistant and being told she would have to hang up and call back after the first two cases were resolved because the call had exceeded the permitted time.

Taxpayers (and practitioners) call and write the IRS not only to get answers to tax-law questions, refund status, or transcripts, but also to request penalty abatements, respond to math error notices, and make payment arrangements. The IRS faces an impossible choice in deciding which of these services is more important than the others—all are essential and necessary for a tax system based on self-assessment and reliant on voluntary compliance. An erosion of any of these services impairs taxpayers' ability to comply with the tax laws. The current state of affairs also violates essential taxpayer rights, including *the right to be informed, the right to quality to service, the right to pay no more than the correct amount of tax, the*

<sup>30</sup> IRS, *Talking Points About IRS Forms Availability* (Feb. 10, 2015).

<sup>31</sup> *Id.*

<sup>32</sup> IRS SERP Alert 15A0052, *Forms and Pubs in Taxpayer Assistance Centers* (revised Feb. 10, 2015).

<sup>33</sup> IRS SERP Alert 15A0052, *Forms and Pubs in Taxpayer Assistance Centers* (revised Feb. 10, 2015).

*right to challenge the IRS's position and be heard, and the right to a fair and just tax system.*

*The IRS's Rationale and Methodology for Making Specific Cuts in Taxpayer Service Are Unclear.*

It is difficult to ascertain exactly how the IRS made its resource-allocation decisions with respect to taxpayer service or on what data it relied. For years, the IRS had been reducing taxpayer services in its TACs, including the availability of return preparation for low income, disabled, elderly, and limited English proficiency taxpayers. Having made it harder and harder for taxpayers to obtain these services, it is disingenuous for the IRS to cite the declining utilization of tax return preparation assistance as a justification for cutting these services outright. The deliberate downward trend became a self-fulfilling proposition.

Unfortunately, the measures stakeholders often apply to the IRS do not acknowledge the importance of service delivery. The typical focus is on reducing the tax gap through enforcement efforts, or improving efficiency as measured by return on investment (ROI). These are, of course, measures of fundamental importance, but they tell us nothing about the level of service the IRS is providing to taxpayers, nor do they tell us anything about the taxpayer's experience from the taxpayer's perspective. In fact, a focus on these measures to the exclusion of a meaningful set of service delivery measures ensures that the IRS will not provide a reasonable level of service to taxpayers.

Given budget constraints, the IRS's service activities inevitably compete with its enforcement programs for funding. It is relatively easy to measure the ROI of enforcement programs—just track the dollars collected attributable to an audit or a wage levy, as compared to the various costs (including employee time) associated with that audit or levy. By contrast, while research shows that taxpayer service contributes to voluntary compliance,<sup>34</sup> measuring the impact of service on compliance (*i.e.*, the ROI of IRS services) is at best very difficult, and should not be the basis for funding IRS service delivery. If we acknowledge that quality taxpayer service is an integral component of the IRS's mission, then funding for the Taxpayer Services account should be based on service measures and set at a level that ensures the IRS will be able to provide an adequate level of service to the Nation's taxpayers.

*The IRS Needs Better Taxpayer Service Measures that Incorporate Both the Government and Taxpayer Perspectives.*

The IRS should develop and publish a comprehensive suite of service measures that can serve as the basis for funding decisions, while holding the IRS accountable for efficient service delivery.

I have elsewhere offered detailed guidelines for the creation of a portfolio of measures that would enable both the IRS and external stakeholders to evaluate the effectiveness of IRS service delivery.<sup>35</sup> These measures would also enable the IRS to identify performance gaps that could guide the creation of performance improvement goals. A principal feature of this proposed framework is the inclusion of the following types of measures for each of the IRS's service delivery channels (*i.e.*, telephone, face-to-face, online, and correspondence):

- Access—level of service, wait time (including, where applicable, time waiting for service and time waiting for a response).
- Customer satisfaction.
- Accuracy.
- Issue resolution (*i.e.*, did the IRS completely resolve the taxpayer's problem(s)?).

The IRS currently provides a level of service measure for telephone service, but it does not provide comparable access measures for other channels: Internet, correspondence, and walk-in assistance.

Stakeholders are also keenly interested in how well the IRS is delivering each of its major services (*e.g.*, return preparation, refund inquiries, tax law inquiries). I

<sup>34</sup>The classic economic model of compliance—that compliance depends upon the risk (or perception of risk) of being caught and the cost (punishment) if caught—does not adequately explain our high compliance rate in the tax system. Research shows that other factors, such as taxpayers' attitudes about government and their perception that they are being treated fairly by the tax system, also influence taxpayer compliance decisions. Many researchers refer to these factors collectively as "tax morale." For an introduction to the concept of tax morale, see National Taxpayer Advocate 2007 Annual Report to Congress vol. 2, 138–182 (*Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers*).

<sup>35</sup>See IRS Pub. 4701, *Annual Report to Congress: Progress on the Implementation of the Taxpayer Assistance Blueprint* (April 2009 to September 2010) 54–57.

have recommended that the IRS report select service delivery measures for each of its major service activities:<sup>36</sup>

- Taxpayer awareness of the availability of the various service types by channel.
- Customer satisfaction with each service type by channel.
- Issue resolution for each service type by channel.
- Access for limited English proficiency and disabled taxpayers for each service type by channel.
- Number of returns prepared by Taxpayer Assistance Centers and by the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs.

*Implementation of the Service Priorities Initiative Will Provide a Clear Rationale for Taxpayer Service Budgetary Allocation Decisions.*

In response to my concerns about the erosion of taxpayer service delivery, the Wage & Investment (W&I) Division and TAS are collaborating on the development of a ranking methodology for the major taxpayer service activities offered by W&I. The new methodology will take taxpayer needs and preferences into account while balancing them against the IRS's need to conserve limited resources, thus enabling the IRS to make resource allocation decisions that will optimize the delivery of taxpayer service activities given resource constraints.<sup>37</sup> Congress will also be able to use the results of this methodology to determine whether it is adequately funding core taxpayer service activities.

The methodology measures “value” by using separate sets of criteria for taxpayers and the IRS. This is necessary because taxpayers and the IRS have different priorities. The IRS is concerned with conserving resources, especially in a tight budget environment. Taxpayers need services that will enable them to understand their tax obligations, prepare their returns, and resolve problems without undue burden. Frequently, these needs are best met by personal services that are more costly to the IRS than automated services, such as Internet-based services.

Limitations imposed by the lack of available data have delayed this initiative, and it is unclear whether the IRS will devote the resources necessary to complete development of the methodology. In the absence of this or a similar methodology, the IRS will continue to make difficult resource-allocation decisions based on limited data and gut instinct rather than through comprehensive analytic rigor.

*Recommendations*

I recommend that Congress:

- Encourage the IRS to continue the work it has done to date on developing a meaningful portfolio of to develop a more comprehensive suite of performance measures in the area of taxpayer service, consistent with the guidelines I have recommended.
- Encourage the IRS to complete the ranking process for the Service Priorities Project with newly available tax year 2013 data and identify all steps needed to fully populate and implement the ranking tool.

Effective measures will help the IRS determine where it needs to improve and will assist the Appropriations Committees in determining where the IRS requires additional resources.

### III. Understanding the Taxpayer Base is Key to Providing Effective Taxpayer Service and to Maintaining and Enhancing Voluntary Compliance.

In order to provide taxpayer service in an effective and efficient manner, the IRS needs to understand its taxpayer base. While in the current budget environment it may be tempting to migrate taxpayer service toward low-cost self-assistance options, such efforts may ultimately be a wasted and costly effort if the IRS does not properly address taxpayers' actual service needs.

<sup>36</sup>*Id.*

<sup>37</sup>We use the word “optimize” to mean that the ranking methodology will provide the IRS with a rigorous way to select the combination of competing taxpayer service initiatives that maximizes the “value” of service delivery given available resources.

*Comprehensive Studies Demonstrate that Low Income and Other Vulnerable Taxpayer Populations Need Person-to-Person Assistance to Comply With Their Federal Tax Obligations.*

To adequately address these needs and, as a result, maximize voluntary compliance, the IRS should take into consideration the following data points:

- In 2013, nearly 133 million people had incomes below 250 percent of the Federal poverty level (FPL), which Congress has determined to be the income level at which taxpayers are eligible for assistance from Low Income Taxpayer Clinics (LITCs).<sup>38</sup> This is an increase of almost 16 million people since 2007.
- The percentage of persons below the 250 percent FPL threshold rose from 39.2 percent to 42.5 percent between 2007 and 2013.<sup>39</sup>
- For tax year 2013, more than 63 million tax returns, or about 45 percent of the tax returns filed, reported incomes below 250 percent of the FPL.<sup>40</sup>

In 2014, the Taxpayer Advocate Service, as the organization that oversees and administers the LTC program for the IRS, commissioned a survey by Russell Research to better understand the needs and circumstances of taxpayers eligible to use the clinics.<sup>41</sup> The program provides representation to low income individuals who need help resolving tax problems with the IRS. The “LITC-eligibles” survey had the following pertinent findings:

- A significant percentage (approximately 9 percent) of LTC-eligibles has less than a high school education. Almost 30 percent of Spanish-speaking LTC-eligibles had only an elementary school education.
- Fifteen percent of LTC-eligibles reported receiving notices from the IRS. In response, 55 percent called the IRS, 29 percent replied by letter, 24 percent contacted their preparers, and nearly 20 percent did nothing. (More than one response was allowed in the survey).
- A majority of all LTC-eligibles used return preparers, as did approximately 75 percent of Spanish-speaking eligibles. However, a significant percentage of these preparers did not satisfy the very basic statutory requirements established for commercial tax return preparation under IRC §6695(a) and (b).<sup>42</sup> More than 15 percent of the time, for example, the preparer either did not sign the return or did not give the taxpayer a copy. This percentage rose to more than 30 percent of Spanish-speaking eligibles.

In addition, the Pew Research Center conducted several surveys to determine the percentage of adult individuals who are offline (not using the Internet or email). The following shows the categories of individuals found by the surveys to have the highest *offline* rates in 2013:<sup>43</sup>

<sup>38</sup>At least 90 percent of the taxpayers represented by an LTC must have incomes that do not exceed 250 percent of the FPL. See IRC § 7526(b)(1)(B)(i). The U.S. Department of Health and Human Services publishes yearly poverty guidelines in the Federal Register each year, which are used to establish the 250 percent FPL thresholds. For the 2015 FPL thresholds, see 80 F.R. 3236 (Jan. 22, 2015).

<sup>39</sup>U.S. Census Bureau, *Current Population Survey, Annual Social and Economic Supplement, Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race, Below 250 percent of Poverty* (2013 and 2007 poverty data, available at <http://www.census.gov/hhes/www/poverty/data/incpovhlth/2013/index.html>).

<sup>40</sup>IRS Compliance Data Warehouse, Individual Returns Transaction File (Tax Year 2013) (computation based on “total positive income” for income and number of exemptions for household size and includes returns filed through Oct. 2014 and based on 250 percent of HHS poverty levels for 2013).

<sup>41</sup>This Random Digit Dialed (RDD) telephone survey utilized both cell phone numbers and landline numbers to reach participants. This approach was used to make sure all groups of the LTC-eligibles were represented in the survey. The survey included more than 1,100 individuals and gathered information on eligible taxpayers’ awareness and use of LTC services, the types of issues for which they would consider using clinic services, and other items including demographic information. See National Taxpayer Advocate 2014 Annual Report to Congress vol. 2, 1–26 (Research Study: *Low Income Taxpayer Clinic Program: A Look at Those Eligible to Seek Help from the Clinics*).

<sup>42</sup>IRC § 6695(a) imposes a penalty on a tax return preparer for failure to provide a copy of the return to the taxpayer, unless the failure is due to reasonable cause and not to willful neglect. IRC § 6695(b) imposes a penalty on a tax return preparer for failure to sign a return when required by regulation to do so, unless the failure is due to reasonable cause and not to willful neglect.

<sup>43</sup>Pew Research Center’s Internet & American Life Project, *Who’s Not Online and Why?* (Sept. 2013) (Phone survey conducted in 2013); see also Pew Research Center, *Older Adults and Technology Use: Adoption is Increasing, but Many Seniors Remain Isolated from Digital Life* (April 2014) (Phone survey conducted in 2013); Pew Research Center’s Internet Project July 18 to September 30 Tracking Survey, *African Americans and Technology Use: A Demographic Portrait* (Jan. 2014).

- Senior citizens (aged 65+): 44 percent offline;
- Adults with less than a high school education: 41 percent offline;
- Adults with high school diploma: 22 percent offline;
- Living in households earning less than \$30,000 per year: 24 percent offline;
- Living in rural areas: 20 percent offline;
- Hispanics: 24 percent offline; and
- African Americans: 20 percent offline (rising to 25 percent offline if household income is less than \$30,000 and to 37 percent for those with no high school diploma).

Finally, a 2014 online survey by Forrester Research found interesting data about the use of certain devices to conduct some transactions online. While this study was conducted online and thus excluded responses from individuals who were offline or had limited online capabilities, there were some noteworthy findings:<sup>44</sup>

- On average, only 19 percent of adults search for government services and policies with a personal computer or laptop. This rate drops to 11 percent when using personal tablets and to 4 percent when using a mobile phone.
- With very few exceptions, the lower income brackets used all the devices to conduct online financial transactions less frequently than the national average.
- On average, 21 percent of adults use their mobile phones to check financial statements. Only 13 percent use their mobile phones to pay bills or transfer money between accounts.

I believe the LITC-eligibles survey and the Pew and Forrester findings support the need for the IRS to design a taxpayer service strategy based on the actual needs of the taxpayer population rather than focusing on short-term resource savings. For example, while online self-help tools address the needs of many taxpayers in a low-cost manner, the IRS is harming those offline taxpayers when it significantly decreases the provision of face-to-face and person-to-person telephone services. In addition, the LITC-eligibles survey findings raise questions about the appropriateness of relying on preparers as intermediaries for the low income population, especially the Spanish-speaking population within this category, and particularly with respect to the unregulated return preparer population.

*The Lack of a Geographic Presence of Key IRS Personnel, Including Appeals Personnel, Limits the Effectiveness of IRS Taxpayer Service and Compliance Initiatives.*

The Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98) required the IRS to replace its geographic-based structure with organizational units serving groups of taxpayers with similar needs.<sup>45</sup> While the new taxpayer-based structure has produced some benefits, the elimination of a functional geographic presence, with IRS employees understanding the needs and circumstances of a specific geographic economy, may harm taxpayers and erode compliance. Maintaining a local presence in both service and enforcement operations is important because such presence enables the IRS to:

- Better understand local economic, social, and cultural conditions and tailor initiatives accordingly to maximize voluntary compliance;
- Identify local variations of nationwide compliance problems;
- Identify and address significant local compliance problems that are unique to a particular region and do not show up nationwide; and
- Put a local, human face on the IRS organization through the presence of employees who live in the communities and interact with taxpayers on a day-to-day basis.

When designing an outreach campaign, the IRS should give significant attention to local culture and how different messages will be received across geographic lines. Instead, IRS localized outreach and education have all but disappeared, and front-line local compliance personnel have been significantly reduced. For example:

- The Small Business/Self-Employed Division (SB/SE), which serves approximately 65 million taxpayers, has no outreach and education employees in 13 States, plus the District of Columbia.<sup>46</sup>

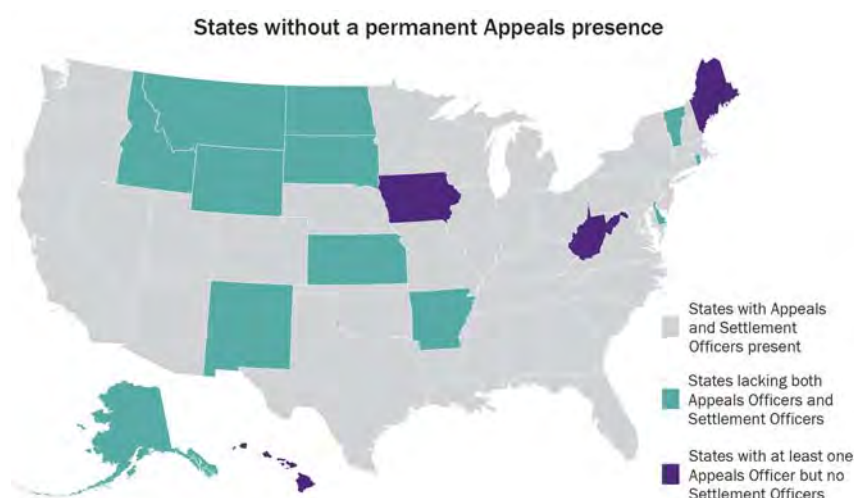
<sup>44</sup> Because this survey was conducted online, the reported usage rates may be higher than for the general population. Forrester, *North American Consumer Technographics Online Benchmark Survey*, Part 2 (2014).

<sup>45</sup> Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98), Public Law No. 105-206, §§ 1001(a)(1)–(3), 112 Stat. 685, 689 (1998).

<sup>46</sup> IRS, Individual Returns Transaction File, IRS Compliance Data Warehouse (Tax Year 2013 returns filed through Oct. 2014); IRS Human Resources Reporting Center, Report of SB/SE Job Series 0526, Stakeholder Liaison Field Employees as of November 1, 2014 (Nov. 19, 2014). The 13 States are Alaska, Delaware, Hawaii, Kentucky, Mississippi, Montana, North Dakota, Nebraska, New Hampshire, South Dakota, Vermont, West Virginia, and Wyoming.



- The W&I Division, which is responsible for helping approximately 126 million individuals understand and comply with their tax obligations, devotes only about 6 percent of its outreach and education budget to activities that involve face-to-face contact with taxpayers.<sup>47</sup>
  - IRS personnel in densely-populated Manhattan have decreased by 34 percent between 2001 and 2014, although filings of Forms 1040, 1120, 1120S, and 1065 increased by almost 14 percent in Manhattan between tax years (TY) 2000 and 2013.<sup>48</sup>
  - In sparsely-populated Wyoming, total tax filings increased by 22 percent between TYs 2001 and 2013, while IRS staffing dropped by more than 50 percent.<sup>49</sup>
- Almost one quarter of the States (12 out of 50) have no permanent presence by the IRS Office of Appeals, and this number of States lacking a permanent field office has increased by 33 percent, from 9 to 12, since 2011.<sup>50</sup>



Not only are States without an Appeals post of duty increasing, but the number of Appeals Officers and Settlement Officers located in existing field offices has diminished. Between the summer of 2010 and the summer of 2014, these Appeals personnel, who also comprise the group capable of traveling to states without a permanent field office (referred to as “riding circuit”), have dropped by approximately 27 percent, from 817 to 593.<sup>51</sup> Unsurprisingly, the overall number of Appeals cases closed via circuit riding likewise has progressively fallen in each of the last 4 years.<sup>52</sup>

Even where geographic coverage eventually is achieved through circuit riding, taxpayers are disadvantaged. Circuit riding Appeals cases often take an additional

<sup>47</sup> See National Taxpayer Advocate 2012 Annual Report to Congress 319–333 (Most Serious Problem: *The IRS Is Substantially Reducing Both the Amount and Scope of Its Direct Education and Outreach to Taxpayers and Does Not Measure the Effectiveness of Its Remaining Outreach Activities, Thereby Risking Increased Noncompliance*). The 6 percent figure was as of fiscal year 2011. Due to recent budget reductions, the percentage now may be lower.

<sup>48</sup> IRS Compliance Data Warehouse, Individual Returns Transaction File and Business Returns Transaction File (Tax Years 2000, 2007, and 2013).

<sup>49</sup> Filing data from IRS Databooks for 2001, 2008, 2013, rounded to the nearest thousand. Filing data for 2014 will not be available until March 2015.

<sup>50</sup> National Taxpayer Advocate 2014 Annual Report to Congress 46; IRS, Human Resources Reporting Center. The following States lack both Appeals Officers and Settlement Officers: Alaska, Arkansas, Delaware, Idaho, Kansas, Montana, North Dakota, New Mexico, Rhode Island, South Dakota, Vermont, and Wyoming. The following States have at least one Appeals Officer but no Settlement Officer (to handle appeals on collection matters): Hawaii, Iowa, Maine, and West Virginia. The territory of Puerto Rico has also lacked a permanent Appeals office during this time.

<sup>51</sup> National Taxpayer Advocate 2014 Annual Report to Congress 49; see user data from on-rolls listing, comparing personnel data from Aug. 23, 2010 with personnel data from Aug. 23, 2014.

<sup>52</sup> *Id.* at 50; Appeals response to TAS information request (Aug. 5, 2014).

6 months or more to resolve and have significantly lower levels of agreement than face-to-face Appeals cases conducted in field offices.<sup>53</sup> Congress desired better for taxpayers, and more from the IRS, when it passed RRA 98 § 3465(b) to require that an Appeals Officer be “regularly available” within each State.<sup>54</sup>

#### *Recommendations*

I recommend that Congress direct the IRS to:

- Re-staff local outreach and education positions to achieve an actual presence in every State, the District of Columbia, and Puerto Rico.
- Provide face-to-face service with mobile vans and satellite offices in each State.
- Expand Appeals duty locations in a way that ensures that at least one Appeals Officer and one Settlement Officer are permanently stationed within every State, the District of Columbia, and Puerto Rico.
- Reinvigorate local compliance initiatives by increasing local staffing and research in outreach and education, Exam, Collection, and Appeals.

#### *The Elimination of Face-to-Face Services Abroad Increases Compliance Challenges for International Taxpayers and Erodes Trust in the Fairness of the U.S. Tax System.*

Despite the growth of the international taxpayer base, the IRS has announced plans to eliminate all IRS tax attaché posts abroad, citing the multi-year decrease in funding.<sup>55</sup> As a result, over 7.5 million U.S. taxpayers living abroad,<sup>56</sup> over 300,000 U.S. military personnel and their families,<sup>57</sup> and hundreds of thousands of students and foreign taxpayers with U.S. tax obligations<sup>58</sup> who benefitted from the Taxpayer Assistance Centers overseas are left with the options of obtaining all their information from IRS.gov pages or calling the IRS telephone number in the United States with only about a 50 percent chance of reaching a live assistant after 30 minutes or more of wait time—and having to pay country-to-country long-distance charges for the call.<sup>59</sup> The elimination of overseas posts could not come at a worse time as taxpayers abroad are facing unique challenges complying with their obligations under the Foreign Account Tax Compliance Act (FATCA),<sup>60</sup> the Foreign Bank and Financial Accounts (FBAR) reporting requirements,<sup>61</sup> and the Affordable Care

<sup>53</sup> National Taxpayer Advocate 2014 Annual Report to Congress 52, Figures 3 and 4.

<sup>54</sup> Public Law No. 105–206, § 3465(b), 112 Stat. 685, 768 (1998).

<sup>55</sup> On November 30, 2014, the IRS closed its Beijing office. Memorandum from Acting Deputy Commissioner, International (LB&I), Beijing Post Closure (Oct. 16, 2014). The IRS has also announced the closure of the remaining attaché offices in U.S. Embassies in London and Paris, and the consulate in Frankfurt. Memorandum from Deputy Commissioner, International (LB&I), Post Closures of Frankfurt, London and Paris (transmitted on Feb. 18, 2015). The IRS has stated the closures will save about \$4 million a year. See David Kocieniewski, *IRS Will Shut Last Overseas Taxpayer-Assistance Centers*, Bloomberg (Jan. 14, 2015).

<sup>56</sup> The Department of State estimates that 7.6 million U.S. citizens live abroad and more than 70 million U.S. citizens travel abroad annually. U.S. Department of State, Bureau of Consular Affairs (May 2014), available at <http://travel.state.gov/content/dam/travel/CA%20Fact%20Sheet%202014.pdf> (last visited on Jan. 19, 2015). The number of U.S. citizens overseas increased by more than 50 percent in just 5 years. National Taxpayer Advocate 2013 Annual Report to Congress 205–213 (Most Serious Problem: *International Taxpayer Service: The IRS is Taking Important Steps to Improve International Taxpayer Service Initiatives, but Sustained Effort will be Required to Maintain Recent Gains*).

<sup>57</sup> U.S. Department of Defense, *Active Duty Military Personnel, Strength by Regional Area and by Country* (Mar. 31, 2011).

<sup>58</sup> National Taxpayer Advocate 2011 Annual Report to Congress 129–272. Since 2011, the National Taxpayer Advocate has recommended establishing international LTA offices at the IRS’s four tax attaché offices abroad. See also National Taxpayer Advocate 2013 Annual Report to Congress 213.

<sup>59</sup> See IRS, *Contact My Local Office Internationally*, available at <http://www.irs.gov/uac/Contact-My-Local-Office-Internationally>. See also National Taxpayer Advocate 2013 Annual Report to Congress 205–213 (Most Serious Problem: *International Taxpayer Service: The IRS Is Taking Important Steps to Improve International Taxpayer Service Initiatives, but Sustained Effort will be Required to Maintain Recent Gains*).

<sup>60</sup> FATCA was enacted as part of the Hiring Incentives to Restore Employment Act, Public Law No. 111–147, §§ 501(a), 511(a), 124 Stat. 71, 97, 109 (2010) (adding Internal Revenue Code (IRC) §§ 1471–1474 & 6038D). See also National Taxpayer Advocate 2013 Annual Report to Congress 238–248 (Most Serious Problem: *Reporting Requirements: The Foreign Account Tax Compliance Act Has the Potential to be Burdensome, Overly Broad, and Detrimental to Taxpayer Rights*).

<sup>61</sup> See 31 U.S.C. §§ 5314, 5321; 31 C.F.R. §§ 1010.350, 1010.306(c); FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), available at [http://www.fincen.gov/forms/bsa\\_forms](http://www.fincen.gov/forms/bsa_forms). See also National Taxpayer Advocate 2014 Annual Report to Congress 79–93 (Most Serious Problem: *Offshore Voluntary Disclosure (OVD): The OVD Programs Initially Undermined the Law and Still Violate Taxpayer Rights*).

Act (ACA).<sup>62</sup> The inability of international taxpayers to access IRS services from abroad contributes to growing confusion and frustration about U.S. tax administration and undermines voluntary compliance.

In addition to keeping the remaining four IRS tax attaché offices open, it would be helpful to establish international Local Taxpayer Advocate (LTA) offices abroad. TAS is statutorily required to assist taxpayers in resolving their problems with the IRS, to identify areas in which taxpayers are experiencing systemic problems with the IRS, and to the extent possible, to propose changes in the administrative practices of the IRS to mitigate the problems identified.<sup>63</sup> TAS is the only IRS function exclusively devoted to resolving taxpayer problems with the IRS.<sup>64</sup> The provision of basic service to taxpayers abroad would promote the taxpayer rights to be informed, to quality service, and to a fair and just tax system, as described in the Taxpayer Bill of Rights (TBOR) adopted by the IRS.<sup>65</sup> Establishing Local Taxpayer Advocate offices abroad would ensure that the IRS's international policies, processes, and procedures protect the rights granted to taxpayers by the TBOR and encourage future compliance by taxpayers dealing with the complexity and procedural burden of the international tax rules.

#### *Recommendations*

I recommend that Congress:

- Require the IRS to retain and provide funding for its four tax attaché offices abroad.
- Provide funding for and require the IRS to establish Local Taxpayer Advocates in each of those cities.

#### **IV. IRS Compliance Initiatives Are Often Based on Outdated or Unproven Assumptions and Can Generate Significant Volumes of Rework for the IRS and Tremendous Burden for Taxpayers.**

There is general agreement that the IRS is supposed to collect the correct amount of tax. This implies that the IRS has a responsibility to ensure that taxpayers do not pay *more* taxes than they owe. Further, there is general recognition that the IRS must weigh the burden it imposes on taxpayers against its mission to collect the taxes owed. Few believe, for example, that it would be acceptable for the IRS to conduct extensive audits of every taxpayer every year. Besides being far too intrusive, such an approach would place an unreasonable financial burden on the vast majority of honest taxpayers.

The U.S. tax system is based on self-assessment, but the tax laws are complicated and become more so each year. Computing the correct amount of tax poses a daunting challenge for many taxpayers, and they frequently require assistance, which some can readily afford but millions cannot. For these taxpayers, paying for tax assistance creates a significant financial burden.

Millions of low and middle income taxpayers are “touched” annually by IRS programs that propose additional assessments, such as correspondence audits and our math error and automated underreporter (AUR) programs. Other programs hold refunds that IRS filters have identified as questionable or potentially fraudulent. These proposed additional assessments and refund holds are not always correct, but taxpayers frequently need help understanding IRS notices and other communications in order to challenge IRS positions.

In some programs, the IRS fails to use data available internally to resolve return discrepancies without contacting the taxpayer, and it thereby burdens hundreds of thousands of taxpayers a year unnecessarily. In other programs, the IRS's reliance on outdated data, processes, or assumptions, and its failure to evaluate the results of its programs from the perspective of taxpayers as well as dollars collected, leads to significant delays, increased phone calls and correspondence, and ineffective compliance policies.

<sup>62</sup>The Patient Protection and Affordable Care Act of 2010 (ACA), Public Law No. 111–148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Public Law No. 111–152, 124 Stat. 1029 (2010).

<sup>63</sup>IRC § 7803(c)(2)(A)(i)–(iii).

<sup>64</sup>See generally IRC §§ 7803; 7811. See also IRS Pub. 1, *Your Rights as a Taxpayer*. The law requires that there be at least one LTA for each State. See IRC § 7803(c)(2)(D)(i)(I). International taxpayers cannot access TAS or IRS personnel toll-free from abroad.

<sup>65</sup>IRS, *Taxpayer Bill of Rights*, at <http://www.irs.gov/Taxpayer-Bill-of-Rights>.

In this section, I provide examples of programs in which I believe the IRS can utilize its resources more effectively and efficiently. These examples include: (1) math error processes; (2) identity theft; (3) the automated substitute for return program; (4) early intervention in collection cases; and (5) audit selection.

*IRS Math Error Processes Create Significant IRS Rework and Unnecessary Taxpayer Burden.*

In my 2011 Annual Report to Congress, TAS reported on a research study that reviewed IRS accuracy with respect to math error adjustments related to dependents claimed on Forms 1040. For tax year 2009, nearly 300,000 returns contained errors with dependent taxpayer identification numbers (TINs). During math error processing, the IRS disallowed over \$200 million of credits claimed on these returns, but it subsequently reversed at least part of its dependent TIN math errors on 55 percent of them. Ultimately, about 150,000 taxpayers had their refunds restored. On average, the IRS allowed nearly \$2,000 per return after the initial disallowance, with a delay of nearly 3 months.<sup>66</sup> Furthermore, analysis of a sample of taxpayers who did not contest these assessments showed that about 40,000 taxpayers were denied refunds they were probably entitled to receive.<sup>67</sup>

In this example, the IRS not only imposed significant burden and caused anxiety for these taxpayers, but it created significant rework for itself. TAS research identified about 55 percent of the abated math errors that could have been resolved if the IRS had used internally available data.<sup>68</sup> Thus, a modest investment of time to research IRS databases prior to issuing math error assessments would have eliminated the need to send out about 28 percent of the math error notices, the related phone calls and correspondence from taxpayers, and the employee time spent abating the assessments and processing later refunds.

*Recommendation*

I recommend that Congress:

—Ensure the IRS reviews its math error processes to identify opportunities to resolve apparent discrepancies with internally and externally available data before issuing math error notices to taxpayers.

*Despite Improvement, IRS Identity Theft Processes Continue to Burden Victims and Drive Multiple Contacts and Incomplete Case Resolution.*

In my 2014 Annual Report to Congress, I included the results of a case review conducted by the Taxpayer Advocate Service that analyzed a statistically significant sample of identity theft (IDT) cases closed by the IRS. The results from this review not only confirmed my suspicion that IDT cases are complex—requiring the victim to interact with multiple IRS assistors—but also revealed glaring inefficiencies in current IRS procedures. For example:

—Overall, about two-thirds (67 percent) of all IDT cases reviewed in our sample were either (1) worked in more than one function or (2) reassigned to another assistor within a function.<sup>69</sup>

—When a case is transferred or reassigned, it delays resolution and adds to the frustration experienced by the victim. We found that 42 percent of the cases analyzed in our sample had periods of inactivity (*i.e.*, times when no work was performed on the case for more than 30 days).

—For those cases with periods of inactivity, the average period of inactivity was 78 days.

For complex IDT cases that require the victim to deal with multiple IRS functions, I have recommended that the IRS designate a sole contact person with whom the victim can interact for the duration of the case. I believe that this approach not only will put the victim more at ease, but it will also reduce instances where IDT cases fall through the cracks, require more work, and add to cycle time.

Another finding from this IDT case review was that the IRS's global account review procedures are ineffective. Before an IDT case is closed, the IRS completes an

<sup>66</sup>The total restored to taxpayers was about \$292 million. This amount exceeds the amount of credits that were initially disallowed, because it includes both restored credits and related tax reductions (*e.g.*, taxpayers received the benefit of exemptions that were initially disallowed when the credits were disallowed). See National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 116–20 (*Math Errors Committed on Individual Tax Returns—A Review of Math Errors Issued on Claimed Dependents*).

<sup>67</sup>*Id.*

<sup>68</sup>*Id.* at 119.

<sup>69</sup>For a detailed discussion of this study, see National Taxpayer Advocate 2014 Annual Report to Congress vol. 2, at 43 (*Identity Theft Case Report: A Statistical Analysis of Identity Theft Cases Closed in June 2014*).

account review to ensure that all related issues have been fully addressed. *Yet in 22 percent of the cases in our sample, the IRS had closed an IDT case without taking the appropriate steps to fully resolve the victim's account.* In these closed IDT cases, there remained unaddressed account issues—for example, a victim had not yet received a refund or the IRS failed to update the victim's address to receive an Identity Protection personal identification number. Projecting this error rate to the population of nearly 270,000 identity theft returns of this type closed in fiscal year 2014 suggests that almost 60,000 taxpayers would face additional burden because the IRS prematurely closed their cases. Clearly, the global account review process is not working as it should, which leads to rework when the taxpayer contacts the IRS again to address the lingering IDT-related issues.

#### *Recommendations*

I recommend that Congress:

- Require the IRS to conduct comprehensive global account reviews upon receipt of an IDT case to determine whether the case involves multiple issues or years.
- Assign IDT victims with multiple issues to a sole IRS contact person who will interact with them throughout the pendency of the case and oversee its resolution, regardless of how many different IRS functions need to be involved behind the scenes.
- Conduct a comprehensive global account review prior to closing an IDT case to ensure all issues and years relating to IDT have been fully resolved.

#### *The Automated Substitute For Return (ASFR) Program Artificially Inflates Accounts Receivables, Produces Questionable Business Results, and Needlessly Increases the Demand on IRS Collection Resources, While Creating Unnecessary Burden on Taxpayers.*

The Automated Substitute for Return (ASFR) program is the key program used by the IRS to address the “non-filer” population—those taxpayers who have not filed tax returns but appear to have incurred a tax liability. The ASFR program matches third-party information returns and other data, including Forms W-2 and Forms 1099 for Miscellaneous, Brokerage, Interest, Dividend, and Cancellation of Debt income, to determine whether a taxpayer who has not filed a return has a filing requirement based on the income reported. Because the ASFR program generally treats the taxpayers as single (or married filing separately where there is evidence the taxpayer is married) with no dependents, and only allows a standard deduction (even where there is a larger mortgage interest statement on file with the IRS), these “substitutes for returns” almost always overstate the person's tax liability. The rationale is that when the taxpayer sees the liability proposed by the IRS, the taxpayer will file a correct return.

The IRS always has more information on taxpayers than it has resources to handle, so it is very important that the IRS utilize that information in a way that drives compliance and does not generate unnecessary work for itself and taxpayers. Unfortunately, just the opposite is happening in the ASFR program.

In practice, as I discussed in my 2011 and 2012 Annual Reports to Congress, most taxpayers do not respond to proposed ASFR assessments with voluntarily filed returns, nor are these assessments paid early in the collection notice process.<sup>70</sup> Consequently, most become delinquent collection accounts. In fiscal year 2014, the IRS collected (through both refund offsets and enforcement actions) approximately \$934 million in delinquent ASFR assessments. However, the IRS abated more than \$2 billion of these assessments, and it reported another \$5.3 billion as Currently Not Collectible (CNC).<sup>71</sup> That is, in fiscal year 2014, the IRS abated or CNC'd almost eight times the amount of ASFR dollars it actually collected.

Each time a taxpayer calls the IRS to request an abatement or be put into CNC status, an employee has to work the case. (Sometimes more than one employee must get involved, because TAS receives its fair share of these cases.) Someone has to open the taxpayer's correspondence and read the letter objecting to the assessment. Someone then must make the necessary adjustments to the taxpayer's account. I believe it would be a far more efficient use of resources to better identify the correct ASFR cases up front. Similarly, I believe that by placing more emphasis on personal

<sup>70</sup>For more detailed discussions of the National Taxpayer Advocate's concerns and recommendations regarding the ASFR program, see National Taxpayer Advocate 2011 Annual Report to Congress 93–108 (Most Serious Problem: *Automated “Enforcement Assessments” Gone Wild: IRS Efforts to Address the Non-Filer Population Have Produced Questionable Business Results for the IRS, While Creating Serious Burden for Many Taxpayers*); National Taxpayer Advocate 2012 Annual Report to Congress 456–461 (Status Update: *The IRS's Reliance on Automated “Enforcement Assessments” Has Declined Significantly, but Concerns Remain*).

<sup>71</sup>IRS, Collection Activity Report, NO-5000-242, *Type Assessment Report* (Sept. 2014).

contacts during the proposed assessment process, the IRS would significantly reduce the “downstream” costs it currently incurs to adjust these accounts.

ASFR is an example of a program I would immediately halt in its present form.<sup>72</sup> Although the IRS has substantially scaled back the number of new ASFR assessments since I first reported on it in 2011, recent business results do not indicate that the reduced volumes of ASFR assessments have been the result of productive program changes (*i.e.*, in fiscal year 2014, 58 percent of the closed ASFR accounts were reported as CNC and more than \$2 billion was abated).<sup>73</sup> I am concerned that the reduction in ASFR assessments has been driven primarily by a lack of resources and reflects a trend that would be reversed in the future if more resources become available. That would be an unfortunate development, because even at current activity levels, further investments in the ASFR program would not appear to be a prudent use of resources. For the rest of the fiscal year, I would only use ASFR authority for those returns where there is an extremely high level of unreported income. I would simultaneously assign five or six employees (including IRS Research staff and a TAS representative) to examine the case selection rules and samples of past inventory to determine how better to screen cases for true nonfiling and design an assessment process that will result in more collected revenue and fewer abatements.

There is no doubt the IRS must devote resources to combat non-filing, and it may turn out that aspects of the ASFR program are effective. But the high rate of abatements and the large percentage of cases placed into CNC status indicate there are significant opportunities to achieve efficiencies and a higher return-on-investment if the IRS can refine its case-selection criteria to weed out the unproductive cases.

#### *Recommendation*

I recommend that Congress:

- Encourage the IRS to use this fiscal year to take a pause, scrutinize some programs, and improve them from the perspective of IRS rework, taxpayer burden, and promoting voluntary taxpayer compliance.

#### *The Taxpayer Delinquent Account Collectibility Curve Can Provide a Roadmap for How to Prioritize the Collection of Tax Debts.*

A Taxpayer Delinquency Account (TDA) is a case assigned to or awaiting assignment to Collection personnel. In past Annual Reports to Congress, I have noted that many of the TDAs in the IRS Automated Collection Branch and the Collection Field function are delinquencies that have existed for several years. The following statistics highlight the age of the IRS TDA inventory:<sup>74</sup>

- Overall, 53 percent of the IRS Individual Master File (IMF) TDA inventory has been in the IRS function assigned to handle the delinquency for at least 10 months (the delinquency may have been in TDA status much longer).
- More than 70 percent of the IMF TDAs in IRS inventory at the end of 2014 are Tax Year 2010 and prior liabilities (*i.e.*, they are at least 4 years old).
- More than 20 percent of the TDAs have less than 4 years remaining on the collection statute, meaning that the delinquency has existed for more than 6 years.

TAS Research examined the Individual Master File (IMF) Accounts Receivable Dollar Inventory (ARDI) to determine how dollars collected fluctuate as time elapses. We looked at delinquencies that originated in each of 6 years (2005 to 2010) and analyzed those delinquencies for the next 3 years. This analysis showed the following:

- Dollars collected decrease by over 50 percent from the first year to the second year and an additional 30 percent from the second year to the third year. In other words, collections are over twice as much during the first year as in the following year and over three times the collections in the third year.
- Even within that first year, collections decreased by about one-third after every three-month period elapsed.
- Not only do raw collections decrease, but the percent of the balance due collected declines as time progresses, with only about 8 percent collected in the third year.
- Meanwhile, although the balance of tax due continues to decrease slightly, the amount of assessed and accrued penalties and interest continue to rise.

<sup>72</sup>Placing a temporary pause on this program will not impair the Government’s ability to assess tax against these taxpayers in the future, because there is no time limit for assessing tax where a return has not been filed.

<sup>73</sup>IRS, Collection Activity Report, NO-5000-242, *Type Assessment Report* (Sept. 2014).

<sup>74</sup>IRS Collection Activity Report 5000-2 (Oct. 3, 2014).

Budgetary constraints will make the efficient collection of delinquencies paramount. The IRS should use data on the practical delinquency collection “window” to form the basis for its Collection policies. Good information on the time available to effectively collect various delinquencies will assist the IRS in determining what liabilities should be collected first and whether it makes sense to focus on collection of smaller, more current liabilities rather than older, larger liabilities. Furthermore, this research may provide significant insights into which delinquencies are placed in the Collection TDA queue and which delinquencies are shelved. Finally, the collection curve can help demonstrate which delinquencies are able to be resolved early through collection alternatives rather than being left to fester until they become essentially unresolvable.

#### *Recommendation*

I recommend that Congress:

- Direct the IRS to revise its collection strategy to acknowledge and address the findings of the collectability curve data. Specifically, the IRS should (1) provide timely, effective interventions for emerging collection problems; (2) place more emphasis on case resolutions during the initial contacts with taxpayers; and (3) offer reasonable payment alternatives, such as installment agreements and offers in compromise, much earlier in the collection process.

#### *Incorporating an Understanding of Taxpayer Behavior into IRS Audit Selection Will Increase the Effectiveness of Audits.*

In addition to rebuilding trust through taxpayer service, the IRS can foster trust through its audit selection techniques if the IRS:

- Engages in social science and behavior research to better understand taxpayer behavior and the causes of tax noncompliance; and
- Designs compliance initiatives, including audit selection, in light of its research findings.

The IRS recognizes the importance of a more holistic approach to compliance, but it has not carried out the necessary research.<sup>75</sup> It continues to base compliance initiatives primarily, if not exclusively, on tax data such as returns and third-party information reports. Proceeding on the basis of social science research findings would instead allow the IRS to adopt the least intrusive enforcement measure necessary in light of known taxpayer behaviors and motivators, thereby protecting taxpayers’ right to privacy. It would also allow the IRS to take into account taxpayers’ facts and circumstances, thereby protecting their right to a fair and just tax system. Demonstrating that the IRS selects returns for audit in the light of relevant research and in ways that enhance taxpayer rights would help rebuild trust in the IRS.

Other tax authorities, such as the United Kingdom (UK), have made more progress in incorporating research into audit selection processes. In 2012, for example, the UK tax authority’s external research program examined why small and medium-sized businesses enter and operate in the hidden economy, identified six hidden economy “typologies,” and provided insights about how to reach each group and advice on what messages to avoid for each group.<sup>76</sup> The UK also seeks to prevent tax noncompliance in ways that involve the tax authority only indirectly, for example by working with private industry regulators to make tax compliance a condition of retaining an operating license.<sup>77</sup>

#### *Recommendations*

I recommend that Congress direct the IRS to:

<sup>75</sup>As the IRS fiscal year 2015 Budget Request notes: “Social science research reveals that the traditional deterrence theory, fear of detection and/or punishment, contributes a portion to actual compliance rates. Recent studies indicate that social norms, personal values, and attitudes may have a large impact on compliance decisions. Market segmentation approaches—behavioral, psychographic, and attitudinal, are widely used in commercial marketing to develop, design, and position products and services towards the right customer base. The knowledge gained from both social science and marketing research can assist the IRS with appropriate identification and alignment to the proper taxpayer.” Internal Revenue Service Fiscal Year 2015 Budget Request, Congressional Budget Submission 187, available at <http://www.treasury.gov/about/budget-performance/CJ15/10.%20-%2015.%20IRS%20CJ.pdf>.

<sup>76</sup>HM Revenue & Customs, Business Customer & Strategy, Behavioural Evidence & Insight Team, *Understanding key problems for SMEs: Hidden Economy Levers, Ghosts and Moonlighters: Identifying effective levers to reduce entrants into, and encourage SMEs out of the Hidden Economy* (May 2012), available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/344827/report208.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/344827/report208.pdf).

<sup>77</sup>See Security Industry Authority (SIA), Approval Conditions, available at <http://www.sia.homeoffice.gov.uk/Pages/business-conditions.aspx>.

- Incorporate applied and behavioral research into all of its compliance initiatives.
- Fund or activate compliance initiatives only pursuant to an overall strategy that establishes how the IRS will use education, outreach, partners, assistance, non-invasive compliance touches, and enforcement touches to increase compliance and how it will test the initiative, measure its success, and adjust to continuing research findings and trends.

## V. The IRS Is Undertaking a Review of Its Approach to Tax Compliance and Service Delivery, But Greater Transparency and Congressional Oversight Would Improve Taxpayers' Confidence and Trust in the Tax System.

The best way for Congress to hold the IRS accountable for how it allocates resources and makes decisions is through active, consistent oversight of the agency. After Congress passed the IRS Restructuring and Reform Act of 1998, it held annual joint hearings to review, among other things, the IRS's progress in meeting its objectives and improving taxpayer service and compliance.<sup>78</sup> Each hearing was conducted jointly by majority and minority members of the House Committees on Ways and Means, Appropriations, and Government Reform and Oversight and the Senate Committees on Finance, Appropriations, and Governmental Affairs. However, the hearings were discontinued because the legislation only required them to be held for 5 years.

I believe it would be helpful for Congress to resume these joint oversight hearings—not just on the issue *du jour*, but on the routine work the IRS does. Focusing on current tax administration challenges, these hearings could address issues such as how the IRS is making decisions related to taxpayer service, whether the IRS is effectively using existing resources to collect past due liabilities, whether the IRS's administration of penalties promotes voluntary compliance, and whether IRS employees have appropriate training to deal with diverse taxpayer populations. The hearings would provide a useful vehicle for multiple committees of Congress to review the IRS's progress, examine whether the IRS is meeting the needs of particular taxpayer segments and protecting taxpayer rights, gain a better understanding of potential problem areas, and help the IRS by passing legislation or providing additional funding where the IRS can demonstrate sufficient need.

The IRS is currently developing its Concept of Operations (CONOPS) for the type of tax administration it wants to transform itself into over the next few years. Thus, now is the appropriate time for Congress to conduct oversight to ensure that the IRS is creating a plan that not only works for itself, but also for taxpayers—the full diversity of our taxpayer base. Conducted in a respectful way, in full recognition of the important service the IRS provides to this Nation and the serious challenges its employees face every day in fulfilling the IRS mission, the hearings can help restore trust and foster a shared sense of purpose between the IRS and Congress, and thus enhance the confidence of taxpayers as well.

### *Recommendation*

I recommend that Congress:

- Reinstate joint oversight hearings to review the IRS's progress in meeting its objectives and improving taxpayer service, enforcing the tax laws, and promoting voluntary compliance.

## VI. The IRS Requires Funding to Acquire Modern IT Systems, Particularly Case Management Systems, in Order to Meet Taxpayer Needs and Improve Productivity.

I have outlined in the preceding sections several areas in which I believe the IRS can achieve greater effectiveness and productivity by analyzing its current processes and reassessing its preconceived notions about what influences compliance behavior. While these improvements mostly require an investment of time and creativity, in other areas of tax administration there must also be an investment of funding to

<sup>78</sup> See Public Law No. 105–206, § 4001, 112 Stat. 685, 783 (1998). The statute refers to a “joint review [to] be held at the call of the Chairman of the Joint Committee.” The legislative history, however, makes clear that there was to be “one annual joint hearing” before June 1 of each of the succeeding five calendar years. H.R. Rep. No. 105–599, at 328 (1998) (Conf. Rep.).



permit real improvements and productivity gains. The need for this type of investment is most pressing in the area of information technology and, in particular, for case management systems.

I use the term “case management” in a comprehensive sense to refer to electronic recordkeeping systems the IRS uses to keep track of information about interactions with respect to taxpayers’ tax returns or other tax-related matters. These systems include case records for audits and collection matters for individuals and large, medium-size, and small businesses, exempt organization determinations, whistleblower claims, automated substitute for returns (discussed above), the automated under-reporter (AUR) program, criminal investigations, and the Taxpayer Advocate Service.

Today, the IRS has approximately 80 case management systems. Few of these systems talk with one another. None provide a virtual substitute for the paper case file (*i.e.*, there are reams of paper supplementing whatever records are included in the electronic system). The IRS’s current case management system structure requires employees to retrieve data from many systems manually, maintain both paper and electronic records, transcribe or otherwise import information from paper and other systems into their own case management systems, and ship, mail, or fax hundreds of thousands, if not millions, of documents annually for management approval or quality review.

Within my own organization, the wastefulness of these processes is apparent in how TAS employees must conduct and record their work. Taxpayers who come to TAS for assistance all have a “significant hardship” as a result of the way the Internal Revenue laws are being administered. That is, their cases are among the most urgent in the IRS. TAS employees must access many of the specialized IRS case management systems to do their jobs, including the Automated Lien System, Account Management Services, Automated Offer in Compromise, Correspondence Exam Automation Services, Correspondence Imaging Services, Employee User Portal, Integrated Automation Technologies, Integrated Collection System, Online Retrieval System, Return Request Display, Remittance Transaction Research, and Treasury Check Information System.

None of this access is automated. That is, the employee must log in to the specific system each time he or she needs access to files. In some instances, because the IRS does not have enough licenses for a particular system, the TAS employee must request system information from a designated TAS liaison who has access to that system, thus involving two people in the simple act of obtaining taxpayer information. In other instances, TAS does not have access to a system, and the TAS employee must send a request (known as an “Operations Assistance Request” or OAR) to the related IRS function to retrieve and send us the information. All of these actions involve significant manual and clerical work, cause time delays in case resolution that can harm taxpayers, and waste valuable employee time (which is TAS’s and the IRS’s greatest resource).

It is this state of affairs that led TAS leadership several years ago to design a replacement for our current case management system, the Taxpayer Advocate Management Information System, or TAMIS. TAMIS is a version of the original case management system created in the 1980’s for TAS’s predecessor, the Problem Resolution Program. Thus, TAS decided to develop a system that would integrate into a single environment all of the systems TAS employees use on a regular basis. This new system is called the Taxpayer Advocate Service Integrated System, or TASIS. One of the principal components of TASIS is a new case management system, which will replace TAMIS. The Senate Appropriations Committee has included TASIS on its list of six “major information technology project activities” about which it directed the IRS to submit quarterly status reports.<sup>79</sup>

We designed TASIS from the ground up. With respect to the case management aspect of TASIS, we asked our case advocates, intake advocates, and their managers what drove them crazy about the current system, and what tools and capabilities they would like to have in a new system. We asked them to think about all the manual tasks they have to perform in a day that waste their time. Based on those submissions, and my own “wish list” of items, we developed over 4,000 business requirements for our new case management system. These requirements formed the basis of TASIS Release 1 and 2. Here are some of the things the new case management system will include:

<sup>79</sup> See S. Rep. No. 113–80, at 34 (2013) (committee report relating to IRS fiscal year 2014 appropriation). The draft committee report relating to the IRS fiscal year 2015 appropriation also contained this provision, but the full committee did not vote on the fiscal year 2015 funding bill so the draft report was not adopted.

- Fully virtual case files, in which all documentation (whether IRS or taxpayer-generated) will be scanned or received digitally into an electronic case file.
- Electronic access to almost all other IRS case-management systems so that automatic retrieval of taxpayer information is programmed into the system and TAS employees will no longer have to obtain and import the information manually.
- Electronic submission and tracking of OARs (including receipt, acknowledgment, assignment, and response), whereby TAS sends requests, with supporting documentation, to IRS functions to take actions on cases, thereby eliminating delays and time-wasting manual tracking.
- Full access to all virtual case information for purposes of management and quality review, eliminating the delay and cost associated with transporting files.
- Taxpayer ability to submit Form 911, *Request for Taxpayer Advocate Service Assistance*, electronically.
- Taxpayer ability to submit documentation electronically.
- TAS and taxpayer ability to communicate digitally, through email and text messages, including both substantive case information and reminder notices that help move the case along timely.
- Taxpayer (and representative) ability to electronically check the status of a case in TAS and what actions have been taken or are underway.
- An electronic case assignment system that matches, in real time, the complexity and direct time associated with the case with the skills and available direct time associated with each case advocate in any given office, taking into account an employee's unavailability because of annual leave, sick leave, administrative leave for training, or on-the-job instruction. This approach eliminates delays in case assignment and minimizes the need to transfer cases.

As this short list of functions demonstrates, TESIS will significantly increase the productivity of TAS case advocates because they will no longer spend their valuable time tracking down paper documents and inputting information on multiple systems. Moreover, taxpayers will be able to communicate more quickly with us and electronically (and quickly) send us information and documents that are key to their cases. This functionality will enable our case advocates to spend their time advocating for taxpayers, rather than performing manual input and tracking of documents and IRS actions.

Because TAS has a working knowledge of almost all the other IRS case management systems, we designed our new system to serve as the basic unit upon which other IRS divisions could add modules and functionality to meet their specific needs. Thus, the time, planning, development, and programming that TAS and IRS Information Technology (IT) have invested in TESIS will benefit all of the IRS.

Unfortunately, because of the demands on the IRS IT function, all IT activity on TESIS has come to a halt.<sup>80</sup> To date, about \$20 million has been invested in TESIS Release 1, and about two-thirds of the programming is complete. We are ready to begin the final programming as soon as funds are available. It is estimated that \$12 million will be needed to complete Release 1 programming, testing, and launch, with another \$4 million for operation and maintenance. At this time, despite the demonstrated savings of TESIS and its benefits for all of the IRS, no funds are allocated to TESIS.<sup>81</sup>

I believe that the design and implementation of TESIS is critical not only for TAS but to the IRS's ability to move forward and begin to harness the savings and burden reduction that a sophisticated case management system promises. For that to happen, the IRS requires sufficient IT funding to invest in new systems that have great promise. TESIS is one such program.

## VII. Conclusion

The Federal Government is currently failing badly to meet the service needs of its taxpayers. To address this problem, the IRS will need more resources to answer

<sup>80</sup>The case management component of TESIS was originally scheduled to "go live" in December 2014. However, on March 1, 2014, the IRS placed a moratorium on all programming (with limited exceptions) not impacting the 2015 filing season or implementation of the Affordable Care Act and FATCA.

<sup>81</sup>In the meantime, TAMIS, the legacy TAS case management system, is woefully inadequate for the work TAS does. Because there is no resumption or completion date for TESIS Release 1, TAS staff is exploring what can be done to shore up TAMIS in order to meet our 21st century business needs. But this is throwing good money and time after bad, since TAMIS will be unsupported and obsolete in a few years.

taxpayer telephone calls, process and respond to taxpayer correspondence, and assist taxpayers who seek assistance in its walk-in sites. The IRS can also take steps to improve its resource-allocation decisions and achieve greater efficiencies.

To be blunt, several incidents over the last few years have reduced the confidence of many Members of Congress in the leadership of the IRS. The IRS has undergone several leadership changes since that time, and I believe it is critical that Congress and the IRS now work together to find a better way forward. The IRS must take steps to rebuild congressional trust and Congress must respond by providing the IRS with the funding it needs to do its important work of helping taxpayers meet their tax obligations and collecting the revenue on which the rest of Government depends. In this testimony, I have tried to offer some recommendations to help in this regard.

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PREPARED STATEMENT OF THE GOVERNMENT ACCOUNTABILITY OFFICE

FEBRUARY 27, 2015.

Hon. ORRIN HATCH, *Chairman*,  
Hon. RON WYDEN, *Ranking Member*,  
*Committee on Finance, U.S. Senate, Washington, DC.*

Hon. JOHN BOOZMAN, *Chairman*,  
Hon. CHRISTOPHER A. COONS, *Ranking Member*,  
*Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate, Washington, DC.*

Hon. CHARLES W. BOUSTANY, JR. *Chairman*,  
*Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives, Washington, DC.*

Hon. PETER ROSKAM, *Chairman*,  
Hon. JOHN LEWIS, *Ranking Member*,  
*Subcommittee on Oversight, Committee on Ways and Means, House of Representatives, Washington, DC.*

INTERNAL REVENUE SERVICE: OBSERVATIONS ON IRS'S OPERATIONS, PLANNING, AND RESOURCES

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

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

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

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

In summary, we found the following:

- IRS’s fiscal year 2015 appropriation (\$10.9 billion) and staffing levels (81,279 full-time equivalents, or FTE) continue a decline that has occurred over several years and are now below fiscal year 2009 levels. Since fiscal year 2010, IRS’s annual appropriation has declined by \$1.2 billion, and staffing has fallen by about 11,000 FTEs since fiscal year 2009, while the agency’s workload has increased for reasons such as a surge in identity theft-related refund fraud and the implementation of key provisions of the Patient Protection and Affordable Care Act (PPACA). In response to budget cuts, IRS has taken steps to reduce staffing costs including extending a hiring freeze and limiting seasonal employment. According to the Commissioner of Internal Revenue, IRS may also furlough employees for 2 days later in the fiscal year. IRS is concerned about filing season performance, and anticipates it may face some challenges processing returns that claim the Premium Tax Credit—an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace. As a result, IRS expects that some refunds may be delayed. IRS also projects significant declines in telephone level of service—only 38 percent of taxpayers who seek help from a live assistor will receive it and wait times will average almost 1 hour. IRS cites resource constraints and increased call volume as primary factors contributing to the decline in telephone performance.
- IRS’s fiscal year 2016 budget request is \$12.9 billion. This amount is almost \$2 billion (18 percent) more than IRS’s fiscal year 2015 appropriation, and \$667 million above the discretionary spending cap. About half of the requested increase is for operations support. The largest requested FTE increase is about 4,000 FTEs for enforcement. The budget request includes \$490 million and 2,539 FTEs to implement PPACA.
- Additional funding is not the only solution to performance declines across IRS. Although resources are constrained, IRS has some flexibility in how it allocates resources to ensure that limited resources are utilized as effectively as possible. This environment of constrained resources also highlights the importance of strategically managing operations to make tough choices about which services to continue providing and which services to cut. IRS has begun to plan more strategically. For example, in 2014 the agency established the Planning, Programming and Audit Oversight office to improve coordination of resource decisionmaking and long-term strategic planning. This was, in part, a response to our June 2014 recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. Further, IRS is developing a 6-year initiative to better understand how taxpayers want to interact with the agency. The initiative’s overall goal is to provide taxpayers with secure self-service options and to improve taxpayer service. We have previously recommended additional actions IRS could take to improve operations, plan more strategically, and improve revenue collection. These recommendations included that IRS develop a long-term strategy to improve Web services provided to taxpayers. As of February 2015, IRS officials reported that the agency does not have a separate online services strategy. Rather, this strategy is a key component of IRS’s Service on Demand strategy, which aims to deliver service improvements across different taxpayer interactions such as individual account assistance, refunds, identity theft, and billings and payments.

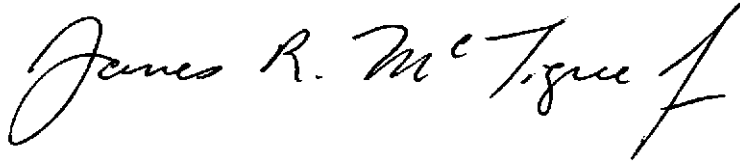
#### AGENCY COMMENTS

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

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

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov). Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report were Joanna Stamatides, Assistant Director; Libby Mixon, Assistant Director; Theodore Alexander; Jeff Arkin; Amy Bowser; James Cook; John Dicken; Mary Evans; Shannon Finnegan; Charles Fox; Robert Gebhart; Melissa King; Kirsten Lauber; Paul Middleton; Susan E. Mur-

phy; Edward Nannenhorn; Sherice Nelson; Sabine Paul; Ellen Rominger; Mark Ryan; Erinn L. Sauer; Cynthia Saunders; Erin Saunders Rath; and James White.



JAMES R. MCTIGUE, JR.  
Director, Tax Issues  
Strategic Issues

Enclosure—1

#### ENCLOSURE: BRIEFING SLIDES

#### INTERNAL REVENUE SERVICE: OBSERVATIONS ON IRS'S OPERATIONS, PLANNING, AND RESOURCES

Prepared for Congressional Requesters  
February 2015

#### OBJECTIVES

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

- trends in IRS's budget and operations, focusing on fiscal years 2009 to 2015, including the 2015 filing season to date;
- key aspects of the President's fiscal year 2016 budget request for IRS; and
- IRS's actions to strategically manage operations.

#### SCOPE AND METHODOLOGY

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

#### RESULTS IN BRIEF

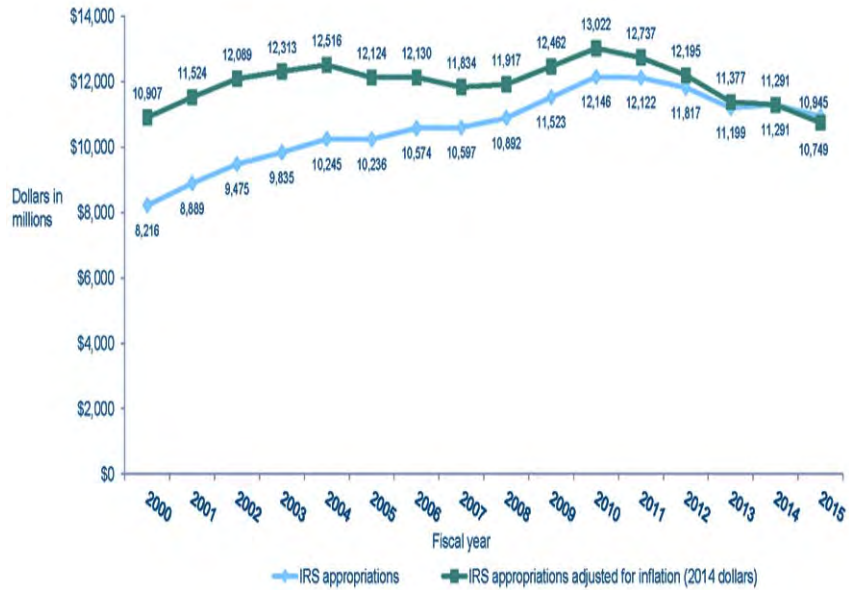
- IRS's fiscal year 2015 appropriation (\$10.9 billion) and staffing levels (81,279 full-time equivalents) continue a decline that has occurred over recent years and are now below fiscal year 2009 levels.
- This filing season, IRS expects to face some challenges processing returns that include the Premium Tax Credit (PTC) claim under the Patient Protection and Affordable Care Act (PPACA); this could cause delays in some refunds. IRS projects its telephone level of service (LOS) performance (the percentage of callers seeking live assistance and receiving it) will be about 38 percent and wait times will average about an hour. Finally, identity theft-related refund fraud remains an ongoing challenge.
- For fiscal year 2016, IRS requested \$12.9 billion in appropriations, an increase of about \$2 billion over fiscal year 2015. This level of funding would support staffing of about 91,000 full-time equivalents (FTEs), an increase of about 11 percent.

—IRS has begun to plan more strategically. For example, in 2014 IRS established the Planning, Programming and Audit Oversight (PPAO) office to better coordinate strategic long-term planning. This was, in part, a response to our prior recommendation that IRS develop a long-term strategy to address operations amidst an uncertain budget environment. IRS is also developing a 6-year strategy to better meet taxpayers' needs and preferences for interacting with the IRS. The strategy's overall goal is to provide secure self-service options for taxpayers and to improve taxpayer service.

OBJECTIVE 1

FUNDING TRENDS: IRS'S FISCAL YEAR 2015 APPROPRIATIONS ARE NEAR THE FISCAL YEAR 2000 LEVEL AFTER ADJUSTING FOR INFLATION

Figure 1: IRS Appropriations Nominal and Inflation Adjusted (2014 Dollars), From Fiscal Year 2000 Through Fiscal Year 2015



Source: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service congressional justifications for fiscal years 2005 through 2014, and Consolidated and Further Continuing Appropriations Act, 2015, Public Law No. 113-235 (Dec. 16, 2014). | GAO-15-420R

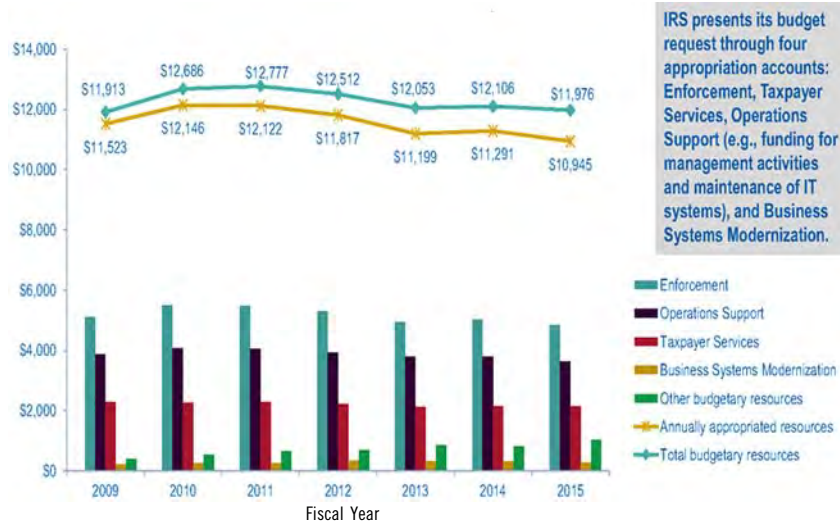
Note: Inflation adjustments were made using Bureau of Economic Analysis data and CBO projections of the fiscal year chain weighted GDP price index.

OBJECTIVE 1

FUNDING TRENDS: IRS'S TOTAL FUNDING DECLINED TO FISCAL YEAR 2009 LEVEL

Figure 2: IRS Funding, Fiscal Years 2009 Through 2015

[Dollars in Millions]



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

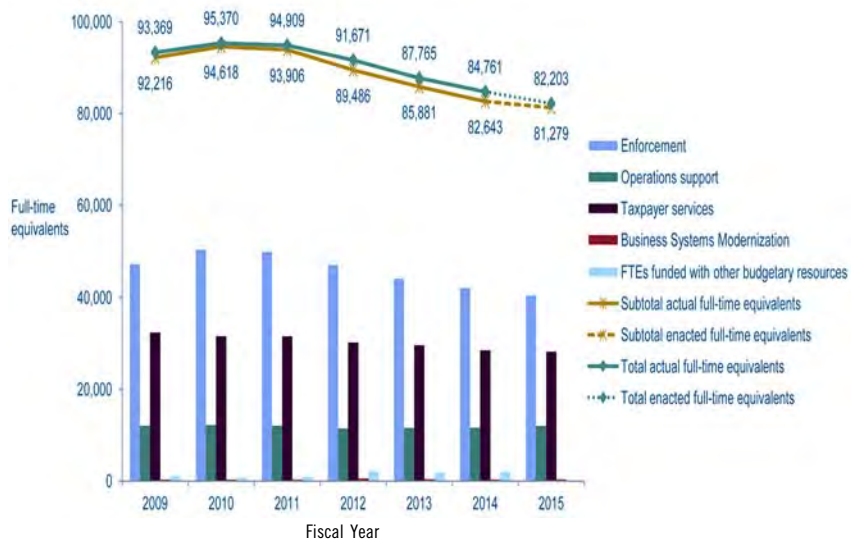
Source: Congressional justifications for IRS, fiscal years 2011 through 2016. | GAO-15-420R  
 Notes: Total budgetary resources includes funds such as user fees and reimbursables. Dollars are nominal and not adjusted for inflation. See appendix I for additional detail.



OBJECTIVE 1

FUNDING TRENDS: IRS TOTAL FTES REDUCED BY 11,166 (12 PERCENT) SINCE FISCAL YEAR 2009

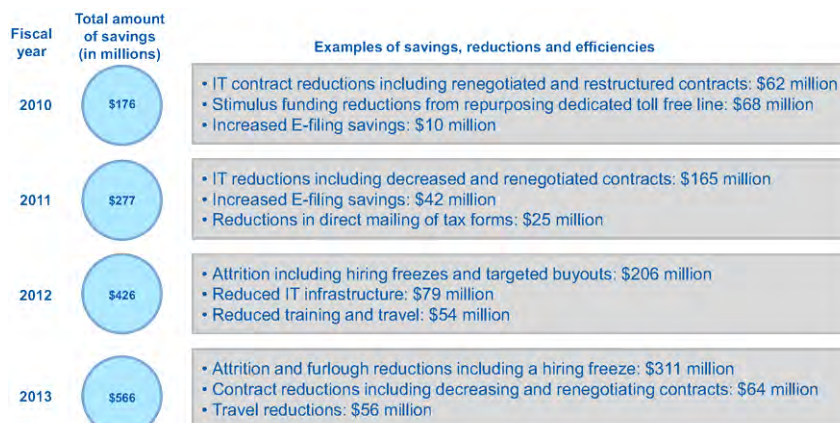
Figure 3: IRS Full-Time Equivalents (FTE), Fiscal Years 2009 Through 2014 Actual and Fiscal Year 2015 Enacted



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

FUNDING TRENDS: BUDGET REDUCTIONS REALIZED THROUGH MULTIPLE EFFORTS

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



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

## OBJECTIVE 1

## FUNDING TRENDS: IRS PLANS TO FURTHER REDUCE STAFFING COSTS IN FISCAL YEAR 2015

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

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

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

## WORKLOAD TRENDS: IRS INCREASED FTEs WORKING ON REFUND FRAUD AND IDENTITY THEFT (IDT) ISSUES

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

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



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

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

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

OBJECTIVE 1

WORKLOAD TRENDS: IRS INCREASED FTEs TO IMPLEMENT PPACA WITH FUNDS FROM MULTIPLE ACCOUNTS

TABLE 1: PATIENT PROTECTION AND AFFORDABLE CARE ACT SPENDING BY ACCOUNT, FISCAL YEARS 2010 TO 2015  
[Dollars in Millions]

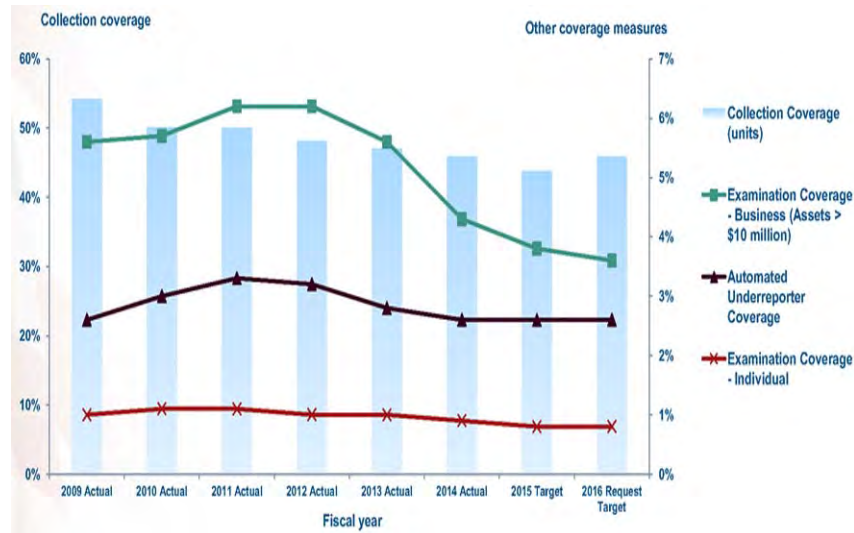
Appropriations account	Fiscal years					Total
	2010	2011	2012	2013	2014	
Department of Health and Human Services, Health Insurance Reform Implementation Fund .....	\$20.7	\$168.2	\$299.2	.....	\$49.9	\$538.0
Taxpayer Services .....	.....	.....	.....	4.3	12.1	16.4
Enforcement .....	.....	.....	.....	19.3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

Source: IRS. | GAO-15-420R

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

WORKLOAD TRENDS: RETURN EXAMINATION AND COLLECTION COVERAGE MEASURES SHOW DECLINE

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



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

## OBJECTIVE 1

## FILING SEASON TRENDS: IRS ANTICIPATES CHALLENGES WITH RETURNS THAT INCLUDE PREMIUM TAX CREDIT (PTC) CLAIMS

- As of February 6, IRS has processed about 27 million individual income tax returns and 20 million refunds totaling \$66 billion have been issued.
- Some States discovered attempts to file fraudulent tax returns and stopped accepting or processing returns, but IRS officials said Federal returns were not affected.
- IRS officials reported they have not processed many returns claiming the PTC,<sup>2</sup> reporting information required by the Foreign Account Tax Compliance Act (FATCA), or involving the previously expired provisions which Congress renewed at the end of 2014, such as the deduction of mortgage insurance premiums.
- However, IRS officials anticipate challenges with returns that include PTC claims because (1) IRS must reconcile PTC amounts reported by the taxpayer with information reported by marketplaces, and (2) for those taxpayers who received an advance payment of the credit based on the income reported at time of enrollment, IRS must reconcile the income reported at enrollment with income claimed on the tax return, which may result in differences that affect the amount of the taxpayer's refund.
- Third parties (i.e., the marketplaces) had until February 2 to provide taxpayers with Form 1095-A, *Health Insurance Marketplace Statement*, which taxpayers need to compute the amount of their PTC.
- In addition, IRS does not yet have complete marketplace data from all 50 States and the District of Columbia to proceed with pre-refund matching for PTC claims. As a result, IRS is holding some returns pending receipt of these data.
- IRS does not have Math Error Authority (to quickly correct errors without the need for an audit) specifically for PTC claims. In February 2010, we suggested that Congress provide IRS with broader authority to correct errors.<sup>3</sup> Treasury has also proposed that Congress provide IRS with this authority. Without this authority, IRS must write to the taxpayer to resolve discrepancies, which delays any potential refund. Congress has not taken action on this suggestion.

## FILING SEASON TRENDS: IRS EXPECTS TELEPHONE SERVICE TO DECLINE BASED ON RESOURCE LIMITATIONS AND INCREASED DEMAND FOR ASSISTORS

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

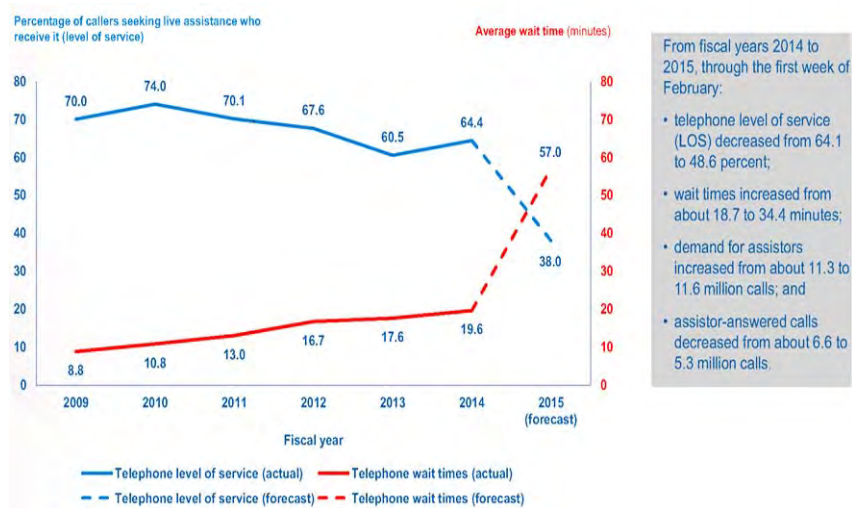
<sup>2</sup>The PTC is an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace.

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

OBJECTIVE 1

FILING SEASON TRENDS: IRS PROJECTS SIGNIFICANT DECLINES IN TELEPHONE SERVICE AND AVERAGE WAIT TIMES OF ALMOST AN HOUR

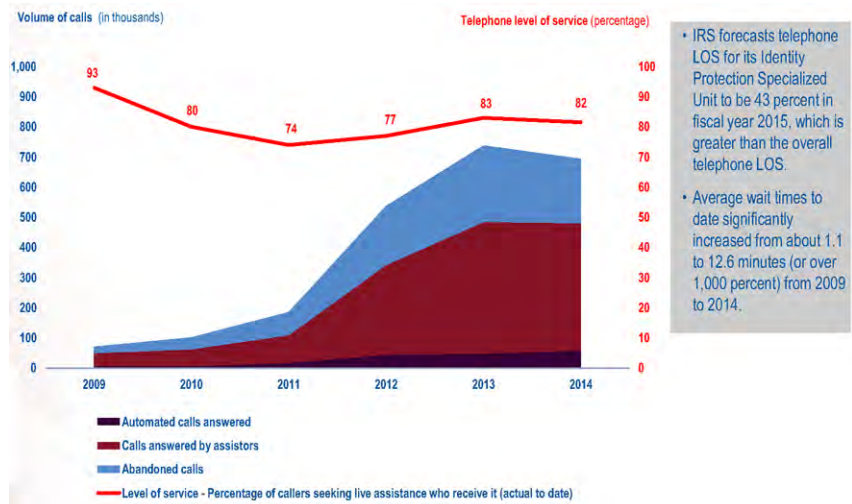
Figure 7: IRS Telephone Level of Service and Average Telephone Wait Times, Fiscal Years 2009 Through 2014 and Fiscal Year 2015 Forecast



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

FILING SEASON TRENDS: IDT CALLS DURING THE FILING SEASON HAVE INCREASED SIGNIFICANTLY IN RECENT YEARS

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



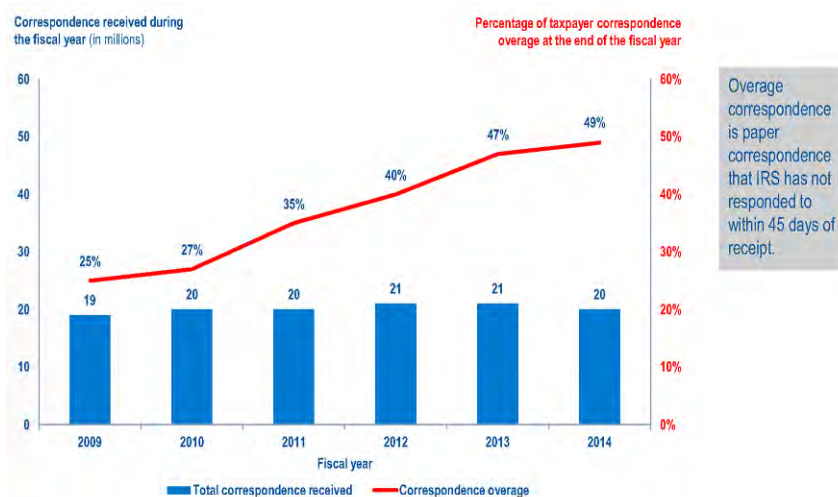
Source: GAO analysis of IRS data. | GAO-15-420R

Note: Dates are cumulative for IRS from January 1 of each year to April 4, 2009; April 3, 2010; April 2, 2011; March 31, 2012; March 30, 2013 and March 29, 2014.

OBJECTIVE 1

FILING SEASON TRENDS: OVERAGE CORRESPONDENCE HAS ALMOST DOUBLED SINCE FISCAL YEAR 2009

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



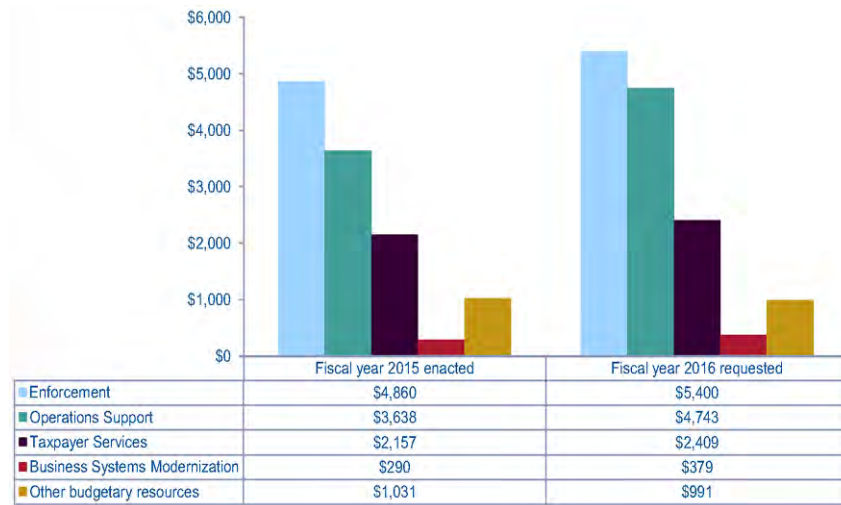
Source: GAO analysis of IRS data. | GAO-15-420R

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

OBJECTIVE 2

FISCAL YEAR 2016 BUDGET REQUEST: THE LARGEST REQUESTED INCREASE IS \$1.1 BILLION FOR OPERATIONS SUPPORT

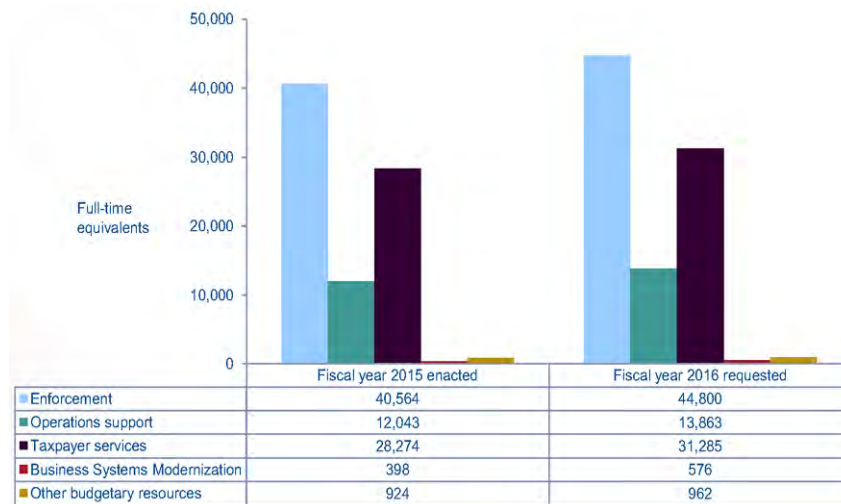
Figure 10: Fiscal Year 2015 Funding for IRS Compared to Fiscal Year 2016 Request (Dollars in Millions)



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

FISCAL YEAR 2016 BUDGET REQUEST: THE LARGEST FTE INCREASE IS ABOUT 4,000 FOR ENFORCEMENT

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

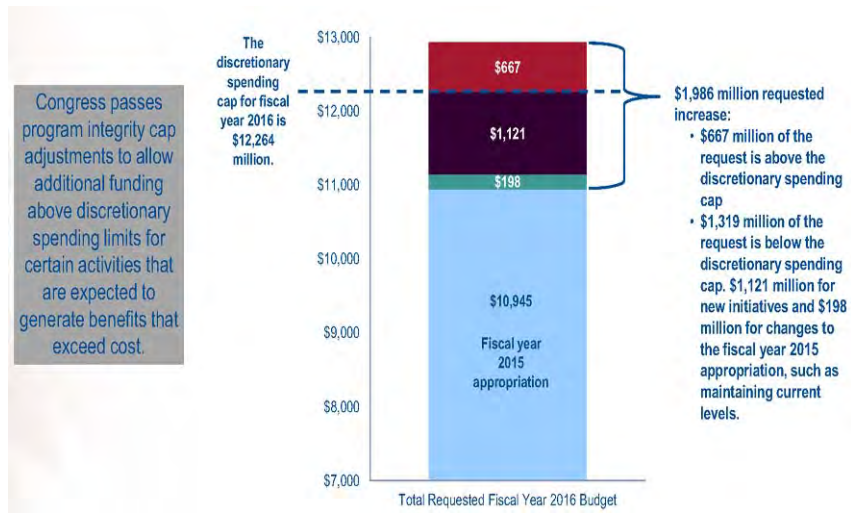


Source: GAO analysis of the congressional budget justification for IRS, fiscal year 2016. | GAO-15-420R  
 Note: Other budgetary resources includes FTEs funded with user fees and reimbursables.

OBJECTIVE 2

FISCAL YEAR 2016 BUDGET REQUEST: REQUEST IS 18 PERCENT (\$2 BILLION) ABOVE THE FISCAL YEAR 2015 APPROPRIATION AND \$667 MILLION ABOVE THE DISCRETIONARY SPENDING CAP

Figure 12: Breakdown of IRS Fiscal Year 2016 Requested Increase (Dollars in Millions)



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



## OBJECTIVE 2

## FISCAL YEAR 2016 BUDGET REQUEST: IRS PROPOSED 14 ENFORCEMENT INITIATIVES

TABLE 2: FUNDING REQUESTED FOR ENFORCEMENT INITIATIVES

[Dollars In Millions]

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

Source: Congressional budget justification for IRS, fiscal year 2016.  
Note: <sup>a</sup>Numbers may not add due to rounding.

## OBJECTIVE 2

## FISCAL YEAR 2016 BUDGET REQUEST: IRS PROPOSED 12 NON-ENFORCEMENT INITIATIVES

TABLE 3: FUNDING REQUESTED FOR NON-ENFORCEMENT INITIATIVES

[Dollars In Millions]

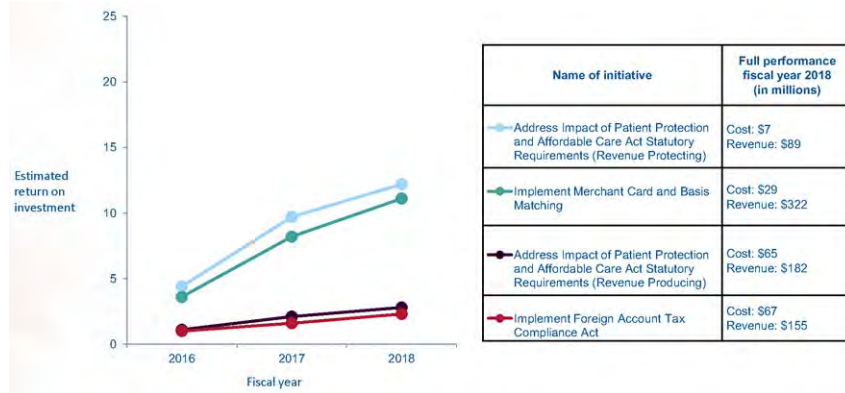
Description of requested budget increase	Fiscal year 2016 funding requested, by appropriations account				Total <sup>a</sup>
	Taxpayer services	Enforcement	Operations support	Business Systems Modernization	
New non-enforcement initiatives below the cap .....	\$218	.....	\$642	\$88	\$948
Improve Taxpayer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

Source: Congressional budget justification for IRS, fiscal year 2016.  
Note: <sup>a</sup> Numbers may not add due to rounding.

OBJECTIVE 2

FISCAL YEAR 2016 BUDGET REQUEST: FOUR ENFORCEMENT INITIATIVES EXPECTED TO PRODUCE REVENUE ARE UNDER THE DISCRETIONARY SPENDING CAP

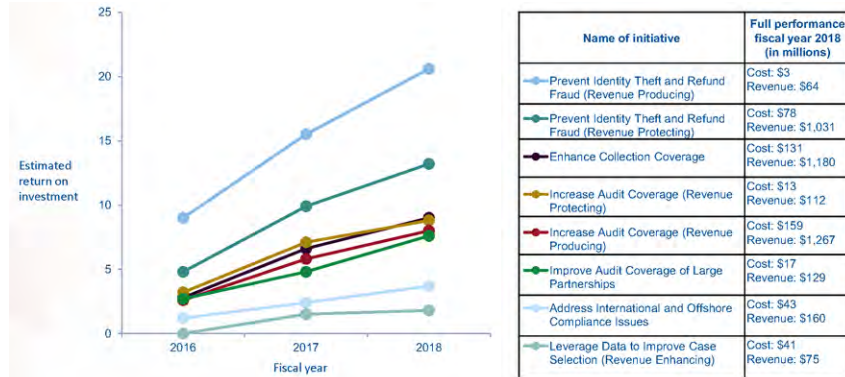
Figure 13: Estimated Return on Investment for Proposed Enforcement Initiatives Below Discretionary Spending Cap



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

FISCAL YEAR 2016 BUDGET REQUEST: EIGHT ENFORCEMENT INITIATIVES WITH EXPECTED RETURN ON INVESTMENT ARE ABOVE THE DISCRETIONARY SPENDING CAP

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



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

OBJECTIVE 2

FISCAL YEAR 2016 BUDGET REQUEST: \$3.2 BILLION REQUESTED FOR INFORMATION TECHNOLOGY

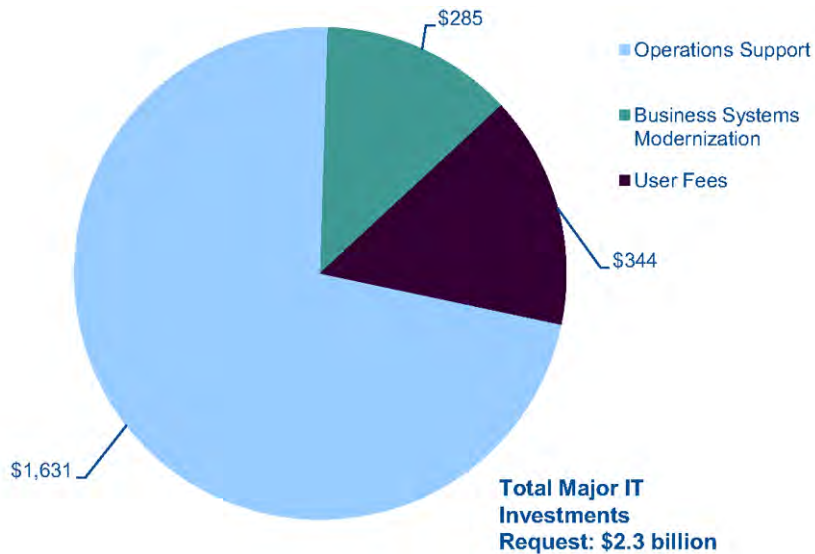
Of the \$3.2 billion requested,

—\$2.3 billion is planned to fund 20 major IT investments.<sup>4</sup> The requested funding for major IT investments would come from multiple sources, as shown in the figure to the right.

—This includes \$24 million for Web Applications, a major IT investment initiated in fiscal year 2015 to meet continued growth in demand for customer service from taxpayers across all channels.

—\$976 million is planned to fund non-major IT investments.

Figure 15: Major IT Investments by Funding Source  
(Dollars in Millions)



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

## OBJECTIVE 2

## FISCAL YEAR 2016 BUDGET REQUEST: \$490 MILLION AND 2,539 FTEs PROPOSED TO IMPLEMENT PPACA IN FISCAL YEAR 2016

TABLE 4: FISCAL YEAR 2016 PATIENT PROTECTION AND AFFORDABLE CARE ACT (PPACA) BUDGET REQUEST

[Dollars in Millions]

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

Legend: FTE = Full time equivalent.

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

Note: Some numbers do not add due to rounding.

## FISCAL YEAR 2016 BUDGET REQUEST: SELECTED GAO ANALYSES RELATED TO LEGISLATIVE PROPOSALS

TABLE 5: SELECTED LEGISLATIVE PROPOSALS RELATED TO PRIOR GAO WORK

[Dollars in Millions]

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

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

## OBJECTIVE 3

STRATEGIC MANAGEMENT: IRS CREATED A NEW OFFICE IN 2014 TO BETTER  
COORDINATE STRATEGIC LONG-TERM PLANNING DECISIONS

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

STRATEGIC MANAGEMENT: IRS IS IMPLEMENTING TAXPAYER SERVICE INITIATIVES FOR  
THE 2015 FILING SEASON

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

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

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

STRATEGIC MANAGEMENT: IRS'S SERVICE ON DEMAND INITIATIVE IS INTENDED TO  
IMPROVE TAXPAYER EXPERIENCE

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

## STRATEGIC MANAGEMENT: OPEN GAO RECOMMENDATIONS HIGHLIGHT OPPORTUNITIES FOR IRS TO IMPROVE OPERATIONS, MANAGE MORE STRATEGICALLY, AND IMPROVE REVENUE COLLECTION

For example:

- IRS 2015 Budget (GAO-14-605)
  - Develop a long-term strategy to address operations amidst an uncertain budget environment

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

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

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

#### CONCLUDING OBSERVATIONS

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

## APPENDIX I

## DOLLARS BY APPROPRIATIONS ACCOUNT, FISCAL YEARS 2009 TO 2016

TABLE 6: FISCAL YEARS 2009 THROUGH 2015 ENACTED AND FISCAL YEAR 2016 BUDGET REQUEST FOR IRS  
[Dollars in Millions]

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

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

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

<sup>a</sup> Fiscal year 2013 enacted represents the operating level after applying across-the-board rescission and reductions required by sequestration.<sup>b</sup> In fiscal year 2012 and thereafter, amounts appropriated for HITCA, which had been a separate account, were moved to the Taxpayer Services appropriation.

## APPENDIX II

## STAFFING BY APPROPRIATIONS ACCOUNT, FISCAL YEARS 2009 THROUGH 2016

TABLE 7: FISCAL YEARS 2009 THROUGH 2014 ACTUAL, 2015 ENACTED, AND 2016 REQUESTED FULL-TIME EQUIVALENTS

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

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

Note: <sup>a</sup>The administrative resources for HITCA were moved to the Taxpayer Services appropriation.



## ADDITIONAL COMMITTEE QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Departments for response subsequent to the hearing:]

## QUESTIONS SUBMITTED TO HON. JACOB J. LEW

## QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

## TRIBAL GENERAL WELFARE EXCLUSION ACT

*Question.* Last year, Congress unanimously passed the Tribal General Welfare Exclusion Act (GWE). As the lead sponsor in the Senate, I'm intent to see that the law is implemented as Congress intended.

—Secretary Lew, this Act establishes a Tribal Advisory Committee that will advise you on matter relating to the taxation of Indians and establish training and education for IRS field agents. Will you commit to appointing tribal leaders to the Tribal Advisory Committee established by this law?

—The GWE requires consultation with tribes to better understand tribal sovereignty and the roles of tribal nations in providing general welfare benefits. Will you detail for me the efforts to fulfill these consultations at both the national and regional levels?

*Answer.* Treasury has sought the recommendations of tribal leaders—without placing any restrictions on their choices. After filing the charter, we contacted tribal leaders on February 19, 2015 for their nominations to the Tribal Advisory Committee. We will be reviewing the nominations and applications for the best candidates.

The Department looks forward to working closely with the Tribal Advisory Committee, once formed, on consultation. As part of Treasury's ongoing consultation efforts, I met with tribal leaders in December. In addition, on December 3, 2014, in response to requests from Indian Country, Treasury released an interim Tribal Consultation Policy and requested comment on that interim policy.

*Question.* The law also stipulates all audits that relate to benefits under the general welfare exclusion should be suspended until the Tribal Advisory Committee is established and IRS field agents are properly trained and educated in Federal law and how it relates to sovereign Indian tribes.

—Would you provide for me a description of the standards being used to determine whether an audit relates to the GWE and confirmation that deference is being provided to tribal governments?

—What recourse do tribes have if they believe an audit has not been properly suspended?

—And finally, would you provide us with an overview and approximate number of audits or examinations the IRS has suspended pursuant to this Act and how many have NOT been suspended in cases where tribes asserted the audit relates to the exclusion?

*Answer.* It is our understanding that all relevant audit issues have either been closed or suspended. However, the application of the relevant standards to a particular audit or examination is a matter for the IRS to determine.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) PROGRAM AWARDS TO RURAL AREAS

*Question.* The CDFI program is intended to serve low-income communities in both urban and rural States. However, the awards continue to be skewed towards urban States. Since the program's creation in 1994, entities based in New York have received \$270 million. California entities have received \$250 million. Illinois entities have received \$150 million. Meanwhile, entities located in Arkansas and Oklahoma have only received \$23 million. Delaware entities have received less than \$9 million, and Kansas entities have received less than \$5 million.

—Is the Treasury Department making any changes to the CDFI program to expand participation of organizations located in rural States?

—What outreach is the CDFI Fund doing to expand participation among entities based in low-income communities that have been neglected by the CDFI Program?

—What is the CDFI Fund doing to direct technical assistance grants and the CDFI Capacity Building Initiative to rural States that have received significantly fewer awards than urban States?

Answer. The CDFI Program is competitive and awards are merit-based. Awards are made to institutions with the highest capacity to leverage and deploy the award funds. Currently, there are 79 CDFIs in California, 70 in New York, 33 in Illinois, 13 in Oklahoma, eight in Arkansas, four in Delaware and three in Kansas. But many CDFIs have a national footprint and invest in non-metropolitan areas as well as metropolitan areas. Per CDFI Program regulations, the CDFI Fund follows OMB's definition of metropolitan<sup>1</sup>; CDFI Fund data show that from fiscal year fiscal year 2003 through fiscal year 2012, 25 percent or 1 of every 4 reported transactions, and 20 percent or \$1 of every \$5 transaction dollars were invested in non-metropolitan areas. This is higher than the 16 percent of the U.S. population that live in non-metropolitan areas per the latest U.S. Census data.

Further, the CDFI Fund created the Small and Emerging CDFI Assistance (SECA) category under the CDFI Program to enable smaller CDFIs—which are often located in non-metropolitan areas—to better compete for awards. In fiscal year 2014, almost 27 percent of all Financial Assistance awards made under the CDFI Program went to certified CDFIs primarily serving non-metropolitan communities and over 90 percent of awards made under the Native American CDFI Assistance Program (NACA Program) went to CDFIs primarily serving non-metropolitan communities.

The CDFI Fund hosts application workshops before every CDFI Program round and produces an array of Webinars to explain the application process for the public. In addition, the CDFI Fund plans to launch an Innovation Challenge later this year to finance the development of a method, model, tool, or product that the CDFI industry can use to build CDFI capacity to expand or increase investments in underserved areas. The Innovation Challenge will enable the CDFI Fund to support local efforts to expand CDFI coverage, including rural communities, and provide complementary support to the training and technical assistance occurring under the CDFI Fund's Capacity Building Initiative.

The CDFI Fund's programs are merit-based and awards are made to institutions with the highest capacity to leverage and deploy the award funds. They are not based on a State population-based formula like some other Federal programs. While the CDFI Fund does not have the authority to direct funding to non-metropolitan areas, we are actively taking steps to encourage CDFIs that serve non-metropolitan areas to apply to our programs.

Technical Assistance awards build the capacity of nascent CDFIs to become certified and scale up smaller certified CDFIs, many of which are located in non-metropolitan areas. Over 18 percent of Technical Assistance awards under the CDFI Program went to organizations primarily serving non-metropolitan areas in the fiscal year 2014 CDFI Program funding round, and over 93 percent of Technical Assistance awards under the NACA Program went to organizations primarily operating in non-metropolitan communities.

The CDFI Fund continues to work diligently to encourage investments in rural communities. For example, the CDFI Fund's Capacity Building Initiative has two recent training series directed towards building the capacity of CDFIs to serve non-metropolitan areas—the *Expanding Coverage in Underserved Areas* series and the *Building Native CDFIs' Sustainability and Impact* series.

#### FINANCIAL STABILITY OVERSIGHT COUNCIL

*Question.* Financial Stability Oversight Council (FSOC) decisions have the potential to exert broad influence over our financial markets and the economy, yet deliberations are often held behind closed doors with limited transparency.

At the principal level, the SEC and the Commodity Futures Trading Commission (CFTC) are only represented by their respective chairs at FSOC meetings. Conversely, the Federal Reserve is typically represented by its chairperson, the New York Federal Reserve President, and Fed Governor Daniel Tarullo.

Senate-confirmed commissioners are prevented from being present to offer their regulatory expertise, including when the Council considers reforms to areas where their agency serves as the primary regulator.

—Why are non-chair commissioners at member agencies of the Council prohibited from attending FSOC meetings and deliberations?

<sup>1</sup>44 U.S.C. 3504(e) and 31 U.S.C. 1104(d) and Executive Order 10253 (3 CFR, 1949–1953 Comp., p. 758), as amended.

- Given the number of bank regulators that participate in FSOC meetings compared to capital markets regulators, what is the Council doing to ensure FSOC decisions are not unnecessarily imposing a bank-regulatory construct on our capital markets?
- Would you be supportive of allowing Senate-confirmed commissioners at FSOC member agencies to attend FSOC meetings as non-participating guests in all meetings and deliberations?

Answer. By statute, the Council is a body of 15 specific members. Aside from public meetings, attendance at Council meetings is generally limited to Council members designated by statute plus one additional individual from their agencies. Our practice is to defer to individual Council members as to who accompanies them to meetings. Generally, Council members have chosen members of their staffs as their “plus one.”

Before the creation of the Council, no agency had responsibility for identifying and responding to potential risks to financial stability. Based on the lessons from the financial crisis, the Council was established by the Dodd-Frank Act with a clear statutory mission to identify risks to the financial stability of the United States, to promote market discipline, and to respond to emerging threats to the stability of the U.S. financial system. When the Council identifies potential risks within the existing jurisdiction of a regulator, the regulator is often best positioned to take action to mitigate those risks, and the Council works closely with all the Federal financial regulators. At the same time, the Council has the unique statutory responsibility under the Dodd-Frank Act to look across the financial system and to prevent risks to financial stability from slipping through the cracks. The participation on the Council by regulators of diverse parts of the financial system strengthens the Council and helps ensure that risks do not slip through the cracks.

With respect to the Council’s evaluations of nonbank financial companies for potential designation, members with expertise relevant to a particular company often provide important insights, and they work together with other Council members to reach decisions regarding designations. As the GAO found in its recent report on the designations process, all of the voting and non-voting members of the Council can participate in the evaluation of all nonbank financial companies. The report also highlights that member agency staff who contributed to company evaluations held various positions and contributed a range of expertise, including from the primary regulators, and that member agency officials generally indicated that their agency’s expertise was well utilized. Analytical teams composed of staff of Council members and member agencies work closely with each company under review. These analyses are guided by the Council’s Deputies Committee and Nonbank Financial Company Designations Committee, both of which include representatives of all the Council members. Ultimately, proposed and final designations are made by the affirmative vote of at least two-thirds of the voting members of the Council then serving.

#### TERRORISM AND FINANCIAL INTELLIGENCE (TFI) FUNDING

*Question.* TFI plays a key national security role in administering and enforcing sanctions. The fiscal year 2016 budget proposes a reduction for TFI from \$112.5 million to \$109.6 million.

- In light of recent actions by Russia and the approaching deadline for Iran negotiations, are you able to assure the Committee that TFI has the resources necessary to carry out its mission effectively?

Answer. Yes, TFI has adequate resources to carry out its mission effectively, particularly in the areas of the Russia/Ukraine crisis and the approaching deadline for negotiations with Iran. TFI’s workforce and varied skill sets enables the office to quickly redeploy existing assets and resources to meet new and unexpected crises.

*Question.* Should we be concerned that your enforcement capability may be impacted by your funding?

Answer. TFI’s funding is adequate to meet our enforcement requirements capabilities. TFI has developed an agile workforce of flexible skill sets capable of addressing new and emerging issues or areas of concern with minimal disruption. We employ several methods (working/targeting groups, etc.) to address new and rising issues while ensuring current projects and efforts are not significantly impacted or fall by the wayside.

*Question.* Will the allocation of any administrative or shared services costs to TFI change in fiscal year 2015 compared to fiscal year 2014?

Answer. The fiscal year 2015 enacted appropriation provided \$112.5 million for Office of Terrorism and Financial Intelligence (TFI) operations, of which not to exceed \$27.0 million was provided for administrative expenses. The fiscal year 2014 enacted appropriation provided \$102.0 million for TFI, of which not to exceed \$26.0

million was provided for administrative expenses. The increase provided in appropriations is adequate to support the administrative support and shared services costs.

*Question.* Does funding TFI through a separate appropriations account affect the allocation of these costs?

*Answer.* While the funding of TFI through a separate appropriations account does not affect the allocation of the overhead administrative/shared services costs, it does complicate the central management, financial oversight, and increase the complexity of executing the budget. The administrative support provided to TFI continues to be provided by the same offices funded within the DO Salaries and Expenses (DO SE) 0101 appropriation. With the establishment of TFI as a separate appropriations account in fiscal year 2015, all TFI-related program and administrative costs that had obligated and expensed (disbursed) against the DO SE 0101 appropriation at the beginning of fiscal year 2015 had to be moved within the accounting system to the TFI SE 1804 appropriation. These costs affected include the salaries for all TFI personnel, travel, supplies, and contracts awarded, in addition to the associated administrative support costs, prior enactment of the fiscal year 2015 appropriation on December 16, 2014. As of May 11 there is residual clean-up work still being done to move the obligations and expenses from the 0101 appropriation to the TFI SE appropriation; most of these costs are travel related and the corrections in the accounting system must be done based on the individual travel order.

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QUESTION SUBMITTED BY SENATOR CHRISTOPHER A. COONS

*Question.* There are currently issues that have been brought to my attention involving State level policies that modify the traditional “net metering” agreements between utilities and residential customers that generate electricity from solar panels affixed to rooftops. Several new State level policies require that electric utilities purchase all electricity generated by residential solar customers, but not necessarily at the applicable retail rate. Correspondingly, the utility sells, at the applicable retail rate, all electricity that the homeowner consumes. This includes any electricity actually produced by the homeowner’s solar panels. These arrangements are commonly referred to as Value of Solar Tariffs, or VOSTs. It is my understanding that there is uncertainty surrounding the tax consequences for a homeowner that participates in a VOST arrangement. Specifically, I would like to understand whether a homeowner who participates in a VOST arrangement (1) is eligible to claim the Federal tax credit under Section 25D of the Tax Code and (2) must treat VOST payments as Federal taxable income.

*Answer.* Generally, the tax treatment of an arrangement such as the one you describe will depend on the specific facts and terms of the arrangement between the homeowner and the public utility. The IRS is aware that taxpayers have questions about the treatment of VOSTs for Federal income tax purposes and is currently looking at these issues. The IRS is considering whether published guidance would be useful in helping taxpayers apply the law to particular factual situations. Before issuing any such guidance, the IRS likely will request comments from the public on common fact patterns involved in these arrangements along with how these arrangements should be treated for Federal income tax purposes.

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QUESTIONS SUBMITTED BY SENATOR JERRY MORAN

*Question.* Through the Financial Stability Board and Federal Insurance Office (FIO), your Department has had extensive engagement in the International Association of Insurance Supervisors (IAIS) process of developing capital rules for insurance companies on an international basis. As you know, the U.S. insurance regulatory regime is quite different than that of Europe—and our State-based system is not going away any time soon. Have you conducted any analysis of the potential impacts of IAIS standards on the U.S. domestic insurance industry—in terms of financial, rate-setting, legal, and accounting regimes U.S. companies now U.S. confront—as well as the impacts that could be felt by policyholders and consumers? If this analysis has not been conducted, do you feel that this information would be necessary before developing international capital standards? If you have conducted this analysis, would you please share this information with the committee?

*Answer.* The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) has been ongoing since 2009 and is shaped by the input of the U.S. Federal and State participants. As part of these discussions, Treasury agrees that any capital standards for insurers should be based on insurance business models and risk metrics. In addition, prior to implementation, the inter-

national capital standards will be tested directly with U.S.-based insurers and, more broadly, the marketplace. The testing and the study will allow for the implementation of international standards that account for the impact in the United States. Additionally, work on the ICS should proceed incrementally toward milestones that are realistic, achievable, and that are fact-driven and consensus-driven.

As has always been true in the insurance sector, international standards are not self-executing. U.S. State or Federal authorities may impose a standard or requirement on a U.S. insurance organization. In the case of the United States, for firms that operate as part of a bank or savings and loan holding company or nonbank financial company designated by the Financial Stability Oversight Council (FSOC), the Federal Reserve has the authority to implement the standard. For firms not subject to oversight by the Federal Reserve, the State insurance regulators would have authority to implement the standard.

*Question.* Describe the role of your department/agency's Chief Information Officer (CIO) in the development and oversight of the information technology (IT) budget for your department/agency. How is the CIO involved in the decision to make an IT investment, determine its scope, oversee its contract, and oversee continued operation and maintenance?

*Answer.* The role of the Treasury CIO in development and oversight of the IT budget relies heavily on Treasury bureau level data on IT investments; this data focuses on major investments. In terms of IT budget data, Treasury does not have a single, stand-alone budget account to request funds to support all of the Department's IT investments. Each Treasury bureau is responsible for identifying and requesting funds to support their IT investments, which can be found in the bureau program budgets or in component specific IT budgets.

Given that context, the Treasury CIO's current role is as follows:

- Through reviews conducted by the Assistant Secretary for Management (ASM), the Treasury CIO is directly involved in proposing bottom-up budgets, resource levels, and scope of all investments funded by Departmental Offices (DO) IT budgets and DO's managed funds within the Treasury Franchise Fund for shared IT services. Decisions on levels of budget and resources dedicated to DO IT under these funding mechanisms are made by the ASM as directed by the Secretary. For major and non-major investments, the Treasury CIO conducts both oversight and execution of contracts, operations, and maintenance.
- Conducts an annual review with each bureau CIO to review their proposed IT portfolio to be submitted in conjunction with their organization's budget request. Provides recommendations directly to the bureau CIO and, as warranted, provides recommendations to Treasury's Budget Director. For major investments, the Treasury CIO conducts oversight activities such as monthly reviews to identify opportunities to improve investment performance.
- Through reviews conducted by the ASM as part of the annual budget process, the Treasury CIO is asked for comment on submissions by program offices across all appropriated Treasury programs on their specific budget requests (above guidance requests) related to IT.

*Question.* Describe the existing authorities, organizational structure, and reporting relationship of the Chief Information Officer. Note and explain any variance from that prescribed in the newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, Public Law 113-291) for the above.

*Answer.* As per Treasury Order 102-10 (dated January 13, 1999) the Deputy Assistant Secretary for Information Systems is designated as the Chief Information Officer. The CIO reports to Treasury's Assistant Secretary for Management (ASM). The responsibilities of the position include:

- The general responsibilities and the duties specified in sections 5125(b) and (c) of the Clinger-Cohen Act of 1996 (40 U.S.C. 1425 (b) and (c));
- The responsibilities of the Department under chapter 35 of title 44, U.S.C., titled "Coordination of Federal Information Policy;" and
- The Chief Information Officer management responsibilities designated in Executive Order 13011, dated July 16, 1996.

Order 102-10 provides that the CIO shall have direct access to the Secretary.

In anticipation of formal guidance to be released from OMB on the implementation of FITARA, the Treasury Department is currently evaluating its existing policies and the role of the CIO within the Department.

*Question.* What formal or informal mechanisms exist in your department/agency to ensure coordination and alignment within the CXO community (*i.e.*, the Chief Information Officer, the Chief Acquisition Officer, the Chief Finance Officer, the Chief Human Capital Officer, and so on)?

Answer. The Department of the Treasury has had some level of coordination and alignment within the Department’s CXO community in place since fiscal year 2012. In 2011, a series of Department-wide performance elements were included in the performance plans of the bureau CXOs. For Treasury this includes the Chief Financial Officer, Chief Information Officer (CIO), Human Resources Officer, Senior Procurement Official, and the Equal Employment Opportunity (EEO) Officer. The purpose of prescribing performance elements was to promote greater uniformity across the bureaus and strengthen alignment with Department-wide goals. Fiscal year 2012 results were very good and additional improvements were made for fiscal year 2013.

For fiscal year 2015, all CXO Commitments are linked to Strategic Goal 5 of the Treasury Strategic Plan (fiscal year 2014–fiscal year 2017) and one or more of the objectives below:

*Strategic Goal 5:*

Create a 21st century approach to government by improving efficiency, effectiveness and customer interaction.

- Objective 5.1: Increase workforce engagement, performance, and diversity by instilling excellence, innovation, and inclusion in Treasury’s organizational culture and business practices.
- Objective 5.2: Support effective, data-driven decisionmaking and encourage transparency through intelligent gathering, analysis, sharing, use and dissemination of information.
- Objective 5.3: Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability.
- Objective 5.4: Create a culture of service through relentless pursuit of customer value.

Most of the Department’s CXO commitments in fiscal year 2015 are substantially similar to those developed in the past. However, the CIO commitment was revised to reflect a new visioning and strategic planning process.

*Question.* According to the Office of Personnel Management, 46 percent of the more than 80,000 Federal IT workers are 50 years of age or older, and more than 10 percent are 60 or older. Just 4 percent of the Federal IT workforce is under 30 years of age. Does your department/agency have such demographic imbalances? How is it addressing them?

Answer. Yes, and this creates the risk that too many essential employees might retire at the same time without sufficiently trained employees in place to succeed them. The consequences of a demographic shift of information technology (IT) workers, specifically the risk that too many essential employees could retire simultaneously without sufficiently trained employees to succeed them, has been a long-standing concern for the Department of the Treasury. As part of Treasury’s benchmarking efforts related to PortfolioStat and the President’s Management Agenda (PMA), Treasury provided an analysis to OMB on the IT workforce demographic for Treasury’s 2210 series workers (a subset of Treasury’s IT workforce). Items of interest among the findings include:

—The average age of the IT workforce at the Department of the Treasury<sup>2</sup> is 50.

Year	Total 2200 Series Hires	Under 20	20–29	30–39	% of hires under 30	% of hires under 40	40–49	50–59	60–64	65 and over
2014 .....	383	0	19	101	5.0%	31%	146	97	18	2
2013 .....	381	0	33	111	8.7%	38%	132	85	14	0
2012 .....	333	0	23	90	6.9%	34%	128	75	15	0
2011 .....	655	0	38	166	5.8%	31%	261	151	31	8
2010 .....	256	1	51	68	20.3%	47%	89	39	6	0
2009 .....	186	0	34	64	18.3%	53%	57	23	6	0
2008 .....	312	0	57	81	18.3%	44%	108	56	10	0

Current mitigations include fostering increased utilization of existing Pathways and fellowship programs. Examples include recruiting through the Scholarship for Service program under the Federal Cyber Service (FCS) Training and Education Initiative for appointments under the Federal Pathways program. The Departmental Offices fiscal year 2016 budget includes a request to develop a Digital Service Team similar to the Federal Digital Service Team. The Digital Service Team will bring the private sector’s best practices in the disciplines of design, software engineering,

<sup>2</sup> Consisting of IT employees working across both Departmental Offices and Treasury’s Bureaus.

and product management to bear on the agency’s most important services. The hope is this effort will also help catalyze further changes to Treasury’s IT staffing demographic.

To address the identified concern, Treasury is pursuing additional use of available hiring flexibilities, including the Pathways Program and the recently authorized government-wide excepted service hiring authority for Smarter IT Delivery. However, due to budget considerations, Treasury bureaus have been finding it difficult to fund positions, and to fund compensation and recruitment incentive flexibilities.

*Question.* How much of the department/agency’s budget goes to Demonstration, Modernization, and Enhancement of IT systems as opposed to supporting existing and ongoing programs and infrastructure? How has this changed in the last 5 years?

*Answer.* Since 2011 the percentage of Treasury’s overall IT budget spent on Development, Modernization and Enhancement (DME) has increased from 18.37 percent to 20.58 percent in 2016, as included in the fiscal year 2016 budget. These statistics are based on Treasury’s fiscal year 2013 and fiscal year 2016 budget submissions.

Extracts from Treasury’s 4.1 tables for the aforementioned 2 years include the following:

TREASURY 4.1 TABLE  
[Values in millions]

	PY 2011 Funding (Actuals)				BY 2016 Funding (Requested)			
	DME	O&M	Total	% DME	DME	O&M	Total	% DME
IT Total .....	625.211	2752.869	3402.831	18.37%	932.683	3568.505	4531.033	20.58%

*Question.* What are the 10 highest priority IT investment projects that are under development in your department/agency? Of these, which ones are being developed using an “agile” or incremental approach, such as delivering working functionality in smaller increments and completing initial deployment to end-users in short, 6-month timeframes?

*Answer.* Rapid Delivery Methods (RDM) have been in use within Treasury since 2012 to help foster the faster and more responsive delivery of IT development efforts across a broad spectrum of projects. Applying RDM is fostering an agile development environment allowing IT to respond to changing business needs while improving employee satisfaction and accountability through streamlined processes.

The following are Treasury’s 10 highest priority IT investments that have development efforts in fiscal year 2015:

Investments	Currently using Rapid Delivery Method/AGILE/Iterative
IRS—Foreign Account Tax Compliance Act—FATCA .....	Yes
IRS—Customer Account Data Engine 2 TS2 (CADE 2) .....	Yes
IRS—Modernized e-File—MeF (Next Release) .....	Yes
IRS—Affordable Care Act (ACA) .....	Yes
Fiscal Service—Retail Security Services (RSS/MyRA) .....	Yes
Fiscal Service—USASpending .....	Yes
Fiscal Service—Wholesale Securities Services (WSS/TAAPS) .....	Yes
Fiscal Service—Central Accounting and Reporting System (CARS) .....	Yes
Fiscal Service—Electronic Federal Tax Payment System (EFTPS) .....	Yes
CDFI—Award Management Information System .....	Yes

*Question.* To ensure that steady State investments continue to meet agency needs, OMB has a longstanding policy for agencies to annually review, evaluate, and report on their legacy IT infrastructure through Operational Assessments. What Operational Assessments have you conducted and what were the results?

*Answer.* An operational analysis was conducted by the bureaus for the following IT investments in fiscal year 2014:

Investment	Bureau	Operational Analysis Results
Affordable Care Act Administration .....	IRS	Re-Invest—Both (Modernization and Enhancement)
Account Management Services (AMS) .....	IRS	Re-Invest—Both (Modernization and Enhancement)
e-Services .....	IRS	Re-Invest—Both (Modernization and Enhancement)

Investment	Bureau	Operational Analysis Results
Integrated Customer Communication Environment (ICCE).	IRS	Re-Invest—Both (Modernization and Enhancement)
Integrated Data Retrieval System (IDRS) .....	IRS	Re-Invest—Both (Modernization and Enhancement)
Integrated Financial System/CORE Financial System (IFS).	IRS	Re-Invest—Both (Modernization and Enhancement)
Individual Master File (IMF) .....	IRS	Re-Invest—Both (Modernization and Enhancement)
Information Reporting and Document Matching (IRDM).	IRS	Re-Invest—Both (Modernization and Enhancement)
Integrated Submission and Remittance Processing System (ISRP).	IRS	Re-Invest—Both (Modernization and Enhancement)
Service Center Recognition/Image Processing System (SCRIPS).	IRS	Re-Invest—Both (Modernization and Enhancement)
Customer Account Data Engine 2 (CADE 2) .....	IRS	Continue As-Is
Electronic Fraud Detection System (EFDS) .....	IRS	Re-Invest—Both (Modernization and Enhancement)
Modernized e-File (MeF) .....	IRS	Continue As-Is
IRS.GOV—Portal Environment .....	IRS	Re-Invest—Both (Modernization and Enhancement)
Automated Standard Application for Payments (ASAP).	Fiscal Service	Continue As-Is
Central Accounting and Reporting System .....	Fiscal Service	Re-Invest—Modernize
Debit Gateway .....	Fiscal Service	Continue As-Is
Deposit and Data Management (DDM) .....	Fiscal Service	Continue As-Is
Do Not Pay (DNP) (previous name GOVerify Business Center (GVBC)).	Fiscal Service	Re-Invest—Enhance
EFTPS (Electronic Federal Tax Payment System) ....	Fiscal Service	Re-Invest—Enhance
FedDebt .....	Fiscal Service	Continue As-Is
Franchise Financial and Administrative Services (FFAS).	Fiscal Service	Continue As-Is
International Treasury Services (ITS.gov) .....	Fiscal Service	Continue As-Is
Invoice Processing Platform .....	Fiscal Service	Re-Invest—Enhance
Over the Counter Channel Application (OTCnet) ....	Fiscal Service	Continue As-Is
Pay.gov .....	Fiscal Service	Continue As-Is
Payment Application Modernization (PAM) .....	Fiscal Service	Re-Invest—Both (Modernization and Enhancement)
Retail Securities Services (RSS) .....	Fiscal Service	Continue As-Is
Summary Debt Accounting Services (SDAS) .....	Fiscal Service	Continue As-Is
Wholesale Securities Services (WSS) .....	Fiscal Service	Re-Invest—Enhance
BSA IT Modernization .....	FinCEN	Re-Invest—Enhance

*Question.* What are the 10 oldest IT systems or infrastructures in your department/agency? How old are they? Would it be cost-effective to replace them with newer IT investments?

*Answer.* The oldest systems at Treasury were built in the 1960's. This does not mean Treasury has not made changes to these systems since then. As Treasury's annual budget allows, Treasury takes the opportunity to upgrade the hardware and software to the current release. However, some of the core system components exist on older technology. The strategy has been, and will continue to be, to migrate off these systems/components in a methodical manner. Because of system interdependencies, it is often not as simple as replacing an entire system with another. Often, components are replaced using a risk based approach where more fragile and frequently failing components are replaced first. Other more robust components are left in place to maximize return on investment. Treasury always looks for opportunities to introduce these changes without impacting the core mission or incurring unnecessary costs.

*Question.* How does your department/agency's IT governance process allow for your department/agency to terminate or "off ramp" IT investments that are critically over budget, over schedule, or failing to meet performance goals? Similarly, how does your department/agency's IT governance process allow for your department/agency to replace or "on-ramp" new solutions after terminating a failing IT investment?

*Answer.* Within the Department, the Capital Planning and Investment Control (CPIC) office has the oversight responsibility for preparing and publishing a monthly performance report of the Treasury's IT Portfolio status on the Federal IT Dashboard, which is hosted by the Office of Management and Budget (OMB). The bureau's Chief Information Officer and supporting CPIC staff are responsible for timely, accurate and complete updates to the monthly performance report for their investments. The same monthly data submission to OMB is hosted by Treasury, Infor-



mation Technology Strategy and Technology Management, Performance Measurement and Governance.

There are three primary dates that drive the monthly reporting cycle:

1. Bureaus must update project execution data and operational performance for each major investment by the 15th of each month. Cost and schedule variances are analyzed, along with operational metrics and project risks, and a bureau-level view of the monthly variance report can be prepared at the bureau level.
2. The monthly updates are consolidated at the Departmental level and presented to the Treasury CIO near the 25th of each month.
3. The Department’s monthly submission is due to OMB by the last day of each month. Treasury’s Monthly Variance Report, complete with portfolio variance analysis, investment summaries, and trend analysis is published for the Assistant Secretary for Management, bureau heads and posted on the CPIC Web site.

One of the avenues through which new investments can be “on-ramped” after an existing investment has been terminated, is through Treasury’s Operational Assessment (OA) process.

*Question.* What IT projects has your department/agency decommissioned in the last year? What are your department/agency’s plans to decommission IT projects this year?

*Answer.* The IT projects decommissioned in the last year (fiscal year 2014) include the following:

Bureau	Business Application Name
IRS .....	Information Return Document Matching Case Management (IRDMCM)
IRS .....	Integrated Production Model
Departmental Offices .....	DTS decommission
Departmental Offices .....	Alpha decommission
Fiscal Service .....	Summary Debt Accounting System (SDAS)
OCC .....	ADD Request Tracking System (Retired)
OCC .....	BankNet Application Request Queue (Retired)
OCC .....	BankNet Viewer (Retired)
OCC .....	BERT (Bank Expert)
OCC .....	Compensation & Benefits Board
OCC .....	Historical OCCNet Operating Committee Database (Retired)
OCC .....	Large Banks Library
OCC .....	Library Information Request Form (Retired)
OCC .....	News/Joint Release Template (DocPub) (Document Publishing Pilot) (Retired)
OCC .....	Notice Board System (Retired)
OCC .....	OCC Publication Plans
OCC .....	Printed Publications Order Form (Retired)
OCC .....	Security/Authorize
OCC .....	Trouble Ticket Dashboard Front End

The Department plans to decommission the following IT projects in fiscal year 2015:

Bureau	Business Application Name
Fiscal Service .....	Deposit and Data Management (DDM)
Fiscal Service .....	Retail Security Services (RSS)
Fiscal Service .....	Centralized Accounting and Reporting System (CARS)

*Question.* The newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, Public Law 113–291) directs CIOs to conduct annual reviews of their agency/department’s IT portfolio. Please describe your agency/department’s efforts to identify and reduce wasteful, low-value or duplicative information technology (IT) investments as part of these portfolio reviews.

*Answer.* The Treasury Capital Planning and Investment Control Office conducts monthly reviews of Treasury IT investments. (Please see response to Question 2 for a description of the Treasury monthly and annual processes). These reviews inform the Treasury CIO about the cost, schedule, and performance variances of each major investment in the Treasury IT portfolio. Based on these monthly reviews, investment managers for poorly-performing investments must explain reasons for variances and their planned corrective action.

Currently each Treasury bureau CIO has the responsibility for performing the capital planning and investment control selection process that reviews all IT investments annually and determines the composition of their IT investment portfolio. As OMB develops final guidance for implementing FITARA, the Department will implement new policies which we believe will maximize efficiencies in IT spending, consolidate investments where appropriate, and reduce and eliminate lower priority investments as feasible.

Treasury has a long history of being a shared services provider offering essential services (both business and technical) to constituencies both within and external to our Department. These shared services are funded through the Treasury Franchise Fund which achieves cost savings, promotes economies of scale, and increases productivity and efficiency in the use of resources by providing centralized services. Some key examples of the shared services Treasury offers include:

- HR Connect is one of the six Federal Office of Personnel Management Human Resource Lines of Business providing HR-related services in the Federal Government.
- The Administrative Resource Center (ARC), within the Bureau of the Fiscal Service, has been in operation since 1996 and is recognized across government as a leader in multiple service lines. ARC provides a full range of administrative services for various Federal agencies to include:
  - Financial Management
  - Internet-based procurement
  - Travel services
  - Information Technology
  - Human Resources Management
  - Investment Portfolio Management
- The Treasury Network (TNet) provides a secure enterprise data network that connects authorized domestic and international government facilities across the United States, the U.S. Territories, and at select U.S. Embassies via the State Department's network.
- Treasury's Public Key Infrastructure (PKI) is a cooperative effort between OCIO and the Bureau of the Fiscal Service (formerly the Bureau of the Public Debt) for the issuance of digital certificates to enable secure communications between agencies and customers transacting business, and for identity proofing of individuals. Treasury's PKI is well known throughout the Federal Government, and is extended to its trading partners and other government organizations that conduct business with the Department in a secure manner.
- The Invoice Processing Platform (IPP) provides a centralized electronic invoicing and payment information portal accessible to all participants in Federal payment transactions: agencies, payment recipients, and Bureau of the Fiscal Service.
- The Department's Do Not Pay Business Center is designed to give paying agencies access to the critical information needed to identify, reduce, and prevent improper payments. This program was initiated as part of a June 18, 2010, Presidential Memorandum directing agencies to review current pre-payment and pre-award procedures to ensure that a thorough review of available databases, with relevant information on eligibility, occurs before Federal funds are disbursed.

*Question.* In 2011, the Office of Management and Budget (OMB) issued a "Cloud First" policy that required agency Chief Information Officers to implement a cloud-based service whenever there was a secure, reliable, and cost-effective option. How many of the agency/department's IT investments are cloud-based services (Infrastructure as a Service, Platform as a Service, Software as a Service, etc.)? What percentage of the agency/department's overall IT investments are cloud-based services? How has this changed since 2011?

*Answer.* Treasury is unable to compare this percentage to fiscal year 2011, as there is no fiscal year 2011 data on cloud usage. OMB only began asking for investment-level cloud data in the fiscal year 2015 budget year. Government-wide guidance on measuring the extent and impact of cloud computing continues to mature, making year-to-year comparisons difficult.

With the launch of a new Treasury.gov platform in 2011, Treasury was one of the first civilian agencies to leverage commercial cloud based offerings to host its public Web presence. Treasury was also one of the early collaborators with the National Institute of Standards and Technology (NIST), General Services Administration, and other agencies on the formal definition of cloud computing.

As one of the early adopters of commercial cloud services, Treasury is also aware of the challenges of moving Federal IT infrastructure into the cloud. A significant

portion of Treasury data is comprised of PII and financial data. Treasury looks forward to FedRAMP's continued expansion of the number of commercial cloud providers able to meet the government's security requirements.

That aside, Treasury has regularly sought out services to improve efficiency, increase utilization and decrease time to market. The Department maintains an active portfolio of shared service programs that service organizations throughout government. Further, across Treasury, IT organizations have instituted virtualization and usage based cost models that allow IT organizations to more effectively follow the best practices established by commercial cloud providers.

Using the narrow definition found in the National Institute of Standards and Technology standard (special publication 800-145), 3.7 percent of Treasury's current IT investments are "cloud based" (11 out of 298 investments). Many other investments use other forms of shared and/or virtualized infrastructure.

*Question.* Provide short summaries of three recent IT program successes—projects that were delivered on time, within budget, and delivered the promised functionality and benefits to the end user. How does your department/agency define "success" in IT program management? What "best practices" have emerged and been adopted from these recent IT program successes? What have proven to be the most significant barriers encountered to more common or frequent IT program successes?

*Answer.* The following provides short summaries of three recent Department IT program successes. The Treasury CIO evaluates the performance of major investments every month. Ratings of 4-5 reflect successfully operating investments on the basis of:

- Cost and Schedule Baseline Management:* Cost and schedule within 10 percent threshold and trends are neutral or positive.
- Project Risk Management:* Low impact and low probability with/or without a mitigation plan.
- Performance Measures Management:* Measures with quantifiable description that provide baselines, targets, and actual results; reporting accuracy is within tolerance.

The following Treasury IT programs all have CIO ratings of "5":

- The Bank Secrecy Act (BSA) Information Technology (IT) Modernization Program:* The Financial Crimes Enforcement Network (FinCEN) transformed its IT capabilities through the innovative use of technology and data standards to provide mission critical support to the bureau's broad user base, which includes law enforcement and regulatory customers that access and analyze financial data to detect and deter financial crimes. The Program established FinCEN as the "authoritative source" for all BSA data with 11+ years (approximately 190 million records) of data readily available to all stakeholders:
  - An enterprise-wide, information management framework that equips over 10,000 authorized users from approximately 350 agencies with access to BSA financial data and advanced analytic decisionmaking abilities performing over 1,000,000 queries per year.
  - A more streamlined data collection and filing process aimed at 60,000 regulated entities (Banks, Money Service Businesses, etc.) and over 500,000 individual foreign bank account holders to electronically file reports in support of the Department's "paperless" initiative, with FinCEN now averaging 96 percent electronically-filed BSA reports.
  - Advanced analytics and modeling capabilities for financial crime detection. With regard to IT program management, FinCEN defines success as the completion of the agreed upon scope of Program capabilities within the allocated timeframe and budgeted costs.
- Customer Account Data Engine 2 (CADE 2) Program:* The Internal Revenue Service (IRS) revamped the way it does business by providing a data-centric solution that provides daily processing of taxpayer accounts.
  - In January 2012, CADE 2's Transition State 1 (TS 1) began to deliver daily tax return processing—enabling faster refunds to taxpayers, more timely account updates, and faster issuance of taxpayer notices. The Service also began deployment of the CADE 2 database—a single centralized relational database of trusted data for individual taxpayer accounts—to improve service to taxpayers and enhance IRS tax administration. CADE 2 Transition State 2 (TS2) is focused on delivering early results.
  - On July 29, 2013, the TS2 team took the first step in addressing the long-standing Financial Material Weakness by delivering the first TS2 project—the 2013 Mid-Year Release of the Integrated Data Retrieval System Penalty

& Interest project. A full rollout of the Penalty & Interest Common Code Base was deployed on January 2, 2014.

- In January 2015, the IRS deployed Penalty and Interest Filing Season 2015 code changes for the Individual Master File (IMF), Business Master File (BMF) and Integrated Data Retrieval System (IDRS) investments into production, and addressed both TS2 common code break-fixes and operations and maintenance work.
- Electronic Federal Tax Payment System (EFTPS)*: The Bureau of the Fiscal Service (Fiscal Service) administers the world's largest government funds collections systems through a network of more than 10,000 financial institutions. The EFTPS provides businesses and individuals with a free service for making tax payments to the U.S. Federal Government and collects over \$2 trillion per year. The EFTPS includes the following key services:
  - EFTPS.gov*—used by both businesses and individuals to make tax payments.
  - IRS Direct Pay*—a citizen focused, mobile accessible Web site, IRS Direct Pay assists individuals with making tax payments online.
  - EFTPS Contact Center*—a world class call center staffed to assist tax payers with questions and enable tax payments.
  - Bulk and Batch tax collection*—provides integration with tax professionals, payroll providers, and large tax collection entities.

In late July, 2014, ForeSee was utilized to measure tax payers' satisfaction with using EFTPS Online. The survey measures a customer's overall experience based on "Look and Feel", Navigation, Language (how clearly information is communicated on the site), Site Performance, Task/Transaction completion, and overall Satisfaction. Each measure is scored from 1–10, with an average score over 8 being considered strong performance. All measures for EFTPS are well over 8 with customer satisfaction averaging 8.6. This makes EFTPS one of the highest performing Federal Web sites.

The EFTPS investment consistently performs at the highest levels in terms of project management, scope management, cost and schedule baseline management, risk management, and demonstrating successful operational performance. EFTPS has delivered above 90 percent accuracy on cost, schedule, and operational performance results for the past 18 months.

*Best Practices:*

Several key best practices stand out from the three successful investments, with each practice sustained over several years.

- Sustained funding*—Investments seeking to implement major changes in technology must have access to predictable funding levels in order to plan and execute against schedule. Lacking reliable funding levels, projects are prone to constant schedule changes and reassignment of resources—which further contribute to project instability.
- Strong, technical program management*—With sustained funding and resource stability, program managers have the ability to build and lead strong teams, maintain accurate data on all elements of investment performance, and deliver against funding commitments.
- Engaged oversight*—Whether it is by Congress or OMB, agency or component level CIOs, with GAO or IG reports, oversight is vital. Oversight establishes demands for transparency and accountability that are critical to proper stewardship of government resources.

*Significant Barrier:*

- GAO has already published many reports on the impact of unpredictable funding levels on the IRS. Congress should consider that the success experienced in CADE2 is subject to risk as already reported in the IRS 2015 Q1 IT Investment Report.

*Question.* In 2014, GAO examined efforts in the Federal Government to manage software licenses and offered several important findings and recommendations. Department of the Treasury has an estimated IT Budget of \$3.7 billion for fiscal year 2015. The largest component of the Treasury Department is the IRS, whose Inspector General reported in 2013 that the agency failed to centralize management of its software licenses or to use proven best practices and technology to track, manage, and optimize those licenses. In addition, the Department of the Treasury has not established a Department-wide comprehensive process for managing its software licenses. According to industry averages, agencies that do not proactively implement software license management and optimization best practices are likely overspending on software by as much as 25 percent. The GAO offered six recommenda-

tions to improve effective management of software licenses. Has the Department adopted any of these recommendations? Please describe what efforts the Department of Treasury has made to improve the software license management practices.

Answer. GAO's findings primarily focus on the development of a centralized "system" for storing, tracking and managing Treasury's software license assets. In this vein, Treasury is continuing to work with the Department of Homeland Security on the implementation of the Continuous Diagnostics and Mitigation program. Once these capabilities are implemented, Treasury will work with its constituent bureaus to develop common procedures, policies and capabilities for auditing and tracking software inventories. Treasury's Office of the CIO (OCIO) is also currently working with Treasury's Office of Privacy, Transparency and Records to revise Treasury Directive (TD 85-02) to establish a policy for authorized software. Additionally, to assist with consolidating requirements across the Treasury enterprise for multiple types of commodity software, hardware and IT services, Treasury's OCIO, in conjunction with the Senior Procurement Executive, launched an Integrated Project Team (IPT). The IPT believes it can meet the intent of the GAO recommendations through enterprise-wide strategic sourcing and facilitating communication between key IT hardware and software vendors and Treasury Bureaus/Offices. These steps alone will contribute to Department-wide cost savings and/or cost avoidance by identifying and eliminating the duplication of procurement and contract administration activities for IT products and services.

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#### QUESTIONS SUBMITTED BY SENATOR JAMES LANKFORD

*Question.* In your testimony, you highlight the fact that our deficit has fallen by almost 75 percent since its peak in the same narrative as you tout our Nation's job creation and economic growth data. Yet, you advocate for increased deficit spending in fiscal year 2016 over current law, stating that breaking the budget caps is vital to our national and economic security. Moreover, the President's budget calls for an additional \$5.7 trillion in debt over the next decade—despite proposing \$2.1 trillion in tax increases.

Does the administration believe that reducing our annual deficits is akin to strong job creation and economic growth or does reducing our deficits damage our economy and threaten our long-term prosperity?

Answer. The administration believes that the effects of deficit reduction on job creation and economic growth depend on several factors, including: (1) how deficits are reduced, (2) whether the reduction is seen as permanent or temporary, and (3) whether the economy is near full employment.

There is widespread agreement among mainstream economists that the countercyclical fiscal support put in place in the wake of the financial crisis prevented the United States economy from experiencing an even deeper recession than it did. Deficits have shrunk since then, but imposing excessive fiscal austerity on the economy at this point would require us to forgo investments that are needed to accelerate growth and expand opportunity. The President's budget allows for such investments while also putting the Nation on a sustainable fiscal path.

*Question.* The Congressional Budget Office (CBO) warned about the impacts that excessive borrowing will have on the economy, noting that "because Federal borrowing reduces national saving over time, the Nation's capital stock would ultimately be smaller and productivity and total wages would be lower than they would be if the debt was smaller."

Do you agree with the assessment that relatively higher Federal borrowing levels ultimately reduces productivity and wages?

Answer. The deficit has fallen from \$1.4 trillion in fiscal year 2009 to less than \$500 billion in fiscal year 2014. Last year's deficit represented 2.8 percent of GDP, a drop of 7.0 percentage points from the fiscal year 2009 peak of 9.8 percent of GDP, as a result of both explicit policy actions, including a ratio of spending cuts to new revenues that is more than 2.5 to 1, and improvement to the economy over the last 5 years. In addition to making progress on deficit reduction, the administration has focused on targeted investments, such as infrastructure, job training, and education, to support our economy's recovery. As of June 2015, the economy has achieved 52 consecutive months of job growth and added 9.7 million private sector jobs, the longest stretch of consecutive months of job growth since the Bureau of Labor Statistics began collecting data in 1939.

Near full employment, increased borrowing can crowd out private investment and reduce productivity and wages, depending on the relative productive value of the private use of borrowing versus public use. Accordingly, the administration's fiscal year 2016 budget proposals would reduce the Federal deficit from fiscal year 2016–

2025 by an additional \$1.2 trillion (0.5 percent of GDP), as estimated by the Congressional Budget Office.

*Question.* Budgetary caps on discretionary spending are not going to solve our Nation's long-term fiscal problems. However, it's important to remember the original intent of the sequester caps in the Budget Control Act was to force consensus to achieve structural fixes to our Nation's budget problem. While the administration has previously proposed to use chain CPI as a means to deal with some of the projected growth in our Nation's entitlement programs, the fiscal year 2016 budget proposal does not propose any substantive entitlement reforms.

Is it the administration's view that our entitlement programs are sustainable in long-term and are not in need of any changes?

*Answer.* The administration takes the financial sustainability of our entitlement programs very seriously. That is one reason why the administration remains committed to the Affordable Care Act. In 2009, 75-year projected unfunded obligations for Medicare and Social Security totaled 5.6 percent of GDP. In 2014, that share was down to 3.9 percent, a 30 percent reduction, largely due to the Affordable Care Act. While there remain long-run challenges to the financial sustainability of our entitlement programs, we have made excellent progress in this administration. We look forward to working with you and others in going further.

*Question.* The budget requests a \$1.5 billion allocation for the State Small Business Credit Initiative (SSBCI). The SSBCI supports "State capital access programs, collateral support programs, loan participation programs, loan guarantee programs, and venture capital programs." The Federal Government has an entire agency, the Small Business Administration, dedicated to small business financial support, including capital access and loan guarantees for small businesses.

Can you explain what is unique about the eligible activities of Treasury's SSBCI that are not adequately handled by programs administered by the SBA? What advantages does the SSBCI have over SBA capital access and loan guarantee programs?

*Answer.* SBA loan guarantee programs and the Small Business Investment Company (SBIC) program are typically administered federally and directly through financial intermediaries with little to no interaction with State or local governments. By contrast, SSBCI was designed with flexibility for State and local governments to fund programs that best target local small business needs. These programs take a wide variety of forms and are typically designed to be complementary to SBA programs rather than redundant. This is because SSBCI also provides States incentives to deploy funding in support of small business financing expeditiously and efficiently<sup>3</sup> meaning States also have an incentive to design programs that do not compete with SBA programs for small businesses seeking credit.

State credit support programs have been active in their various forms for decades, co-existing with SBA programs, but have struggled to maintain funding through State fiscal cycles. Extending SSBCI would give these programs a consistent source of funds and local leaders would have the resources they need to support economic development in their communities. Below are some of the ways State credit support programs complement SBA:

- The ability to support loans to non-profits. Non-profit organizations provide crucial human services and create jobs. However they often face challenges securing financing because, by definition, they tend not to build strong balance sheets through retained earnings. SSBCI allows States to enroll loans to non-profits in credit support programs. For example:
  - The New Mexico Finance Authority (NMFA) provided a \$241,000 subordinate loan participation enabling a bank to extend a \$1.6 million loan to purchase and renovate the new Greater Albuquerque Habitat for Humanity headquarters and Habitat Restore.<sup>4</sup>
  - The Virginia Small Business Financing Authority used its Cash Collateral Program to support a loan to It's About Time, a social service provider for individuals with intellectual disabilities. As a result of the transaction, the organization upgraded and doubled the size of its facility. The company employs 76 people and will add 18 to 20 jobs as a result of the expansion.<sup>5</sup>
- Many small banks don't participate in SBA programs. Some small banks do not do a high enough volume of loans to justify the administrative cost of managing

<sup>3</sup> SSBCI funds are disbursed in three increments and Participating States must expend, obligate, or transfer at least 80 percent of a disbursement before qualifying for the next disbursement. In addition, this must be completed within the 7-year program authorization.

<sup>4</sup> SSBCI Quarterly Report as of September 30, 2014.

<sup>5</sup> SSBCI Quarterly Report as of December 31, 2014

an SBA lending operation. State credit support programs offer an alternative to community banks that would like to be able to support underserved borrowers.

- Capital Access Programs (CAPs) effectively support small dollar loans. CAPs provide a loss reserve on a portfolio of loans at each participating lending institution. The State matches contributions to the loss reserve by the borrower and the bank. While SBA does have other programs targeting small dollar transactions, it does not operate CAPs as defined in the Small Business Jobs Act of 2010. Through 2014, approximately 90 percent of all SSBCI CAP loans were for less than \$100,000 and many were as low as a few thousand dollars.
- All banks, credit unions, and Community Development Financial Institutions (CDFIs) are eligible to enroll loans in SSBCI programs subject to review by the States. The flexibility to support CDFI loans allows SSBCI to reach businesses in underserved communities. Approximately 41 percent of all transactions supported by SSBCI since 2011 have been to businesses located in low- or moderate-income communities.

States also use SSBCI funds to support investment in small businesses. The State-sponsored investment programs funded by SSBCI are different in kind from the SBA's SBIC program in that they generally target earlier stage businesses with equity investment or flexible debt instruments. The SBIC program requires current interest payments limiting small businesses recipients to companies mature enough to service debt. A more patient source of capital is necessary to launch and grow new businesses.

Oklahoma directed its entire SSBCI allocation to an investment program administered by i2E, a private, non-profit corporation that helps entrepreneurs, companies, inventors and researchers turn their innovations into high growth business opportunities for Oklahoma. For example, using SSBCI funds, i2E invested in Oklahoma City-based Selexys Pharmaceuticals, which is developing a treatment for Sickle Cell Disease, and WeGoLook, also based in Oklahoma City, that provides site inspection services. i2E's investments in these companies were catalytic given the scarcity of co-investment partners in Oklahoma.

Thirty-seven other States directed some portion of their SSBCI program to programs supporting high-growth potential early-stage companies. State economic developers see these programs as part of a long-term strategy to retain talent and technology in State and grow local businesses with the potential to create high-wage jobs.

In these ways, SSBCI can also be seen as creating a State-led laboratory for the development of and improvement of small business finance support. The SBA programs work very well for a large population of business borrowers, but States are experimenting with ways to reach businesses outside of the SBA universe. Extending SSBCI will build on the momentum of the program's first round of funding and strengthen the Federal Government's relationships with State economic development agencies which are highly responsive to capital needs in local markets.

*Question.* The fiscal year 2016 budget request for Community Development Financial Institutions (CDFIs) is \$233.5 million. Part of the CDFI's responsibility is to receive and dole out the allocations provided under the New Markets Tax Credit (NMTC) program. The NMTC is supposed to "encourage investors to make investments in impoverished, low-income communities that traditionally lack access to capital." However, according to the Congressional Research Service (CRS), "as a result of the definition of qualified LICs, virtually all of the country's census tracts are potentially eligible for the NMTC." Moreover, there have been numerous examples of NMTC financing for frivolous projects outside of low-income census tracts, including the expansion of the world's largest aquarium in Atlanta.

- Is the New Markets Tax Credit program appropriately tailored to meet its purpose of serving impoverished communities, despite the fact that "virtually all of the country's census tracts are potentially eligible" for the credit?
- Is subsidizing the expansion of an aquarium in Atlanta an appropriate use of NMTC resources?

Answer. Nationally, 40.8 percent of all 74,000 census tracts are eligible for the NMTC Program. The New Markets Tax Credit Program requires that all investment be made in low-income census tracts. To qualify for the program, a community must have a poverty rate of at least 20 percent or median family income of 80 percent or less. Further, the NMTC Program gives competitive preference for transactions located in highly distressed communities, defined as a poverty rate of 30 percent or greater; median income of 60 percent or less; or an unemployment rate of 1.5 times the national average. Seventy-five percent of NMTC transactions are located in highly distressed census tracts.

The Atlanta Aquarium is located in a census tract with a poverty rate of 46.6 percent based on the U.S. Census' 2006–2010 American Community Survey 5-year estimates, qualifying it as a highly distressed census tract. In addition, this project brought revitalization to the community by creating 756 jobs, of which 473 are permanent, including many entry-level positions, among other benefits.

Museums comprise a small percentage of the overall NMTC portfolio—less than 5 percent. But the profile of the community—high poverty rates and severe economic distress—is precisely what the NMTC was intended to target. Museums and cultural amenities are often a small but very important part of a comprehensive revitalization plan for many urban and rural communities. In addition to the jobs, investment, and foot traffic they bring to local small businesses, these organizations' programming, education, and outreach efforts deliver intangible benefits to the surrounding low income community.

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QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

*Question.* I applaud the action taken by the administration last September to reduce the economic benefits associated with corporate inversions by issuing temporary regulations under Section 7874 of the Internal Revenue Code.

Is Treasury considering additional rules changes that would eliminate incentives for corporations to avoid paying U.S. taxes by inverting? Specifically, would Treasury consider rules to prevent abusive earnings stripping practices, perhaps using authority under Section 385 of the Internal Revenue Code? Does Treasury have authority to prevent corporations from structuring an inversion in a way to shield shareholders from gain recognition, as is reportedly being done in the Burger King-Tim Horton's merger?

*Answer.* The Treasury Department and the IRS expect to issue additional guidance to further limit inversion transactions that are contrary to the purposes of section 7874 and the benefits of post-inversion tax avoidance transactions. In particular, the Treasury Department and the IRS are considering guidance to address strategies that avoid U.S. tax on U.S. operations by shifting or "stripping" U.S.-source earnings to lower-tax jurisdictions, including through intercompany debt and have requested comments on this topic.

Moreover, Treasury is aware that certain structures are being used to shield shareholders from gain recognition in the context of inversion transactions. We addressed certain structures in Notice 2014–52, as well as earlier in 2014 in Notice 2014–32 (which, among other things, limited the ability of shareholders to avoid gain through the use of so-called Killer B structures). We continue to consider what additional steps we may take.

However, there are limits to what Treasury can do without legislative action by Congress. As we have consistently said, business tax reform that contains specific anti-inversion legislation is the most effective way to fully address these transactions.

*Question.* A government-wide ban on inverted corporations receiving Government contracts has been included in appropriations bills since 2008, preventing a company from profiting from doing business with the Government while avoiding paying U.S. taxes by inverting. However, a Bloomberg article from July 8, 2014, "Tax Run-aways Win Billions in U.S. Contracts Despite Bans," outlines several cases where inverted companies continue to receive Government contracts.

How can Treasury and the IRS better work with other Federal agencies to ensure companies that have inverted do not receive Federal Government contracts?

*Answer.* The President's fiscal year 2016 budget proposal contains a proposal, "Limit the Ability of Domestic Entities to Expatriate," that would (among other things) provide the Internal Revenue Service with authority to share tax return information with Federal agencies for the purpose of administering an agency's anti-inversion rules. Federal agencies receiving this information would be subject to the safeguarding and recordkeeping requirements under section 6103.

Unfortunately, information sharing alone will not fully address the problem. This is because the anti-inversion statutes applicable to other agencies in administering contract prohibitions generally are not same as the anti-inversion provision included in the Internal Revenue Code (section 7874). Furthermore, the regulations and guidance issued by the Treasury under section 7874 (for example, Notice 2014–52) generally are not applicable for purposes of applying other anti-inversion statutes. Improvements in this area result if consideration would be given to defining an inversion transaction by reference to section 7874 of the Internal Revenue Code in drafting future legislation related to banning Government contracts for inverted companies.



## QUESTIONS SUBMITTED TO HON. JOHN KOSKINEN

## QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

## INFORMATION TECHNOLOGY SECURITY

*Question.* The IRS is responsible for safeguarding a vast amount of sensitive financial and personal data, processing returns that contain confidential information for over 100 million taxpayers. The agency needs to protect taxpayer information from misuse, improper disclosure, or destruction. This responsibility is even more complex given the vast amount of data being sent and exchanged as part of the Affordable Care Act.

TIGTA has consistently ranked protection of taxpayer data as one of the highest priority challenges facing the IRS. In addition, GAO noted that although the IRS is making progress in addressing information security, weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data.

TIGTA's fiscal year 2014 Federal Information Security Management Act report identified four security program areas which were not fully effective due to one or more Department of Homeland Security (DHS) guideline program attributes that were not met. The TIGTA noted that the IRS had not yet implemented its Information Security Continuous Monitoring strategy, and that the IRS did not always report incidents involving Personally Identifiable Information to the U.S. Computer Emergency Response Team (US-CERT) within established timeframes. The report also noted that the IRS had not yet fully implemented a process for identifying and tracking contractors who are required to complete specialized training, and had not fully implemented unique user identification and authentication that complies with Homeland Security Presidential Directive-12 (HSPD-12).

In that report, the TIGTA noted that until the IRS takes steps to improve its security program deficiencies and fully implements all 11 security program areas required by the FISMA, taxpayer data will remain vulnerable to inappropriate use, modification, or disclosure, possibly without being detected.

Would you please update the subcommittee with specific information on the status of the IRS' progress on addressing these deficiencies?

*Answer.* The security and privacy of taxpayer information and the integrity of the IRS's systems continues to be sound, and the IRS remains committed to the ongoing programs to manage the security risks in the IT infrastructure as required by the Federal Information Security Management Act, National Institute of Standards and Technology guidance, and other appropriate standards. The IRS continues to improve its Cybersecurity Program focusing on managing information security risk on a continuous basis; monitoring the security controls in IRS information systems and the environments in which those systems operate on an ongoing basis; and maintaining ongoing awareness of information security.

As responses to the TIGTA audits mentioned above, the following actions are occurring as resources allow:

- The Department of the Treasury (Treasury) recently published the Enterprise level approach for Information Security Continuous Monitoring (ISCM) in February 2015 to ensure standardization across the Bureaus. The IRS is currently aligning its practices and methodologies to enable ongoing authorizations to improve the IRS's security posture through informed risk management decision-making.
- The IRS understands the importance of timely reaction, including reporting to Treasury/US-CERT, and makes every effort to report expeditiously. The IRS implemented enhancements to its incident reporting system interface during late 2014. These enhancements streamlined the process by which IRS employees report both IT and paper-based inadvertent disclosures and allows for an accelerated processing of received incidents within the Incident Response program. Combined with ongoing Service-wide training on data protection and employee reporting responsibilities, these enhancements will ensure continued timeliness, compliant with OMB standards for incident reporting, response, and notification.
- The IRS has updated its contractual obligations to ensure the requirement for completing specialized training is documented in all IT contracts and is in the process of developing the ability to track contractors completing specialized security training. The IRS anticipates maturing the tracking and accountability progress during the summer of 2015.
- While progress has been hampered by declining budget, the IRS continues in its efforts to comply with HSPD-12. Currently 62.64 percent of IRS's employees

are using the HSPD-12 smart card for network and remote access. The IRS expects to have largely completed its efforts to comply with this portion of HSPD 12 by the end of fiscal year 2015.

PRISONER FRAUD

*Question.* In the past TIGTA has identified refund fraud committed by prisoners as a significant problem for tax administration. Just last fall a report noted that refund fraud associated with prisoner Social Security Numbers remains a serious problem. The number of fraudulent tax returns filed using a prisoner's Social Security Number that were identified by the IRS increased from more than 37,000 tax returns in calendar year 2007 to more than 137,000 tax returns in calendar year 2012. The refunds claimed on these tax returns increased from \$166 million to \$1 billion.

According to TIGTA, Treasury has the authority to share information with the Federal Bureau of Prisons and State Departments of Corrections to help determine if prisoners may have filed or help the filing of a fraudulent return.

Has the IRS shared fraudulent prisoner tax return information with Federal or State prison officials?

*Answer.* The Internal Revenue Code (IRC) 6116 requires the Bureau of Prisons (BOP) and Departments of Corrections (DOCs) to provide the IRS with certain information about all incarcerated individuals on an annual basis. Under section 6116, the IRS receives information from the BOP, all 50 States, and the District of Columbia. With this data, the IRS builds a "prisoner file" which is the cornerstone of our efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using prisoner Social Security Numbers (SSNs). The IRS processing systems use this prisoner file to identify returns filed under prisoner SSNs and to identify potential fraud and other compliance issues that may arise when an individual is incarcerated. The IRS continues to use this data and work with the corrections agencies to improve the quality and reliability of the data they provide to us each year.

The IRS continues to work with the BOP and the Departments of Corrections (DOCs) to secure Memoranda of Understanding (MOU) to authorize the IRS to disclose prisoner tax return information under IRC 6103(k)(10). This information would allow Federal and State prison officials to take actions against prisoners who commit refund fraud.

As of March 23, 2015, the IRS has completed MOUs with 7 State correctional authorities (Mississippi, South Carolina, Illinois, Vermont, North Dakota, Colorado, and Wyoming); 13 State DOCs have declined to participate. We continue to work the issues and concerns of the remaining State agencies and the BOP. The IRS remains committed to addressing agencies' concerns related to enrolling in this program so they may begin receiving inmate tax return information from the IRS.

In addition, we are working with the Social Security Administration (SSA) to allow the IRS access to the SSA database of prisoners under authority provided in the Bipartisan Budget Act of 2013. The SSA receives prisoner information directly from a number of correction agencies, including local jails. But until December 2013, the SSA did not have the authority to share the data with the IRS for tax administration purposes. This information from the SSA could significantly expand the number of records in the IRS prisoner file.

The IRS continues to inform the Federal and State prison officials about the "Blue Bag" program, an important IRS program aimed at detecting prisoner tax fraud. Through the Blue Bag program, prisons send prisoner tax forms, correspondence, and other tax-related documents to a special IRS address for additional review. IRS analysts review the prisoner tax returns and correspondence to take appropriate actions.

*Question.* Please provide the subcommittee with the most recent annual prisoner fraud report to Congress.

*Answer.* The Calendar Year (CY) 2012 and 2013 reports are attached.

[CLERK'S NOTE: The Calendar Year 2012 and 2013 reports are included as an appendix at the end of the hearing transcript.]

*Question.* Has the Commissioner, Wage and Investment Division, established a Memoranda of Understanding with the Federal Bureau of Prisons and all State Departments of Corrections?

*Answer.* The IRS receives data from the BOP and State DOCs. This data allows the IRS to detect fraudulent returns filed with prisoner SSNs. The IRS continues to work with the BOP and DOCs to establish a Memorandum of Understanding (MOU) to authorize the IRS to disclose prisoner tax return information under IRC

6103 (k)(10). This information would allow Federal and state prison officials to take action against prisoners who commit refund fraud.

As of March 23, 2015, the IRS has completed MOUs with seven state correctional authorities (Mississippi, South Carolina, Illinois, Vermont, North Dakota, Colorado, and Wyoming); 13 State DOCs have declined to participate. We continue to work the issues and concerns of the remaining State agencies and the BOP. The IRS remains committed to addressing agencies' concerns related to enrolling in this program so they may begin receiving inmate tax return information from the IRS.

*Question.* Has the IRS developed processes to identify tax returns filed that have the same characteristics of confirmed fraudulent prisoner tax returns? If no why not?

Answer. The IRS has developed a methodology to identify returns filed with prisoner SSNs that meet certain characteristics. In addition, we are able to prevent prisoner fraud by identifying claims for refunds filed using a prisoner's SSN. These returns receive increased scrutiny.

*Question.* Has the IRS determined whether these tax returns should be included in the annual report to Congress?

Answer. Yes, we report all known false and fraudulent returns filed under the SSN of a prisoner in the annual report to Congress.

*Question.* Has the IRS ensured that all tax returns that are filed using a prisoner Social Security Number are assigned a prisoner indicator?

Answer. A prison indicator is assigned on returns filed under SSNs of prisoners that meet our Electronic Fraud Detection System (EFDS) data mining rule and are requesting a refund. We monitor this indicator as part of our internal management system.

The fraud filters identify tax returns claiming refunds and select returns in which the primary (primary and/or secondary on a joint return) Social Security Number matches the annual prisoner file. Returns with prisoner SSNs are reviewed by IRS tax examiners to verify the income and withholding amounts reported on a return, and the refundable credits claimed on the return. If items cannot be verified, the refund claim is denied.

As a result:

- The number of fraudulent tax returns filed using a prisoner's SSN (identified by the IRS) decreased from over 137,000 tax returns in calendar year (CY) 2012 to less than 56,000 tax returns in CY 2014 (preliminary findings);
- Refunds claimed on these tax returns increased from \$1 billion in CY 2012 to \$1.8 billion in CY 2014 (preliminary findings);
- IRS stopped \$1.8 billion in fraudulent refunds in CY 2014, up from \$936 million in CY 2012 (preliminary findings).

*Question.* Has the IRS identified and addressed the cause of the cases TIGTA found that were not identified with a prisoner indicator?

Answer. We have made programing changes for filing season 2015. These tax returns are now sent through the filters specific to the prisoner filed tax returns, and receive one of the prisoner indicators.

*Question.* According to the TIGTA, a computer programming error resulted in the IRS not assigning a prisoner indicator to 3,139 tax returns TIGTA identified. Without the proper assignment of a prisoner indicator, the tax returns are not sent through those fraud detection filters specific to a prisoner-filed tax return.

Has the IRS corrected this error?

Answer. Please see the previous response.

#### PERFORMANCE AWARDS

*Question.* This year, you made the decision to spend almost \$67 million in fiscal year 2015 funds to pay out performance awards to employees, managers and executives for fiscal year 2014. The previous commissioner had made the decision to suspend awards because of funding pressures and the need to fund more critical priorities.

Previously you have stated "Some may ask if the award money would be better spent in other ways. Following my visits with employees in recent weeks, I believe the answer is clear: This money is best spent on our existing employees." Would you please explain why these awards took priority over funding other mission critical activity, such as taxpayer services?

Answer. The IRS senior leadership uses a deliberate decisionmaking process to determine priorities based on a variety of factors, including whether it is statutorily mandated or discretionary. The Service then allocates available appropriated resources against those requirements. We then determine the unfunded mission critical requirements and identify what additional resources are available from other

sources, such as user fees or reimbursable services, and allocate those resources against the Servicewide requirement.

As part of our ongoing investment in our workforce, the IRS will continue to recognize qualifying employees who do exceptional work. It is also important to point out that the IRS recently achieved significant cost savings in this area. As a result of negotiations with the National Treasury Employees Union (NTEU) concluded last year, the overall pool for awards was reduced to about 1 percent of the employee salary base, which is about \$42 million less than the 1.75 percent provided in previous years.

The IRS has a contractual obligation with the Union to pay awards, and in the interest of fairness, applied the same treatment to its non-Union employees. Beyond our contractual obligations, one of the agency's highest priorities is its people. Rewarding high-performing employees is a vital investment for the Nation's tax system and the IRS. Since fiscal year 2010, the IRS has 13,000 fewer employees, but is still processing tax returns and refunds during the filing season and running a tax system with new mandates, all the while ensuring the Nation collects nearly \$3 trillion in revenue to fund everything from defense to social programs. Performance awards are a good investment that pays off—and they reflect the hard work the staff does on a daily basis for the Nation.

#### AWARDS TO EMPLOYEES WITH MISCONDUCT

*Question.* Previously TIGTA did a review of IRS performance awards. That review found that more than 2,800 employees with recent substantiated conduct issues resulting in disciplinary action received more than \$2.8 million in monetary awards, more than 27,000 hours in time-off awards, and 175 quality step increases. Among these, more than 1,100 IRS employees with Federal tax compliance problems received more than \$1 million in cash awards, more than 10,000 hours in time-off awards, and 69 quality step increases within a year after the IRS substantiated their tax compliance problem.

According to the review, with few exceptions, the IRS does not consider tax compliance or other misconduct when issuing performance awards or most other types of awards. The IRS code makes mandatory the removal of IRS employees who are found to have intentionally committed certain acts of misconduct, including willful failure to pay Federal taxes. According to TIGTA, providing awards to employees with conduct issues, especially those who fail to pay Federal taxes, appears to be in conflict with the law.

Given the serious need to restore the credibility of the IRS, does management consider conduct issues resulting in disciplinary actions, especially the nonpayment of taxes, before giving out all types of awards?

*Answer.* Effective for the 2014 performance awards the IRS implemented measures to ensure that any IRS employee who violates Section 1203(b) of the IRS Restructuring and Reform Act of 1998 is ineligible to receive a performance award. Section 1203(b) addresses certain employee misconduct, including the willful failure to file taxes, the understatement of Federal tax liability, and threatening taxpayers.

No IRS employee will be eligible for a discretionary or performance award (including bilingual awards and discretionary pay adjustments, such as Quality Step Increases (QSIs), and manager performance-based increases), if a final agency decision is made that the employee violated Section 1203(b). The ineligibility determination will apply to the fiscal year in which the final agency decision is made. In addition, employees who are suspended for more than 14 days as a result of any misconduct are ineligible for QSIs. When deciding whether to deny a performance award to a bargaining unit employee, who is otherwise eligible, the IRS must adhere to the terms of the 2012 National Agreement II between the IRS and the National Treasury Employees Union.

*Question.* Did any of the awards recently paid out go to employees with conduct issues or unpaid taxes?

*Answer.* As stated above, employees found in violation of Section 1203(b) were ineligible for 2014 performance awards, which the IRS paid on March 19, 2015.

*Question.* Did any of the awards go out to employees subject to ongoing investigations relating to the targeting of taxpayers?

*Answer.* To the IRS's knowledge, four congressional committees, TIGTA and the Department of Justice have been involved in investigations concerning alleged targeting of taxpayers. Thus far, none of these investigating committees or agencies has identified to the IRS specific current employees who are subjects or targets of any pending investigations.

If you have questions about specific individuals, you can contact the IRS, or have your staff contact the IRS. However, please note the Privacy Act (5 U.S.C. Section

552a) precludes the IRS from responding to questions about particular employees in a public setting or communication.

*Question.* Would you tell us whether employees have actually been removed because of misconduct?

*Answer.* Employees may be removed for reasons other than misconduct, however, between October 1, 2012, and March 20, 2015, a total of 854 employees were removed because of various types of misconduct either during or after their probationary periods.

Fiscal Year	Number of Employees Removed
2012 .....	302
2013 .....	248
2014 .....	245
2015* .....	59
<b>Total .....</b>	<b>854</b>

\*Total removed between Oct. 1, 2014, and March 20, 2015.

*Question.* Would discriminating against a taxpayer be considered misconduct?

*Answer.* Discriminating against a taxpayer is misconduct and a violation of Section 1203(b). An employee can be removed after a final administrative or judicial determination of a violation of this statute.

Section 1203(b) specifically covers discrimination-related acts or omissions, such as:

- Violating a taxpayer’s or taxpayer’s representative’s:
  - (A) Rights under the U.S. Constitution, or
  - (B) Civil right established under:
    - (i) Title VI or VII of the Civil Rights Act of 1964;
    - (ii) Title IX of the Education Amendments of 1972;
    - (iii) the Age Discrimination in Employment Act of 1967;
    - (iv) the Age Discrimination Act of 1975;
    - (v) Section 501 and 504 of the Rehabilitation Act of 1973; or,
    - (vi) Title I of the Americans with Disabilities Act of 1990;
- Falsifying or destroying documents to conceal mistakes made by an IRS employee with regard to a matter involving a taxpayer or taxpayer representative;
- Violating the Internal Revenue Code of 1986, Treasury regulations or policies of the Internal Revenue Service, including Internal Revenue Manual, for the purpose of retaliating against, or harassing, a taxpayer or taxpayer’s representative; and
- Threatening to audit a taxpayer for purpose of extracting personal gain or benefit.

HIRING EMPLOYEES WITH PAST MISCONDUCT

*Question.* A TIGTA report issued in December of last year found that between January 2010 and September 2013, IRS records show that the IRS hired more than 7,000 former employees (78 percent were temporary or seasonal positions).

It is troubling to learn that in this process the IRS rehired hundreds of former employees with performance or conduct issues including willful failure to file their Federal tax returns, unauthorized access to taxpayer information, leave abuse, falsification of official forms, unacceptable performance, misuse of IRS property, and off-duty misconduct. The report also found that many employees hired with prior substantiated or unresolved conduct or performance issues had new conduct or performance issues.

I understand that IRS wanted to consult with Legal Service to determine if consideration of prior conduct and performance issues violates Federal regulations.

Doesn’t common sense tell you that the IRS should consider a potential employee’s previous track record with the agency before hiring them again?

*Answer.* Yes; therefore, the IRS considers prior conduct and performance issues before rehiring a former employee, and believes it has sufficient legal basis to do so at any time during the hiring process.

## ERRONEOUS TAX FORMS FOR HEALTHCARE.GOV USERS

*Question.* According to a disclosure from the Centers for Medicare and Medicaid services on February 20, the IRS provided erroneous tax information to 800,000 Americans who enrolled in insurance policies through Healthcare.gov.

This is yet another example of the administration's failed implementation of the healthcare law and the confusion and frustrations countless Americans have experienced. These latest problems could be particularly painful for low-income families who were counting on receiving a tax refund and must now wait weeks before filing their taxes.

When did the IRS first discover that these forms had been incorrectly issued? And when did you personally learn there was a problem?

*Answer.* As CMS is the provider of these forms, any questions you have concerning how and where the error occurred, the timing of the error, which consumers were affected, and the extent to which they were affected should be directed to CMS. On February 8th, CMS alerted IRS staff there was an issue with the second lowest cost Silver plan (SLCSP) contained on some Forms 1095-A that CMS provided to consumers and IRS staff alerted the Commissioner the following day. It was not until the afternoon of February 17th that CMS informed the IRS of the known magnitude of the issue, i.e. that over 800,000 Forms 1095-A were affected.

## ERRONEOUS TAX FORMS

*Question.* Last week, the IRS announced that it would not pursue collection of additional taxes from any of the 50,000 taxpayers who already filed their taxes using the incorrect forms. IRS officials stated some of the mistakes favor the Government and some favor the taxpayer, making it basically a wash.

What authority do you have to suspend enforcement? And what is the citation in the Internal Revenue Code upon which you are relying to suspend enforcement in this situation?

*Answer.* The Secretary and the Commissioner have the authority under several sections of the Internal Revenue Code, including but not limited to sections 6404 and 7803, not to pursue the collection of unpaid taxes in certain circumstances, such as when the administration and collection costs involved would not warrant collection of the amounts due.

*Question.* Would overpayment or underpayment this year affect their returns for next year?

*Answer.* No. The amount of tax reported for 2014 will not affect the amount of tax for 2015.

*Question.* How many IRS employees are working to address these errors and what will be the total cost to the IRS to resolve this situation?

*Answer.* As the provider of these forms, any questions you have concerning the cost to provide corrected forms should be directed to CMS. The IRS accepts roughly billions of information returns every year and is very accustomed to receiving corrected information returns in the normal course of operations.

*Question.* California recently announced it sent incorrect tax forms to 100,000 households that received Federal premium subsidies on its State exchange.

Is the IRS planning to allow California residents who underpaid Federal taxes to be off the hook?

*Answer.* On March, 20, 2015, Treasury announced relief for tax filers who enrolled through a State-based Marketplace. That relief was similar to the relief it had announced for individuals who enrolled in federally facilitated Marketplace qualifying coverage, received an incorrect Form 1095-A, and filed his or her tax return based on that form.

## ACA COSTS

*Question.* According to GAO, from 2010 to 2014, the IRS has already spent \$1.1 billion on implementation of the Affordable Care Act. Your fiscal year 2015 budget requested \$451 million for ACA and you've requested another \$490 million in fiscal year 2016, to be supplemented with user fees and other resources. The passage of the ACA has had a significant impact on the IRS.

Does the IRS have a comprehensive multi-year strategic plan for implementing its significant responsibilities under the Affordable Care Act?

*Answer.* The IRS's 2014-2017 Strategic Plan (<http://www.irs.gov/pub/irs-pdf/p3744.pdf>) provides for the implementation of the tax provisions of the ACA in a timely and straightforward manner, including significant IT development and systems modifications. Different tax provisions of the ACA are administered by different Business Operating Divisions at the IRS. For example, the insurance provider

fee under section 9010 of the ACA is administered by the Large Business and International Division, while the premium tax credit is administered by the Wage and Investment Division. These divisions have already implemented most of the nearly 50 tax provisions of the ACA. The 2014 Internal Revenue Service Data Book (<http://www.irs.gov/pub/irs-soi/14databk.pdf>, pages 71–72) contains a summary of the provisions implemented through 2014. The schedule of the significant remaining provisions to be implemented is as follows:

- 2015.—Accept and validate new voluntary ACA Information Returns (employer and provider reporting) (IRC sections 6055 and 6056);
- 2016.—Expand intake and validation for paper and electronic submissions of mandatory ACA Information Returns (employer and provider reporting) (IRC sections 6055 and 6056);
- 2016.—Enforcement of employer shared responsibility provision (IRC section 4980H); and
- 2018.—Implementation of Excise Tax on High-Cost Health Plans (IRC section 4980I).

*Question.* Will you provide the subcommittee with a copy of that plan including expected milestones and a detailed breakdown of the source of these funds that will be used to implement the plan, how funds have been spent so far, and an estimate of on-going costs of the implementation?

*Answer.* Please see the previous response for links to the IRS's Strategic Plan. Below is a table showing amounts spent to date on each provision, as well as the projected funding for fiscal year 2015 and request for fiscal year 2016.

**ACA ACTUALS BY FUNCTION**  
FISCAL YEAR 2010–FISCAL YEAR 2012

	Taxpayer Services		Enforcement		Operations Support		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Fiscal Year 2010:								
Administer New Fees on Drug Manufacturers and Health Insurers .....			345	1			345	1
Strengthen Oversight of Exempt Hospitals ..	5		407	3	2		414	3
Promoting Compliance with Other New Provisions .....	130	1	674	4	22		826	5
Program Management .....					122		122	0
Support of Implementation & Taxpayer Issues (e.g. Counsel, Appeals) .....	4		2,356	14			2,360	14
Customer Service Support (Outreach, Phones & Other Support) .....	1,209	9	61	1	29		1,299	10
Information Technology, Operations & Support & Infrastructure/Deliver New Tax Credits & Individual Coverage Requirement .....					15,340		15,340	0
Fiscal Year 2010 Total .....	\$1,348	10	\$3,843	23	\$15,515	0	\$20,706	33
Fiscal Year 2011:								
Administer New Fees on Drug Manufacturers and Health Insurers .....	0		667	4			667	4
Strengthen Oversight of Exempt Hospitals ..	39		4,476	39	10		4,525	39
Promoting Compliance with Other New Provisions .....	373		11,160	89	109	1	11,642	90
Program Management .....	0		35	1	8,331	41	8,366	42
Support of Implementation & Taxpayer Issues (e.g. Counsel, Appeals) .....	96	1	4,913	30			5,009	31
Customer Service Support (Outreach, Phones & Other Support) .....	3,359	42	2,563	34	97	1	6,019	77
Information Technology, Operations & Support & Infrastructure/Deliver New Tax Credits & Individual Coverage Requirement .....	0		0		131,928	294	131,928	294
Fiscal Year 2011 Total .....	\$3,867	43	\$23,814	197	\$140,475	337	\$168,156	577
Fiscal Year 2012:								
Administer New Fees on Drug Manufacturers and Health Insurers .....			1,136	8			1,136	8
Strengthen Oversight of Exempt Hospitals ..	168	1	3,859	34	2		4,029	35
Promoting Compliance with Other New Provisions .....	258	2	8,035	65			8,293	67
Program Management .....	6		105	0	17,798	49	17,909	49
Support of Implementation & Taxpayer Issues (e.g. Counsel, Appeals) .....	16		5,158	37			5,174	37
Customer Service Support (Outreach, Phones & Other Support) .....	2,291	32	2,354	32	66		4,711	64
Information Technology, Operations & Support & Infrastructure/Deliver New Tax Credits & Individual Coverage Requirement .....					257,961	407	257,961	407
Fiscal Year 2012 Total .....	\$2,739	35	\$20,647	176	\$275,827	456	\$299,213	667
Total Fiscal Year 2010–2012 .....	\$7,954	88	\$48,304	396	\$431,817	793	\$488,075	1,277



**ACA ACTUALS BY ACCOUNT**  
**FISCAL YEAR 2013 AND FISCAL YEAR 2014 WITH FISCAL YEAR 2015 PROJECTION**

	Taxpayer Services		Enforcement		Operations Support		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
<b>Fiscal Year 2013:</b>								
Administer New Fees on Drug Manufacturers and Health Insurers .....			1,509	10			1,509	10
Promoting Compliance With Other New Provisions .....	211	1	9,036	71	112	1	9,359	73
Strengthen Oversight of Exempt Hospitals	34		3,464	30	29		3,527	30
Administer Adoption Credit .....			241	3			241	3
Support of Implementation & Taxpayer Issues (Counsel, Appeals & TAS) .....	46		5,020	32			5,066	32
Applications Development/Systems Software Contracts Systems Testing & Delivery .....					248,694	446	248,694	446
Program Management, Business Design and Specifications and Oversight of Data Sharing of Federal Tax Information .....	225	2	38		11,556	58	11,819	60
Customer Service Assist Taxpayers .....	3,752	47					3,752	47
<b>Fiscal Year 2013 Total .....</b>	<b>\$4,268</b>	<b>50</b>	<b>\$19,308</b>	<b>146</b>	<b>\$260,391</b>	<b>505</b>	<b>\$283,967</b>	<b>701</b>
<b>Fiscal Year 2014:</b>								
Administer New Fees on Drug Manufacturers and Health Insurers .....			2,133	14			2,133	14
Promoting Compliance With Other New Provisions .....	396	2	6,581	46	194	1	7,171	49
Strengthen Oversight of Exempt Hospitals	3	1	2,829	25	25	0	2,857	26
Assist Taxpayers Understanding ACA Issues .....	11,477	164	1,039	10	803	6	13,319	180
Support of Implementation & Taxpayer Issues (Counsel, Appeals & TAS) .....	521	4	3,979	24			4,500	28
Applications Development Systems Software Contracts Systems Testing & Delivery .....					341,352	628	341,352	628
Program Management, Business Design and Specifications and Oversight of Data Sharing of Federal Tax Information .....	-258		4		15,489	51	15,235	51
<b>Fiscal Year 2014 Total .....</b>	<b>\$12,139</b>	<b>171</b>	<b>\$16,565</b>	<b>119</b>	<b>\$357,863</b>	<b>686</b>	<b>\$386,567</b>	<b>976</b>
<b>Fiscal Year 2015 Projection:</b>								
Administer New Fees on Drug Manufacturers and Health Insurers .....			2,337	15			2,337	15
Promoting Compliance With Other New Provisions .....	1,213	9	5,930	45	243	2	7,386	56
Strengthen Oversight of Exempt Hospitals	290	2	2,834	24	11		3,135	26
Assist Taxpayers Understanding ACA Issues .....	110,091	1,628	5,671	84	1,284	10	117,046	1,722
Support of Implementation & Taxpayer Issues (Counsel, Appeals & TAS) .....	16,433	164	3,809	22			20,242	186
Applications Development Systems Software Contracts Systems Testing & Delivery .....					369,591	767	369,591	767
Program Management, Business Design and Specifications and Oversight of Data Sharing of Federal Tax Information .....					13,867	56	13,867	56
<b>Fiscal Year 2015 Projection Total .....</b>	<b>\$128,027</b>	<b>1,803</b>	<b>\$20,581</b>	<b>190</b>	<b>\$384,996</b>	<b>835</b>	<b>\$533,604</b>	<b>2,828</b>

For fiscal year 2016, the President's budget request includes \$490.4 million for implementation of the Affordable Care Act. Those funding requirements are further explained in the chart below:

FISCAL YEAR 2016 AFFORDABLE CARE ACT (ACA)

[Dollars in thousands]

	Taxpayer Services		Enforcement		Operations Support		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Fiscal Year 2015 Enacted:								
Reinvestment:								
Expand Telecom Infrastructure to Handle Increased Demand .....					16,025		16,025	
Subtotal Fiscal Year 2016 Changes to Base .....					\$16,025		\$16,025	
Fiscal Year 2016 ACA Program Increases:								
Improve Taxpayer Services .....	78,343	1,231			23,154	7	101,497	1,238
Address Impact of Affordable Care Act (ACA) Statutory Requirements .....	108	1	44,775	432	22,323	50	67,206	483
Implement Information Technology (IT) Changes to Deliver Tax Credits and Other Requirements .....					305,645	818	305,645	818
Subtotal Fiscal Year 2016 ACA Program Increases .....	\$78,451	1,232	\$44,775	432	\$351,122	875	\$474,348	2,539
Total Fiscal Year 2016 ACA Budget Request .....	\$78,451	1,232	\$44,775	432	\$367,147	875	\$490,373	2,539

*Question.* Will you also provide us with specific information on the impact of ACA implementation on the IRS's ability to carry out its core mission responsibilities?

*Answer.* The tax provisions of ACA are a core activity of the Service, like all other tax administration. The IRS does not consider customer service and enforcement and implementation of the ACA distinct priorities. No funds have been appropriated to the IRS for ACA implementation, including the increased demand for customer service and enforcement as a result of the legislative changes. To help fund implementation, the IRS has relied on a mix of base appropriations and external sources, including the Health Insurance Reform Implementation Fund and user fee collections. As we move forward, the President's budget outlines the investments that would ensure IRS is able to successfully deliver its core mission. The IRS will continue to balance its requirements and funding availability to ensure accomplishment of mission critical requirements. The IRS will continue to review and evaluate all risks, plan to mitigate those risks, and manage residual risk to implement all legislative requirements while reducing the burden on the taxpaying public and its staff. Approving the President's budget would greatly enhance the ability to do this. Funding below this request will, for example, delay critical IT upgrades for aged hardware and other infrastructure assets, with 52 percent approaching end-of-life in fiscal year 2016; delay upgrades for operating systems and middleware that support our current production environment, many of which are slipping to 3 and 4 versions behind current; delay roll-out of our converged networks initiative for more efficient and cost-effective voice and data system consolidation and hinder the IRS's efforts to move to a CloudFirst technology platform and reap efficiencies by moving toward this new platform.

ACA IMPLEMENTATION

*Question.* The TIGTA has identified significant concerns about potential fraudulent claims related to premium tax credits and the security of Federal tax data as the IRS provides data to health exchanges. The IRS is also administering penalties related to the individual mandate and may be trying to seek collection of premium tax credits provided to ineligible taxpayers and collection of overpayments of tax credits.

The IRS continues to report that more than 20 percent of Earned Income Tax Credit (EITC) payments are issued improperly each year. How is the IRS ensuring that implementation of the premium tax credit isn't being plagued with the same problems?

*Answer.* An individual is not entitled to the premium tax credit unless the individual was enrolled in qualifying Marketplace coverage for at least 1 month during the year. At the time the individual files his or her income tax return, the IRS has

data from the Marketplaces indicating whether the person had qualifying Marketplace coverage, who in the family was covered, amount of premiums paid and whether the individual received advance payments of the premium tax credit. Thus, unlike the EITC, the IRS has probative third party information at the time the return is filed that will be used to minimize the likelihood that a fraudulent claim for credit will be successful. In addition, the IRS has other fraud filters and tools to detect and deter taxpayers from filing fraudulent tax returns.

*Question.* How is the IRS planning to seek collection of premium tax credits provided to ineligible taxpayers and collection of overpayments of tax credits?

*Answer.* As indicated in the previous response, the IRS has third party information from the Marketplaces that can be used to determine whether or not an individual is entitled to the premium tax credit. Before the IRS processes claims for premium tax credit, it may correspond with taxpayers if additional information is required. If necessary the IRS will use its normal collection processes to recover erroneous payments of the premium tax credit. Erroneous premium tax credit payments can be recovered through future refund offsets.

#### USER FEES

*Question.* The IRS collects a long list of fees it charges for services provided to taxpayers. Those fees are then used to supplement appropriations made to the IRS. To use the funds, the IRS simply has to submit a user fee spend plan with justification to OMB. The fiscal year 2016 budget anticipates \$450 million in user fees. In fiscal year 2015, the IRS anticipates \$480 million in fees and plans to spend \$384 million on Operations Support, which includes \$220 million on ACA information technology needs. The IRS is on track to spend over \$475 million in user fees on ACA from fiscal year 2013 through fiscal year 2015.

Please provide the subcommittee with specific information as to how you decide how to allocate those fees? Why did you decide to spend \$220 million on ACA implementation in fiscal year 2015 but only \$45 million on Taxpayer Services?

*Answer.* The IRS's senior leadership uses a deliberate decisionmaking process to determine priorities based on a variety of factors, including whether it is statutorily mandated or discretionary. The Service then allocates available appropriated resources against those requirements. We then determine the unfunded mission critical requirements and identify what additional resources are available from other sources, such as user fees or reimbursable services, and allocate those resources against the Servicewide requirement.

The IRS determines the distribution of user fees based on a detailed review of agency-wide requirements and the total IRS funding availability in a given year. The fiscal year 2015 budget reduction necessitated a series of difficult decisions. These decisions included developing and implementing a user fee spend plan that will allow the Service to fund mission critical requirements, including unfunded legislative mandates, IT operations and maintenance, life cycle replacement, modernization, and improving online and toll-free customer services.

#### IDENTITY THEFT

*Question.* Identity theft tax refund fraud is a persistent, evolving threat which has a significant impact on tax administration. According to GAO, the IRS estimates it paid \$5.2 billion in fraudulent identity theft refunds in filing season 2013, while preventing \$24.2 billion (based on what it could detect).

According to GAO, IRS does not know the full extent of the occurrence of identity theft. Officials said that they count the refund fraud cases that IRS identifies but that they do not estimate the number of identity theft cases that go undetected. Unless IRS pursues a criminal investigation, IRS generally does not know the real identity of the thieves or whether a fraudulent return is an individual attempt or part of a broader scheme.

IRS officials have also told GAO that the agency does not systematically track characteristics of known identity theft returns, including the type of return preparation (e.g., paid preparer or software), whether the return is filed electronically or on paper, or how the individual claimed a refund (e.g., check, direct deposit, or debit card).

Given the enormity of this problem and the impact on innocent taxpayers, how is the IRS working with other agencies to leverage resources and coordinate efforts to address a problem which is growing exponentially?

*Answer.* The IRS has a comprehensive and aggressive identity theft strategy focused on preventing refund fraud, investigating these crimes, and assisting taxpayers victimized by identity thieves. In calendar year 2014 alone, our efforts have suspended or rejected 5.6 million suspicious returns. We stopped 1.8 million con-

firmed identity theft returns, totaling in \$10.8 billion refunds stopped. Additionally, we stopped \$5 billion worth of refunds for other types of fraud, totaling \$15.8 billion of confirmed fraudulent refunds protected. During this time we also worked with victims of identity theft to resolve and close more than 826,000 cases. Effectively combating identity theft is costly. In fiscal year 2014, for example, the IRS spent more than \$380 million combating identity theft and assisting innocent victims, but this effort needs to be expanded. The fiscal year 2016 President's budget requests an additional \$101 million to continue and expand this important work.

The IRS works with many agencies and organizations to leverage resources to combat identity theft refund fraud. For example, on March 19, 2015, the IRS convened a meeting with leading tax-preparation firms, payroll and tax refund processors, and State tax administrators in order to combat the growing threat of tax refund fraud. Participants in the meeting included the CEOs of Intuit, H&R Block, Jackson Hewitt, Liberty Tax, CCH, and Green Dot unit TPG, among others. Also present were a representative of ADP; members and staff of the Federation of Tax Administrators, a group of State tax officials; and Council for Electronic Revenue Communication Advancement (CERCA), which provide a forum and a liaison between the IRS and the tax software industry. The participants agreed to set up three working groups to create a list of solutions that could be acted on immediately in time for the 2016 filing season, as well as some longer-term changes. The groups will focus on taxpayer authentication; fraud schemes; and information sharing among private industry, State administrators and the IRS. Each will have representatives from the IRS, State agencies and private industry. The three working groups had their kick-off meeting on April 2, 2015.

Another example of working with other agencies is the State Fraud Referrals initiative. This program encourages States to share their tax fraud data with the IRS in order to combat ID theft and fraud. In November 2013, the IRS initiated testing of the State Fraud Referral project which proved to further deter tax fraud. This project was implemented in calendar year 2014. The State Fraud Referral project leverages State tax agencies as an additional source of fraud data. Currently 34 States have signed agreements to participate. The IRS has been working with State revenue agencies to provide fraudulent State tax data to the IRS and continues to work with the remaining States to receive suspicious filer information. From January through March 13, 2015, the IRS has received referrals from 15 States:

- Current referrals: 74,740
- Total number of filed returns based on these referrals: 28,643
- Stopped a total of 5,157 returns with over \$26.5 million in refunds claimed
- Of the 5,157 returns, 4,981, were identified by IRS filters for over \$25.5 million in refunds stopped

IRS Criminal Investigation (CI) investigates tax-related crimes such as identity theft fraud and recommends prosecution to the Department of Justice. The number of identity theft investigations initiated by CI increased from less than 300 in fiscal year 2011 to 1,063 in fiscal year 2014. Indictments in fiscal year 2014 increased to 896 while 748 convicted thieves were sentenced to an average prison sentence of 43 months.

To leverage shrinking resources and remain effective in combating identity theft crimes, CI partners with other IRS Operating Divisions, numerous Federal and local law enforcement agencies, as well as the private sector. For example, CI participates in many task forces and working groups to find and investigate identity thieves. CI administers a Law Enforcement Assistance Program designed to allow local law enforcement to access return and return information with an identity theft victim's consent and these cases are prosecuted in State courts which reduce the burden on Federal court resources. CI also works with private sector partners to increase awareness and establish communications for reporting data breaches impacting tax identity theft.

In addition, CI uses information and trends identified during ongoing investigations to assist in developing analytics which it devotes to identify and prevent further losses to the Treasury. Lists of victim identities recovered in the field are shared to assist in protecting taxpayers from further victimization, which reduces the burden on all Federal resources.

The IRS also continues to collaborate with the software and financial institution industries to identify patterns, trends and schemes that impact refund returns. IRS also has initiated additional collaboration with the Bureau of the Fiscal Service on multiple direct deposits and payments shared between government agencies in the development of the new Payment Processing System (PPS). The PPS system is expected to be online in September 2016.

We agree that more could and should be done to battle identity theft and refund fraud, but the current budget situation has severely hampered our ability to effectively deal with this problem. The IRS is committed to doing all that we can to prevent the payment of fraudulent refunds, pursue the perpetrators, and assist victims to resolve their issues as quickly and efficiently as possible.

*Question.* Why are the funds requested to address to prevent future identify theft cases included in a program integrity cap adjustment rather than the IRS base budget?

*Answer.* Identity theft is a Service-wide effort and funds are requested in both the base request and as part of the Program Integrity Cap adjustment request. Those components, which are expected to yield a high return-on-investment (stopping identity thieves and mitigating identity theft), are requested in the cap adjustment, while those components which assist victims of identity theft are included in the base request. Both requests are equally important, regardless of which part of the budget they appear.

#### IRS BANK ACCOUNT SEIZURE OF SMALL BUSINESSES

*Question.* A number of alarming stories about the civil forfeiture practices at the IRS has raised concerns about your practice of seizing bank accounts of small businesses that routinely make bank deposits just under \$10,000 and never charging them with a crime.

In many cases, small business owners are forced to go months if not years without access to working capital for their businesses.

In testimony before the House Ways and Means Committee on February 11, 2015, a representative of the Institute for Justice stated that the IRS seized more than \$242 million between 2005 and 2012 from Americans suspected of hiding transactions below \$10,000, yet more than half of that amount was not ultimately forfeited by the IRS.

Do you agree with these statistics? And are you concerned that the IRS seized substantial amounts of money that it ultimately could not justify keeping?

*Answer.* The IRS Criminal Investigation (CI) division provided the Institute for Justice with seizure and forfeiture data captured in our asset forfeiture tracking system from October 2004 to December 2013. We agree that while the raw data is accurate, it is also incomplete. A number of open cases had not yet been resolved (forfeiture perfected) by December 31, 2013, thus giving a false impression that the Government had not prevailed in many of the seizures that were reported. Also, the Institute excluded seizure/forfeiture data from the U.S. Territories, which was incorporated in our FOIA response.

CI does not believe that the IRS seized substantial amounts of money that it ultimately could not justify keeping. The Institute for Justice interpreted the difference between the value of assets at the time of seizure and the value of assets at the time of forfeiture as an indication that probable cause for the seizures was lacking. However, there may be a number of reasons that explain the lower asset value at the time of forfeiture which have nothing to do with the merits of the initial seizure. For example, the raw data contains seizures which relate to open investigations in which the assets have not yet been forfeited, or a portion of the seized asset may have been returned to the owner as part of a negotiated settlement which is not uncommon in judicial proceedings. The Institute of Justice made conclusions based on assumptions from incomplete raw data.

*Question.* Under the new IRS policy governing civil asset forfeitures, do you expect a higher percentage of the seized funds to ultimately be forfeited rather than returned to innocent taxpayers?

*Answer.* IRS Criminal Investigation changed its policy regarding “legal source” structuring seizures occurring on or after October 17, 2014. Under this policy, the IRS will not pursue the seizure and forfeiture of funds associated solely with “legal source” structuring cases unless (1) there are exceptional circumstances justifying the seizure and forfeiture and (2) the case has been approved at the Director of Field Operations, a Headquarters level executive. Under the new policy there will be no “legal source” structuring seizures unless there are exceptional circumstances, which will be rare.

#### PROPOSED 501(C)(4) REGULATIONS

*Question.* The IRS received over 150,000 comments in response to proposed regulations it issued in November of 2013 on the rules governing the political activities of 501(c)(4) social welfare organizations.

As a result, the IRS announced that it will repropose the regulations, after taking the comments into account, and will not hold a public hearing on the new rules until they are reproposed.

When does the IRS plan to issue new revised proposed regulations?

Does the IRS intend to hold a public hearing on new proposed rules?

Given the unfair treatment of taxpayers based on the exercise of their constitutional rights, what steps is the IRS taking to ensure the new rules won't target the first amendment rights of these same grass-roots groups?

Answer. Proposed regulations under § 501(c) relating to political campaign intervention are on the 2014–2015 Priority Guidance Plan released by Treasury and the IRS in August 2014. The Priority Guidance Plan represents projects on which Treasury and the IRS intend to work during the plan year. Although the current plan year ends on June 30th, the Priority Guidance Plan does not place any deadline on completion of projects. The IRS continues to work expeditiously on drafting new proposed regulations under § 501(c), with the goal of providing clearer guidelines regarding political campaign intervention both for the IRS employees who administer the laws and for organizations that have or seek tax-exempt status. The public input the IRS received on the November 2013 proposed regulations has greatly informed the drafting process. Consistent with the IRS's normal procedure, there will be an opportunity for the public to submit written comments on new proposed regulations. In addition, Treasury and the IRS plan to hold a public hearing after new proposed regulations are issued, and, consistent with the IRS's normal procedure, a notice of public hearing will be published in the Federal Register [] in advance of the scheduled hearing date.

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#### QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER A. COONS

##### CLARITY IN RULES FOR TAX-EXEMPT STATUS

*Question.* Commissioner Koskinen, I support the need to make meaningful changes to ensure that the rules to qualify for tax-exempt status are abundantly clear. We need a bright-line test to replace the guidance that has led to over a half a century of confusion and inconsistent application. I understand the IRS is currently developing a revised proposal to bring long-needed clarity to the determination of eligibility for tax-exempt status of social welfare groups.

What are the current plans and timetable for issuing a revised proposal for tax-exempt status rules?

What opportunities will be made available for soliciting public input?

Until the rules are changed, what test or criteria is the IRS currently using to evaluate applicants for tax-exempt status as social welfare groups?

Answer. Proposed regulations under § 501(c) relating to political campaign intervention are on the 2014–2015 Priority Guidance Plan jointly released by the Department of the Treasury (Treasury) and the IRS in August 2014. The Priority Guidance Plan represents projects on which Treasury and the IRS intend to work during the plan year. Although the current plan year ends on June 30th, the Priority Guidance Plan does not place any deadline on completion of projects. The IRS continues to work expeditiously on drafting new proposed regulations under § 501(c), with the goal of providing clearer guidelines regarding political campaign intervention both for the IRS employees who administer the laws and for organizations that have or seek tax-exempt status. The public input received on the November 2013 proposed regulations has greatly informed the drafting process. Consistent with the IRS's normal procedure there will be an opportunity for the public to submit written comments on new proposed regulations. In addition, Treasury and the IRS plan to hold a public hearing after the new proposed regulations are issued, and, consistent with the IRS's normal procedure, a notice of public hearing will be published in the Federal Register in advance of the scheduled hearing date. Final regulations would be published only after taking into consideration public comments received on the proposed regulation. Until final regulations are issued, whether an organization qualifies for tax exempt status under § 501(c)(4) is determined under the current regulations. Accordingly, the IRS will consider whether, based on all the facts and circumstances, the organization primarily engages in activities that promote social welfare.

##### ENHANCED ONLINE SERVICES OPTIONS

*Question.* The IRS's fiscal year budget request seeks \$16.2 million to support development of a customer-centric "Service on Demand" strategy to improve the taxpayer experience. Investments would create digital capabilities to make taxpayer

interactions with the IRS quicker and more convenient. The GAO has also identified some opportunities for the IRS to potentially realize hundreds of millions of dollars in cost savings and increased revenues, including enhancing online and interactive Web services to improve service to taxpayers and encourage greater tax law compliance.

Please elaborate on this proposal and your vision. Is it your view that advancements to IRS online services would improve service to taxpayers and encourage greater tax law compliance? How?

Answer. American consumers have grown accustomed to instant digital exchanges with their banks and other financial institutions. We believe that delivering top quality service to America's taxpayers requires us to catch up with those expectations to operate seamlessly in a digital and global environment. Our proposal would make tax accounts work much like bank accounts, thereby simplifying compliance and making tax administration more sustainable. This budget item is the initial funding required to begin to improve service and promote compliance by providing taxpayers with virtual assistance and online self-service tools to communicate with the IRS, identify issues, resolve errors, and receive on-demand digital access to tax law, and account information, helping taxpayers to voluntarily comply.

Virtual assistance and digital self-service tools could help taxpayers quickly identify issues and resolve errors, and taxpayers who are trying to comply but who have overlooked a payment or an item on their return could avoid being trapped in a long, cumbersome paper-trail just to fix a mistake or resolve an uncontentious issue. With faster error resolution, we could identify issues at the same time that we identify math errors, fraud and identity theft, and we would communicate them upfront, so that the majority of taxpayers could resolve even complex compliance issues sooner, without incurring unnecessary interest costs. In addition, versatile communications channels would allow taxpayers to reach the IRS through their mobile smart-phone, laptop computer, or a self-service kiosk, which would empower them to take more active control of their tax account. These advancements will leverage capabilities built and proven in the private sector.

*Question.* The IRS's approach to the future supports all taxpayers—individuals, corporations, partnerships, and other for-profit and non-profit businesses. What impediments currently prevent the IRS from doing more to improve online services for taxpayers? What resources would be required for the IRS to do more in this area?

Answer. The fiscal year 2016 President's budget includes \$18 million for information technology upgrades and new capabilities to Enhance Service Options for Taxpayers, an additional \$5.5 million above the fiscal year 2015 level in Business Systems Modernization (BSM) funding, to start moving the Service toward a more digitally focused customer service strategy. These resources will enable the IRS to define a long-term vision and deliver new online service tools and technologies to begin the transition to a digital operating environment. However, transitioning to a digital environment will be a multi-year process requiring IT investments in key building blocks such as identity authentication to protect taxpayer information, integrated case management to ensure a seamless taxpayer experience, and data analytics to continuously improve effectiveness.

#### IMPLEMENTING THE AFFORDABLE CARE ACT

*Question.* The Affordable Care Act (ACA) represents the largest set of tax law changes in more than 20 years, with more than 40 provisions that amend the tax laws. The IRS has significant responsibilities in implementing and administering the ACA, including taxpayer education and outreach, deliverance of tax credits, and development of new IT infrastructure to support all of these areas.

What challenges is the IRS facing as it implements and administers the ACA?

Answer. Since the ACA is a legislative mandate, the IRS is doing everything possible to sufficiently fund its implementation. The tax provisions of the ACA are a core activity of the Service, like all other tax administration. The IRS does not consider customer service and enforcement and implementation of the ACA distinct priorities. No funds have been appropriated to the IRS for ACA implementation, including the increased demand for customer service and enforcement as a result of ACA. To help fund implementation, the IRS has relied on a mix of base appropriations and external sources, including the Health Insurance Reform Implementation Fund and user fee collections. As we move forward, the President's budget outlines the investments that would ensure IRS is able to successfully deliver its core mission.

*Question.* The \$452 million dollars the IRS requested in fiscal year 2015 specifically for ACA activities was not enacted. What funding level are you budgeting for ACA work this year in the absence of receiving the increased dedicated funds?

Answer. As noted, no funds have been appropriated to the IRS for ACA implementation, including the increased demand for customer service and enforcement as a result of ACA. The table below outlines the fiscal year 2015 projected funding level by use.

	Taxpayer Services		Enforcement		Operations Support		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Fiscal Year 2015 Projection:								
Administer New Fees on Drug Manufacturers and Health Insurers .....			2,337	15			2,337	15
Promoting Compliance With Other New Provisions .....	1,213	9	5,930	45	243	2	7,386	56
Strengthen Oversight of Exempt Hospitals	290	2	2,834	24	11		3,135	26
Assist Taxpayers Understanding ACA Issues .....	110,091	1,628	5,671	84	1,284	10	117,046	1,722
Support of Implementation & Taxpayer Issues (Counsel, Appeals & TAS) .....	16,433	164	3,809	22			20,242	186
Applications Development Systems Software Contracts Systems Testing & Delivery .....					369,591	767	369,591	767
Program Management, Business Design and Specifications and Oversight of Data Sharing of Federal Tax Information .....					13,867	56	13,867	56
Fiscal Year 2015 Projection Total .....	\$128,027	1,803	\$20,581	190	\$384,996	835	\$533,604	2,828

*Question.* How will the IRS's budget request for 2016 for \$490.4 million support successful fulfillment of IRS's responsibilities in administering the requirements of the ACA?

Answer. The IRS's fiscal year 2016 budget request will allow us to:

- Meet the projected increased taxpayer demand for toll-free and face-to-face assistance and outreach resulting from ACA implementation and improve the effectiveness and efficiency of service responses;
- Expand staffing to assist with managing the ACA submission processing workload and provide advanced technology to electronically receive amended returns;
- Conduct compliance around the premium tax credit, process individual exemptions from health insurance coverage requirements, and assess individual responsibility payments;
- Process new information reporting for certain employers and health insurance providers;
- Send ACA compliance-related notices to taxpayers;
- Implement new technology and modify existing systems to be able to calculate and assess Employer Shared Responsibility Payments;
- Maintain and expand repositories that store data about household-level income to help determine eligibility for and reconciliation of the premium tax credit;
- Administer fees on drug manufacturers and health insurers; and
- Strengthen oversight of tax exempt hospital organizations, including refining the community benefit reviews and leveraging this data to conduct examination.

*Question.* How does the IRS plan to continue to implement legislative requirements, such as the ACA and the Foreign Account and Tax Compliance Act (FATCA) also enacted in 2010, if additional funding is not received?

Answer. The IRS senior leadership uses a deliberate decisionmaking process to determine priorities based on a variety of factors, including whether it is statutorily mandated or discretionary. The IRS then allocates available appropriated resources against those requirements. We then determine the unfunded mission critical requirements and identify what additional resources are available from other sources, such as user fees or reimbursable services, and allocate those resources against the Servicewide requirement. For any given fiscal year, the IRS faces challenges when it does not receive the requested funding. With the IRS's responsibilities to administer all of the tax laws, including implementing the tax provisions of the ACA and FATCA, the IRS must balance its responsibilities to provide services to taxpayers, follow up on potential non-compliance, and invest for the future in information technology and workforce development.

*Question.* From what core activities will resources be diverted away in order for IRS to address the ACA and FATCA requirements?

Answer. The tax provisions of ACA and FATCA are a core activity of the IRS, like all other tax administration. The IRS does not consider customer service and enforcement and implementation of the ACA and FATCA distinct priorities. No funds



have been appropriated to the IRS for ACA and FATCA implementation, including the increased demand for customer service and enforcement as a result of the legislative changes. To help fund implementation, the IRS has relied on a mix of base appropriations and external sources, including the Health Insurance Reform Implementation Fund and user fee collections. As we move forward, the President's budget outlines the investments that would ensure IRS is able to successfully deliver its core mission. The IRS will continue to balance its requirements and funding availability to ensure accomplishment of mission critical requirements. The IRS will continue to review and evaluate all risks, plan to mitigate those risks, and manage residual risk to implement all legislative requirements while reducing the burden on the taxpaying public and its staff. Approving the President's budget would greatly enhance the ability to do this. Funding below this request will, for example, delay critical IT upgrades for upgrades for aged hardware and other infrastructure assets, with 52 percent approaching end-of-life in fiscal year 2016; delay upgrades for operating systems and middleware that support our current production environment, many of which are slipping to 3 and 4 versions behind current; delay roll-out of our converged networks initiative for more efficient and cost-effective voice and data system consolidation and hinder the IRS's efforts to move to a CloudFirst technology platform and reap efficiencies by moving toward this new platform.

#### ERROR RATES AND TAXPAYER EDUCATION

*Question.* Does the IRS track and evaluate the extent to which particular aspects of the forms, instructions, or Tax Code provisions tend to generate a significant amount of taxpayer confusion or produce inadvertent unintentional errors in filed returns?

Answer. Please see answer below.

*Question.* When the IRS identifies an item or issue that appears to be causing routine or systemic problems, what do you do in response?

Answer. The IRS updates and enhances forms, instructions and publications annually to reflect tax changes. We also provide worksheets, tips and other information to make it easier for taxpayers to meet their tax filing obligation and reduce errors. Each year, we include in many publications and instructions a "What's New" section that summarizes important tax changes that took effect. For tax year 2014, for example, these topics included expired tax benefits, the Health Care Premium Tax Credit, the personal exemption amount increased for certain taxpayers, and more. In addition, we offer a wide variety of resources to assist taxpayers such as IRS Tax Tips, calculators, IRS "Services Guide" (e.g. how to get help with general tax law information, getting a transcript or copy of a return, finding a qualified tax professional, finding information about the Health Care Law, etc.).

Each year, the IRS also tells taxpayers how to avoid common tax-filing errors including:

1. *Wrong or missing Social Security Numbers.*—Be sure you enter all SSNs on your tax return exactly as they are on the Social Security cards.
2. *Wrong names.*—Be sure you spell the names of everyone on your tax return exactly as they are on their Social Security cards.
3. *Filing status errors.*—Some people use the wrong filing status, such as Head of Household instead of Single. The Interactive Tax Assistant on IRS.gov can help you choose the right status. If you e-file, the tax software helps you choose.
4. *Math mistakes.*—Double-check your math. For example, be careful when you add or subtract or figure items on a form or worksheet. Tax preparation software does all the math for e-filers.
5. *Errors in figuring credits or deductions.*—Many filers make mistakes figuring their Earned Income Tax Credit, Child and Dependent Care Credit, and the standard deduction. If you're not e-filing, follow the instructions carefully when figuring credits and deductions. For example, if you're age 65 or older or blind, be sure you claim the correct, higher standard deduction.
6. *Wrong bank account numbers.*—You should choose to get your refund by direct deposit. Be sure to use the right routing and account numbers on your return. The fastest and safest way to get your tax refund is to combine e-file with direct deposit.
7. *Forms not signed.*—An unsigned tax return is like an unsigned check—it's not valid. Both spouses must sign a joint return.
8. *Electronic filing PIN errors.*—When you e-file, you sign your return electronically with a Personal Identification Number. If you know last year's e-file PIN, you can use that number. If you don't know it, enter the Adjusted Gross In-

come from the 2013 tax return you originally filed with the IRS. Do not use the AGI amount from an amended return or a return the IRS corrected.

Filing electronically vastly reduces tax return errors as the tax preparation software does the calculations, flags common errors and prompts taxpayers for missing information. Whether self-prepared by the taxpayer or prepared by a paid preparer, the best way to avoid errors is to use tax preparation software. For Processing Year 2015 (through week ending March 27, 2015) the error rate for individual paper tax returns was 28.01 percent versus only 4.30 percent for e-filed individual tax returns. IRS e-file is the most accurate way to file a tax return.

When the IRS identifies certain mathematical or clerical errors, or other specific irregularities on returns during processing, we can automatically adjust the return for the taxpayer. At various times, Congress has expanded this math error authority on a case-by-case basis. The IRS would be able to significantly improve tax administration—including reducing improper payments and cutting down on the need for costly audits—if Congress were to enact the Budget proposal Provide the IRS with Greater Flexibility to Address Correctible Errors, to replace the existing specific grants of this authority with more general authority covering computation errors and incorrect use of IRS tables. Congress could also help in this regard by creating a new category of “correctible errors,” allowing the IRS to fix errors in several specific situations, such as when a taxpayer’s information does not match the data in certain Government databases.

*Question.* Are there particular tax credits that typically experience high error rates? What remedial actions do you recommend to reduce error rates?

*Answer.* One challenge in processing the millions of tax returns each year is that certain tax credits are more likely to have erroneous claims, as well as fraudulent claims and schemes. The IRS continues to improve the ways we detect errors and help taxpayers avoid making common mistakes.

One example is the Earned Income Tax Credit (EITC). We remind taxpayers of common EITC errors, including:

- Claiming a child who does not meet these qualifying child tests: relationship, age, and residency
- More than one person claiming the same child
- Filing as single or head of household when married
- Over- or under-reporting of income or expenses

These errors are caused by the complexity of the Tax Code. On IRS.gov, we provide EITC information and tools to assist taxpayers and help them avoid inadvertent or unintentional errors (<http://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit>).

Another example is the Child Tax credit. To help a taxpayer determine if the various criteria regarding the qualifying child are met, the IRS developed Schedule 8812 (Child Tax Credit). We also provide taxpayers with frequently asked questions such as:

- Can a noncustodial parent claim the child tax credit for his or her child?
- Can I claim both the child tax credit and the child and dependent care credit?
- Can I claim the child tax credit for a child who has an individual tax identification number (ITIN) rather than a Social Security number?

We also help taxpayers to avoid errors when claiming the American Opportunity Tax Credit and the Lifetime Learning Credit. We remind taxpayers of these common errors made when claiming education credits:

- Students listed as a dependent or spouse on another tax return
- Students who don’t have a Form 1098-T showing they attended an eligible educational institution
- Students who are not paying qualified education expenses
- Claiming the credit for a student not attending a college or other institute of higher education

#### IRS MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2015

*Question.* Each year, the Treasury Inspector General for Tax Administration (TIGTA) evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerabilities to the Nation’s tax system. On October 15, 2014, TIGTA issued its assessment enumerating the top ten management challenges. The #1 priority challenge cited by TIGTA for this year is security for taxpayer data and IRS employees.

The IRS relies extensively on its computer systems to support both its financial and mission-related operations. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, improper

disclosure or destruction, and that computer operations supporting tax administration are secured against disruption or compromise.

Computer security has been problematic for the IRS since 1997. In April 2014, GAO reported that the IRS is making progress in addressing information security control weaknesses; however, the GAO noted that weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data.

Mr. Koskinen, what are your perspectives on TIGTA's identification of the most challenging management concerns?

Answer. The IRS understands and honors the trust given to it by American taxpayers to safeguard their personal and private information. As part of that trust, the IRS realizes the importance of cybersecurity as a primary component of its information technology infrastructure. The IRS has been storing taxpayer data in digital form since 1970 and has a strong culture of placing a high-level of importance on protecting this data. Currently, the IRS takes a very aggressive approach in protecting taxpayer data by restricting Internet access; encryption of taxpayer data for any transmission externally; content filtering and strict firewall policies, and network security monitoring.

The IRS feels confident its systems demonstrate high resistance to the normal daily cyber-attacks seen across Government; however, there are no absolutes and, as with nearly all such current commercial cyber-defenses, it is very difficult to defend against sophisticated technologies as seen in recent state-sponsored attacks. While the IRS has a long history of successfully defending against attempts to steal taxpayer data, constant vigilance is needed. The IRS continues to divert scarce resources to cybersecurity, but with 5 years of decreasing appropriations, it is currently much more challenging for the IRS to continuously stay ahead of evolving threats to its cybersecurity.

The IRS is currently trying to move to a more robust interactive Web-based means of interacting with taxpayers. The American people have grown accustomed to instant financial exchanges with lenders, brokers, and banks. The IRS believes that delivering top quality service to America's taxpayers requires catching up to those expectations to operate seamlessly but securely in a digital and global environment. This change will significantly increase cybersecurity risks, requiring more resilience and protection of data.

*Question.* How does IRS leadership under your helm integrate findings and recommendations for corrective action suggested by GAO and TIGTA audits into strategic management decisionmaking and budget planning processes?

Answer. Each year GAO and TIGTA collectively issue dozens of recommendations from numerous audits. Those recommendations vary widely in scope and impact, and the IRS carefully considers each in the context of business processes and the IRS's ability to implement them. Where recommendations are minimally complex or relatively straightforward, such as those suggesting a change to the Internal Revenue Manual or an adjustment to the policy or processes that is limited in scale, has a minimal strategic impact, and requires few resources to implement, changes can be made with the approval of the appropriate official(s) and without significant consideration during the strategic planning and budgeting process.

Some recommendations, however, are more expansive in nature and require a significant investment of resources to accomplish. These recommendations necessitate the IRS carefully consider the suggestion in the context of existing business processes and investment plans, and assess the benefit of implementing the recommendation versus the opportunity cost of doing so. When considering these recommendations, the IRS evaluates them just as it does other investment needs, based on the vision of the IRS delineated in the 2014–2017 Strategic Plan—that being of an organization providing an advanced taxpayer experience leveraging a robust digital environment, a condensed enforcement cycle, and data-driven taxpayer service and enforcement efforts. Within this context, the IRS' strategic planning and budgeting process provides for the identification of all strategic investment needs, subsequent analyses assessing initiative scope, impact and the potential benefit of each, and a decisionmaking process that allows us to determine the highest priorities to pursue using the resources the agency is allotted.

## QUESTIONS SUBMITTED BY SENATOR JERRY MORAN

*Question.* Describe the role of your department/agency's Chief Information Officer (CIO) in the development and oversight of the IT budget for your department/agency. How is the CIO involved in the decision to make an IT investment, determine its scope, oversee its contract, and oversee continued operation and maintenance?

*Answer.* The IRS Chief Technology Officer (CTO)/Chief Information Officer (CIO) has the authority to govern all areas related to information resources and technology management. The CTO/CIO has management and oversight responsibility for both the IT organizational functions and the evaluation, selection and management of vendors, ensuring that the goods and services received not only align with, but can help drive forward, the critical operational and information technology (IT) priorities of the business strategy. This responsibility combines a thorough knowledge of the Federal acquisition system and a deep understanding of the dynamic commercial IT marketplace. The Vendor Management Organization (VMO), which is under the authority of the CTO/CIO, is solely focused on this activity and has a straightforward mission—to maximize IT investments. This is accomplished by developing a set of repeatable, sustainable processes with goals that focus on:

- Achieving greater transparency around organizational structures, roles, and responsibilities to ensure accountability and limit “surprises”;
- Committing more time and energy to limit supplier advantage, e.g., through competitive bidding processes, market research on rates, and internal staff training;
- Cultivating existing vendor relationships that drive value by effectively managing the vendor throughout the contract lifecycle, from sourcing and selecting the vendor, to establishing contracts, purchasing and managing payments;
- Maintaining focus on value delivery by making sure that the benefits promised are the beginning of a project or investment are delivered, and;
- Managing spending to enable repeatable savings opportunities.

The CTO/CIO also has a well-established IT Governance structure to align IT with business strategy and to ensure that investments stay on track to achieve the IRS's strategies and goals, with measures to monitor performance. The Infrastructure Executive Steering Committee (IESC) within the CTO/CIO organization, for example, ensures that project objectives are met, risks are managed appropriately, and the expenditure of IRS resources is fiscally sound. The CTO/CIO has also established an Enterprise Software Governance Board (ESGB) to develop a standardized approach to software acquisition management practices. An ESGB working group is also in place to gather and document existing software acquisition processes, document a proposed software lifecycle, gather software usage metrics, and evaluate and recommend a software asset/license management tool, all of which will identify installed software products, match products to licenses and confirm compliance status of those products. This governance ensures that all stakeholders' interests are taken into account and that processes provide measurable results.

*Question.* Describe the existing authorities, organizational structure, and reporting relationship of the Chief Information Officer. Note and explain any variance from that prescribed in the newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, Public Law 113–291) for the above.

*Answer.* Pursuant to Delegation Order 2–1 (formerly DO–261, Rev. 1), Internal Revenue Manual Section 1.2.41.2 (08–17–2000), the IRS Commissioner gives the IRS CTO/CIO authority to govern all areas related to information resources and technology management. It gives the CTO/CIO authority to perform those functions the Commissioner is authorized to perform having Servicewide effect and relating to, or concerning, the acquisition of information technology (IT) and the management of information resources, other than the duties delegated to the Director of Procurement.

While the CTO/CIO is accountable to the Commissioner under DO 2–1 to lead the IT organization and govern its resources and technology management, the CTO/CIO also has line reporting to the Deputy Commissioner for Operations Support, along with the Chief Officers, i.e., Chief Financial Officer; Human Capital Officer; Chief, Agency-wide Shared Services; and Director, Privacy, Governmental Liaison and Disclosure. This structure enables collaboration and alignment among the Chief Officers in building a strategic foundation for organizational excellence. This strategic foundation is critical in delivering the IRS's objectives and goals outlined in the IRS strategic plan.

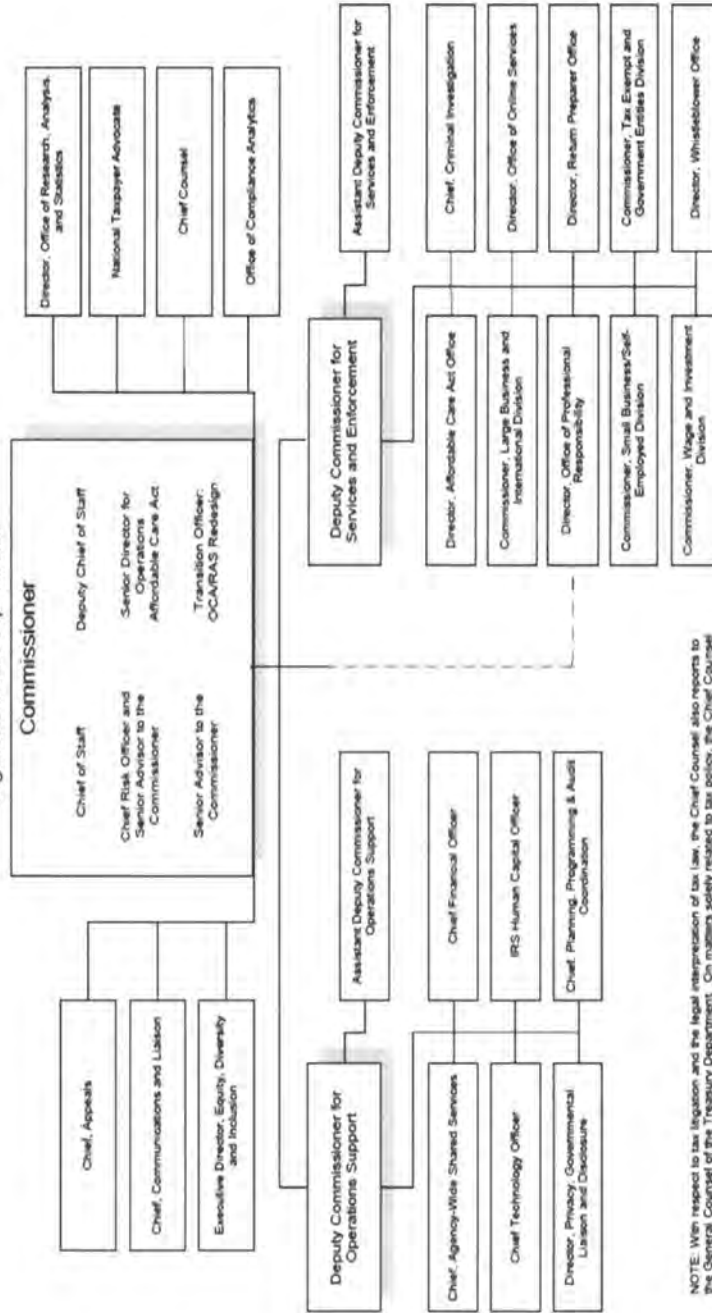
As the Treasury Department implements FITARA, the IRS CIO/CTO will continue to exercise responsibility and authority over the IRS portfolio, but will work in a much closer relationship with the Department CIO. For example, the IRS CIO shall immediately ensure information reported on the IT Dashboard accurately re-

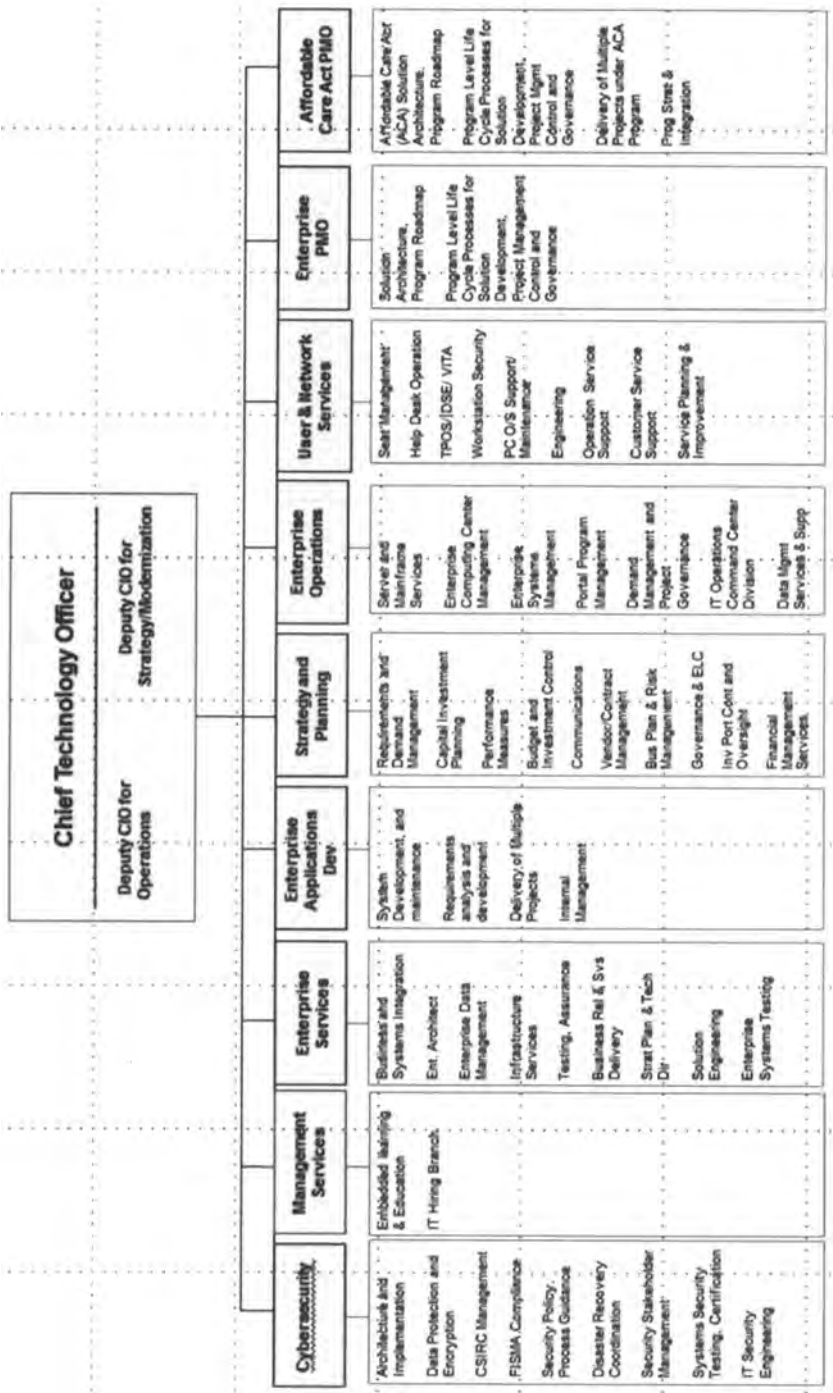
reflects all current status maintained internally at the IRS. Further, under the leadership of Treasury CIO, the IRS CIO/CTO shall identify and implement common enterprise IT services (e.g., infrastructure, cyber), common architecture standards and federated governance opportunities to improve the efficiency and effectiveness of all the organizations operating within the Treasury Department.

Following are charts that show organizational structure:

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
Organization and Top Officials

As of April 2015





*Question.* What formal or informal mechanisms exist in your department/agency to ensure coordination and alignment within the CXO community (i.e., the Chief Information Officer, the Chief Acquisition Officer, the Chief Finance Officer, the Chief Human Capital Officer, and so on)?

*Answer.* The IRS has structures in place on several levels to create opportunities for collaborative decisionmaking, to increase information-sharing across organizational elements, and to ensure alignment within the CXO community.

The IRS holds an agency-wide Senior Executive Team (SET) meeting monthly, chaired by the IRS Commissioner, and including the Deputy Commissioner for Services and Enforcement (DCSE), Deputy Commissioner for Operations Support (DCOS), and Functional Operating Division Chiefs and their deputies, to include the entire CXO community. The design of the SET meetings ensures top-level strategies and policies are driven down into the organization with consistency, and to enable coordination and alignment on enterprise and cross-organizational initiatives, risks, and current events facing the agency.

The DCOS also meets each week with his or her direct reports, which includes CXO community chiefs. The DCOS conducts these meetings to build a collaborative community of leaders under the DCOS to ensure coordination and alignment as a strategic foundation for organizational excellence and in delivering on the objectives and goals outlined in the IRS strategic plan. Cross-organizational strategies and priority initiatives are discussed; organizational risks, impacts and mitigation strategies are brought to the table for discussion; administrative requirements and recent items of significance are shared; and general updates on current events are brought to light during these meetings.

DCOS also holds working sessions with the CXO community. The DCOS designs these sessions to build and gain alignment on various themes/strategies that require concerted time, deeper thinking and cross-coordination among the team members. Subject matter discussed in these types of meetings is usually specialized and high priority with potentially large impacts on the CXO community and the entire Service.

DCOS conducts quarterly Business Performance Reviews (BPRs) with each of the individual organizations within the CXO community. Representatives from other CXO offices also attend to facilitate information-sharing across the lines of business. The BPRs enable the DCOS to get a comprehensive update on high-priority programs and initiatives, to review program results and performance measures, and to drive down guidance and preferences in managing various aspects of the programs. Action items are noted in BPRs and implemented with follow-up reporting at subsequent meetings.

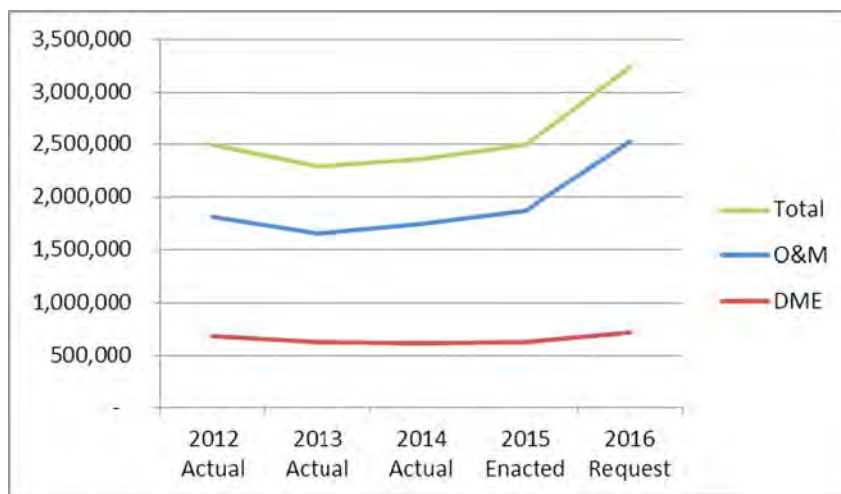
*Question.* According to the Office of Personnel Management, 46 percent of the more than 80,000 Federal IT workers are 50 years of age or older, and more than 10 percent are 60 or older. Just 4 percent of the Federal IT workforce is under 30 years of age. Does your department/agency have such demographic imbalances? How is it addressing them?

*Answer.* The IRS Information Technology organization performs extensive ongoing workforce analysis and data production to assist in workforce planning. Over 5344 of the 7218 total IRS IT workers are over age 50 (74 percent) and only 112 of the 7218 (or 2 percent) are under 30 years of age. These levels reflect a higher percentage of older IT employees at the IRS, and lower percentage of younger employees than OPM's analysis of the overall Federal IT workforce. Current budget conditions and the hiring freeze in place since 2011 have challenged the IRS to recruit a diverse workforce; therefore, the workforce will continue to age and worsen this demographic problem.

*Question.* How much of the department/agency's budget goes to Demonstration, Modernization, and Enhancement of IT systems as opposed to supporting existing and ongoing programs and infrastructure? How has this changed in the last 5 years?

*Answer.* In 2012, the IRS spent 27 percent of its IT budget on Development, Modernization and Enhancement (DME). DME spending between 2012 and 2015 has remained relatively constant, averaging 27 percent primarily due to development for new programs like the Affordable Care Act and the Foreign Account Tax Compliance Act. The constancy occurred during a period of decreases in the IT appropriated budget. Unfortunately, keeping DME constant in a declining budget environment occurs at the expense of investment in refreshing equipment and systems to address the IRS's aging IT infrastructure. The fiscal year 2016 budget request seeks to obtain funds to help refresh the aging IT infrastructure, which would increase the proportion of the budget spent on existing and ongoing programs and infrastructure (O&M).





*Question.* What are the 10 highest priority IT investment projects that are under development in your department/agency? Of these, which ones are being developed using an “agile” or incremental approach, such as delivering working functionality in smaller increments and completing initial deployment to end-users in short, 6-month timeframes?

*Answer.* The IRS IT is currently implementing Rapid Delivery Methods (RDM) to realize faster, better, and less expensive delivery of development efforts across a broad spectrum of projects. Applying RDM is fostering an agile development environment allowing IT to respond to changing business needs while improving employee satisfaction and accountability through streamlined processes. This enterprise RDM effort is being implemented in waves. With each new wave, more project teams are supporting IT as the agency goes deeper into agile execution, use of state-of-the-art development tools, continuous integration and test automation, and development of more mature knowledge bases and artifacts (Play books, Wiki, Community of Practice). The following shows the IRS IT’s priorities that are in development in fiscal year 2015, showing status in use of Rapid Delivery Methods:

Projects	Currently using Rapid Delivery Methods?
Foreign Account Tax Compliance Act—FATCA	Yes
The FATCA legislation enhances the Service’s ability to identify and monitor US income movement in Foreign Financial Institutions, ultimately improving international tax administration efforts.	
Customer Account Data Engine 2 TS2 (CADE 2)	Yes
CADE 2 Transition State 2 (TS2) is the next step toward IRS’s data-centric vision. In TS2 IRS will make system enhancements to address IRS’s longstanding Unpaid Assessments Financial Material Weakness for individual taxpayer accounts, rewrite its core taxpayer account processing applications in modern programming languages, and establish CADE 2 as the authoritative source for individual taxpayer account data. TS2 will provide on-demand access to updated taxpayer account information, enabling faster issue resolution and additional self-service options for taxpayers.	
Modernized e-File—MeF (Next Release)	Yes
MeF next release will complete the migration and implementation of MeF element names from nonstandard XML to XML standard compliancy. Begin to define requirements for the implementation of Form 1040NR (US Nonresident Alien Income Tax Return) and Form 1040NR-EZ ( US Income Tax Return for Certain Nonresident Aliens With No Dependents) along with 11 supporting forms and schedules and 2 new interfaces.	

Projects	Currently using Rapid Delivery Methods?
Affordable Care Act (ACA)	Yes

ACA IT activity encompasses the planning, development, and implementation of IT systems needed to support IRS' tax administration responsibilities associated with key provisions of the Affordable Care Act legislation. The work is organized into Releases that deploy functionality to meet key legislative dates. Each release encompasses multiple projects that need to be delivered at a specific point in time. Currently IT is delivering functionality to address work to support the Health Insurance Marketplaces and tax compliance activities, as well as annual updates for non-Marketplace provisions in the law.

Web Applications	Yes
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Web Applications will transition the IRS to the future digital government by providing an enhanced taxpayer experience, a broad range of self-service and innovative options that will enable taxpayers to securely access their accounts through multiple digital channels (e.g., mobile, Web). Taxpayers will be able to obtain historical tax return data, submit online payments, and receive status updates (e.g., return status).

Enterprise Case Management	Yes (planned)
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The Enterprise Case Management system will provide an enterprise-wide solution that uses Commercial Off-the Shelf (COTS) products, common services and custom code to perform case management functions on a standard infrastructure platform.

Information Returns/Document Matching (IRDM) Tech Demos	Yes
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IRDM improves business taxpayer compliance through the identification of potential underreporters by using technology to match business tax return filings to third-party information returns that focus on merchant card payments and securities basis reporting. Increased compliance reduces the tax gap.

Return Review Program (RRP)	No
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RRP enhances IRS capabilities to detect, resolve and prevent criminal and civil non-compliance by advancing IRS effectiveness in detecting, addressing, and preventing tax refund fraud. Through the application of predictive fraud and non-compliance detection models the program will seek out subtle data patterns to determine reliability of return data, including filer's identity.

E-authentication	No
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E-authentication provides the common service framework to proof/register individual identities and provide/validate credentials for electronic access to IRS systems, applications and data repositories. This capability enables the public the convenience of using a single credential, via the Internet, to access a wide range of IRS applications and services.

Infrastructure Currency/Refresh	N/A
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Infrastructure currency investments increase the long-term sustainability of the IT enterprise through technology refreshment and innovation to mitigate the risk of systems failure during the filing season and to meet the industry standards required for the new IT system design requirements for modernization projects. Examples of infrastructure currency projects include critical refreshment of our end user IT assets through a Customer Pain Points initiative, migration of the our servers from Windows 2008 to 2012, and the implementation of a unified communication platform, Network Convergence, that combines voice, video and data onto a common network.

*Question.* To ensure that steady state investments continue to meet agency needs, OMB has a longstanding policy for agencies to annually review, evaluate, and report on their legacy IT infrastructure through Operational Assessments. What Operational Assessments have you conducted and what were the results?

*Answer.* The IRS has completed Operational Analysis (OAs) annually (since 2010) on purely steady-state major IT investments and the steady-state portion(s) of mixed-lifecycle major IT investments. The IRS shares the results internally through the IT chain of command and then forwarded to Treasury. The IRS has conducted 82 OAs from fiscal year 2010 to fiscal year 2013; 5 of 7 (71 percent) assessment areas had overall mean scores in the green range (normal)—Cost, Schedule, Performance, Stakeholder Satisfaction, and Business Results. However, two assessment areas slipped from green into the yellow range in 2013—Stakeholder Satisfaction and Business Results. Two of seven (29 percent) assessment areas had overall mean scores within the yellow range (needs of attention)—Risk and Innovation. Risk ratings improved significantly in 2013, which the agency attributed to increased coaching support. Innovation is the newest assessment area in need of attention. The

agency conducted OAs on 17 major investments for fiscal year 2014, the results of which should be available later this spring.

*Question.* What are the 10 oldest IT systems or infrastructures in your department/agency? How old are they? Would it be cost-effective to replace them with newer IT investments?

*Answer.* The oldest systems are those the IRS built in the 1960s. This fact does not mean the IRS has made no changes since then. As the budget allows, the IRS takes the opportunity to upgrade the hardware and upgrade to the newest software release. However, the core components and logic still exist on older programming languages. The strategy has been and will continue to be to migrate off these systems in a methodical manner. Because of system interdependencies, it is often not as simple as replacing one system with another. The agency must understand the chain effect and replace systems in the entire chain or modify the business process to ensure nothing breaks. The IRS always looks for opportunities to introduce these changes without impacting the core mission.

Operating and maintaining these antiquated systems that date back to the JFK era is very expensive and adds significant risk. These systems are not nimble. We have few people at the IRS who have the knowledge and skills to make needed programming changes year after year, and they simply will not support new services expected by the 21st century taxpayer.

There is also a host of aging components in our base infrastructure that need refreshing to keep our environments current for existing and newly developed IT systems. Refreshment of our aging mainframes, servers, laptops, network devices and communications equipment will reduce operations and maintenance costs and risks associated with components that no longer operate reliably or need additional capability that is not available through an upgrade; that are being retired because of non-support; and that are unable to support the latest release of software, growth of current application demand or meet the latest Federal security configuration standards

*Question.* How does your department/agency's IT governance process allow for your department/agency to terminate or "off ramp" IT investments that are critically over budget, over schedule, or failing to meet performance goals? Similarly, how does your department/agency's IT governance process allow for your department/agency to replace or "on-ramp" new solutions after terminating a failing IT investment?

*Answer.* The IRS leverages its Capital Planning and Investment Control process to terminate troubled IT investments (or their component projects and activities) that are no longer forecast to deliver within acceptable cost or time constraints, and to initiate new investments to meet the business needs.

As part of the *Pre-Select* phase of the process, the Commissioner sets the strategic direction and the Senior Executive Team (SET). The SET includes the Deputy Commissioners, CTO/CIO, CFO and all the business operating division commissioners and is the executive-level decisionmaking body for pre-selection, selection, and re-selection of information systems and technology capital investments. Activities in this phase include identification and assessment of the mission-based business need for proposed or ongoing IT investments, and/or eliminating proposals (in the concept phase of development) that fail to meet minimal acceptance criteria.

The IRS designed the *Select* phase to select proposals for funding consideration that are critical to supporting the Treasury and IRS missions and strategic objectives, and are technically viable and financially sound. As an activity within this phase, on-going projects that are no longer viable are either terminated ("off ramped"), or paused, pending reassessment. The SET's approved fiscal year portfolio codifies the re-selection and de-selection (off ramping) of any investment. In past years, the Technology Investment Review Board (TIRB) served this enterprise approval authority role, however the IRS is enhancing its IT governance process to ensure alignment with the Commissioner's enterprise governance framework and the changing Federal Capital Programming policies. The Executive Review Team (ERT), which is the executive body responsible for conducting the preliminary review and evaluation of the IT investment proposals based on alignment to strategic priorities, business value, return on investment, risk, dependencies, business alternatives, business benefits, and performance measures, supports the SET. The ERT develops and submits an IT investment portfolio recommendation to the SET.

The IRS conducts monthly reviews of cost/schedule/performance data versus planned data in support of the *Control* phase to determine if investments are on track, or if the IRS needs to take corrective actions. Monthly meetings with Treasury are held to review any significant variances and address any corrective actions.

In the *Evaluate* phase of the investment lifecycle, the IRS conducts an annual Operational Analyses on its major IT investments that have been in operations and

maintenance for at least 12 months. The IRS provides the results to Treasury, and IT and Business executives. The IRS utilizes the results to decide to keep/maintain the current investment and to inform future investment decisions (lessons learned).

*Question.* What IT projects has your department/agency decommissioned in the last year? What are your department/agency's plans to decommission IT projects this year?

*Answer.* The IT portfolio really has three parts: run, mature and transform. The "run" portion relates to sustaining operations with a focus on maintaining the current infrastructure and systems to support the core mission of tax adjudication. The "mature" portion is all around enhancing the current environment to advance the IRS's world class and data-centric vision. The "transform" portion focuses on modifying the framework to meet the new challenges of a digital age. A staple in each part includes finding ways to become more efficient. Efficiency can take multiple forms like automating previously manual tasks, putting in enhancements that streamline operations, business re-engineering that eliminates steps and systems or reducing redundancy in the portfolio. Regarding the latter, the IRS has a risk based approach to the portfolio that uses factors like age of infrastructure, number of users, count of trouble tickets against system, types of changes, etc. to inform where to reduce the portfolio. The agency has stopped further work on Information Return Document Matching Case Management (IRDMCM) as it understood the project was going down a different path than the enterprise approach. Additionally, the IRS has turned off an older version of the data warehouse, the Integrated Production Model. As the workforce shrinks, the IRS must continue to look at opportunities to simplify its portfolio. The IRS has a significant case management initiative where it is looking to collapse dozens of applications into a small handful of reusable services. This effort will be a multiple year project, but the expected outcome is to decommission systems along the way.

*Question.* The newly-enacted Federal Information Technology and Acquisition Reform Act of 2014 (FITARA, Public Law 113-291) directs CIOs to conduct annual reviews of their agency/department's IT portfolio. Please describe your agency/department's efforts to identify and reduce wasteful, low-value or duplicative information technology (IT) investments as part of these portfolio reviews.

*Answer.* The IRS's Operational Analysis (OA) process is applied, per the Capital Programming Guide (a supplement to Office of Management and Budget (OMB) Circular A-11) to major investments that have been in operations and maintenance (O&M) for at least 12 months. The objective of the OA process is to be able to make one of the following recommendations:

- The investment should remain in steady state for the foreseeable future, because it is performing as expected;
- In order to ensure continued investment viability, the investment team should commence planning for Development/Modernization/Enhancement (DME); or
- The investment should be considered as a candidate for decommissioning and replaced because it is not meeting its performance goals as identified within the scope of the operational analysis.

The IR uses the outputs of the process to support key decisionmaking, inform internal and external stakeholders, and provide critical feedback to the select, control and evaluate phases of the IRS Capital Planning and Investment Control (CPIC) process.

*Question.* In 2011, the Office of Management and Budget (OMB) issued a "Cloud First" policy that required agency Chief Information Officers to implement a cloud-based service whenever there was a secure, reliable, and cost-effective option. How many of the agency/department's IT investments are cloud-based services (Infrastructure as a Service, Platform as a Service, Software as a Service, etc.)? What percentage of the agency/department's overall IT investments are cloud-based services? How has this changed since 2011?

*Answer.* The IRS embraces every opportunity to be a leader in government. The pace in which it can embrace new practices, technologies, and tools must be balanced against the existing funding and resource capacities.

In the spirit of Cloud First, the IRS has made significant investments in cloud technologies since 2011. For example, the IRS now embraces an internal cloud concept with infrastructure-as-a-service virtualization. The principle of elasticity is gained in this service by being able to increase hardware for critical filing season needs and reallocating hardware to other purposes outside of filing season. In addition, IRS.gov is now using a private cloud for all non-personally identifiable information (PII), with benefits such as auto scaling of its computer and storage infrastructure to address peaks in usage of popular IRS.gov offerings such as "Where's my Refund." The IRS has also used the Federal Risk and Authorization Manage-

ment Program (FedRAMP) approved public cloud offerings for several tests, including performance testing of end-to-end filing season systems and scaling of new applications. Although it is difficult to say what percentage of the IRS's investments are cloud based services (e.g. one could argue the entire ecosystem is a private cloud), the IRS continues to leverage cloud offerings where it makes the best sense according to a project's lifecycle, type of data and privacy considerations, and integration with existing IRS applications.

*Question.* Please provide short summaries of three recent IT program successes—projects that were delivered on time, within budget, and delivered the promised functionality and benefits to the end user. How does your department/agency define “success” in IT program management? What “best practices” have emerged and been adopted from these recent IT program successes? What have proven to be the most significant barriers encountered to more common or frequent IT program successes?

*Answer.—*

*Project #1: Customer Account Data Engine 2 (CADE 2) Penalty and Interest Project*

On October 1, 2009, the IRS Commissioner formally launched the Customer Account Data Engine 2 (CADE 2) program to take advantage of new technology and revamp the way the IRS does business by providing a data-centric solution that provides daily processing of taxpayer accounts. In January 2012, the decades-long rhythm fundamentally shifted when CADE 2's Transition State 1 (TS 1) began to deliver daily tax return processing—enabling faster refunds to taxpayers, more timely account updates, and faster issuance of taxpayer notices. The Service also began deployment of the CADE 2 database—a single centralized relational database of trusted data for individual taxpayer accounts—to improve service to taxpayers and enhance IRS tax administration.

CADE 2 Transition State 2 (TS2) is focused on delivering early results. On July 29, 2013, the TS2 team took the first step in addressing the longstanding Financial Material Weakness by delivering the first TS2 project—the 2013 Mid-Year Release of the Integrated Data Retrieval System (IDRS) Penalty & Interest (P&I) project. A full rollout of the Penalty & Interest Common Code Base was deployed on January 2, 2014. Penalty and Interest ensures all major IRS applications compute penalty and interest in the same way using the same algorithm. P&I is now calculating penalty and interest on individual and business accounts for taxes that are not received by the due date consistently across all master files (Business Master Files and Individual Master Files) and IDRS—and it provides service improvements for taxpayers such as more accurate notices and enhanced service in helping taxpayers meet their tax obligation. The solution uses the existing master file common code modules as baselines and incorporates additional requirements for IDRS.

Since 1996, the Individual Master File (IMF) and Business Master File (BMF), the authoritative sources for taxpayer account data, have been using common code modules written in C programming language to calculate penalty and interest on unpaid balances. On the other hand, the Integrated Data Retrieval System (IDRS), the primary system used by 48,000 IRS customer facing representatives to collect unpaid taxpayer account balances and manage unresolved cases, uses COBOL programming language to do its calculations. The differences in the two programming platforms in calculating penalty and interest causes discrepancies, which the Government Accountability Office (GAO) deemed a financial material weakness in IRS's tax processing systems. Hundreds of annual legislative tax code changes and updates to the Master File Files and IDRS systems at the request of the IRS's business partners have exacerbated these discrepancies over the years.

In January 2015, the IRS deployed Penalty and Interest (P&I) Filing Season 2015 code changes for the IMF, BMF and IDRS into production, and addressed both TS2 common code break-fixes and operations and maintenance work. The team also submitted 26 Unified Work Requests (UWRs) as candidates for development in upcoming P&I releases.

*Project #2: Foreign Account Tax Compliance Act (FATCA)*

The IRS deployed the Foreign Account Tax Compliance Act (FATCA) Release 2.0 on January 12, 2015, enabling registered Foreign Financial Institutions (FFIs) and Host Country Tax Authorities (HCTAs) to send Form 8966 electronically to the IRS via the International Data Exchange Service (IDES). The 8966 data contains foreign account holdings of U.S. taxpayers for Filing Season 2014 and will be stored in the International Compliance Management Model (ICMM).

FATCA Release 2.0 was funded in March 2014—and in the span of 10 months—deployed brand new infrastructure and capabilities and an interface with IDES. IDES represents a huge triumph for the IRS. It is the first system that allows the

international exchange of tax data through the XML schema which has been accepted across the globe.

FATCA Release 2.0 represents the combined efforts of the IRS FATCA Program Management Office (PMO), Large Business & International collaborators, IT delivery partners, and other stakeholders from across the Service. The IRS deployed FATCA Release 2.0 on time and delivered the required IT functionality in compliance with legislative mandates. Moreover, FATCA Release 2.0 was a tremendous success for the program in the face of significant resource constraints, compressed delivery timelines, technical complexity, and shifting requirements.

While FFIs have been able to register with the IRS and receive a Global Intermediary Identification Number (GIIN) since December 2013, FATCA Release 2.0 deployment on January 12, 2015 enables registered FFIs and HCTAs to send Form 8966 to the IRS via IDES. This functionality will enable reporting on the foreign account holdings of U.S. taxpayers for Filing Season 2015, and that data will be stored in the ICMM system for future refund and compliance activities.

Underreporting accounts for over 80 percent of the overall tax gap, with an estimated \$100 billion of tax revenues lost each year due to offshore tax avoidance activities. FATCA's goal is to identify U.S. taxpayers who attempt to shield and divert assets by depositing funds in foreign accounts thus reducing the burden on compliant taxpayers. Moreover, FATCA supports the IRS's efforts to ensure taxpayers with income abroad and at home receive fair and equitable treatment and pay the taxes they owe.

The FATCA PMO established channels and processes to ensure close coordination and ongoing communication with FATCA business and IT delivery partners (e.g., Governance Board, Advisory Board, town hall and integration meetings, integrated production team meetings, requirements working sessions, risk meetings, SharePoint tools/resources, FATCA Fast Facts newsletter, etc.). These efforts were instrumental in achieving a comprehensive understanding of business requirements, building shared ownership in program successes, promoting a mutual understanding of the risks/challenges, and identifying mitigation strategies to address those challenges.

*Project #3: Modernized e-File (MeF)*

Modernized e-File (MeF) is a mixed life-cycle investment that is the primary system to receive and process all tax returns submitted electronically. MeF provides extensive error checking, data validation, and acceptance or rejection acknowledgements to ensure successful processing of returns by downstream tax systems. MeF Release 9.5 focused on the Affordable Care Act (ACA) verification service interface, the Foreign Account Tax Compliance Act (FATCA) extensible markup language phase 2 standardization, legislative mandates, and operations and maintenance.

MeF is a major application sponsored by Wage & Investment and eFile Services (formerly Electronic Tax Administration). The IRS initially deployed MeF deployed in 2002 and it provides the following functionality:

- Improved customer service to taxpayers by providing a framework for modernizing the way tax returns are electronically filed and processed;
- Operational efficiencies through the receipt of electronic returns and supporting documentation through receipt, acceptance, and faster acknowledgement; and
- Timely, consistent, and reliable information for external stakeholders participating in e-filing.

MeF success is defined by delivering services or capabilities that achieve the end user requirements and needs along with efficient and effective supportability. MeF has been able to leverage lessons learned from previous releases to improve its ability to deliver within scope, on time, and within budget. Additionally, during Release 9.5 the MeF Program Management Office (PMO) created a dependency swim lane chart that allowed the program to improve its ability to track and report dependencies with external projects and organizations. One of the most significant barriers has been related to working with new legislative programs that were unfamiliar with internal IRS processes which ensure that dependencies related to other IRS projects are captured and tracked.

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QUESTIONS SUBMITTED BY SENATOR JAMES LANKFORD

*Question.* In February, a Federal district court judge found that the President's executive action on immigration violated the Administrative Procedure Act and enjoined implementation.

Is the IRS complying with the injunction?

If the injunction has not been lifted or if the appeals process has not been exhausted by April 15, will those living here illegally be allowed to file back taxes and claim the tax credits?

Answer. The IRS does not believe that the creation of Deferred Action for Parents of Americans (DAPA) or the expansion of Deferred Action for Childhood Arrivals (DACA) (if implemented by Department of Homeland Security U.S. Citizenship and Immigration Services (DHS USCIS)) creates new tax administration responsibilities for the IRS. The executive actions do not generate any new filing requirements under the tax law. The executive actions also do not increase IRS compliance responsibilities in relation to program implementation because applicants are not required to show proof of Federal income taxes paid when applying to either program. The injunction does not affect tax law or IRS processes.

Individuals working in the United States, including those who ultimately receive deferred action, are expected to comply with tax requirements and U.S. tax laws. Under the Internal Revenue Code, an individual who works in the United States regardless of legal status, and who meets the requirements to file a Federal income tax return, must file a return. All returns that claim refundable tax credits will be subject to the same rigorous compliance programs developed to reduce improper payments resulting from erroneous refundable credit claims generally. The same audit and collection activities, as well as criminal and civil enforcement mechanisms, will continue to apply to these claims, subject to budget constraints.

*Question.* GAO has identified the enforcement of tax laws as a high risk area since its inaugural report in 1990. The IRS estimates it paid \$5.2 billion in fraudulent identity theft (IDT) refunds in 2013 and it has been reported that IDT refunds could rise to more than \$20 billion annually in the next few years.

What steps has the IRS taken to combat W-2 filings? What can Congress do to make sure you have the tools to prevent the projected increase in IDT refunds from skyrocketing into the future?

Answer. As noted in the GAO report, the IRS recovered or prevented the issuance of \$24.2 billion of the estimated attempted refund fraud in Processing Year 2014, in part, by re-directing both funds and resources from traditional tax compliance activities. However, identity theft refund fraud continues to be an emerging and evolving issue. Investing in new technology and techniques is critical to stopping and preventing identity theft and refund fraud. For the IRS to continue making progress, without degrading tax compliance, adequate resources are critical to the mission. A major obstacle to more effectively combatting identity theft and refund fraud is the current budget situation.

Effectively combating identity theft is costly. In fiscal year 2014, for example, the IRS spent more than \$380 million combating identity theft and assisting innocent victims, but this effort needs to be expanded. The fiscal year 2016 President's budget requests an additional \$101 million to continue and expand this important work.

The IRS efforts to combat identity theft are ongoing. Our commitment to preventing refund fraud, investigating these crimes, and assisting taxpayers victimized by identity theft is a top priority. We have made significant progress in this area. In calendar year 2014 alone, our efforts have suspended or rejected 5.6 million suspicious returns. We stopped 1.8 million confirmed identity theft returns, totaling \$10.8 billion in refunds stopped. Additionally, we stopped \$5 billion worth of refunds for other types of fraud, totaling \$15.8 billion of confirmed fraudulent refunds protected.

The IRS's fraud detection/revenue protection activities address millions of questionable returns each year. All refund returns flow through the Electronic Fraud Detection System (EFDS) and Dependent Database (DDb) which contain complex fraud models and filters developed from historical fraud characteristics used to identify questionable income, withholding, refundable credits and/or taxpayer identity. In addition to these systemic fraud checks, we perform analysis and pull into inventory for review returns with similar characteristics that indicate refund schemes. These fraud prevention efforts occur all year long. In January 2013, we implemented a new program which allows financial institutions to reject questionable refunds when the name/TIN listed on the Department of Treasury Automated Clearing House (ACH) file for the tax refund does not match the account holder information.

In addition, the IRS implemented the following improvements to further combat fraud in fiscal year 2015:

- We began limiting the number of direct deposit refunds that can be made to a single account to three (3) and additional refunds are issued by paper check or are stopped for further review. This change is expected to deter fraud and identity theft.
- We began receiving Device ID information to identify potential identity theft or fraud. The Device ID is the unique serial number of the device (for example,

Computer, Smart Phone or Tablet) which is transmitted when e-filing. The unique ID will be transmitted as part of the electronically filed return via our existing transmission process and will enable the IRS to easily associate fraudulent returns that are filed from the same device.

—For the 2015 filing season, we also increased the number of identity theft filters over the previous filing season and utilized dynamic lists to update filters based upon current schemes, historical characteristics and/or patterns.

A major IRS project under development that will assist with pre-refund fraud detection, income verification and taxpayer authentication is the Return Review Program (RRP). This application will replace the EFDS, enhancing many aspects of IRS compliance activity. RRP will perform historical filing analysis and use improved complex programming to review all returns for fraud potential enhancing IRS' ability to identify and treat fraud and identity theft filings.

Congress can help the IRS in several ways to provide us the tools and resources to continue making progress combating identity theft and refund fraud but without degrading traditional tax compliance efforts. For example, the enactment of a number of the administration's legislative proposals contained in the General Explanations of the Administration's fiscal year 2016 Revenue Proposals (the Green Book) would further enhance IRS efforts to reduce refund fraud and identity theft including:

—*Accelerate Information Return Income Reporting*: Requiring information returns other than Forms 1099-B, Proceeds from Broker and Barter Exchange Transactions, to be filed with the IRS (or SSA, in the case of Form W-2) by January 31. Forms 1099-B would have to be filed with the IRS by February 15. The proposal would also eliminate the extended due date for electronically filed information returns. This legislative proposal, if enacted, would give us the ability to verify the amount of withholding taxpayers claim before refunds are paid out.

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

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

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

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



Another way is fully funding the IRS. IRS funding for fiscal year 2015 is \$10.9 billion, which is significantly less than fiscal year 2014 budget of \$11.3 billion or the fiscal year 2010 budget of \$12.1 billion. Along with shrinking budgets is a diminished work force. The IRS fiscal year 2014 full-time equivalent (FTE) realization was more than 11,500 employees less in comparison with those of fiscal year 2010. And for fiscal year 2015, we anticipate further staffing reductions for a total reduction of over 13,000 employees since fiscal year 2010.

Maintaining adequate staffing levels is an increasingly difficult challenge at current funding levels and critical work on developing new identity theft prevention tools has been delayed. Examples of new information technology capabilities that could not be implemented in fiscal year 2014 due to lack of funding included: adding steps to the e-file PIN phone and Web applications to prevent identity thieves from obtaining e-file PINS, and developing an IRS Web site for taxpayers victimized by identity theft to validate their identities using third-party data. Continued funding limitations will negatively affect critical work on developing new identity theft prevention tools, such as the Return Review Program (RRP). The solution to address these challenges begins with fully funding the IRS.

*Question.* How could the acceleration of W-2 deadlines help combat IDT refunds? When do you expect the ongoing cost-benefit analysis on W-2 acceleration to be publically released?

*Answer.* To effectively stop identity theft refund fraud, the IRS must evaluate innovative approaches to supplement conventional measures. Information returns (forms such as Forms W-2 and 1099) submitted by third parties provide authoritative source data that can serve an important role in preventing tax return-based identity theft and fraud. A delay in receiving information returns makes return verification more difficult. The ability to use information documents, submitted by third-party payers to verify suspicious tax returns at the time of filing, before refunds are issued, would give the IRS the ability to stop more refund fraud.

Under current law, Forms W-2 must be filed with the Social Security Administration (SSA) by the last day of February, or by March 31 if filed electronically. Currently, the IRS screens returns for fraud and identity theft at multiple points in the processing life cycle and addresses the lag time in receiving third-party information reporting by using filters and compliance checks to identify potential identity theft and fraud. If any is detected, the IRS holds suspect refunds until the amounts claimed can be validated. When necessary, the IRS contacts employers to verify questionable return information. As the identity theft program evolved, the IRS leveraged the identity theft indicators on taxpayers' accounts to place additional proactive tools that identify fraudulent returns when they are filed and accelerate the use of information returns received to identify questionable returns earlier.

Accelerating information return filing due dates would greatly enhance the IRS's ability to verify suspicious returns earlier in the process and help us do a better job of stopping improper payments. The IRS convened a working group of internal stakeholders and subject matter experts to identify the costs and benefits of accelerating Form W-2 deadlines.

*Question.* You have requested authority to reduce the current, 250-return threshold for employers electronically filing information returns.

How has the utilization of electronic filings succeeded in creating costs savings thus far?

*Answer.* Electronic filing supports the broader goals of improving IRS service to taxpayers, enhancing compliance, and modernizing tax administration. Expanding electronic filing will help provide tax return information in a more uniform electronic form, which will enhance the ability of the IRS to more productively focus its audit activities. This can reduce burdens on businesses where the need for an audit can be avoided. Overall, increased electronic filing of returns may improve satisfaction and confidence in the filing process.

It costs the IRS \$3.54 to process a paper 1040 versus only 18 cents to process the 1040 electronically. With the increase in electronic filing, the IRS has realized savings in multiple areas including reducing the number of sites processing incoming returns from 10 to 5.

*Question.* What are the estimated cost savings that can be achieved by lowering the threshold to 5 or 10 filings?

*Answer.* Your question references the administration's legislative proposal "Enhance Electronic Filing of Returns" which is included in the Green Book. Congress can help us further enhance our efforts to reduce costs and increase accuracy by enacting this proposed legislation.

The proposal requests that regulatory authority be expanded to allow reduction of the 250-return threshold in the case of information returns such as Forms 1042-S, 1099, 1098, 1096, 5498, 8805, 8955-SSA, and 8966. Any new regulations would

be required to balance the benefits of electronic filing against any burden that might be imposed on taxpayers, and implementation would take place incrementally to afford adequate time for transition to electronic filing. Taxpayers would be able to request waivers of this requirement if they cannot meet the requirement due to technological constraints, if compliance with the requirement would result in undue financial burden, or as otherwise specified in regulations.

If legislation was enacted, and the e-file threshold for information returns was lowered from 250 to 5, we estimate approximately 38 million more information returns that are currently filed on paper would be submitted electronically. This change in paper receipts would result in an opportunity to reinvest approximately \$16 million annually.

In addition to receiving more information returns electronically, earlier receipt of information returns would enable the IRS to prevent more identity theft and fraud. Another fiscal year 2016 legislative proposal would require information returns to be filed with the IRS (or SSA, in the case of Form W-2) by January 31. The exception is Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, which would have to be filed with the IRS by February 15. The proposal would also eliminate the extended due date for electronically filed information returns. If enacted, this proposal would further enhance IRS efforts to reduce refund fraud and identity theft.

*Question.* Billions of dollars are wasted every year because the IRS has little ability to monitor overpayments or prevent EITC payments to ineligible recipients. In the last decade, 21 to 29 percent of all EITC payments were erroneously awarded each year, including between \$13.3 and \$15.6 billion in fiscal year 2013. A GAO audit of improper payments found much of the waste is preventable, attributing EITC's unacceptable error rate to a number of factors including, "complexity of the tax law, structure of the program, confusion among eligible claimants, high turnover of eligible claimants, and unscrupulous return preparers."

Your testimony mentions preparer penalties and due diligence requirements to help mitigate the overpayment problems.

Can you go into more specifics on what these initiatives entail?

Answer. The IRS improper payment strategy is to intervene early to ensure compliance with the rules and regulations. We address improper payments through our compliance programs for both preparers and taxpayers, as well as through extensive outreach and education.

Results of our fiscal year 2014 actions include:

- Detected and stopped 645,813 fraudulent returns through fraud detection filters from being processed, preventing nearly \$3.2 billion in improper EITC payments;
- Protected another \$3.2 billion in revenue through the following compliance activities:
  - 435,638 audits
  - 1,053,304 misreported income cases
  - 210,000 math error adjustments
- Completed a new error rate estimate based on the EITC component of the Tax Year 2010 National Research Plan (NRP) study that meets IPIA standards for measuring and reporting on improper payments;
- Completed the fiscal year 2015 action plan to reduce improper payments and a root cause analysis based on NRP and compliance study data;
- Continued to analyze the most recent compliance study and NRP data to inform our compliance strategy and update EITC administration where feasible;
- Imposed over 4,774 2-year bans and 102 10-year bans on taxpayers from claiming the EITC in cases where the IRS determined during an EITC audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud;
- Alerted approximately 97,000 taxpayers that a qualifying child for the EITC claimed on their returns had also been claimed by another person; and
- Stopped fraudulent EITC refund claims through our Criminal Investigation (CI) division indictments
  - 285 EITC Questionable Refund Program (QRP) scheme indictments with 262 convictions
  - 108 EITC Return Preparer indictments with 83 convictions.

#### *Return Preparer Programs*

Paid return preparers assisted in the preparation of 55 percent of all EITC claims in tax year 2013. Because evidence suggests that unscrupulous preparers and pre-

parers not exercising due diligence contribute to overall improper EITC claims, the IRS has expanded its efforts to address preparers in recent years.

The IRS continues to have an EITC-focused paid return preparer initiative. This effort includes continued outreach and compliance actions to address preparer EITC due diligence noncompliance using existing treatments and continued testing of new preparer treatments and approaches. The objective is to reduce the risk of EITC erroneous refunds by focusing efforts on noncompliant return preparers before and early in the filing season.

In fiscal year 2014, the IRS expanded the EITC Return Preparer Strategy to include over 18,000 non-compliant taxpayers. Corrective actions taken prior to the filing season to address noncompliance included pre-filing season letters, educational visits, prior year client return audits, and preparer due diligence audits. The filing season corrective actions included letters, phone calls, client return audits, and preparer due diligence audits. For example:

- Pre-Filing Season and Filing Season Notices*: The IRS sends compliance and warning notices to preparers to educate them on their due diligence responsibilities and the consequences of noncompliance.
- Due Diligence Visits (DDVs)*: Field examiners audit EITC preparers to verify they are meeting their due diligence requirements and assess penalties as warranted. In fiscal year 2014 examiners completed 411 pre-filing season DDVs with a penalty rate of 84 percent and over \$22 million in proposed penalties, 296 filing season DDVs with a penalty rate of 80 percent and over \$3.5 million in penalties, and almost \$300,000 on 21 filing season DDVs as a follow-up for continuing noncompliant preparers who received an educational visit.
- Knock and Talk Visits*: This integrated approach consists of Criminal Investigation (CI) agents and examiners visiting EITC preparers to educate them on EITC laws and due diligence requirements. During fiscal year 2014, 96 Knock and Talk Visits were conducted.
- EITC Due Diligence Injunctions*: This initiative utilizes the results of previous IRS compliance actions to enable an efficient injunction process to prevent egregious preparers from filing future returns. For fiscal year 2014, the IRS, working with the Department of Justice, obtained four civil injunctions with a revenue impact of \$14.5 million.
- Undercover Shopping*: The IRS continues its efforts around EITC paid preparers, including undercover shopping by CI agents and preparer investigations.

Fiscal year 2014 was the third year that preparers were subject to the increased IRC § 6695(g) penalty that increased from \$100 to \$500 and were required to comply with the expanded Treasury Regulations § 1.6695-2. As part of their due diligence, these regulations require paid preparers to attach Form 8867 (the EITC due diligence checklist), previously retained in their records, to their clients' returns and require preparers to retain client records on which they had relied to make an EITC eligibility determination.

The IRS sends Letter 1125, Transmittal of Examination Report, proposing due diligence penalties on noncompliant return preparers who fail to attach or submit the Form 8867 to their clients' EITC returns.

- For tax year 2012, the IRS issued Letter 1125 to 774 noncompliant EITC return preparers proposing over \$13 million in due diligence penalties.
- For tax year 2013, the IRS issued 225 letters proposing almost \$2.9 million in due diligence penalties.

Return preparers have 30 days from the issuance of the letters to respond and request an Appeals hearing.

We continue to conduct outreach and education activities to EITC return preparers regarding EITC due diligence requirements. Over 13,600 preparers received a certificate of completion for the English and Spanish interactive EITC Due Diligence Training modules. At the 2014 Nationwide Tax Forums, more than 4,150 preparers attended the EITC due diligence presentation and 5,486 attended the child-related tax benefits presentation.

*Question.* What other steps can IRS and Congress take to prevent 25 percent overpayment rates?

*Answer.* Congress can help us further enhance our efforts to reduce EITC improper payments by enacting the following legislative proposals:

- Correctable Error Authority (CEA)*: The proposal would remove the existing specific grants of math error authority, and provide that "math error authority" will refer only to computational errors and the incorrect use of any table provided by the IRS. In addition, the proposal would add a new category of "correctable errors." Under this new category, Treasury would have regulatory authority to permit the IRS to correct errors in cases where (1) the information

provided by the taxpayer does not match the information contained in government databases, (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit, or (3) the taxpayer has failed to include with his or her return documentation that is required by statute. The proposal would be effective on the date of enactment. However, the IRS' current grant of math error authority would continue to apply until Treasury and the IRS issue final regulations addressing correctable errors.

The IRS detects far more potential non-compliance using filters than it can pursue given limited examination resources. If enacted, correctible error authority, combined with resources to develop and perfect new data sets and compliance filters, could potentially allow the IRS to prevent billions more in EITC improper payments than it does today.

—*Accelerated Information Return Income Reporting*: Under current law, most information returns, including Forms 1099 and 1098, must be filed with the IRS by February 28 of the year following the year for which the information is being reported, while Form W-2 must be filed with the SSA by the last day of February. The due date for filing information returns with the IRS or the SSA is generally extended until March 31 if the returns are filed electronically. The administration's proposal would require information returns to be filed with the IRS (or the SSA, in the case of Form W-2) by January 31, except that Form 1099-B would have to be filed with the IRS by February 15. The proposal would also eliminate the extended due date for electronically filed returns.

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

—*Due Diligence*: Return preparers who prepare tax returns on which the EITC is claimed must meet certain due diligence requirements to ensure their clients are in fact eligible to receive this credit. In addition to asking questions designed to determine eligibility, the preparer must complete a due diligence checklist (Form 8867) for each client and file the checklist with the client's return. The administration's proposal would extend these additional due diligence requirements to all Federal income tax returns claiming the CTC and the ACTC. The existing checklist would be modified to take into account differences between the EITC and CTC.

*Question.* The President's recent actions on immigration and the IRS confirmed that those that get Social Security Numbers will be able to file retroactively to gain EITC refunds for three back years.

Do you anticipate that the EITC fraud rates will rise or fall with this new influx? What is the anticipated amount of additional EITC payments resulting from the immigration action? How does the IRS plan to evaluate fraud associated with the influx?

*Answer.* The IRS does not believe that the creation of DAPA or the expansion of DACA (if implemented by DHS USCIS) creates new tax administration responsibilities for the IRS. The executive actions do not generate any new filing requirements under the tax law. The executive actions also do not increase IRS compliance responsibilities in relation to program implementation because applicants are not required to show proof of Federal income taxes paid when applying to either program.

A taxpayer may claim the EITC for a taxable year using an SSN acquired in a later taxable year (subject to refund limitations under section 6511 of the Internal Revenue Code). Section 32 of the Code requires an SSN on the return, but a taxpayer claiming the EITC is not required to have an SSN before the close of the year for which the EITC is claimed. There is no requirement for individuals who claim refundable credits to identify themselves, at filing, as having received a deferred action or employment authorization under these programs.

In working to ensure compliance with EITC rules, the IRS uses third-party data to verify that individuals claiming the EITC meet the requirement that they are a U.S. citizen or resident alien. Applicants must supply valid SSNs on their tax returns in order for the EITC claim to be processed. The IRS uses the SSA database to check that individuals claiming the EITC have provided valid SSNs for themselves and any qualifying children.

Participants in the existing DACA program who claim refundable tax credits will be subject to the same rigorous compliance programs developed to reduce improper payments resulting from erroneous refundable credit claims generally. The same

audit and collection activities, as well as criminal and civil enforcement mechanisms, will continue to apply to these claims, subject to budget constraints.

The IRS will continue to take actions to reduce improper payments as they relate to refundable credits.

*Question.* A glitch in the healthcare.gov Web site used the wrong year's data for subsidy calculations that caused 800,000 taxpayers to receive erroneous tax forms for their subsidy. The administration announced that it will not require the 50,000 taxpayers who filed returns based on inaccurate subsidy data, although taxpayers who are owed a larger subsidy can file an amended return.

What are the estimated total costs for this glitch through both the overpayments to the 50,000 taxpayers who had already filed and the administrative costs to resend the correct subsidy data?

*Answer.* The IRS believes any overpayments to taxpayers who had already filed their income tax returns using Forms 1095-A that contained the incorrect second lowest cost silver plan are relatively small—smaller than the administration and collection costs that would be involved in processing an amended return or determining the correct amount and collecting it. As the provider of the forms, any questions you have concerning the cost of resending corrected forms should be directed to CMS.

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#### QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

*Question.* Americans now hold more than \$1.2 trillion in student loan debt, which has become the largest household debt following mortgage debt, even surpassing credit card debt. Student loan balances have tripled over the past decade, forcing many to delay important financial steps like buying a home, starting a business, and saving for retirement. Most unfortunately, delinquencies are on the rise as many struggle to repay student loan debt. Understanding these trends, it is critical borrowers have options to successfully repay.

Income-driven repayment options give Federal student loan borrowers the opportunity to include income in monthly payment calculations, which prove helpful for the millions of students whose debt far exceeds their income. These repayment plans help give borrowers a more affordable monthly payment, enabling them to stay current on their loans.

Currently, Federal student loan borrowers wishing to continue enrollment in income-driven repayment plans must submit tax returns to provide income information on an annual basis, regardless of any change in income. If a borrower fails to do so—which many do—then his or her monthly payments default to higher amounts which in many cases is unaffordable, leading them to delinquency or default.

The IRS in previous years has allowed borrowers in income-contingent repayment to give multi-year advance consent to share the relevant income information required to continue participation in the program. Many have suggested reinstating this option would ensure borrowers in income-driven plans can manage their monthly loan payments, preventing delinquency and default. Further, it would reduce the paperwork burden on the IRS, borrowers, and servicers.

Has the IRS considered reinstating multi-year consent to share income information for Federal student loan borrowers enrolled in income-driven repayment plans? If so, what opportunities or barriers exist to doing so?

*Answer.* There is no statutory or regulatory prohibition to a multi-year consent, so long as the taxpayer may revoke it. However, the instructions to Form 8821, "Tax Information Authorization," and Form 2848, "Power of Attorney and Declaration of Representative," indicate the period of consent may not extend for more than 3 years going forward. This language reflects strong legal and policy concerns over "stale" consents. In addition, IRS' systems are only programmed for the 3-year rule.

In previous years, the multi-year consents to share tax return information with the Department of Education (DOE) had to be submitted to the IRS on paper. This format is still required as the IRS does not have the capability to accept these consents electronically. Based on discussions with DOE, it is the IRS's understanding DOE does not want to obtain paper consents from students, but wants to be able to obtain and allow students to file these consents electronically. Currently, the IRS's limited IT resources are required to implement unfunded legislative mandates, i.e., ACA, FATCA, ABLE accounts, and Certified Professional Employment Organizations, and are not available to develop a system for accepting consent forms electronically. Also, an alternative to using multi-year consents for income-driven repayment plans currently exists: the IRS has modernized its transcript delivery options to provide taxpayers with an easy and automated option for requesting their tax in-

formation. A taxpayer can submit a request online at [www.irs.gov](http://www.irs.gov) to receive an online copy of his or her tax account transactions, line-by-line tax return information or wage and income reported to us for a specific tax year. The student may then share this information with DOE to enroll in an income-drive repayment plan.

*Question.* Last month, GAO highlighted estimates by the IRS which showed \$5.8 billion was paid out last year on fraudulent tax returns. I commend the IRS for working within its challenging budget and dedicating resources to combat this criminal problem, which also led to recovering or preventing \$24.2 billion from being paid to tax frauds last year.

At the same time, the IRS can and should do better—this problem cannot be eliminated without strong resources for enforcement, such as technology, research, and personnel.

Can you explain how investing in preventing identity theft and tax fraud would benefit the Federal Government and taxpayers and what would happen should the agency not have the ability to do so? What improvements would be made if the IRS had additional resources to address the \$5.8 billion paid out last year on fraudulent tax returns, as well as identify other fraudulent tax returns not currently identifiable?

*Answer.* As noted in the GAO report, the IRS recovered or prevented the issuance of \$24.2 billion of the estimated attempted refund fraud in processing year 2014, in part, by re-directing some funding and resources from traditional tax compliance activities. But identity theft refund fraud is an emerging and evolving issue. Continually investing in new technology and techniques is critical to stopping and preventing identity theft and refund fraud. For the IRS to continue making progress, without degrading traditional tax compliance efforts, adequate resources are critical to the mission. A major obstacle to more effectively combatting identity theft and refund fraud is the current budget situation.

In the National Taxpayer Advocate's 2014 Annual Report to Congress she writes "The IRS's ability to meet taxpayer needs has been deteriorating for the past decade as the agency's workload has increased and its budget has declined."<sup>1</sup>

The IRS funding for fiscal year 2015 is \$10.9 billion, which is significantly less than fiscal year 2014 budget of \$11.2 billion or the fiscal year 2010 budget of \$12.1 billion. Along with shrinking budgets is a diminished work force. The IRS fiscal year 2014 full-time equivalent (FTE) realization was more than 11,500 employees less in comparison with those of fiscal year 2010. And for fiscal year 2015, we anticipate further staffing reductions for a total reduction of over 13,000 employees since fiscal year 2010.

Maintaining adequate staffing levels is an increasingly difficult challenge at current funding levels and critical work on developing new identity theft prevention tools has been delayed.

Identity theft refund fraud is an evolving issue. Ongoing investment in new technology and techniques is critical to stopping and preventing identity theft and refund fraud. For the IRS to continue making progress and without degrading traditional tax compliance efforts, adequate resources are critical to the mission.

The solution to address these challenges begins with fully funding the IRS.

*Question.* A recent front-page New York Times article, "Some Owners of Private Colleges Turn a Tidy Profit by Going Nonprofit," raised concerns about the way in which some for-profit colleges have converted to non-profit status. This may be a growing trend in the industry.

Are you aware of the circumstances surrounding these transactions, especially where they appear in reports to have been structured in a way that enriches the schools' owners and abuses the non-profit structure through questionable self-dealing? Please provide an assessment of such transactions to date.

*Answer.* Section 6103 of the Internal Revenue Code ("Code") prohibits the disclosure of information about specific taxpayers unless a Code provision authorizes such a disclosure. Therefore, the IRS cannot comment about the circumstances, or provide an assessment of, any particular transactions. As a general matter, an organization will not qualify under section 501(c)(3) unless "no part of [its] net earnings . . . inures to the benefit of any private shareholder or individual." This prohibition on inurement is implicated when there are transactions between the exempt organization and an individual who is an insider. Generally, an insider is a person who is in a position to exercise control or influence over the organization and would generally include, but is not necessarily limited to, an organization's founders, trustees, directors, officers, and key employees.

There is nothing in section 501(c)(3) to prohibit dealings between a charitable organization and its insiders (those in controlling positions) as long as those dealings

<sup>1</sup> Taxpayer Advocate Service—2014 Annual Report to Congress—Volume One page 5.

are at arm's length, in good faith, and reasonable. For example, if an organization pays a reasonable compensation to its founder for services rendered, that is not inurement. However, when the interests of the charity are sacrificed to the private interests of the founder or another insider, exemption may be jeopardized.

The courts have broadly construed the term "net earnings" as used in the prohibition on inurement to include more than gross receipts minus disbursements as shown on the organization's books and records. Examples of inurement include: excessive compensation (see *Church of Scientology*, 823 F.2d 1310 (9th Cir. 1987)); interest-free, unsecured loans and payment of personal expenses (see *John Marshall Law School v. U.S.*, 228 Ct. Cl. 902 (1981)); excessive rents and improvements made on real estate owned by insiders (see *Texas Trade School v. Commissioner*, 272 F.2d 168 (5th Cir. 1959)); reports and surveys furnished to members (see *General Contractors' Ass'n v. U.S.*, 202 F.2d 633 (7th Cir. 1953)); and, services to members (see *Chattanooga Auto Club v. Commissioner*, 182 F.2d 551 (6th Cir. 1950)).

Additionally, under section 4958, an excise tax is imposed on disqualified persons who engage in excess benefit transactions with the charitable organization. A disqualified person is any person in a position to exercise substantial influence over the affairs of the organization and also includes family members of the disqualified person and entities controlled by the disqualified person (owning more than 35 percent voting power). An excess benefit transaction is "any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit" (IRC § 4958(c)(1)). The legislative history of section 4958 provides that the section 4958 excise tax may be imposed in lieu of (or in addition to) revocation of an organization's tax-exempt status.

As described above, executive compensation may implicate both inurement and excess benefit transaction rules. The final report, Colleges and Universities Compliance Project, describes what the IRS learned about the amounts of compensation paid by colleges and universities that were examined, the process by which compensation amounts were determined, and whether those amounts were reasonable. For top management officials in both public and private colleges that were examined, the average total compensation was a little over \$600,000 and the median total compensation was about \$500,000. It should be noted the schools selected for examination did not represent a statistical sample of all colleges and universities, which means the results are not attributable to all colleges and universities, only to the schools examined. As a result of the issues identified in the report, the IRS is seeking to ensure, through education and examinations, that tax-exempt organizations are aware of the importance of using appropriate comparability data when setting compensation.

Finally, the IRS maintains an ongoing examination program to ensure exempt organizations continue to meet the requirements for tax-exempt status. When the IRS receives information about an organization that raises questions about its continued exempt status or compliance with the tax laws, it reviews it to determine if it warrants an examination or other action.

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QUESTIONS SUBMITTED TO HON. J. RUSSELL GEORGE

QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

INFORMATION TECHNOLOGY SECURITY

*Question.* The IRS is responsible for safeguarding a vast amount of sensitive financial and personal data, processing returns that contain confidential information for over 100 million taxpayers. The agency needs to protect taxpayer information from misuse, improper disclosure, or destruction. This responsibility is even more complex given the vast amount of data being sent and exchanged as part of the Affordable Care Act.

TIGTA has consistently ranked protection of taxpayer data as one of the highest priority challenges facing the IRS. In addition, GAO noted that although the IRS is making progress in addressing information security, weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data.

In your fiscal year 2014 Federal Information Security Management Act report you identified four security program areas which were not fully effective due to one or more Department of Homeland Security (DHS) guideline program attributes that were not met. You noted that the IRS had not yet implemented its Information Se-

curity Continuous Monitoring strategy, and that the IRS did not always report incidents involving Personally Identifiable Information to the U.S. Computer Emergency Response Team (US-CERT) within established timeframes. The report also noted that the IRS had not yet fully implemented a process for identifying and tracking contractors who are required to complete specialized training, and had not fully implemented unique user identification and authentication that complies with Homeland Security Presidential Directive-12 (HSPD-12).

In that report your office noted that until the IRS takes steps to improve its security program deficiencies and fully implements all 11 security program areas required by the FISMA, taxpayer data will remain vulnerable to inappropriate use, modification, or disclosure, possibly without being detected.

Would you please update the subcommittee with specific information on the status of the IRS' progress on addressing these deficiencies?

Answer. We plan to begin an assessment of the Federal Information Security Management Act (FISMA) for fiscal year 2015 later this year, with a final report scheduled for issuance in September 2015. As in previous years, we will evaluate the progress being made on the security program areas required by the FISMA. For fiscal year 2015, one security area, Security Capital Planning, has been dropped for this year's FISMA assessment by the Office of Management and Budget and the Department of Homeland Security. When we complete this year's FISMA audit, we would be happy to share our assessment of the IRS's progress to better protect taxpayer information in the context of the 10 security program areas.

#### PAYMENTS TO PRISONERS

*Question.* In the past TIGTA has identified refund fraud committed by prisoners as a significant problem for tax administration. Just last fall a report noted that refund fraud associated with prisoner Social Security Numbers remains a serious problem. The number of fraudulent tax returns filed using a prisoner's Social Security Number that were identified by the IRS increased from more than 37,000 tax returns in calendar year 2007 to more than 137,000 tax returns in calendar year 2012. The refunds claimed on these tax returns increased from \$166 million to \$1 billion.

I understand that Treasury has the authority to share information with the Federal Bureau of Prisons and State Departments of Corrections to help determine if prisoners may have filed or help the filing of a fraudulent return.

Would you please give us an update on the effectiveness of the IRS' efforts to reduce these improper payments to prisoners, specifically:

Has the IRS shared fraudulent prisoner tax return information with Federal or State prison officials? Has the Commissioner, Wage and Investment Division, established a Memoranda of Understanding with the Federal Bureau of Prisons and all State Departments of Corrections?

Answer. As of March 24, 2015, the IRS has still not shared any fraudulent prisoner tax return information with Federal or State prison officials. In addition, the IRS indicated that as of March 24, 2015, it has not completed a Memorandum of Understanding with the Federal Bureau of Prisons. The IRS has completed Memoranda of Understanding with seven State Departments of Corrections. Thirteen State Departments of Corrections have elected not to participate in this program.

*Question.* Has the IRS developed processes to identify tax returns filed that have the same characteristics of confirmed fraudulent prisoner tax returns? If no, why not? Has the IRS determined whether these tax returns should be included in the annual report to Congress?

Answer. The IRS has not developed processes to identify tax returns filed that have the same characteristics of confirmed fraudulent prisoner tax returns.

We recommended that the IRS develop processes to identify tax returns filed that have the same characteristics as confirmed fraudulent prisoner tax returns, including those fraudulent tax returns identified as part of the IRS's other fraud detection programs, and determine whether these tax returns should be included in the annual report to Congress. However, the IRS disagreed with our recommendation, stating that the methodology used in the annual report to Congress is consistent with the methodology used in reports of previous years. The IRS stated that it reports all known false and fraudulent returns filed by prisoners as required by the statute. We remain concerned that the IRS's annual report only includes false and fraudulent tax returns filed using the Social Security Number (SSN) of a prisoner. The report does not include, as required, information related to the filing of false and fraudulent tax returns by prisoners. The characteristics that we provided in our report were used to show information that could be used by the IRS to better deter-



mine the possible extent of the filing of false or fraudulent tax returns by Federal and State prisoners that is not included in the IRS's annual reports to Congress.

*Question.* Has the IRS ensured that all tax returns that are filed using a prisoner Social Security Number are assigned a prisoner indicator? Has the IRS identified and addressed the cause of the cases TIGTA found that were not identified with a prisoner indicator?

*Answer.* No, the IRS is not ensuring that all tax returns that are filed using a prisoner SSN are assigned a prisoner indicator. In September 2014, we reported that our analysis of tax returns filed during Calendar Year 2013 identified 43,030 tax returns that were filed using a prisoner SSN that were not assigned a prisoner indicator and recommended that the IRS ensure all tax returns filed using a prisoner SSN are assigned a prisoner indicator. The IRS agreed with this recommendation to the extent that it agrees that all accounts for which a tax return is filed using a prisoner SSN should be identified. The IRS stated that the Master File displays that information for all prisoner accounts to alert IRS employees addressing other issues related to the tax return or to that account. The IRS disagreed that an indicator should be assigned to returns for Electronic Fraud Detection System (EFDS) screening when a refund is not being claimed.

As we noted in our report, the IRS incorrectly stated that the Master File could be used by IRS employees to identify tax returns filed using a prisoner SSN. Our research of the specific returns we identified found that not all of them were identified on the Master File. As we previously reported, we believe the IRS should assign a prisoner indicator to all prisoner tax returns. The assignment of a prisoner indicator is an automated process requiring the IRS to expend no additional resources to ensure that tax returns with a prisoner SSN are consistently assigned.

*Question.* According to a TIGTA report, a computer programming error resulted in the IRS not assigning a prisoner indicator to 3,139 tax returns TIGTA identified. Without the proper assignment of a prisoner indicator, the tax returns are not sent through those fraud detection filters specific to a prisoner-filed tax return. Has the IRS corrected this error?

*Answer.* No, the IRS has not corrected the error that resulted in our identification of 3,139 tax returns without a prisoner indicator assigned. In our September 2014 report, we recommended that the IRS correct the computer programming errors that resulted in not assigning a prisoner indicator to these 3,139 tax returns. The IRS disagreed with our recommendation, stating that the condition that caused the 3,139 returns not to receive prisoner indicators by the EFDS is a systemic limitation caused by unperfected entity data included in the return record that is delivered to the EFDS. According to the IRS, the condition affected approximately 3 percent of transcribed paper returns. The IRS stated other processing systems validate and perfect the data before the return information posts to the Master File, and the returns are still processed through the EFDS to screen them and assign a data mining score to assess fraud potential. We agree these tax returns are still screened for fraud through the EFDS; however, these tax returns will not be screened using the filters specific to prisoner fraud unless the return is assigned a prisoner indicator.

#### E-FILING

*Question.* In the past TIGTA has noted that IRS E-Services need to improve cyber-security for the IRS Registered User Portal used for electronic filing of tax returns.

Has the IRS made sufficient progress in securing this gateway into the IRS system?

*Answer.* Yes, the IRS has made some progress in this area. We are available to brief the committee in person to provide further information on this issue.

#### AUDITS

*Question.* As we have discussed, there are ongoing investigations related to IRS treatment of certain groups when they applied for tax-exempt status. These activities, and the TIGTA investigation, were revealed to the press 2 days after this subcommittee's hearing with the IRS. A hearing at which there was no indication of the disclosure to come.

Since that time, there were more TIGTA reports relating to excessive spending on travel by IRS executives, as well as excessive and questionable spending on conferences.

Given that experience, we need to ask you, is TIGTA engaged in any other audits related to serious mismanagement issues at the IRS?

Answer. We have ongoing audits that have identified areas in which IRS management can improve its processes. Examples of upcoming reports in the near future include:

- Awarding of contracts and new work on existing contracts through modifications to contractors (corporations) with Federal tax debt;
- Retaining employees with a history of willful violations of tax law without sufficient documentation of the basis for the decision.

For those issues we believe will be of interest to the Congress, we offer briefings to congressional committees before the reports are released.

#### MISSING EMAILS

*Question.* In testimony before the House last week, I understand your office provided some new information on the investigation you are conducting into the disappearance of certain emails associated with the targeting of tea party groups for special scrutiny.

According to reports, your investigators have found hundreds of backup tapes, hard drives from email services, and over 32,000 unique emails that the IRS told Congress could not be retrieved.

The subcommittee understands this is an ongoing investigation but would you please give us an update on this matter as is appropriate?

Answer. We have made significant progress in the investigation to date. As we currently understand the facts and evidence in hand, we will be able to complete our investigative work after we complete our review of the newly discovered e-mails we obtained from the back-up tapes and conduct necessary additional follow up interviews. We are also finalizing our examination of Microsoft Exchange Server hard drives to determine if any additional e-mails can be obtained from that source.

*Question.* Would you give us any projected timeline you may have for concluding your work?

Answer. Barring any unforeseen complications, and based on obtaining the results from the examination of the Microsoft Exchange Server hard drives, we will complete the investigation in the near future.

#### IRS CHALLENGES

*Question.* IRS faces funding challenges as do many Federal agencies. The GAO noted in their review of the IRS budget request that additional funding is not the only solution. GAO noted that it has recommendations on IRS's operations that may help it achieve efficiencies over time, such as developing a long-term plan to improve web services.

Are there any particular recommendations TIGTA can provide to help improve IRS services without additional funding or through redeployment of existing resources?

Answer. Achieving program efficiencies and cost savings is imperative, as the IRS must continue to carry out its mission with a significantly reduced budget. TIGTA has recently reported on several areas where the IRS can achieve cost savings, more efficiently use its limited resources, and make more informed business decisions. For example, we reported that the IRS continues to incur rental costs for more workstations than required. TIGTA estimated that if the employees the IRS allows to routinely telework on a full- or part-time basis shared their workstations on days they were not in the office, over 10,000 workstations could potentially be eliminated. The sharing of these workstations could allow the IRS to reduce its long-term office space needs by almost 1 million square feet, resulting in potential rental savings of approximately \$111 million over 5 years. We also reported that potential cost savings could be achieved from expanded electronic filing of business returns. Providing businesses the ability to electronically file their tax returns concurrently with payment of their tax due on the same system could provide one-stop service which would benefit business filers.

In addition, we reported that the IRS could have potentially saved \$17 million in fiscal year 2012 if it allowed taxpayers to electronically file amended tax returns rather than require these types of returns to be only filed on paper. By electronically filing these returns, the IRS could use the same processes it uses to verify originally filed tax returns. TIGTA forecasts using these same processes could prevent the issuance of more than \$2.1 billion in erroneous refunds associated with amended tax returns over the next 5 years.

TIGTA has also identified other opportunities for the IRS to more efficiently use its available resources. For example, TIGTA identified potential improvements in the efficiency of the Automated Collection System (ACS). We found the IRS's overall collection inventory practices were not changed to reflect the reduced ACS workforce

and, as a result, new inventory continued to be sent to the ACS without interruption, even though inventory was infrequently worked. This has had a substantial impact on the amount of Federal taxes that remain uncollected. TIGTA also found that the IRS's fieldwork collection process is not designed to ensure that cases with the highest collection potential are identified, selected, and assigned to be worked. With significant growth in delinquent accounts and a reduction in the number of employees, it is essential that the field inventory selection process identifies the cases that have the highest risk and potential for collection.

We have also reported that a process has not been developed to expand Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at remote locations. Taxpayers can use this technology to obtain many of the services available at the Taxpayer Assistance Centers. We recommended that the IRS establish a process to identify the best locations for virtual face-to-face services.

In addition, timelier reporting of third-party data and additional authority would assist the IRS in improving tax administration. Each year, the IRS receives information returns filed by third parties such as employers and educational institutions. These returns provide the IRS the information needed to verify taxpayers' claims for benefits such as the Earned Income Tax Credit (EITC) and the American Opportunity Tax Credit (AOTC). However, information returns are generally not filed with the IRS until after most taxpayers file their annual tax returns. As a result, the IRS cannot use the information contained on these information returns to verify tax returns until after those tax returns are processed and refunds are issued. Requiring third parties such as employers and educational institutions to file information returns earlier would provide the IRS with the opportunity to use the information contained on these forms to verify tax returns at the time they are processed rather than after refunds are issued. This could significantly improve the IRS's ability to prevent the issuance of billions of dollars in erroneous tax benefits, including the EITC and education credits.

DEATH BY DELAY

*Question.* As you noted in your 2013 report, the IRS had improperly targeted conservative and tea party groups' applications for nonprofit status, asking repeated intrusive questions and delaying their applications well beyond a reasonable time. Some of those groups are still waiting, with their applications now pending for years.

Do you agree that organizations deserve to have a determination made in a timely manner?

*Answer.* TIGTA believes that organizations deserve timely responses to applications for tax-exempt status.

*Question.* How long were some organization's tax-exempt applications pending before the IRS made a decision?

*Answer.* TIGTA will be issuing a report in the near future following up on the recommendations we made in our 2013 report. As part of this new report, we discuss the current status of the 160 cases noted in our prior report that were open from 206 to 1,138 calendar days as of December 17, 2012. With the exception of those cases involving litigation, proposed denials, or appeals, these applications have now been closed. Based on our review of IRS records, a small number of cases were closed within 1 year. For those cases that were closed, Figure 1 shows the length of time the cases were open.

FIGURE 1: TOTAL LENGTH OF TIME CASES WERE OPEN

Range of Elapsed Days From Postmark Date to Closing Date	Percentage
Up to 1 year .....	3 percent
More than 1 year to 2 years .....	40 percent
More than 2 years to 3 years .....	42 percent
More than 3 years to 4 years .....	13 percent
More than 4 years to 6 years .....	2 percent

SUBCOMMITTEE RECESS

Senator BOOZMAN. And with that, I adjourn the meeting.  
 [Whereupon, at 4:24 p.m., Tuesday, March 3, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

APPENDIX

[CLERK'S NOTE: The following material was submitted by the Internal Revenue Service to be included in the hearing record at the request of Senator John Boozman.]

CY 2012 Annual Report to Congress

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**ANNUAL REPORT TO CONGRESS**

**Filing of False and Fraudulent Tax Returns  
Associated With Individuals Incarcerated  
in Federal Prisons and State Correctional Facilities**



Submitted by

 **Internal Revenue Service**

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## Section 1. Background

This Annual Report to Congress is required by section 2(e) of the Inmate Tax Fraud Prevention Act of 2008, P.L. 110-428 (the Act). The Act requires that "*The Secretary of the Treasury shall annually submit to Congress and make publicly available a report on the filing of false and fraudulent returns by individuals incarcerated in Federal and State prisons. Such report shall include statistics on the number of false and fraudulent returns associated with each Federal and State prison.*"

Each year, the IRS receives data on prisoners from the Federal Bureau of Prisons (BOP), the District of Columbia (D.C.) and all State Departments of Corrections (DOCs). The data includes the prisoner's name, social security number (SSN), the date the prisoner entered confinement, and expected release date. The IRS uses that data to match against returns filed claiming refunds. Every return filed with a prisoner SSN that claims a refund that is not otherwise stopped by our identity theft (ID) filters is examined by an IRS employee to verify the refund claim. Overall, the IRS stopped and conducted further analysis on 5.0 million suspicious returns in CY 2012. Of those, 137,883 were false and fraudulent returns filed with a prisoner SSN. These 137,883 returns included returns filed by prisoners as well as returns filed by unknown individuals using a prisoner's SSN. The IRS sends notices to the filers of these returns.

### 1.1 Purpose of the Report

The purpose of the IRS Annual Report to Congress is to:

- Identify the total number of false and fraudulent returns by individuals who are incarcerated in the Federal Bureau of Prisons (BOP), the District of Columbia (D.C.), and State Departments of Corrections (DOCs) in calendar year (CY) 2012 (see *Appendix A*).
- Report on the statistical breakdown of CY 2012 false and fraudulent returns by state and by correctional institution within each state (see *Appendix B*).
- Provide insight into the cross-functional coordination, communication, and collaboration across the IRS and with other federal and state agency stakeholders.

### 1.2 Findings of the Report

The IRS identified 137,883 false and fraudulent returns filed in CY 2012 under Social Security Numbers (SSNs) of individuals incarcerated in the BOP, state, and D.C. corrections systems.

The IRS fraud filters screen 100% of the returns filed with prisoner SSNs and prevented the payment of \$936 million of revenue, protecting 93.05% of the fraudulent refund dollars claimed. The fraud filters identify tax returns claiming refunds and select for review all returns with a primary (primary and secondary on a joint return) SSN that matches the annual prisoner file of individuals incarcerated in the BOP, state, and D.C. corrections systems. IRS tax examiners review these returns to verify the income, withholding, and refundable credits claimed on the return. If items cannot be verified, the refund claim is denied. Occasionally, returns with prisoner SSNs are caught in our

general ID filters, in which case fraudulent refunds are stopped through automated processes rather than through this manual process.

## Section 2. Stakeholder Collaboration

### 2.1 Inmate Census

In late 2011, as in several prior years, the Commissioner of the Wage and Investment (W&I) Division of the IRS requested information for tax administration from the BOP and from state and D.C. corrections systems for the previous 32 months of prisoners on roll. The IRS used the information received from the BOP and from State and D.C. corrections systems during 2012 to identify and address non-compliant prisoner returns before any refunds are released and to refer certain prisoners to IRS Criminal Investigation.

### 2.2 Legislative History

Information the IRS shares: Amendments to Internal Revenue Code section 6103 (I.R.C. § 6103) in 2008 and 2010 provide the IRS authority to disclose prisoner return information to the BOP and state DOCs when a prisoner may have filed or facilitated the filing of a false return when such disclosure is necessary for effective Federal tax administration.<sup>1</sup> This authority expired at the end of 2011, but an amendment to I.R.C. § 6103 in January 2013 reinstated this authority and made it permanent. This amendment also authorized the IRS to disclose this information to contractors operating on behalf of the BOP and state DOCs, as well as authorized legal representatives of the contractor, BOP and state DOCs.<sup>2</sup> The IRS is currently reaching out to the BOP and all state DOCs to negotiate a new memorandum of understanding to govern the disclosure of information to the prison agencies.

Information shared with the IRS: Internal Revenue Code § 6116 was enacted in 2011, requiring the heads of the BOP and state agencies administering prisons to provide the IRS certain prisoner information by September 15, 2012, and annually thereafter.<sup>3</sup> Before this law was enacted, the BOP, state, and D.C. corrections systems were under no legal obligation to provide this information, but rather supplied it to the IRS on a voluntary basis. Specifically, the BOP voluntarily collaborated with the IRS for over 25 years to provide data to assist them in identifying potentially false and fraudulent tax returns submitted by inmates in the federal prison system. More recently, in December 2013, the IRS was authorized to receive data from the Social Security Administration (SSA) Prisoner Update Processing System regarding the incarceration of prisoners.<sup>4</sup> This new data source should enhance the detection of false and fraudulent tax returns. The IRS is currently working with SSA and the Bureau of Fiscal Services to determine how to improve the availability of prisoner data for IRS use.

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<sup>1</sup> Inmate Tax Fraud Prevention Act of 2008, Pub. L. No. 110-428, 122 Stat. 4839 (2008) (Appendix C); Homebuyer Assistance and Improvement Act of 2010, Pub. L. No. 111-198, 124 Stat. 1356 (2010) (Appendix D).

<sup>2</sup> American Taxpayer Relief Act of 2012, Pub. L. No. 112-240, 126 Stat. 2313, 2324 (2013) (Appendix F).

<sup>3</sup> United States-Korea Free Trade Agreement Implementation Act (Pub. L. No. 112-41), 125 Stat. 428, 460 (2011) (Appendix E).

<sup>4</sup> Bipartisan Budget Act of 2013, Pub. L. No. 113-67, 127 Stat. 1165, 1179 (2013) (Appendix G).



### Section 3. Mission, Vision, & Goals

The IRS has fraud detection systems to identify and prevent the issuance of false or fraudulent refund claims, including the ability to identify returns filed by prisoners based on the data provided by the BOP, State, and D.C. corrections systems. While these fraud detection systems have enhanced the way the IRS identifies false and fraudulent returns, not all false and fraudulent returns are detected.

The IRS goals regarding prisoner refund tax compliance continue to be: (1) increase prisoner compliance, (2) reduce erroneous refunds as a result of false or fraudulent returns filed by or facilitated by prisoners, and (3) increase effectiveness for the management of prisoner returns. The IRS has developed a prisoner refund tax compliance strategy to address the challenges of identifying and addressing prisoner tax non-compliance and reducing erroneous refunds. This strategy identifies five key focus areas as detailed below in *Table 3.1-1*.

**Table 3.1-1:** Five Key Focus Areas of the Prisoner Refund Tax Compliance Strategy

Focus Area	Goal of the Focus Area
Data Exchange / Prisoner File	Improve the quality, accuracy, and timeliness of data received from the prisons and improve the process by which data is exchanged between the IRS and prison systems.
Compliance	Improve the process for detecting non-compliant prisoner tax returns and provide viable solutions for resolving these non-compliant tax returns.
MOU Initiative	Establish MOUs with BOP, States, and DC corrections systems that allows the IRS to disclose false and fraudulent tax information received from prisoners to these agencies that may lead to administrative reprimand of non-compliant filers within the prison population.
Outreach	Conduct targeted outreach to prisoners and prison officials to help prisoners better understand and meet their tax responsibilities.
Legislative	Comply with legislative requirements by reporting the performance of the Prisoner Tax Compliance Program to Congress annually.

The IRS collaborated with the BOP and several State corrections systems to develop the mission, vision, and goals of the Prisoner Refund Tax Compliance strategy.

## Section 4. Methodology

The methodology used to compile prisoner fraud data for CY 2012 differs from the process used in previous years. Below is a detailed description of the prior and current methodologies.

### Current Query:

The method used to generate the data presented in this Report to Congress includes all false and fraudulent returns filed under the SSNs of full-year prisoners characterized as Primary Prisoner<sup>5</sup>, Primary Lifer<sup>6</sup>, Secondary Prisoner<sup>7</sup>, and Secondary Lifer<sup>8</sup> for the following filing statuses:

- Single
- Married Filing Joint, when both the primary and the secondary filers are prisoners
- Married Filing Separate
- Head of Household
- Widow/er

This methodology identifies filers as prisoners solely based on data provided by state and federal corrections systems each year that the IRS compiles into its annual Prisoner File. Both the 2011 and the 2012 Prisoner Files excluded records provided by prisons if the taxpayer identification numbers (TIN), name control, and date of birth on the prison's record did not match our records, indicating they were returns of identity theft.

### Variance from CY 2011 Query:

The query used to generate the data presented in the 2011 Report to Congress and used to measure prior years also counted false and fraudulent returns filed by individuals who were not in the prison the entire tax year and counted false and fraudulent returns filed by married couples filing jointly even when only one spouse was incarcerated.

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<sup>5</sup> **Primary Prisoner (PP)** – The prisoner is listed as the primary Taxpayer identification Number (TIN) on the return. In addition, the prisoner does not have a 'life' indicator in release date.

<sup>6</sup> **Primary Lifer (PL)** – The prisoner is listed as the primary TIN on the return. In addition, the prisoner has a 'life' indicator in release date.

<sup>7</sup> **Secondary Prisoner (SP)** – The prisoner is listed as the secondary TIN on the return. In addition, the prisoner does not have a 'life' indicator in release date.

<sup>8</sup> **Secondary Lifer (SL)** – The prisoner is listed as the secondary TIN on the return. In addition, the prisoner has a 'life' indicator in release date.

**Reason for Change:**

The revised query more accurately attributes false and fraudulent returns to prison fraud by counting only returns filed by full-year prisoners and, for married couples filing jointly, returns when both spouses are incarcerated for the full year.

**2011 and 2012 Reports to Congress Data Comparison:**

Data reported in the 2011 Report to Congress was determined using a different methodology. Total false and fraudulent prisoner returns reported was 186,483. Under the new methodology 120,903 false and fraudulent prisoner returns would have been reported.

## Section 5. Findings

An analysis of the compiled data provided by the BOP, state and D.C. corrections systems revealed three key findings:

**Finding #1:** For CY 2012, the IRS identified 137,883 false and fraudulent returns filed using prisoner SSNs (see *Appendix A*).

**Finding #2:** Florida and Georgia were the top two jurisdictions and accounted for 33.20 percent of the identified false and fraudulent returns filed in CY 2012 (see *Table 5.1-1*).

**Finding #3:**

Florida and Georgia were the top two jurisdictions and accounted for 33.20 percent of the 137,883 false and fraudulent returns filed in CY 2012. More than half of these 137,883 returns were filed by individuals using prisoner SSNs for prisoners in the top 5 jurisdictions. The top 20 jurisdictions, by volume of false and fraudulent returns identified, represent nearly 88 percent of the total number of identified false and fraudulent prisoner returns (see *Table 5.1-1*).

**Table 5.1-1:** Top 20<sup>9</sup> jurisdictions listed by the *Percentage of the Total False and Fraudulent Prisoner Returns*

Rank	State Code	State Name	Number of Total False Returns	Percentage of Total	Cumulative Percentage
1	FL	Florida	31,179	22.61	87.59
2	GA	Georgia	14,598	10.59	64.98
3	FD	Federal	10,643	7.72	54.39
4	CA	California	10,079	7.31	46.67
5	AL	Alabama	6,061	4.40	39.36
6	PA	Pennsylvania	5,058	3.67	34.96
7	TX	Texas	5,004	3.63	31.29
8	MS	Mississippi	4,458	3.23	27.66
9	MI	Michigan	4,366	3.17	24.43
10	OH	Ohio	4,181	3.03	21.26
11	TN	Tennessee	3,880	2.81	18.23
12	SC	South Carolina	3,675	2.67	15.42
13	AZ	Arizona	3,369	2.44	12.75
14	IL	Illinois	2,540	1.84	10.31
15	LA	Louisiana	2,308	1.67	8.47
16	AR	Arkansas	2,160	1.57	6.80
17	NJ	New Jersey	2,159	1.57	5.23
18	IN	Indiana	2,013	1.46	3.66
19	CO	Colorado	1,684	1.22	2.20
20	NY	New York	1,352	0.98	0.98

Notes:

<sup>9</sup> Inmate tax fraud is highly correlated with prison population.

Percentages are based on the total Number of Identified False and Fraudulent Prisoner Returns, (137,883 in CY 2012). Of the 137,883 CY 2012 false and fraudulent returns, forty-seven returns could not be linked to an institution.

**Appendix A**  
**Identified False and Fraudulent Returns Filed by State (CY 2012)**

State Code	State Name	Quantity of False Returns
AK	Alaska	341
AL	Alabama	6,061
AR	Arkansas	2,160
AZ	Arizona	3,369
CA	California	10,079
CO	Colorado	1,684
CT	Connecticut	1,073
DC	District of Columbia	12
DE	Delaware	200
FD	BOP	10,643
FL	Florida	31,179
GA	Georgia	14,598
HI	Hawaii	100
IA	Iowa	448
ID	Idaho	211
IL	Illinois	2,540
IN	Indiana	2,013
KS	Kansas	752
KY	Kentucky	889
LA	Louisiana	2,308
MA	Massachusetts	211
MD	Maryland	870
ME	Maine	140
MI	Michigan	4,386
MN	Minnesota	1,286
MO	Missouri	781
MS	Mississippi	4,458
MT	Montana	326
NC	North Carolina	1,197
ND	North Dakota	389
NE	Nebraska	637
NH	New Hampshire	525
NJ	New Jersey	2,159
NM	New Mexico	495
NV	Nevada	639
NY	New York	1,352
OH	Ohio	4,181
OK	Oklahoma	1,204
OR	Oregon	354
PA	Pennsylvania	5,058
RI	Rhode Island	67
SC	South Carolina	3,875
SD	South Dakota	57
TN	Tennessee	3,880
TX	Texas	5,004
UT	Utah	447
VA	Virginia	1,150
VT	Vermont	133
WA	Washington	895
WI	Wisconsin	616
WV	West Virginia	357
WY	Wyoming	314
<b>TOTAL</b>		<b>137,883</b>

Note: this list is shown in alphabetical order by State Code

**Appendix B**  
**Identified False and Fraudulent Returns Filed by Institution (CY 2012)**

Note: Institutions with a reported full-year inmate population of less than 10 inmates are not listed.

"A" indicates the value of the institution's quantity is less than 10.

**B-1. Alaska (AK)**

Institution Name	Qty	Institution Name	Qty
HUDSON CF	153	FAIRBANKS CC	^
SPRING CREEK CC	100	FAIRBANKS EM	^
HILAND MTN CC	12	GLACIER MANOR	^
PALMER MED CC	12	GLENWOOD CTR	^
WILDWOOD CC	12	KETCHIKAN CC	^
LEMON CREEK CC	11	NORTH STAR CTR	^
ANCHORAGE EM	^	PALMER MIN CC	^
ANCHORAGE JAIL	^	PT MACKENZIE CF	^
COOK INLET PRETRIAL	^	WILDWOOD PRETRIAL	^

**B-2. Alabama (AL)**

Institution Name	Qty	Institution Name	Qty
WILLIAM E DONALDSON CORR FAC	643	MONTGOMERY COMMUNITY CORRECTIONS	21
ST CLAIR CORRECTIONAL FAC	502	CAMDEN WORK RELEASE	20
LIMESTONE CORRECTIONAL CENTER	417	ALEX CITY COMM WORK CENTER	16
BIBB COUNTY CORRECTIONAL FAC	404	FEDERAL PRISONS ACT 86	15
FOUNTAIN CORRECTIONAL CENTER	363	CATTLE RANCH	14
VENTRESS CORRECTIONAL CENTER	349	TUSCALOOSA COMMUNITY CORRECTIONS	13
BULLOCK CORRECTIONAL FACILITY	340	HOUSTON COMMUNITY CORRECTIONS	11
EASTERLING CORRECTIONAL CENTER	305	KILBY INFIRMARY	10
HOLMAN PRISON	298	LIMESTONE COMMUNITY CORRECTIONS	10
DRAPER CORRECTIONAL CENTER	287	WILLIAM E DONALDSON DEATH ROW	10
ELMORE CORRECTIONAL FACILITY	280	ADOC CLAY COUNTY	^
STATON CORRECTIONAL CENTER	277	BARBOUR COMMUNITY CORRECTIONS	^
HOLMAN DEATH ROW	90	BIBB SRP	^
TUTWILER PRISON	83	BLOUNT COMMUNITY CORRECTIONS	^
J O DAVIS CORRECTIONAL CENTER	80	CALHOUN COMMUNITY CORRECTIONS	^
RED EAGLE WORK CENTER	66	CAMDEN COMM WORK CENTER	^
CHILDERSBURG COMM WORK CENTER	65	CENTRAL RECORDS MONITOR	^
ALA THERAPEUTIC ED FACILITY MALE	62	CHEROKEE COMMUNITY CORRECTIONS	^
KILBY CORRECTIONAL FACILITY	56	CHILTON COMMUNITY CORRECTIONS	^
KILBY RCC	54	COLBERT COMMUNITY CORRECTIONS	^
MONTGOMERY WOMENS FACILITY	50	CULLMAN COMMUNITY CORRECTIONS	^
DECATUR COMM WORK CENTER	47	DALE COMMUNITY CORRECTIONS	^
HAMILTON A I	47	DEKALB COMMUNITY CORRECTIONS	^
LOXLEY WORK RELEASE	45	ELBA COMM WORK CENTER	^

Institution Name	Qty	Institution Name	Qty
ATMORE COMM WORK CENTER	41	ESCAMBIA COMMUNITY CORRECTIONS	^
BIRMINGHAM WORK RELEASE	40	FLORIDA	^
BULLOCK MENTAL HEALTH UNIT	39	FRANKLIN COMMUNITY CORRECTIONS	^
LIMESTONE SPECIAL UNIT	37	GEORGIA	^
TUTWILER ANNEX	37	HAMILTON COMM WORK CENTER	^
DECATUR WORK RELEASE	36	JACKSON COMMUNITY CORRECTIONS	^
LOXLEY COMMUNITY WORK CENTER	32	JEFFERSON SRP	^
CHILDERSBURG WORK RELEASE	31	LAUDERDALE COMMUNITY CORRECTIONS	^
ALEX CITY WORK RELEASE	30	LAWRENCE COMMUNITY CORRECTIONS	^
FRANK LEE WORK RELEASE	28	LOVELADY CENTER B HAM AL	^
JEFFERSON COMMUNITY CORRECTIONS	27	MADISON COMMUNITY CORRECTIONS	^
FRANK LEE YOUTH CENTER	25	MARION COMMUNITY CORRECTIONS	^
MOBILE WORK RELEASE	25	MOBILE COMM WORK CENTER	^
ELBA WORK RELEASE	24	MOBILE SRP	^
ETOWAH COMMUNITY CORRECTIONS	24	MORGAN COMMUNITY CORRECTIONS	^
UNASSIGNED	24	ST CLAIR COMMUNITY CORRECTIONS	^
MOBILE COMMUNITY CORRECTIONS	22	TENNESSEE	^
HAMILTON WORK RELEASE	21	WALKER COMMUNITY CORRECTIONS	^

### B-3. Arkansas (AR)

Institution Name	Qty	Institution Name	Qty
VARNER UNIT	242	CENTRAL AR CCC MALES	^
OUACHITA RIVER CORRECTIONAL UNIT	216	CLEBURNE COUNTY 309 WORK	^
CUMMINS UNIT	208	CRAIGHEAD COUNTY 309 WORK	^
WRIGHTSVILLE UNIT	131	CRAWFORD COUNTY BACKUP LIST	^
MAXIMUM SECURITY UNIT	128	DALLAS COUNTY 309 WORK	^
EAST AR REGION UNIT	119	FAULKNER COUNTY 309 WORK	^
TUCKER UNIT	114	HEMPSTEAD COUNTY 309 WORK	^
MCPHERSON UNIT	105	MISS CO REGIONAL MAINTENANCE	^
EAST AR REGIONAL MAX UNIT	98	NE AR CCC	^
VARNER SUPER MAX	97	NW ARK WORK RELEASE	^
NORTH CENTRAL UNIT	93	OMEGA TECHNICAL VIOLATOR CENTER	^
JEFFERSON CO JAIL/CORR FAC	87	OUACHITA RIVER CORRECTIONAL UNIT HO	^
DELTA REGIONAL UNIT	70	PB UNIT WORK RELEASE	^
PINE BLUFF UNIT	68	PULASKI COUNTY BACKUP LIST	^
GRIMES UNIT	63	RANDALL L WILLIAMS COR FACILITY	^
BENTON WORK RELEASE	53	SE AR CCC - FEMALES	^
DIAGNOSTIC PERM ASGN	42	SHERIDAN CITY 309 WORK	^
WRIGHTSVILLE HAWKINS CENTER	36	SPECIAL PROGRAM UNIT	^
WRIGHTSVILLE HAWKINS FOR MALES	31	TEXARKANA REGIONAL MAINTENANCE	^
CUMMINS MODULAR UNIT	14	UNION COUNTY CONTRACT	^
TEXARKANA WORK RELEASE	13	WASHINGTON COUNTY 309 WORK	^
ALETA	^	WRIGHTSVILLE WORK RELSINDUSTRY	
ARKANSAS COUNTY 309 WORK	^		



**B-4. Arizona (AZ)**

Institution Name	Qty	Institution Name	Qty
ASPC LEWIS	542	ASPC FLORENCE	306
CONTRACTED PRISONS	446	ASPC DOUGLAS	213
ASPC EYMAN	443	ASPC SAFFORD	107
ASPC TUCSON	427	ASPC WINSLOW	101
ASPC PERRYVILLE	412	ASPC PHOENIX	39
ASPC YUMA	333		

**B-5. California (CA)**

Institution Name	Qty	Institution Name	Qty
CORRECTIONAL TRAINING FACILITY	503	PAROLE PROGRAM REGION III	180
PLEASANT VALLEY STATE PRISON	458	CALIFORNIA INSTITUTION FOR MEN	176
CALIFORNIA STATE PRISON SOLANO	443	CALIFORNIA MEDICAL FACILITY	172
CENTINELA STATE PRISON	433	HIGH DESERT STATE PRISON	167
CALIFORNIA MEN S COLONY	421	CENTRAL CALIFORNIA WOMENS FACILITY	163
SALINAS VALLEY STATE PRISON	397	VALLEY STATE PRISON FOR WOMEN	162
KERN VALLEY STATE PRISON	388	MULE CREEK STATE PRISON IONE	138
AVENAL STATE PRISON	381	PAROLE PROGRAM REGION II	138
CALIPATRIA STATE PRISON	364	CHUCKAWALLA VALLEY STATE PRISON	135
CALIFORNIA SUBSTANCE ABUSE TREATMENT FACILITY	354	LA PALMA CORRECTIONAL CENTER	131
FOLSOM STATE PRISON	311	NORTH FORK CORRECTIONAL FACILITY	121
SIERRA CONSERVATION CENTER	311	RED ROCK CORRECTIONAL CENTER	98
CALIFORNIA STATE PRISON CORCORAN	307	PELICAN BAY STATE PRISON	77
PAROLE PROGRAM REGION I	281	DEUEL VOCATIONAL INSTITUTION	63
CALIFORNIA STATE PRISON LA COUNTY	279	WASCO STATE PRISON RECEPTION CENTER	45
CALIFORNIA CORRECTIONAL CENTER	270	NORTH KERN STATE PRISON	37
IRONWOOD STATE PRISON	270	RIO CONSUMNES CORRECTIONAL FACILITY	22
CALIFORNIA REHABILITATION CENTER	252	CENTRAL VALLEY CCF	10
CALIFORNIA INSTITUTION FOR WOMEN	243	SHAFTER COMM CORRECTIONAL FACILITY	10
RICHARD J DONOVAN CORR FACILITY	236	DESERT VIEW CCF	^
PAROLE PROGRAM REGION IV	234	GOLDEN STATE CCF	^
CALIFORNIA STATE PRISON SACRAMENTO	232	LEGAL PROCESSING UNIT	^
CALIFORNIA CORRECTIONAL INSTITUTION	229	LEO CHESNEY CENTER CCF	^
TALLAHATCHIE COUNTY CORR FACILITY	216	NORTH LAKE CORRECTIONAL FACILITY	^
CALIFORNIA STATE PRISON SAN QUENTIN	182	SANTA RITA COUNTY JAIL	^

**B-6. Colorado (CO)**

Institution Name	Qty	Institution Name	Qty
STERLING CORRECTIONAL FACILITY	192	TRINIDAD CORRECTIONAL FACILITY	32
FREMONT CORRECTIONAL FACILITY	145	FOUR MILE CORRECTIONAL CENTER	30
COMMUNITY CENTERS	124	CHEYENE MOUNTAIN RE ENTRY CENTER	29
CROWLEY COUNTY CORRECTIONAL FACILITY	117	BUENA VISTA MINIMUM CENTER	22
DENVER WOMEN S CORRECTIONAL FACILITY	116	SAN CARLOS CORRECTIONAL FACILITY	17
COLORADO TERRITORIAL CORR FACILITY	104	COLORADO CORRECTIONAL CENTER	13
BENT COUNTY CORRECTIONAL FACILITY	98	FORT LYON CORRECTIONAL FACILITY	13

ARKANSAS VALLEY CORRECTIONAL FACILITY	77	SKYLINE CORRECTIONAL CENTER	13
LIMON CORRECTIONAL FACILITY	77	DENVER RECEPTION DIAGNOSTIC CENTER	12
COLORADO STATE PENITENTIARY	66	RIFLE CORRECTIONAL CENTER	12
BUENA VISTA CORRECTIONAL FACILITY	62	COMMUNITY REGRESS ISP	^
KIT CARSON CORRECTIONAL FACILITY	62	COMMUNITY YOS PHASE 3	^
LA VISTA CORRECTIONAL FACILITY	59	CONTRACT BEDS JAILS OR OTHER PLACEMENT	^
INTENSIVE SUPERVIS PRGRAM INMATE STA	53	INMATE FUGITIVE STATUS	^
CENTENNIAL CORRECTIONAL FACILITY	38	INTERSTATE CORR COMPACT TRANSFER	^
DELTA CORRECTIONAL CENTER	36	YOUTHFUL OFFENDER SYSTEM	^
ARROWHEAD CORRECTIONAL CENTER	34		

#### B-7. Connecticut (CT)

Institution Name	Qty	Institution Name	Qty
OSBORN CI	147	FELLOWSHIP HOUSE	^
MACDOUGALL CI	136	HARTFORD CC	^
CHESHIRE CI	117	HARTFORD COMMUNITY ENFORCEMENT	^
ROBINSON CI	84	HARTFORD HOUSE	^
ENFIELD CI	60	HARTFORD PAROLE	^
WILLARD CYBULSKI CI	56	ISAIAH HOUSE	^
RADGOWSKI CI	46	MANSON YI	^
YORK CI	46	MAPLE STREET HOUSE	^
DISCHARGE	44	MORRIS HOUSE	^
GARNER CI	44	NEON HH FOR MEN	^
WALKER RSMU	39	NEON WOMEN & CHILDREN	^
BROOKLYN CI	32	NEW HAVEN CC	^
CORRIGAN CI	24	NEW HAVEN COMMUNITY ENFORCEMENT	^
NIANTIC ANNEX	23	NEW HAVEN PAROLE	^
BRIDGEPORT CC	18	NEXT STEP	^
NORTHERN CI	15	NORWICH PAROLE	^
BROOKLYN BRIDGE HOUSE	10	NOW INC	^
ALTERNATIVE TO INCARCERATION	^	RE-ENTRY FURLOUGH	^
BERMAN TREATMENT CENTER	^	RENAISSANCE CENTRAL AVENUE HOUSE	^
BRIDGEPORT PAROLE	^	RENAISSANCE WEST	^
CHASE CENTER	^	ROGER SHERMAN HOUSE	^
CHEYNEY HOUSE	^	ROGERS HOUSE	^
COHEGAN HOUSE	^	SIERRA	^
CONNECTION TS NHV	^	SILLIMAN HOUSE	^
CONNECTION-TS-WATERBURY	^	STEIN HOUSE	^
CONSIGN COMPAT OTHER STATE	^	WALTER BROOKS HOUSE	^
CPA WORK RELEASE	^	WARNER HOUSE	^
CRT PROJECT TRANSITION	^	WATERBURY COMMUNITY ENFORCEMENT	^
DAYTOP	^	WATERBURY DRUG TX	^
DRAPELICK CENTER	^	WATERBURY PAROLE	^
EDDY CENTER	^	WATERBURY WORK RELEASE	^

#### B-8. District of Columbia (DC)

Institution Name	Qty	Institution Name	Qty
CENTRAL DETENTION FACILITY	^	CORRECTIONAL TREATMENT FACILITY	^

**B-9. Delaware (DE)**

Institution Name	Qty	Institution Name	Qty
HOWARD R YOUNG CORRECTIONAL INSTITUT	90	SUSSEX CORRECTIONAL INSTITUTION	39
JAMES T VAUGHN CORRECTIONAL CENTER	67	DELORES J BAYLOR WOMENS CORR INST	^

**B-10. Federal (FD)<sup>10</sup>**

Institution Name	Qty	Institution Name	Qty
MIAMI FDC, FL	555	LEAVENWORTH USP, KS	45
COLEMAN MED FCI, FL	339	NASHVILLE CCM, TN	45
MIAMI FCI, FL	311	MILAN FCI, MI	44
ATLANTA USP, GA	263	LOS ANGELES MDC, CA	43
COLEMAN I USP, FL	228	ALLENWOOD MED FCI, PA	41
VICTORVILLE USP, CA	211	EL RENO FCI, OK	41
COLEMAN LOW FCI, FL	209	HOUSTON FDC, TX	40
JESUP FCI, GA	204	GREENVILLE FCI, IL	39
DESIG SENTENCE COMPUTATION CTR, TX	177	PHOENIX FCI, AZ	39
POLLOCK USP, LA	160	KANSAS CITY CCM, KS	38
MARIANNA FCI, FL	156	MCKEAN FCI, PA	38
YAZOO CITY FCI, MS	150	WASECA FCI, MN	38
TALLAHASSEE FCI, FL	141	ALDERSON FPC, WV	37
COLEMAN II USP, FL	138	BUTNER FMC, NC	37
HAZELTON USP, WV	138	SPRINGFIELD USMCFP, MO	37
ESTILL FCI, SC	133	DETROIT CCM, MI	36
FORT DIX FCI, NJ	128	HONOLULU FDC, HI	36
EDGEFIELD FCI, SC	126	SHERIDAN FCI, OR	36
LEE USP, VA	121	CHICAGO MCC, IL	35
FORREST CITY MED FCI, AR	117	SOUTHEAST REGIONAL OFFICE, GA	34
WILLIAMSBURG FCI, SC	114	ALLENWOOD LOW FCI, PA	33
BENNETTSVILLE FCI, SC	107	BASTROP FCI, TX	33
GUAYNABO MDC, PR	105	LORETTO FCI, PA	33
ALLENWOOD USP, PA	103	DEVENS FMC, MA	31
FORREST CITY FCI, AR	100	FLORENCE FCI, CO	31
ATWATER USP, CA	99	OXFORD FCI, WI	31
BECKLEY FCI, WV	96	SAN ANTONIO CCM, TX	31
FLORENCE HIGH USP, CO	95	DUBLIN FCI, CA	30
DIST OF COLUMBIA CCM, DC	94	TERMINAL ISLAND FCI, CA	30
PHILADELPHIA FDC, PA	93	SAFFORD FCI, AZ	29
TALLADEGA FCI, AL	92	ST LOUIS CCM, MO	28
OKLAHOMA CITY FTC, OK	91	BIG SPRING CI, TX	27

<sup>10</sup> The DOJ advised that the Designation and Sentencing Computation Centers and the Mid Atlantic, North Central, North East, South Central, and Western Regional Office filers are state concurrency cases or in private facilities, and therefore not in a BOP facility.

Institution Name	Qty	Institution Name	Qty
MCCREARY USP, KY	90	BRYAN FPC, TX	26
BEAUMONT LOW FCI, TX	88	EL PASO CCM, TX	26
BUTNER MED II FCI, NC	86	LOMPOC FCI, CA	26
TERRE HAUTE USP, IN	86	MCRAE CI, GA	26
LEXINGTON FMC, KY	82	NEW YORK MCC, NY	26
VICTORVILLE MED I FCI, CA	82	OTISVILLE FCI, NY	26
BEAUMONT USP, TX	81	SAN DIEGO MCC, CA	26
LEWISBURG USP, PA	81	MARION USP, IL	25
LOMPOC USP, CA	81	SEATAC FDC, WA	25
POLLOCK MED FCI, LA	81	NEW YORK CCM, NY	24
BEAUMONT MED FCI, TX	80	BALTIMORE CCM, MD	23
ATLANTA CCM, GA	78	MORGANTOWN FCI, WV	23
BROOKLYN MDC, NY	77	NEW ORLEANS CCM, LA	23
CARSWELL FMC, TX	76	RAY BROOK FCI, NY	23
MEMPHIS FCI, TN	74	SANDSTONE FCI, MN	23
PETERSBURG MED FCI, VA	74	SCHUYLKILL FCI, PA	23
YAZOO CITY MED FCI, MS	74	CINCINNATI CCM, OH	21
BIG SANDY USP, KY	73	PHOENIX CCM, AZ	21
DANBURY FCI, CT	73	ADAMS COUNTY CORR CTR CI, MS	20
GILMER FCI, WV	72	TUCSON FCI, AZ	20
ORLANDO CCM, FL	71	ROCHESTER FMC, MN	19
VICTORVILLE MED II FCI, CA	69	SALT LAKE CITY CCM, UT	19
BUTNER MED I FCI, NC	68	TAFT CI, CA	19
ELKTON FCI, OH	66	ENGLEWOOD FCI, CO	17
BUTNER LOW FCI, NC	65	MOSHANNON VALLEY CI, PA	17
MANCHESTER FCI, KY	65	PHILADELPHIA CCM, PA	17
TUCSON USP, AZ	65	CENTRAL OFFICE, DC	16
MIAMI CCM, FL	64	D RAY JAMES CORR FACI CI, GA	16
ASHLAND FCI, KY	63	DALLAS CCM, TX	16
PETERSBURG FCI, VA	63	YANKTON FPC, SD	15
HERLONG FCI, CA	62	OAKDALE FDC, LA	14
TERRE HAUTE FCI, IN	62	PITTSBURGH CCM, PA	13
CUMBERLAND FCI, MD	61	MINNEAPOLIS CCM, MN	12
OAKDALE FCI, LA	61	NORTH CENTRAL REGIONAL OFFICE, KS	12
SEAGOVILLE FCI, TX	61	NORTHEAST REGIONAL OFFICE, PA	12
FORT WORTH FCI, TX	58	NE OHIO CORR CTR CI, OH	11
BIG SPRING FCI, TX	57	SEATTLE CCM, WA	11
FAIRTON FCI, NJ	57	DENVER CCM, CO	10
CANAAN USP, PA	55	BOSTON CCM, MA	^
LA TUNA FCI, TX	52	CALIFORNIA CITY CI, CA	^
RIVERS CI, NC	52	CIBOLA COUNTY CI, NM	^
CHICAGO CCM, IL	51	DALBY CI, TX	^
MONTGOMERY CCM, AL	51	DULUTH FPC, MN	^
PEKIN FCI, IL	51	EDEN CI, TX	^
PENSACOLA FPC, FL	51	ELOY DC, AZ	^

Institution Name	Qty	Institution Name	Qty
TEXARKANA FCI, TX	51	FLORENCE ADMAX USP, CO	^
LONG BEACH CCM, CA	50	FT LAUDERDALE CCM, FL	^
MCDOWELL FCI, WV	50	MID ATLANTIC REGIONAL OFFICE, MD	^
MONTGOMERY FPC, AL	50	REEVES CI, TX	^
RALEIGH CCM, NC	50	REEVES DC, TX	^
SACRAMENTO CCM, CA	47	SOUTH CENTRAL REGIONAL OFFICE, TX	^
HOUSTON CCM, TX	46	WESTERN REGIONAL OFFICE, CA	^
THREE RIVERS FCI, TX	46		

**B-11. Florida (FL)**

Institution Name	Qty	Institution Name	Qty
BLACKWATER C F	750	BAY CITY WORK CAMP	77
SOUTH BAY C F	693	LOWELL WORK CAMP	74
HARDEE C I	621	HOLMES WORK CAMP	73
OKEECHOBEE C I	605	MARION WORK CAMP	73
EVERGLADES C I	600	POMPANO TRANS CNTR	71
MARTIN C I	549	MARTIN WORK CAMP	68
DADE CI	536	BAKER WORK CAMP	66
GADSDEN C F	529	OKALOOSA WORK CAMP	64
GRACEVILLE C F	528	GULF FORESTRY CAMP	63
COLUMBIA C I	527	HOLLYWOOD W R C	62
UNION C I	527	BRIDGES OF POMPANO	60
SANTA ROSA C I	515	GAINESVILLE W C	58
FLORIDA STATE PRISON	491	LEVY FORESTRY CAMP	58
NWFRC MAIN UNIT	470	LIBERTY WORK CAMP	58
LOWELL C I	464	MADISON WORK CAMP	58
DESOTO ANNEX	440	BRADENTON TRANS CNTR	57
MAYO C I ANNEX	440	LANCASTER W C	54
CALHOUN C I	439	BREVARD WORK CAMP	53
GULF C I	437	MIAMI NORTH W R C	50
TAYLOR ANNEX	432	CENTURY WORK CAMP	49
LOWELL ANNEX	428	OPA LOCKA W R C	48
FRANKLIN C I	424	SUNCOAST W R C FEM	48
WAKULLA C I	423	ST PETE W R C	47
JEFFERSON C I	414	TRANS HOUSE INC KISS	47
POLK CI	409	JACKSON WORK CAMP	46
WALTON CI	405	INDIAN RIVER C I	43
SUMTER C I	394	W PALM BEACH W R C	43
CHARLOTTE C I	389	WALTON WORK CAMP	41
TOMOKA C I	385	LOXAHATCHEE R P	38
JACKSON C I	384	ORLANDO TRANS CENTER	38
SUWANNEE C I ANNEX	381	BRIDGES OF ORLANDO	35
HAMILTON ANNEX	377	FT MYERS WORK CAMP	32
COLUMBIA ANNEX	370	ARCADIA ROAD PRISON	31
LIBERTY C I	368	DINSMORE W R C	31

Institution Name	Qty	Institution Name	Qty
APALACHEE EAST UNIT	360	MIAMI DADE	30
MARION CI	360	REENTRY CTR OF OCALA	30
GULF C I ANNEX	356	REALITY HOUSE	28
CENTURY C I	355	DAYTONA W R C	27
HOMESTEAD C I	355	BRIDGES OF JACKSONVI	26
TAYLOR C I	350	KISSIMMEE W R C	26
MADISON C I	337	LAKE CITY W R C	25
HAMILTON C I	330	CFRC SOUTH	24
APALACHEE WEST UNIT	328	BARTOW W R C	23
HOLMES C I	324	LARGO R P	23
MOORE HAVEN C F	319	UNKNOWN 2	23
OKALOOSA C I	318	ATLANTIC W R C	22
SANTA ROSA ANNEX	317	CENTRAL OFFICE	22
R M C MAIN UNIT	316	BIG PINE KEY R P	21
AVON PARK C I	300	HILLSBORO	20
WAKULLA ANNEX	291	ORLANDO W R C	20
LAKE C I	288	BERRYDALE FRSTRY CMP	19
LAWTEY C I	287	TALLAHASSEE W R C	18
SUWANNEE C I	287	SANTA FE W R C	17
BROWARD C I	286	TARPON SPRGS W R C	17
BAY C F	282	PINELLAS W R C	15
NEW RIVER CI	280	DUVAL	14
CROSS CITY C I	278	FORT PIERCE W R C	14
BAKER C I	259	PALM BEACH	14
LAKE CITY C F	242	VOLUSIA	14
NWFRC ANNEX	212	COCOA W R C	11
FSP WEST UNIT	210	PENSACOLA W R C	11
ZEPHYRHILLS C I	198	FEDERAL CUSTODY	10
HERNANDO C I	192	ALABAMA	^
S F R C	190	ALACHUA	^
R M C WEST UNIT	181	CARYVILLE WORK CAMP	^
CFRC MAIN	179	COLORADO	^
CFRC EAST	171	ESCAMBIA	^
HILLSBOROUGH C I	155	FRANKLIN COUNTY JAIL	^
AVON PARK WORK CAMP	152	I N S	^
GLADES C I	149	KENTUCKY	^
DEMILLY C I	148	LAKE	^
WAKULLA WORK CAMP	148	LANCASTER CI	^
S F R C SOUTH UNIT	141	LEE	^
PUTNAM CI	124	LEON	^
LANCASTER C I	122	MANATEE	^
POLK WORK CAMP	122	MIAMI NORTH WRC	^
GAINESVILLE C I	113	MICHIGAN	^
LARGO RES RE ENTRY C	113	MISSISSIPPI	^
SUWANNEE WORK CAMP	106	MISSOURI	^

Institution Name	Qty	Institution Name	Qty
QUINCY ANNEX	103	MONROE	^
HARDEE WORK CAMP	99	NEW YORK	^
NEW RIVER CI O UNIT	98	ORANGE	^
SAGO PALM RE ENTRY C	98	OSCEOLA	^
SUMTER WORK CAMP	98	PANAMA CITY W R C	^
COLUMBIA WORK CAMP	97	PASCO	^
MAYO WORK CAMP	93	PINELLAS	^
GLADES WORK CAMP	90	RMC MAIN UNIT	^
TAYLOR WORK CAMP	90	SHISA HOUSE EAST	^
HENDRY WORK CAMP	89	SHISA HOUSE WEST	^
DESOTO WORK CAMP	88	SOUTH CAROLINA	^
GRACEVILLE WORK CAMP	83	ST LUCIE	^
CROSS CITY WORK CAMP	81	SUMTER B T U	^
R M C WORK CAMP	81	VERMONT	^
TOMOKA WORK CAMP	79	VIRGINIA	^
CALHOUN WORK CAMP	78	WAKULLA	^
HAMILTON WORK CAMP	78	WASHINGTON CO JAIL	^
R JUNCTION WORK CAMP	78		

#### B-12. Georgia (GA)

Institution Name	Qty	Institution Name	Qty
COFFEE CORR FACILITY	803	TROUP COUNTY CI	69
MACON STATE PRISON	716	DECATUR COUNTY CI	66
WHEELER CORR FACILITY	709	AUGUSTA TC	65
WILCOX STATE PRISON	709	METRO TRANSITIONAL CTR	65
HAYS STATE PRISON	670	FLOYD COUNTY CI	62
SMITH STATE PRISON	630	EFFINGHAM COUNTY CI	61
TELFAIR STATE PRISON	578	SMITH T C	61
WARE STATE PRISON	567	SUMTER COUNTY CI	55
AUTRY STATE PRISON	550	ALBANY TRANSITIONAL CT	47
DOOLY STATE PRISON	518	CLAYTON COUNTY CI	46
HANCOCK STATE PRISON	511	RICHMOND COUNTY CI	43
CALHOUN STATE PRISON	487	CARROLL COUNTY CI	40
VALDOSTA SP	478	HALL COUNTY CI	40
GA STATE PRISON	440	MACON TRANSITIONAL CTR M	40
WASHINGTON STATE PRISON	428	SCREVEN COUNTY CI	39
AUGUSTA STATE MED PRISON	405	GWINNETT COUNTY CI	38
JOHNSON STATE PRISON	402	JACKSON COUNTY CI	37
ROGERS STATE PRISON	369	VALDOSTA TC	37
PULASKI STATE PRISON	309	TERRELL COUNTY CI	36
PHILLIPS STATE PRISON	286	JEFFERSON COUNTY CI	35
DODGE STATE PRISON	282	COLQUITT COUNTY CI	34
CENTRAL STATE PRISON	276	LAGRANGE TC	34
ARRENDALE STATE PRISON	273	COWETA COUNTY CI	33
BALDWIN STATE PRISON	271	CLARKE COUNTY CI	32
LEE STATE PRISON	215	THOMAS COUNTY CI	32

Institution Name	Qty	Institution Name	Qty
RUTLEDGE STATE PRISON	175	LONG	26
GA DIAG CLASS PRISON	133	BULLOCH COUNTY CI	25
COASTAL STATE PRISON	120	APPLING PRC	23
MUSCOGEE COUNTY CI	116	HARRIS COUNTY CI	23
CLAYTON TC	112	MITCHELL COUNTY CI	23
COASTAL TC	108	TURNER PRC	22
BURRUS CORR TRN CNTR	107	WEST CENTRAL	20
WALKER STATE PRISON	97	BOSTICK UNIT	^
SPALDING COUNTY CI	94	HELMS FACILITY	^
MONTGOMERY STATE PRISON	90	METRO STATE PRISON W	^
EMANUEL SWAINSBORO	87	PHILLIPS T C	^
COLUMBUS TC	79	WHITWORTH PAR REVOKE CENTER	^
ATL TRANSITIONAL CTR M	78	WILKES PRC	^

**B-13. Hawaii (HI)**

Institution Name	Qty	Institution Name	Qty
SAGUARO CORRECTIONAL CENTER	32	MAUI COMMUNITY CORRECTIONAL CENTER	^
HAWAII COMMUNITY CORRECTIONAL CENTER	13	WAIAWA CORRECTIONAL FACILITY	^
HALAWA CORRECTIONAL FACILITY	12	KAUAI COMMUNITY CORRECTIONAL CENTER	^
OAHU COMMUNITY CORRECTIONAL CENTER	11	RED ROCK CORRECTIONAL CENTER	^
WOMEN S COMM CORRECTIONAL CENTER	11	OTHER OUT OF STATE	^

**B-14. Iowa (IA)**

Institution Name	Qty	Institution Name	Qty
ANAMOSA STATE PENITENTIARY	73	MOUNT PLEASANT CORRECTIONAL FACILITY	42
IOWA STATE PENITENTIARY	64	IOWA CORR INSTITUTION FOR WOMEN	30
FORT DODGE CORRECTIONAL FACILITY	63	IOWA MEDICAL CLASSIFICATION CENTER	10
NORTH CENTRAL CORRECTIONAL FACILITY	55	FIFTH JUDICIAL DISTRICT	^
CLARINDA CORRECTIONAL FACILITY	54	SEVENTH JUDICIAL DISTRICT	^
NEWTON CORRECTIONAL FACILITY	54	THIRD JUDICIAL DISTRICT	^

**B-15. Idaho (ID)**

Institution Name	Qty	Institution Name	Qty
IDAHO CORRECTIONAL CENTER BOISE	50	INTERSTATE PROBATION	^
IDAHO STATE CORR INSTITUTION BOI	39	JAIL BACKLOG	^
IDAHO CORRECTIONAL INSTITUTION OROFINO	14	JUDICIAL DISTRICT	^
SOUTH IDAHO CORR INSTITUTION BOI	14	NAMPA COMMUNITY WORK CENTER NAMPA	^
IDAHO MAX SECURITY INSTITUTION BOISE	12	NORTH IDAHO CORR INSTITUTION COT	^
CORRECTIONAL ALTERNATIVE PLACEMENT	^	PAROLE COMMISSION OFFICE	^
COUNTY JAIL	^	POCATELLO WOMAN S CORR CENTER PO	^
DISTRICT OFFICE 3 CALDWELL	^	POCATELLO WOMEN'S CORR CENTER	^
DISTRICT OFFICE 4 BOISE	^	RECORDS BUREAU TRACKING	^
DISTRICT OFFICE 7 IDAHO FALLS	^	SICI COMMUNITY WORK CENTER	^
EAST BOISE COMM WORK CENTER BOISE	^	SOUTH BOISE WOMENS CORR CENTER	^
IDAHO FALLS COMM WORK CENTER IDAHO	^	ST ANTHONY WORK CENTER ST ANTHONY	^



**B-16. Illinois (IL)**

Institution Name	Qty	Institution Name	Qty
JACKSONVILLE	228	ILLINOIS RIVER	87
MENARD	178	GRAHAM	86
STATEVILLE	176	DANVILLE	82
LOGAN	143	LINCOLN	80
SHERIDAN	134	DWIGHT	73
PINCKNEYVILLE	133	DECATUR	72
BIG MUDDY RIVER	111	EAST MOLINE	67
DIXON	106	VANDALIA	63
WESTERN ILLINOIS	104	TAYLORVILLE	60
HILL	103	VIENNA	60
PONTIAC	103	ROBINSON	46
SHAWNEE	98	SOUTHWESTERN ILLINOIS	40
CENTRALIA	93	TAMMS	14

**B-17. Indiana (IN)**

Institution Name	Qty	Institution Name	Qty
INDIANA STATE PRISON	261	COMMUNITY TRANSITION PROGRAM	12
WESTVILLE CORRECTIONAL FACILITY	223	MIAMI CORRECTIONAL LEVEL ONE FAC	12
PUTNAMVILLE CORRECTIONAL FACILITY	214	PENDLETON CORRECTIONAL LEVEL ONE FA	12
NEW CASTLE CORRECTIONAL FACILITY	200	CHAIN O LAKES CORRECTIONAL FACILITY	^
MIAMI CORRECTIONAL FACILITY	188	EDINBURGH CORRECTIONAL FACILITY	^
PENDLETON CORRECTIONAL FACILITY	185	EVANSVILLE VOA WORK RELEASE	^
PLAINFIELD CORRECTIONAL FACILITY	107	HENRYVILLE CORRECTIONAL FACILITY	^
CORRECTIONAL INDUSTRIAL FACILITY	102	INDPLS WOMENS COMMUNITY RE-ENTRY	^
WABASH VALLEY D LEVEL THREE FAC	85	MARION COUNTY FEMALE VOA WORK RELEA	^
BRANCHVILLE CORRECTIONAL FACILITY	66	MARION COUNTY WORK RELEASE CENTER	^
INDIANA WOMENS PRISON	62	NEW CASTLE LEVEL ONE FACILITY	^
ROCKVILLE CORRECTIONAL FACILITY	62	NEW CASTLE PSYCHIATRIC UNIT	^
WABASH VALLEY E LEVEL FOUR FAC	59	RECEPTION DIAGNOSTIC CENTER	^
MADISON CORRECTIONAL FACILITY	22	SHORT TERM OFFENDER FACILITY	^
INDIANAPOLIS RE ENTRY EDUCATION FAC	18	SOUTH BEND COMMUNITY RE ENTRY	^
LIBERTY HALL WORK RELEASE	15	STATE PRISON MINIMUM UNIT	^
WABASH VALLEY S LONG TERM SEG FAC	15	WABASH VALLEY A LEVEL ONE FACILITY	^
WESTVILLE LEVEL ONE FACILITY	15	WESTVILLE CONTROL UNIT	^
CENTRAL OFFICE INBOUND	14		

**B-18. Kansas (KS)**

Institution Name	Qty	Institution Name	Qty
HUTCHINSON CORRECTIONAL FAC CENTRAL	122	WINFIELD CORRECTIONAL FACILITY	37
EL DORADO CORRECTIONAL FAC CENTRAL	114	LARNED CORRECTIONAL MENTAL HEALTH FAC	28
LANSING CORRECTIONAL FACILITY CENTRAL	113	WICHITA WORK RELEASE CENTER	22
NORTON CORRECTIONAL FACILITY CENTRAL	95	NORTON CORRECTIONAL FACILITY EAST	16
ELLSWORTH CORRECTIONAL FACILITY	56	HUTCHINSON CORR FAC WORK RELEASE	^
TOPEKA CORRECTIONAL FACILITY CENTRAL	53	LARNED STATE HOSPITAL	^

HUTCHINSON CORRECTIONAL FACILITY EAST	46	TOPEKA WORK RELEASE	^
LANSING CORRECTIONAL FACILITY EAST	39		

**B-19. Kentucky (KY)**

Institution Name	Qty	Institution Name	Qty
EASTERN KY CORR COMPLEX	165	DISMAS CHARITIES OWENSBORO	^
KENTUCKY STATE REFORMATORY	106	DISMAS CHARITIES PORTLAND	^
GREEN RIVER CORR COMPLEX	69	FRANKLIN COUNTY REGIONAL JAIL	^
LITTLE SANDY CORR COMPLEX	67	FULTON COUNTY JAIL	^
OTTER CREEK CORR CNTR	59	GRANT COUNTY JAIL	^
KENTUCKY STATE PENITENTIARY	55	GRAYSON COUNTY JAIL	^
LUTHER LUCKETT CORR COMPLEX	52	HARDIN COUNTY JAIL	^
NORTHPOINT TRAINING CENTER	47	HART COUNTY JAIL	^
WESTERN KY CORR COMPLEX	42	HENDERSON COUNTY JAIL	^
MARION ADJUSTMENT CENTER	41	HOPKINS COUNTY JAIL	^
KY CORR INST FOR WOMEN	31	JESSAMINE COUNTY JAIL	^
BLACKBURN CORR COMPLEX	19	MARION COUNTY JAIL	^
BELL COUNTY FORESTRY CAMP	14	MARSHALL COUNTY JAIL	^
ALLEN COUNTY JAIL	^	MEADE COUNTY JAIL	^
BLUEGRASS CAREER DEVELOPMENT CENTER	^	OLDHAM COUNTY JAIL	^
BOONE COUNTY JAIL	^	PADUCAH COMMUNITY CENTER	^
BOURBON COUNTY JAIL	^	PIKE COUNTY JAIL	^
BOYD COUNTY JAIL	^	POWELL COUNTY JAIL	^
BOYLE COUNTY JAIL	^	PULASKI COUNTY JAIL	^
BRECKINRIDGE COUNTY JAIL	^	ROEDERER ASSESSMENT CNTR	^
CALLOWAY COUNTY JAIL	^	ROEDERER CORR COMPLEX	^
CAMPBELL COUNTY JAIL	^	SHELBY COUNTY JAIL	^
CASEY COUNTY DET CNTR	^	TAYLOR COUNTY JAIL	^
CHRISTIAN COUNTY JAIL	^	TODD COUNTY JAIL	^
CLAY COUNTY JAIL	^	TRANSITIONS ASHLAND	^
CTS RUSSELL	^	TRANSITIONS TWO RIVERS	^
DAVISS COUNTY DET CNTR	^	WAYNE COUNTY JAIL	^
DISMAS CHARITIES DIERSEN	^	WEBSTER COUNTY JAIL	^

**B-20. Louisiana (LA)**

Institution Name	Qty	Institution Name	Qty
OFFICE OF ADULT SERVICES NORTH	1001	AVOUELLES CORRECTIONAL CENTER	58
OFFICE OF ADULT SERVICES SOUTH	406	C PAUL PHELPS CORRECTIONAL CENTER	51
LOUISIANA STATE PENITENTIARY	240	LA CORRECTIONAL INST FOR WOMEN	42
DIXON CORRECTIONAL INSTITUTE	96	RAYBURN CORRECTIONAL CENTER	34
ALLEN CORRECTIONAL CENTER	80	WADE CORRECTIONAL CENTER	34
OFFICE OF ADULT SERVICES FEMALE	80	FORCHT WADE CORRECTIONAL CENTER	20
WINN CORRECTIONAL CENTER	77	J LEVY DABADIE CORRECTIONAL CTR	16
HUNT CORRECTIONAL CENTER	73		

**B-21. Massachusetts (MA)**

Institution Name	Qty	Institution Name	Qty
MCI SHIRLEY	36	BOSTON PRE RELEASE CENTER	^
SOUZA BARANOWSKI CORRECTIONAL CENTER	35	BRIDGEWATER STATE HOSPITAL	^
MCI NORFOLK	30	MA ALCOHOL AND SUB ABUSE CENTER	^
MCI CONCORD	27	MASSACHUSETTS TREATMENT CENTER	^
OLD COLONY CORRECTIONAL CENTER	20	MCI FRAMINGHAM	^
NORTH CENTRAL CORR INSTITUTION	16	MCI PLYMOUTH	^
COUNTY OUT OF STATE FACILITIES	11	NORTHEASTERN CORRECTIONAL CENTER	^
MCI CEDAR JUNCTION	10	PONDVILLE CORRECTIONAL CENTER	^
BAY STATE CORRECTIONAL CENTER	^		

#### B-22. Maryland (MD)

Institution Name	Qty	Institution Name	Qty
EASTERN CORRECTIONAL INSTITUTION	105	CENTRAL HOME DETENTION UNIT	12
MARYLAND CORR TRAINING CENTER	92	EASTERN CORRECTIONAL INSTITUTION ANNEX	12
MARYLAND CORR INST HAGERSTOWN	73	BALTIMORE CITY DETENTION CENTER	^
MARYLAND CORR INSTITUTION WOMEN	67	BALTIMORE PRE RELEASE UNIT	^
JESSUP CORRECTIONAL INSTITUTION	65	DISMAS HOUSE WEST	^
NORTH BRANCH CORRECTIONAL INSTITUTION	65	DIVISION OF CORRECTION HEADQUARTERS	^
ROXBURY CORRECTIONAL INSTITUTION	62	EASTERN PRE RELEASE UNIT	^
WESTERN CORRECTIONAL INSTITUTION	60	HERMAN L TOULSON CORRECTIONAL FACILITY	^
MARYLAND CORR INSTITUTION JESSUP	40	MARYLAND CORR ADJUSTMENT CENTER	^
MARYLAND RECEPTION DIAG CLASS CENTER	34	PATUXENT INSTITUTION ANNEX	^
METROPOLITAN TRANSITION CENTER	29	PATUXENT INSTITUTION FOR YOUTH	^
JESSUP PRE RELEASE UNIT	23	PATUXENT INSTITUTION MENTAL HEALTH	^
PATUXENT INSTITUTION FOR WOMEN	15	POPLAR HILL PRE RELEASE UNIT	^
BALTIMORE CITY CORRECTIONAL CENTER	14	SOUTHERN MARYLAND PRE RELEASE UNIT	^
CENTRAL MARYLAND CORR FACILITY	14	THRESHOLD	^
BROCKBRIDGE CORRECTIONAL FACILITY	13		

#### B-23. Maine (ME)

Institution Name	Qty	Institution Name	Qty
MAINE STATE PRISON	76	BOLDUC CORRECTIONAL FACILITY	12
MAINE CORRECTIONAL CENTER	28	CHARLESTON CORRECTIONAL FACILITY	^
DOWNEAST CORRECTIONAL FACILITY	19		

#### B-24. Michigan (MI)

Institution Name	Qty	Institution Name	Qty
HURON VALLEY COMPLEX WOMEN	378	WEST SHORELINE CORRECTIONAL FACILITY	114
MID MICHIGAN CORRECTIONAL FACILITY	274	ALGER CORRECTIONAL FACILITY	108
CARSON CITY CORRECTIONAL FACILITY	225	LAKELAND MEN S CORRECTIONAL FACILITY	107
CHIPPEWA CORRECTIONAL FACILITY	221	MOUND CORRECTIONAL FACILITY	106
KINROSS CORRECTIONAL FACILITY	201	MARQUETTE BRANCH PRISON	97
GUS HARRISON CORRECTIONAL FACILITY	199	MACOMB CORRECTIONAL FACILITY	96
COTTON CORRECTIONAL FACILITY	153	THUMB CORRECTIONAL FACILITY	86
PARNAL CORRECTIONAL FACILITY	151	BARAGA MAXIMUM FACILITY	78
ST LOUIS CORRECTIONAL FACILITY	150	IONIA MAXIMUM CORRECTIONAL FACILITY	75

OJIBWAY CORRECTIONAL FACILITY	145	CHARLES EGELER REC AND GUIDANCE CEN	57
JACKSON COOPER STREET FACILITY	139	INTENSIVE REENTRY PROGRAM MALE	30
NEWBERRY CORRECTIONAL FACILITY	139	CAMP BRIGHTON	^
OAKS CORRECTIONAL FACILITY	138	CAMP VALLEY	^
SAGINAW CORRECTIONAL FACILITY	133	FLORENCE CRANE WOMENS CORR FAC	^
RYAN CORRECTIONAL FACILITY	132	INTENSIVE REENTRY PROGRAM FEMALE	^
BELLAMY CREEK CORRECTIONAL FACILITY	126	MAXEY	^
BROOKS CORRECTIONAL FACILITY	125	SAI FEMALE PROGRAM CASSIDY LAKE TECH SC	^
MICHIGAN REFORMATORY	123	SAI MALE INTAKE AREA FOR CASSIDY LAKE	^
PUGSLEY CORRECTIONAL FACILITY	117	SCOTT CORRECTIONAL FACILITY	^
HANDLON MICHIGAN TRAINING UNIT	115	UNITED STATES PRISON	^

**B-25. Minnesota (MN)**

Institution Name	Qty	Institution Name	Qty
MINNESOTA CORR FACILITY FARIBAULT	280	MINNESOTA CORR FACILITY SHAKOPEE	84
MINNESOTA CORR FACILITY STILLWATER	258	MINNESOTA CORR FACIL OAK PARK HEIGHTS	73
MINNESOTA CORR FACILITY LINO LAKES	219	MINNESOTA CORR FACILITY ST CLOUD	31
MN CORR FACIL WILLOW RIVER MOOSE LAKE	215	MINNESOTA CORR FACILITY RED WING	^
MINNESOTA CORR FACILITY RUSH CITY	114	MINNESOTA CORR FACILITY TOGO	^

**B-26. Missouri (MO)**

Institution Name	Qty	Institution Name	Qty
JEFFERSON CITY CORRECTIONAL CENTER	95	ALGOA CORRECTIONAL CENTER	31
WESTERN MISSOURI CORRECTIONAL CENTER	62	BOONVILLE CORRECTIONAL CENTER	28
FARMINGTON CORRECTIONAL CENTER	61	TIPTON CORRECTIONAL CENTER	28
SOUTHEAST CORRECTIONAL CENTER	58	MOBERLY CORRECTIONAL CENTER	27
CROSSROADS CORRECTIONAL CENTER	53	MISSOURI EASTERN CORRECTIONAL CENTER	26
NORTHEAST CORRECTIONAL CENTER	49	OZARK CORRECTIONAL CENTER	21
CHILLICOTHE CORRECTIONAL CENTER	45	WESTERN RECEPTION DIAGNOSTIC CORR CTR	21
SOUTH CENTRAL CORRECTIONAL CENTER	45	DAI FEDERAL TRANSFER UNIT	^
WOMEN S EASTERN REC DIAG CORR CENTER	44	FULTON RECEPTION DIAGNOSTIC CENTER	^
EASTERN REC DIAGNOSTIC CORR CENTER	41	MARYVILLE TREATMENT CENTER	^
POTOSI CORRECTIONAL CENTER	34		

**B-27. Mississippi (MS)**

Institution Name	Qty	Institution Name	Qty
MISSISSIPPI DOC	3400	HOLMES CCF	44
WILKINSON CCF	348	JEFFERSON CCF	40
EAST MISS CCF	329	WINSTON CCF	39
ISSAQUENA CCF	70	LEAKE CCF	38
STONE CCF	48	BOLIVAR CCF	35
CARROLL CCF	45	GEORGE CCF	22

**B-28. Montana (MT)**

Institution Name	Qty	Institution Name	Qty
MONTANA STATE PRISON	180	CASCADE COUNTY DETENTION CENTER	18
CROSSROADS CORRECTIONAL CENTER	86	DAWSON COUNTY CORRRECTIONS FACILITY	12

MONTANA WOMEN S PRISON	30		
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**B-29. North Carolina (NC)**

Institution Name	Qty	Institution Name	Qty
LANESBORO CI	99	CALDWELL CC	^
BERTIE CI	95	CARTERET CC	^
SCOTLAND CI	71	CATAWBA CC	^
MAURY CI	68	CHARLOTTE CC	^
TABOR CI	52	CRAGGY CC	^
PASQUOTANK CI	51	CRAVEN CI	^
NASH CI	45	CTR COMMUNITY TRANS	^
ALEXANDER CI	36	DAN RIVER PWF	^
BROWN CREEK CI	31	DAVIDSON CC	^
MARION CI	30	DUPLIN CC	^
PIEDMONT CI	30	DURHAM CC	^
WARREN CI	29	FORSYTH CC	^
NC CI WOMEN	27	FOUNTAIN CCW	^
COLUMBUS CI	25	GASTON CC	^
AVERY MITCHELL CI	24	HAYWOOD CC	^
MOUNTAIN VIEW CI	23	HOKE CI	^
POLK CI	23	LINCOLN CC	^
HARNETT CI	22	MORRISON CI	^
SOUTHERN CI	22	NEUSE CI	^
ALBEMARLE CI	21	NEW HANOVER CC	^
JOHNSTON CI	19	NORTH PIED CCW	^
SAMPSON CI	19	ODOM CI	^
FOOTHILLS CI	17	ORANGE CC	^
FRANKLIN CC	17	PAMLICO CI	^
CASWELL CC	16	RALEIGH CCW	^
CENTRAL PRISON	16	RANDOLPH CC	^
LUMBERTON CI	16	ROBESON CC	^
PENDER CI	15	RUTHERFORD CC	^
TILLERY CC	15	SANFORD CC	^
CALEDONIA CI	14	SWANNANOVA CCW	^
EASTERN CI	11	TYRRELL PWF	^
GREENE CI	10	WAKE CC	^
BLADEN CC	^	WAYNE CC	^
BUNCOMBE CC	^	WESTERN YI	^
CABARRUS CC	^	WILKES CC	^

**B-30. North Dakota (ND)**

Institution Name	Qty	Institution Name	Qty
JAMES RIVER CORRECTIONAL CENTER	163	COUNTY JAIL HRT OF AMERICAN CORECTION	^
NORTH DAKOTA STATE PENITENTIARY	157	GRAND FORKS COUNTY CORR CENTER	^
MISSOURI RIVER CORRECTIONAL CENTER	25	HEART OF AMERICAN CORR AND TREATME	^

Institution Name	Qty	Institution Name	Qty
DAKOTA WOMENS CORR REHABILITATION	17	LAKE REGION CORRECTIONAL CENTER	^
BISMARCK TRANSITION CENTER	11	TOMPKINS REHABILITATION AND CORR	^

**B-31. Nebraska (NE)**

Institution Name	Qty	Institution Name	Qty
TECUMSEH STATE COR INSTITUTION	184	NEBRASKA CORR CENTER FOR WOMEN	43
NEBRASKA STATE PENITENTIARY	169	COMMUNITY CORRECTIONS OMAHA	15
LINCOLN CORRECTIONAL CENTER	75	DIAGNOSTIC EVALUATION CENTER	12
COMMUNITY CORRECTIONS LINCOLN	65	WORK ETHIC CAMP	10
OMAHA CORRECTIONAL CENTER	57	CENTRAL RECORDS OFFICE	^

**B-32. New Hampshire (NH)**

Institution Name	Qty	Institution Name	Qty
NH STATE PRISON FOR MEN	326	NH STATE PRISON FOR WOMEN	19
NORTHERN NH CORRECTIONAL FACILITY	115	SECURE PSYCHIATRIC UNIT	12
COMMUNITY CORRECTIONS	52		

**B-33. New Jersey (NJ)**

Institution Name	Qty	Institution Name	Qty
NORTHERN STATE PRISON	496	SOUTHERN STATE CORRECTIONAL FACILITY	140
SOUTH WOODS STATE PRISON	284	EDNA MAHAN CORR FACILITY WOMEN	82
ADULT DIAGNOSTIC AND TREATMENT CENTER	262	ALBERT C WAGNER YOUTH CORR FACIL	56
NEW JERSEY STATE PRISON	219	MOUNTAINVIEW YOUTH CORR FACILITY	43
GARDEN STATE YOUTH CORR FACILITY	176	MID STATE CORRECTIONAL FACILITY	41
BAYSIDE STATE PRISON	174	CENTRAL RECEPTION ASSIGNMENT FACILITY	22
EAST JERSEY STATE PRISON	164		

**B-34. New Mexico (NM)**

Institution Name	Qty	Institution Name	Qty
LEA COUNTY CORRECTIONAL CENTER	109	SOUTHERN NEW MEXICO CORR FACILITY	51
CENTRAL NEW MEXICO CORR FACILITY	72	GUADALUPE COUNTY CORR FAC	40
NORTHEAST NM DET FACILITY	56	WESTERN NEW MEXICO CORR FACILITY	23
PENITENTIARY OF NEW MEXICO	56	ROSWELL CORRECTIONAL CENTER	18
NEW MEXICO WOMEN S CORR FACILITY	54	SPRINGER CORRECTIONAL CENTER	16

**B-35. Nevada (NV)**

Institution Name	Qty	Institution Name	Qty
SOUTHERN DESERT CORRECTIONAL CENTER	138	PIOCHE CONSERVATION CAMP	10
HIGH DESERT STATE PRISON	125	CARLIN CONSERVATION CAMP	^
FLORENCE MCCLURE WOMENS CORR CR	69	CLARK COUNTY DETENTION CENTER	^
LOVELOCK CORRECTIONAL CENTER	48	ELY CONSERVATION CAMP	^
ELY STATE PRISON	43	HUMBOLDT CONSERVATION CAMP	^
NORTHERN NEVADA CORR CENTER	41	NEVADA STATE PRISON	^
OUTSIDE HC	29	NORTHERN NEVADA RESTITUTION CENTER	^
CASA GRANDE TRANSITIONAL HOUSING	22	OUT OF STATE CONFINEMENT	^
WARM SPRINGS CORRECTIONAL CENTER	20	RESIDENTIAL CONFINEMENT	^

Institution Name	Qty	Institution Name	Qty
STEWART CONSERVATION CAMP	15	TONOPAH CONSERVATION CAMP	^
THREE LAKES VALLEY CONSERVATION CAMP	12	WELLS CONSERVATION CAMP	^
JEAN CONSERVATION CAMP	10		

**B-36. New York (NY)**

Institution Name	Qty	Institution Name	Qty
CLINTON CORRECTIONAL FACILITY	74	WALLKILL CORRECTIONAL FACILITY	23
ATTICA CORRECTIONAL FACILITY	57	GROVELAND CORRECTIONAL FACILITY	22
BARE HILL CORRECTIONAL FACILITY	45	LIVINGSTON CORRECTIONAL FACILITY	20
GREEN HAVEN CORRECTIONAL FACILITY	45	WOODBOURNE CORRECTIONAL FACILITY	19
SING SING CORRECTIONAL FACILITY	45	SULLIVAN CORRECTIONAL FACILITY	18
FISHKILL CORRECTIONAL FACILITY	43	ARTHUR KILL CORRECTIONAL FACILITY	14
GREAT MEADOW CORRECTIONAL FACILITY	43	LAKEVIEW SHOCK INCARCERATION C F	14
AUBURN CORRECTIONAL FACILITY	42	MT MCGREGOR CORRECTIONAL FACILITY	14
FRANKLIN CORRECTIONAL FACILITY	38	WENDE CORRECTIONAL FACILITY	14
WYOMING CORRECTIONAL FACILITY	37	LINCOLN CORRECTIONAL FACILITY	12
COXSACKIE CORRECTIONAL FACILITY	34	WASHINGTON CORRECTIONAL FACILITY	12
FIVE POINTS CORRECTIONAL FACILITY	34	ALTONA CORRECTIONAL FACILITY	11
ELMIRA CORRECTIONAL FACILITY	33	HUDSON CORRECTIONAL FACILITY	11
MOHAWK CORRECTIONAL FACILITY	33	HALE CREEK ASACT	10
ALBION CORRECTIONAL FACILITY	32	OTISVILLE CORRECTIONAL FACILITY	10
GREENE CORRECTIONAL FACILITY	32	QUEENSBORO CORRECTIONAL FACILITY	10
MID STATE CORRECTIONAL FACILITY	31	SHAWANGUNK CORRECTIONAL FACILITY	10
UPSTATE CORRECTIONAL FACILITY	31	TACONIC CORRECTIONAL FACILITY	10
CAPE VINCENT CORRECTIONAL FACILITY	30	ULSTER CORRECTIONAL FACILITY	10
GOUVERNEUR CORRECTIONAL FACILITY	30	BAYVIEW CORRECTIONAL FACILITY	^
SOUTHPORT CORRECTIONAL FACILITY	30	BEACON CORRECTIONAL FACILITY	^
WATERTOWN CORRECTIONAL FACILITY	27	BUTLER ASACT	^
MARCY CORRECTIONAL FACILITY	26	DOWNSTATE CORRECTIONAL FACILITY	^
COLLINS CORRECTIONAL FACILITY	24	EDGECOMBE CORRECTIONAL FACILITY	^
GOWANDA CORRECTIONAL FACILITY	24	MID ORANGE CORRECTIONAL FACILITY	^
BEDFORD HILLS CORRECTIONAL FACILITY	23	MONTEREY SHOCK INCARCERATION CORR	^
CAYUGA CORRECTIONAL FACILITY	23	MORIAH SHOCK INCARCERATION CORR FA	^
EASTERN CORRECTIONAL FACILITY	23	OGDENSBURG CORRECTIONAL FACILITY	^
ORLEANS CORRECTIONAL FACILITY	23	ONEIDA CORRECTIONAL FACILITY	^
RIVERVIEW CORRECTIONAL FACILITY	23	ROCHESTER CORRECTIONAL FACILITY	^

**B-37. Ohio (OH)**

Institution Name	Qty	Institution Name	Qty
MANSFIELD CORRECTIONAL INSTITUTION	278	NOBLE CORRECTIONAL INSTITUTION	129
LEBANON CORRECTIONAL INSTITUTION	273	GRAFTON CORRECTIONAL INSTITUTION	126
CHILLICOTHE CORRECTIONAL INSTITUTION	262	TRUMBULL CORRECTIONAL INSTITUTION	116
LONDON CORRECTIONAL INSTITUTION	251	SOUTHEASTERN CORRECTIONAL INSTITUTION	108
OHIO REFORMATORY FOR WOMEN	229	ALLEN CORRECTIONAL INSTITUTION	107
MARION CORRECTIONAL INSTITUTION	225	NORTHEAST PRE RELEASE CENTER	87
TOLEDO CORRECTIONAL INSTITUTION	209	DAYTON CORRECTIONAL INSTITUTION	84

RICHLAND CORRECTIONAL INSTITUTION	205	OHIO STATE PENITENTIARY	49
ROSS CORRECTIONAL INSTITUTION	189	NORTH COAST CORR TREATMENT FAC	36
WARREN CORRECTIONAL INSTITUTION	187	CORRECTIONAL RECEPTION CENTER	28
BELMONT CORRECTIONAL INSTITUTION	186	LORAIN CORRECTIONAL INSTITUTION	23
NORTH CENTRAL CORRECTIONAL INSTITUTION	166	FRANKLIN PRE RELEASE CENTER	21
PICKAWAY CORRECTIONAL INSTITUTION	154	CORRECTIONS MEDICAL CENTER	15
MADISON CORRECTIONAL INSTITUTION	144	OAKWOOD CORRECTIONAL FACILITY	15
LAKE ERIE CORRECTIONAL INSTITUTION	140	HOCKING CORRECTIONAL FACILITY	^
SOUTHERN OHIO CORRECTIONAL FACILITY	138		

**B-38. Oklahoma (OK)**

	Qty	Institution Name	Qty
DAVIS CORRECTIONAL FACILITY HOLDENVILLE	133	JACKIE BRANNON CORRECTIONAL CENTER	23
LAWTON CORRECTIONAL FACILITY	117	TULSA DIST COMM CORRECTIONS CENTERS	23
R B DICK CONNER CORRECTIONAL CENTER	84	OKLAHOMA CITY COMMUNITY CORR CTR	19
MABEL BASSETT CORRECTIONAL CENTER	72	LAWTON COMMUNITY CORR CENTER	18
JOSEPH HARP CORRECTIONAL CENTER	71	SOUTHEAST DISTRICT 3 CWC MCALESTER	18
JAMES CRABTREE CORRECTIONAL CENTER	60	NORTHEAST OKLAHOMA CORR CENTER	13
OKLAHOMA STATE REFORMATORY	50	CLARA WATERS COMMUNITY CORR CENTER	12
WILLIAM S KEY CORRECTIONAL CENTER	45	CENTRAL DISTRICT GPS	10
JESS DUNN CORRECTIONAL CENTER	43	HILLSIDE COMMUNITY CORR CENTER	10
LEXINGTON CORRECTIONAL CENTER	42	CHARLES E BILL JOHNSON CORR CENTER	^
CIMARRON CORRECTIONAL FACILITY	41	KATE BARNARD COMMUNITY CORR CENTER	^
OKLAHOMA STATE PENITENTIARY	41	LEX ASSESSMENT RECEPTION CENTER	^
DR EDDIE WARRIOR CORRECTIONAL CENTER	40	NORTHEAST DISTRICT GPS	^
JOHN LILLEY CORRECTIONAL CENTER	38	NORTHWEST DISTRICT GPS	^
JIM E HAMILTON CORRECTIONAL CENTER	36	SOUTHEAST DISTRICT EMP	^
MACK ALFORD CORRECTIONAL CENTER	33	SOUTHEAST DISTRICT GPS	^
HOWARD MCLEOD CORRECTIONAL CENTER	28	SOUTHWEST DISTRICT GPS	^
UNION CITY COMMUNITY CORR CENTER	27	TULSA COUNTY GPS	^
ENID COMMUNITY CORRECTIONS CENTER	26		

**B-39. Oregon (OR)**

Institution Name	Qty	Institution Name	Qty
OREGON STATE PENITENTIARY	75	INSTITUTION BASED RECORDS OFFICE	^
SNAKE RIVER CORRECTIONAL INSTITUTION	72	OREGON YOUTH AUTHORITY CENTER	^
COFFEE CREEK CORRECTIONAL FACILITY	39	POWDER RIVER CORRECTIONAL FACILITY	^
TWO RIVERS CORRECTIONAL INSTITUTION	33	SANTIAM CORRECTIONAL INSTITUTION	^
EASTERN OREGON CORR INSTITUTION	32	SHUTTER CREEK CORRECTIONAL INSTITUTION	^
CCCF MINIMUM	17	SOUTH FORK FOREST CAMP	^
COLUMBIA RIVER CORR INSTITUTION	17	SRCI MINIMUM	^
OREGON STATE CORRECTIONAL INSTITUTION	17	TRCI MINIMUM	^
DRCI MINIMUM	11	WARNER CREEK CORRECTIONAL FACILITY	^
COFFEE CREEK INTAKE CENTER	^		

**B-40. Pennsylvania (PA)**

Institution Name	Qty	Institution Name	Qty
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SCI GRATERFORD	336	SCI MUNCY	155
SCI CRESSON	324	SCI GREENE	145
SCI DALLAS	321	SCI CAMP HILL	132
SCI FOREST	312	GREEN ROCK CORRECTIONAL CENTER	127
SCI MAHANAY	304	SCI FRACKVILLE	126
SCI ROCKVIEW	292	SCI CAMBRIDGE SPRINGS	125
SCI SOMERSET	257	SCI MERCER	119
SCI COAL TOWNSHIP	242	SCI RETREAT	95
SCI HOUTZDALE	233	SCI GREENSBURG	85
SCI ALBION	227	SCI WAYMART	85
SCI HUNTINGDON	223	SCI CHESTER	80
SCI FAYETTE	209	SCI LAUREL HIGHLANDS	76
SCI SMITHFIELD	194	SCI PINE GROVE	41
SCI PITTSBURGH	157	QUEHANNA BOOT CAMP	36

**B-41. Rhode Island (RI)**

Institution Name	Qty	Institution Name	Qty
MEDIUM SECURITY JOHN J MORAN FACILITY	27	HIGH SECURITY CENTER	^
MAXIMUM SECURITY	20	HOME CONFINEMENT	^
MINIMUM SECURITY	7	MEDIUM II DONALD PRICE FACILITY	^
DISCHARGED	^	WOMEN S FACILITY I	^

**B-42. South Carolina (SC)**

Institution Name	Qty	Institution Name	Qty
LEE CORRECTIONAL INST	386	MANNING CORRECT L INST	81
FRANCIS LIEBER CORRECT L INST	362	MACDOUGALL CORRECT L INST	60
TURBEVILLE CORRECT L INST	317	WATEREE RIVER CORRECT L INST	58
EVANS CORRECTIONAL INSTITUTION	292	GOODMAN CORRECT L INST	53
KERSHAW CORRECT L INST	271	LIVESAY PRE RELEASE CENTER	52
MCCORMICK CORRECTIONAL INSTITUTION	243	KIRKLAND RECEPTION EVALUATION CNTR	41
BROAD RIVER CORR INST	205	WALDEN CORR INSTITUTION	37
RIDGELAND CORRECT L INST	186	CATAWBA PRE RELEASE CENTER	24
ALLENDALE CORRECTIONAL INST	173	LOWER SAVANNAH PRE RELEASE CENTER	22
PERRY CORRECTIONAL INST	155	CAMPBELL PRE RELEASE CENTER	17
TYGER RIVER CORRECT L INST	152	GRAHAM SIU	16
TRENTON CORRECTIONAL INST	143	PALMER PRE RELEASE CENTER	16
LEATH CORRECTL INST	105	COASTAL PRE RELEASE CENTER	15
STEVENSON CORRECTL INST	99	KIRKLAND RECEPTION GILLIAM PSY	^
CAMILLE GRAHAM CORRECTIONAL INST	86	WATKINS PRE RELEASE CENTER	^

**B-43. South Dakota (SD)**

Institution Name	Qty	Institution Name	Qty
DURFEE STATE PRISON	20	RAPID CITY MINIMUM UNIT	^
JAMESON PRISON ANNEX	13	SD WOMEN S PRISON E UNIT	^
JAMESON UNIT C	^	STATE PENITENTIARY	^
OTHER FACILITY PLACEMENT VARIOUS	^	YANKTON MINIMUM UNIT	^

**B-44. Tennessee (TN)**

Institution Name	Qty	Institution Name	Qty
NORTHWEST CORRECTIONAL COMPLEX	603	GIBSON COUNTY JAIL	^
HARDEMAN COUNTY CORR FACILITY	441	GILES COUNTY JAIL	^
WEST TENNESSEE STATE PENITENTIARY	345	GRAINGER COUNTY JAIL	^
MORGAN COUNTY CORRECTIONAL COMPLEX	316	GRUNDY COUNTY JAIL	^
SOUTH CENTRAL CORRECTIONAL FACILITY	278	HAMBLEN COUNTY JAIL	^
WHITEVILLE CORRECTIONAL FACILITY	266	HAMILTON COUNTY JAIL	^
SHELBY COUNTY CORRECTIONAL CENTER	212	HANCOCK COUNTY JAIL	^
TURNEY CENTER INDUSTRIAL COMPLEX	186	HARDEMAN COUNTY JAIL	^
NORTHEAST CORRECTIONAL COMPLEX	157	HARDIN COUNTY JAIL	^
DAVIDSON COUNTY DETENTION CENTER/CCA	118	HAWKINS COUNTY JAIL	^
CHARLES B BASS CORRECTIONAL COMPLEX	90	HAYWOOD COUNTY JAIL	^
MARK H LUTTRELL CORRECTIONAL CENTER	84	HENDERSON COUNTY JAIL	^
RIVERBEND MAX SECURITY INSTITUTION	81	HENRY COUNTY JAIL	^
TENNESSEE PRISON FOR WOMEN	74	HICKMAN COUNTY JAIL	^
SOUTHEASTERN TENN ST REG CORR FAC	57	JACKSON COUNTY JAIL	^
SHELBY EAST	52	JEFFERSON COUNTY JAIL	^
SHELBY COUNTY CRIMINAL JUSTICE CENTER	46	JOHNSON CITY CITY JAIL	^
DAVIDSON COUNTY CJ2	35	JOHNSON COUNTY JAIL	^
LOIS M DEBERRY SPECIAL NEEDS FACILITY	30	LAUDERDALE COUNTY JAIL	^
RUTHERFORD COUNTY JAIL	20	LAWRENCE COUNTY JAIL	^
METROPOLITAN CORR WORK CENTER/MET	18	LEWIS COUNTY JAIL	^
KNOX COUNTY JAIL	17	LINCOLN COUNTY JAIL	^
HAMILTON CNTY WORKHOUSE SILVERDALE	16	LOUDON COUNTY JAIL	^
SUMNER COUNTY JAIL	16	MACON COUNTY JAIL	^
MADISON COUNTY JAIL	14	MADISON COUNTY WORK HOUSE	^
CLAIBORNE COUNTY JAIL	13	MARION COUNTY JAIL	^
SEVIER COUNTY JAIL	13	MARSHALL COUNTY JAIL	^
SULLIVAN COUNTY JAIL	13	MAURY COUNTY JAIL	^
WASHINGTON COUNTY JAIL	12	MCMINN COUNTY JAIL	^
WARREN COUNTY JAIL	11	MCNAIRY COUNTY JAIL	^
ANDERSON COUNTY JAIL	^	MEIGS COUNTY JAIL	^
BEDFORD COUNTY JAIL	^	MONROE COUNTY JAIL	^
BENTON COUNTY JAIL	^	MONTGOMERY COUNTY JAIL	^
BLOUNT COUNTY JAIL	^	OBION COUNTY JAIL	^
BRADLEY COUNTY JAIL	^	OVERTON COUNTY JAIL	^
CAMPBELL COUNTY JAIL	^	PERRY COUNTY JAIL	^
CANNON COUNTY JAIL	^	POLK COUNTY	^
CARROLL COUNTY JAIL	^	PUTNAM COUNTY JAIL	^
CARTER COUNTY JAIL	^	ROANE COUNTY JAIL	^
CHEATHAM COUNTY JAIL	^	ROBERTSON COUNTY JAIL	^
CHESTER COUNTY JAIL	^	SCOTT COUNTY JAIL	^
COCKE COUNTY JAIL	^	SEQUATCHIE COUNTY JAIL	^
COFFEE COUNTY JAIL	^	SMITH COUNTY JAIL	^

Institution Name	Qty	Institution Name	Qty
CROCKETT COUNTY JAIL	^	TIPTON COUNTY JAIL	^
DECATUR COUNTY JAIL	^	UNICOI COUNTY JAIL	^
DICKSON COUNTY JAIL	^	UNION COUNTY JAIL	^
DYER COUNTY JAIL	^	WHITE COUNTY JAIL	^
FAYETTE COUNTY JAIL	^	WILDER YOUTH DEVELOPMENT CENTER	^
FENTRESS COUNTY JAIL	^	WILLIAMSON COUNTY JAIL	^
FRANKLIN COUNTY JAIL	^	WILSON COUNTY JAIL	^

**B-45. Texas (TX)**

Institution Name	Qty	Institution Name	Qty
POLUNSKY	193	BRADSHAW	29
STILES	139	THOMAS HAVINS	29
COFFIELD	129	WARE	29
BETO	127	BYRD	28
MCCONNELL	122	DANIEL	27
BILL CLEMENTS	120	EAST TEXAS TREATMENT FACILITY	27
CHRISTINA MELTON CRAIN UNIT	120	HILLTOP	27
MURRAY	112	GARZA WEST	26
MINERAL WELLS PPT	106	HODGE	26
TELFORD	105	NEY	26
ALLRED	103	COLE	24
WYNNE	102	J MIDDLETON	24
MICHAEL	98	MARLIN	24
DARRINGTON	95	WILLACY	24
CONNALLY	93	JORDAN	23
HOBBY	93	LOPEZ	23
ROBERTSON	93	CLEVELAND	22
FERGUSON	91	JOE F GURNEY	22
ESTELLE	90	TORRES	22
EASTHAM	89	BRIDGEPORT	21
ELLIS	88	HOLLIDAY	21
NEAL	84	TRAVIS JAIL	21
HUNTSVILLE	82	DUNCAN	20
GIB LEWIS	76	FORT STOCKTON	20
TERRELL	68	SANCHEZ	20
LOCKHART PRIV P	67	VANCE	20
ALFRED HUGHES	64	KYLE	19
SMITH	60	LOCKHART WORK FAC	19
RAMSEY I	56	SKYVIEW	19
DAWSON ST JL	55	C MOORE	18
PACK I	54	FORMBY	18
DIBOLL PRIV	53	B MOORE	17
MAC STRINGFELLOW	53	BARTLETT	17
SEGOVIA	51	BATEN	17
GIST	49	GOODMAN	17
DALHART	46	GOREE	17

Institution Name	Qty	Institution Name	Qty
BOYD	43	LINDSEY SJ	16
LUTHER	43	CHASE FIELD W6	15
JAMES LYNAUGH	42	JESTER IV	15
POWLEDGE	41	CAROL YOUNG COMPLEX	13
WAYNE SCOTT	41	SAN SABA	13
PLANE JAIL	40	BRIDGEPORT PPT	12
SANDERS ESTES	39	TULIA	12
DOLPH BRISCOE	38	COTULLA	^
HUTCHINS	38	GLOSSBRENNER	^
MOUNTAIN VIEW	37	HALBERT	^
JESTER III	36	HENLEY	^
GARZA EAST	35	HOSPITAL GALV	^
LEBLANC	35	KEGANS STATE J	^
HAMILTON	34	NORTH TEXAS ISF	^
MONTFORD	34	ROACH WRK CMP	^
DOMINGUEZ	33	RUDD	^
HIGHTOWER	33	SOUTH TEXAS ISF	^
ROACH	33	WEST TEXAS HOSP	^
CLEMENS	31	WEST TEXAS ISF	^
WALLACE	31	WHEELER	^
LYCHNER	30	WILDERNESS 3	^
STEVENSON	30	WOODMAN SJ	^

**B-46. Utah (UT)**

Institution Name	Qty	Institution Name	Qty
UTAH STATE PRISON	262	COUNTY JAIL CONTRACT HOUSING	72
CENTRAL UTAH CORRECTIONAL FACILITY	107	OTHER STATE HOUSING	^

**B-47. Virginia (VA)**

Institution Name	Qty	Institution Name	Qty
WALLENS RIDGE STATE PRISON	154	COFFEEWOOD CORRECTIONAL CENTER	16
GREEN ROCK CORRECTIONAL CENTER	142	BASKERVILLE CORRECTIONAL CENTER	12
LAWRENCEVILLE CORRECTIONAL CENTER	71	VIRGINIA CORR CENTER FOR WOMEN	11
GREENSVILLE CORRECTIONAL CENTER	65	DEERFIELD CORRECTIONAL CENTER	10
NOTTOWAY CORRECTIONAL CENTER	62	BLAND CORRECTIONAL CENTER	^
SUSSEX I STATE PRISON	62	BRUNSWICK WORK CENTER	^
AUGUSTA CORRECTIONAL CENTER	53	CAROLINE CORRECTIONAL UNIT	^
SUSSEX II STATE PRISON	51	CENTRAL VIRGINIA CORRECTIONAL UNIT	^
ST BRIDES CORRECTIONAL CENTER	46	COLD SPRINGS CORRECTIONAL UNIT	^
POWHATAN CORRECTIONAL CENTER	39	COLD SPRINGS WORK CENTER	^
HAYNESVILLE CORRECTIONAL CENTER	38	DEERFIELD MEN S WORK CENTER	^
FLUVANNA CORR CENTER FOR WOMEN	37	DEERFIELD WOMEN S WORK CENTER	^
KEEN MOUNTAIN CORRECTIONAL CENTER	29	GREENSVILLE WORK CENTER	^
POCAHONTAS STATE CORRECTIONAL CENTER	27	HALIFAX CORRECTIONAL UNIT	^
BUCKINGHAM CORRECTIONAL CENTER	24	JAMES RIVER WORK CENTER	^

Institution Name	Qty	Institution Name	Qty
INDIAN CREEK CORRECTIONAL CENTER	23	MARION CORRECTIONAL TREATMENT CENTER	^
RED ONION STATE PRISON	23	NOTTOWAY WORK CENTER	^
DEEP MEADOW CORRECTIONAL CENTER	21	PATRICK HENRY CORRECTIONAL UNIT	^
DILLWYN CORRECTIONAL CENTER	21	POWHATAN RECEPTION CLASSIFICATION CTR	^
MECKLENBURG CORRECTIONAL CENTER	21	RUSTBURG CORRECTIONAL UNIT	^
LUNENBURG CORRECTIONAL CENTER	19	WISE CORRECTIONAL UNIT	^

**B-48. Vermont (VT)**

Institution Name	Qty	Institution Name	Qty
SOUTHERN STATE CORRECTIONAL FACILITY	90	MARBLE VALLEY REGIONAL CORR FACILITY	^
NORTHERN STATE CORRECTIONAL FACILITY	22	NORTHEAST REGIONAL CORR FACILITY	^
CALEDONIA COUNTY WORK CAMP	^	NORTHWEST STATE CORRECTIONAL FACILITY	^
CHITTENDEN REGIONAL CORR FACILITY	^	SOUTHEAST WORK CAMP	^

**B-49. Washington (WA)**

Institution Name	Qty	Institution Name	Qty
AIRWAY HEIGHTS MED	110	MCC IMU	12
STAFFORD CREEK CORR CTR	105	MISSION CRK CC WOMEN	12
COYOTE RIDGE C C	88	WA COR CTR TC	10
WASH STATE PEN	69	BISHOP LEWIS WR	^
CL BAY COR CTR	43	BROWNSTONE WR	^
COYOTE RIDGE CC MSU	40	CL BAY CC IMU	^
AIR HGTS MIN	37	CLARK COUNTY WR	^
WSP MED SEC CPLX	37	CPA	^
MCC TRCC MSC	36	ELEANOR CHASE HSE	^
W CC WOMEN	31	LINCOLN PARK WR	^
MCC WSR MINIMUM	27	MADISON INN	^
MCC WA STATE REFORMATORY	26	MICC MIN SECURITY UNIT	^
CEDAR CREEK COR CTR	24	PENINSULA WR	^
WCCW MINIMUM	23	PROGRESS HOUSE WR	^
CL BAY MSC	22	RATCLIFF HOUSE WR	^
WSP INTENSIVE MGMT	21	REYNOLDS WR	^
LARCH CORR CENTER	20	SCCC IMU	^
WA COR CTR RC	19	TRI CITIES WR	^
OLYMPIC CORR CENTER	17	WA COR CTR IMU	^
MCC SOU	13	WSP MIN SECURITY UN	^
MCC IMU	12		

**B-50. Wisconsin (WI)**

Institution Name	Qty	Institution Name	Qty
TAYCHEEDA CI	66	FOX LAKE MIN CI	^
OSHKOSH CI	51	PDCI	^
RACINE CI	46	RACINE YOUTH CF	^
COLUMBIA CI	38	STURT TRANS FCY	^
STANLEY	37	WAUSHARA CO JC	^

Institution Name	Qty	Institution Name	Qty
WAUPUN PROPER	37	WCCS BLCK RIVER	^
GREEN BAY CI	32	WCCS DRUG ABUSE	^
KETTLE MORAIN	28	WCCS FLAMBEAU	^
FOX LAKE CI	22	WCCS GORDON	^
NEW LISBON	18	WCCS KENOSHA	^
OAK HILL CI	18	WCCS MCNAUGHTON	^
JACKSON CI	17	WCCS ME SHERRER	^
REDGRANITE	17	WCCS OREGON	^
WCCS ELLSWORTH	16	WCCS S B POWERS	^
WI RESOURCE CTR	16	WCCS ST CROIX	^
WCCS JC BURKE F	12	WCCS THOMPSON	^
CHIPPEWA VLY TF	11	WCCS WINNEBAGO	^
MILW SECURE DF	10	WCCS WOMENS CC	^
DODGE PROPER	^	WI SEC PROG FAC	^
FELM CHANEY CC	^	WSPF G P	^
FOND DU LAC JC	^		

#### B-51. West Virginia (WV)

Institution Name	Qty	Institution Name	Qty
HUTTONSVILLE CORRECTIONAL CENTER	76	OTHER STATE COUNTY	^
MOUNT OLIVE CORRECTIONAL COMPLEX	67	OTHER STATE DOC	^
SAINT MARYS CORRECTIONAL CENTER	37	POTOMAC HIGHLANDS REGIONAL JAIL	^
LAKIN CORRECTIONAL CENTER	29	SLAYTON WORK CAMP	^
MCDOWELL COUNTY CORRECTIONAL CENTER	29	SOUTH CENTRAL 47	^
NORTHERN CORRECTIONAL CENTER	21	SOUTH CENTRAL REGIONAL JAIL	^
PRUNTYTOWN CORRECTIONAL CENTER	20	SOUTH EASTERN 32	^
DENMAR CORRECTIONAL CENTER	12	SOUTH EASTERN 33	^
BECKLEY CORRECTIONAL CENTER	^	SOUTH EASTERN 36	^
CHARLESTON WORK RELEASE	^	SOUTH WESTERN 20	^
EASTERN REGIONAL JAIL	^	SOUTH WESTERN 25	^
ENHANCED SUPERVISION 01	^	SOUTHERN REGIONAL JAIL	^
HUNTINGTON WORK RELEASE	^	SOUTHWESTERN REGIONAL JAIL	^
NORTHERN REGIONAL JAIL	^	TYGART VALLEY REGIONAL JAIL	^
OHIO COUNTY CORRECTIONAL COMPLEX	^	WESTERN REGIONAL JAIL	^

#### B-52. Wyoming (WY)

Institution Name	Qty	Institution Name	Qty
WYOMING STATE PENITENTIARY	202	WYOMING HONOR FARM	^
WYOMING MEDIUM CORR INSTITUTION	88	WYOMING WOMEN S CENTER	^
WYOMING HONOR CONSERVATION CAMP	^		

**Appendix C**  
**Inmate Tax Fraud Prevention Act of 2008**

PUBLIC LAW 110-428—OCT. 15, 2008

122 STAT. 4839

Public Law 110-428  
110th Congress

An Act

To amend the Internal Revenue Code of 1986 to permit the Secretary of the Treasury to disclose certain prisoner return information to the Federal Bureau of Prisons, and for other purposes.

Oct. 15, 2008  
[H.R. 7082]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the “Inmate Tax Fraud Prevention Act of 2008”.

Inmate Tax  
Fraud Prevention  
Act of 2008.  
26 USC 1 note.

**SEC. 2. DISCLOSURE OF PRISONER RETURN INFORMATION TO FEDERAL BUREAU OF PRISONS.**

(a) IN GENERAL.—Subsection (k) of section 6103 of the Internal Revenue Code of 1986 (relating to disclosure of certain return and return information for tax administration purposes) is amended by adding at the end the following new paragraph:

26 USC 6103.

“(10) DISCLOSURE OF CERTAIN RETURN INFORMATION OF PRISONERS TO FEDERAL BUREAU OF PRISONS.—

“(A) IN GENERAL.—Under such procedures as the Secretary may prescribe, the Secretary may disclose to the head of the Federal Bureau of Prisons any return information with respect to individuals incarcerated in Federal prison whom the Secretary has determined may have filed or facilitated the filing of a false return to the extent that the Secretary determines that such disclosure is necessary to permit effective Federal tax administration.

“(B) RESTRICTION ON REDISCLOSURE.—Notwithstanding subsection (n), the head of the Federal Bureau of Prisons may not disclose any information obtained under subparagraph (A) to any person other than an officer or employee of such Bureau.

“(C) RESTRICTION ON USE OF DISCLOSED INFORMATION.—Return information received under this paragraph shall be used only for purposes of and to the extent necessary in taking administrative action to prevent the filing of false and fraudulent returns, including administrative actions to address possible violations of administrative rules and regulations of the prison facility.

“(D) TERMINATION.—No disclosure may be made under this paragraph after December 31, 2011.”.

(b) RECORDKEEPING.—Paragraph (4) of section 6103(p) of such Code is amended by striking “(k)(8)” both places it appears and inserting “(k)(8) or (10)”.

122 STAT. 4840

PUBLIC LAW 110-428—OCT. 15, 2008

(c) EVALUATION BY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION.—Paragraph (3) of section 7803(d) of such Code is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “; and”, and by adding at the end the following new subparagraph: “(C) not later than December 31, 2010, submit a written report to Congress on the implementation of section 6103(k)(10).”

Deadline.  
Reports.

26 USC 6103  
note.

Public  
information.  
26 USC 7207  
note.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to disclosures made after December 31, 2008.

(e) ANNUAL REPORTS.—The Secretary of the Treasury shall annually submit to Congress and make publicly available a report on the filing of false and fraudulent returns by individuals incarcerated in Federal and State prisons. Such report shall include statistics on the number of false and fraudulent returns associated with each Federal and State prison.

### SEC. 3. RESTORATION OF CERTAIN JUDICIAL SURVIVORS' ANNUITIES.

(a) IN GENERAL.—Section 376 of title 28, United States Code, is amended by adding at the end the following:

“(x) In the case of a widow or widower whose annuity under clause (i) or (ii) of subsection (h)(1) is terminated because of remarriage before attaining 55 years of age, the annuity shall be restored at the same rate commencing on the day the remarriage is dissolved by death, divorce, or annulment, if—

“(1) the widow or widower elects to receive this annuity instead of any other survivor annuity to which such widow or widower may be entitled, under this chapter or under another retirement system for Government employees, by reason of the remarriage; and

“(2) any payment made to such widow or widower under subsection (o) or (p) on termination of the annuity is returned to the Judicial Survivors' Annuities Fund.”

(b) CONFORMING AMENDMENT.—Section 376(h)(2) of title 28, United States Code, is amended by striking the period at the end and inserting “, subject to subsection (x).”

Applicability.  
28 USC 376 note.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—This section and the amendments made by this section shall take effect on the first day of the first month beginning at least 30 days after the date of the enactment of this Act and shall apply in the case of a remarriage which is dissolved by death, divorce, or annulment on or after such first day.

(2) LIMITED RETROACTIVE EFFECT.—

(A) IN GENERAL.—In the case of a remarriage which is dissolved by death, divorce, or annulment within the 4-year period ending on the day before the effective date of this section, the amendments made by this section shall apply only if the widow or widower satisfies the requirements of paragraphs (1) and (2) of section 376(x) of title 28, United States Code (as amended by this section) before—

(i) the end of the 1-year period beginning on the effective date of this section; or

(ii) such later date as Director of the Administrative Office of the United States Courts may by regulation prescribe.



(B) RESTORATION.—If the requirements of paragraph (1) are satisfied, the survivor annuity shall be restored, commencing on the date the remarriage was dissolved by death, annulment, or divorce, at the rate which was in effect when the annuity was terminated.

(C) LUMP-SUM PAYMENT.—Any amounts becoming payable to the widow or widower under this subsection for the period beginning on the date on which the annuity was terminated and ending on the date on which periodic annuity payments resume shall be payable in a lump-sum payment.

Approved October 15, 2008.

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LEGISLATIVE HISTORY—H.R. 7082:

CONGRESSIONAL RECORD, Vol. 154 (2008):  
Sept. 27, considered and passed House,  
Oct. 2, considered and passed Senate.

## Appendix D

### Homebuyer Assistance and Improvement Act of 2010

124 STAT. 1356

PUBLIC LAW 111-198—JULY 2, 2010

#### Public Law 111-198 111th Congress

#### An Act

July 2, 2010  
[H.R. 5623]

To amend the Internal Revenue Code of 1986 to extend the homebuyer tax credit for the purchase of a principal residence before October 1, 2010, in the case of a written binding contract entered into with respect to such principal residence before May 1, 2010, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

Homebuyer  
Assistance and  
Improvement Act  
of 2010.  
26 USC 1 note.

#### SECTION 1. SHORT TITLE.

This Act may be cited as the “Homebuyer Assistance and Improvement Act of 2010”.

#### SEC. 2. EXTENSION OF HOMEBUYER CREDIT FOR CERTAIN PURCHASES PURSUANT TO BINDING CONTRACTS.

26 USC 36.

(a) IN GENERAL.—Paragraph (2) of section 36(h) of the Internal Revenue Code of 1986 is amended by striking “paragraph (1) shall be applied by substituting ‘July 1, 2010’” and inserting “and who purchases such residence before October 1, 2010, paragraph (1) shall be applied by substituting ‘October 1, 2010’”.

(b) CONFORMING AMENDMENT.—Subparagraph (B) of section 36(h)(3) of such Code is amended by inserting “, and for ‘October 1, 2010’” after “for ‘July 1, 2010’”.

26 USC 36 note.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to residences purchased after June 30, 2010.

#### SEC. 3. APPLICATION OF BAD CHECKS PENALTY TO ELECTRONIC PAYMENTS.

(a) IN GENERAL.—Section 6657 of the Internal Revenue Code of 1986 is amended—

(1) by striking “If any check or money order in payment of any amount” and inserting “If any instrument in payment, by any commercially acceptable means, of any amount”, and

(2) by striking “such check” each place it appears and inserting “such instrument”.

26 USC 6657 note.

(b) EFFECTIVE DATES.—The amendments made by this section shall apply to instruments tendered after the date of the enactment of this Act.

#### SEC. 4. DISCLOSURE OF PRISONER RETURN INFORMATION TO STATE PRISONS.

(a) IN GENERAL.—Subparagraph (A) of section 6103(k)(10) of the Internal Revenue Code of 1986 is amended—

(1) by inserting “and the head of any State agency charged with the responsibility for administration of prisons” after “the head of the Federal Bureau of Prisons”, and

(2) by striking “Federal prison” and inserting “Federal or State prison”.

(b) RESTRICTION ON REDISCLOSURE.—Subparagraph (B) of section 6103(k)(10) of such Code is amended—

26 USC 6103.

(1) by inserting “and the head of any State agency charged with the responsibility for administration of prisons” after “the head of the Federal Bureau of Prisons”, and

(2) by inserting “or agency” after “such Bureau”.

(c) RECORDKEEPING.—Paragraph (4) of section 6103(p) of such Code is amended by inserting “(k)(10),” before “(l)(6),” in the matter preceding subparagraph (A).

(d) CLERICAL AMENDMENT.—The heading of paragraph (10) of section 6103(k) of such Code is amended by striking “OF PRISONERS TO FEDERAL BUREAU OF PRISONS” and inserting “TO CERTAIN PRISON OFFICIALS”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to disclosures made after the date of the enactment of this Act.

26 USC 6103 note.

#### SEC. 5. AMENDMENT OF TRAVEL PROMOTION ACT OF 2009.

(a) TRAVEL PROMOTION FUND FEES.—Section 217(h)(3)(B) of the Immigration and Nationality Act (8 U.S.C. 1187(h)(3)(B)) is amended—

(1) by striking “subsection (d) of section 11 of the Travel Promotion Act of 2009.” in clause (ii) and inserting “subsection (d) of the Travel Promotion Act of 2009 (22 U.S.C. 2131(d)).”; and

(2) by striking “September 30, 2014.” in clause (iii) and inserting “September 30, 2015.”.

(b) IMPLEMENTATION BEGINNING IN FISCAL YEAR 2011.—Subsection (d) of the Travel Promotion Act of 2009 (22 U.S.C. 2131(d)) is amended—

(1) by striking “For fiscal year 2010, the” in paragraph (2)(A) and inserting “The”;

(2) by striking “quarterly, beginning on January 1, 2010,” in paragraph (2)(A) and inserting “monthly, immediately following the collection of fees under section 217(h)(3)(B)(i)(I) of the Immigration and Nationality Act (8 U.S.C. 1187(h)(3)(B)(i)(I)).”;

(3) by striking “fiscal years 2011 through 2014,” in paragraph (2)(B) and inserting “fiscal years 2012 through 2015.”;

(4) by striking “fiscal year 2010,” in paragraph (3)(A) and inserting “fiscal year 2011.”;

(5) by striking “fiscal year 2011,” each place it appears in paragraph (3)(A) and inserting “fiscal year 2012.”; and

(6) by striking “fiscal year 2010, 2011, 2012, 2013, or 2014” in paragraph (4)(B) and inserting “fiscal year 2011, 2012, 2013, 2014, or 2015”.

#### SEC. 6. PAYGO COMPLIANCE.

The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement titled “Budgetary Effects of PAYGO Legislation” for this Act, submitted for printing in the

124 STAT. 1358

PUBLIC LAW 111-198—JULY 2, 2010

Congressional Record by the Chairman of the House Budget Committee, provided that such statement has been submitted prior to the vote on passage.

Approved July 2, 2010.

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LEGISLATIVE HISTORY—H.R. 5623:  
CONGRESSIONAL RECORD, Vol. 156 (2010):  
June 29, considered and passed House.  
June 30, considered and passed Senate.

**Appendix E**  
**Section 502 of the United States - Korea Free**  
**Trade Agreement Implementation Act**

125 STAT. 460

PUBLIC LAW 112-41—OCT. 21, 2011

**SEC. 502. REQUIREMENT FOR PRISONS LOCATED IN THE UNITED STATES TO PROVIDE INFORMATION FOR TAX ADMINISTRATION.**

26 USC 6117. (a) IN GENERAL.—Subchapter B of chapter 61 of the Internal Revenue Code of 1986 is amended by redesignating section 6116 as section 6117 and by inserting after section 6115 the following new section:

26 USC 6116. **“SEC. 6116. REQUIREMENT FOR PRISONS LOCATED IN UNITED STATES TO PROVIDE INFORMATION FOR TAX ADMINISTRATION.**

Deadline. (a) IN GENERAL.—Not later than September 15, 2012, and  
 Lists. annually thereafter, the head of the Federal Bureau of Prisons  
 Time period. and the head of any State agency charged with the responsibility for administration of prisons shall provide to the Secretary in electronic format a list with the information described in subsection (b) of all the inmates incarcerated within the prison system for any part of the prior 2 calendar years or the current calendar year through August 31.

“(b) INFORMATION.—The information with respect to each inmate is—

- “(1) first, middle, and last name,
- “(2) date of birth,
- “(3) institution of current incarceration or, for released inmates, most recent incarceration,
- “(4) prison assigned inmate number,
- “(5) the date of incarceration,
- “(6) the date of release or anticipated date of release,
- “(7) the date of work release,
- “(8) taxpayer identification number and whether the prison has verified such number,
- “(9) last known address, and
- “(10) any additional information as the Secretary may request.

“(c) FORMAT.—The Secretary shall determine the electronic format of the information described in subsection (b).”

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter is amended by striking the item relating to section 6116 and by adding at the end the following new items:

“Sec. 6116. Requirement for prisons located in United States to provide information for tax administration.  
 “Sec. 6117. Cross reference.”

## Appendix F

### Section 209 of the American Taxpayer Relief Act of 2012

126 STAT. 2324

PUBLIC LAW 112-240—JAN. 2, 2013

**SEC. 206. EXTENSION OF SPECIAL RULE FOR CONTRIBUTIONS OF CAPITAL GAIN REAL PROPERTY MADE FOR CONSERVATION PURPOSES.**

26 USC 170.

(a) **IN GENERAL.**—Clause (vi) of section 170(b)(1)(E) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **CONTRIBUTIONS BY CERTAIN CORPORATE FARMERS AND RANCHERS.**—Clause (iii) of section 170(b)(2)(B) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

Applicability.  
26 USC 170 note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2011.

**SEC. 207. EXTENSION OF ABOVE-THE-LINE DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES.**

26 USC 222 note.

(a) **IN GENERAL.**—Subsection (e) of section 222 is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after December 31, 2011.

**SEC. 208. EXTENSION OF TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT PLANS FOR CHARITABLE PURPOSES.**

26 USC 408 note.  
Applicability.

(a) **IN GENERAL.**—Subparagraph (F) of section 408(d)(8) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **EFFECTIVE DATE; SPECIAL RULE.**—

(1) **EFFECTIVE DATE.**—The amendment made by this section shall apply to distributions made in taxable years beginning after December 31, 2011.

(2) **SPECIAL RULES.**—For purposes of subsections (a)(6), (b)(3), and (d)(8) of section 408 of the Internal Revenue Code of 1986, at the election of the taxpayer (at such time and in such manner as prescribed by the Secretary of the Treasury)—

(A) any qualified charitable distribution made after December 31, 2012, and before February 1, 2013, shall be deemed to have been made on December 31, 2012, and

(B) any portion of a distribution from an individual retirement account to the taxpayer after November 30, 2012, and before January 1, 2013, may be treated as a qualified charitable distribution to the extent that—

(i) such portion is transferred in cash after the distribution to an organization described in section 408(d)(8)(B)(i) before February 1, 2013, and

(ii) such portion is part of a distribution that would meet the requirements of section 408(d)(8) but for the fact that the distribution was not transferred directly to an organization described in section 408(d)(8)(B)(i).

**SEC. 209. IMPROVE AND MAKE PERMANENT THE PROVISION AUTHORIZING THE INTERNAL REVENUE SERVICE TO DISCLOSE CERTAIN RETURN AND RETURN INFORMATION TO CERTAIN PRISON OFFICIALS.**

(a) **IN GENERAL.**—Paragraph (10) of section 6103(k) is amended to read as follows:

“(10) **DISCLOSURE OF CERTAIN RETURNS AND RETURN INFORMATION TO CERTAIN PRISON OFFICIALS.**—

“(A) IN GENERAL.—Under such procedures as the Secretary may prescribe, the Secretary may disclose to officers and employees of the Federal Bureau of Prisons and of any State agency charged with the responsibility for administration of prisons any returns or return information with respect to individuals incarcerated in Federal or State prison systems whom the Secretary has determined may have filed or facilitated the filing of a false or fraudulent return to the extent that the Secretary determines that such disclosure is necessary to permit effective Federal tax administration.

“(B) DISCLOSURE TO CONTRACTOR-RUN PRISONS.—Under such procedures as the Secretary may prescribe, the disclosures authorized by subparagraph (A) may be made to contractors responsible for the operation of a Federal or State prison on behalf of such Bureau or agency.

“(C) RESTRICTIONS ON USE OF DISCLOSED INFORMATION.—Any return or return information received under this paragraph shall be used only for the purposes of and to the extent necessary in taking administrative action to prevent the filing of false and fraudulent returns, including administrative actions to address possible violations of administrative rules and regulations of the prison facility and in administrative and judicial proceedings arising from such administrative actions.

“(D) RESTRICTIONS ON REDISCLOSURE AND DISCLOSURE TO LEGAL REPRESENTATIVES.—Notwithstanding subsection (h)—

“(i) RESTRICTIONS ON REDISCLOSURE.—Except as provided in clause (ii), any officer, employee, or contractor of the Federal Bureau of Prisons or of any State agency charged with the responsibility for administration of prisons shall not disclose any information obtained under this paragraph to any person other than an officer or employee or contractor of such Bureau or agency personally and directly engaged in the administration of prison facilities on behalf of such Bureau or agency.

“(ii) DISCLOSURE TO LEGAL REPRESENTATIVES.—The returns and return information disclosed under this paragraph may be disclosed to the duly authorized legal representative of the Federal Bureau of Prisons, State agency, or contractor charged with the responsibility for administration of prisons, or of the incarcerated individual accused of filing the false or fraudulent return who is a party to an action or proceeding described in subparagraph (C), solely in preparation for, or for use in, such action or proceeding.”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 6103(a) is amended by inserting “subsection (k)(10),” after “subsection (e)(1)(D)(iii).”.

(2) Paragraph (4) of section 6103(p) is amended—

(A) by inserting “subsection (k)(10),” before “subsection (l)(10),” in the matter preceding subparagraph (A),

(B) in subparagraph (F)(i)—

(i) by inserting “(k)(10),” before “or (l)(6),” and

- (ii) by inserting “subsection (k)(10) or” before “subsection (l)(10),” and
- (C) by inserting “subsection (k)(10) or” before “subsection (l)(10),” both places it appears in the matter following subparagraph (F)(iii).
- (3) Paragraph (2) of section 7213(a) is amended by inserting “(k)(10),” before “(l)(6).”
- (c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

26 USC 7213.

26 USC 6103  
note.

### TITLE III—BUSINESS TAX EXTENDERS

#### SEC. 301. EXTENSION AND MODIFICATION OF RESEARCH CREDIT.

##### (a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (B) of section 41(h)(1) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(2) CONFORMING AMENDMENT.—Subparagraph (D) of section 45C(b)(1) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

##### (b) INCLUSION OF QUALIFIED RESEARCH EXPENSES AND GROSS RECEIPTS OF AN ACQUIRED PERSON.—

(1) PARTIAL INCLUSION OF PRE-ACQUISITION QUALIFIED RESEARCH EXPENSES AND GROSS RECEIPTS.—Subparagraph (A) of section 41(f)(3) is amended to read as follows:

##### “(A) ACQUISITIONS.—

“(i) IN GENERAL.—If a person acquires the major portion of either a trade or business or a separate unit of a trade or business (hereinafter in this paragraph referred to as the ‘acquired business’) of another person (hereinafter in this paragraph referred to as the ‘predecessor’), then the amount of qualified research expenses paid or incurred by the acquiring person during the measurement period shall be increased by the amount determined under clause (ii), and the gross receipts of the acquiring person for such period shall be increased by the amount determined under clause (iii).

“(ii) AMOUNT DETERMINED WITH RESPECT TO QUALIFIED RESEARCH EXPENSES.—The amount determined under this clause is—

“(I) for purposes of applying this section for the taxable year in which such acquisition is made, the acquisition year amount, and

“(II) for purposes of applying this section for any taxable year after the taxable year in which such acquisition is made, the qualified research expenses paid or incurred by the predecessor with respect to the acquired business during the measurement period.

“(iii) AMOUNT DETERMINED WITH RESPECT TO GROSS RECEIPTS.—The amount determined under this clause is the amount which would be determined under clause (ii) if ‘the gross receipts of’ were substituted for ‘the qualified research expenses paid or incurred by’ each place it appears in clauses (ii) and (iv).



## Appendix G

### Section 204 of the Bipartisan Budget Act of 2013

PUBLIC LAW 113-67—DEC. 26, 2013

127 STAT. 1179

(A) IN GENERAL.—The total amount of the penalty imposed under this subsection on any person for any calendar year shall not exceed \$250,000.

(B) EXCEPTION FOR WILLFUL VIOLATIONS.—Subparagraph (A) shall not apply in the case of violations under paragraph (1) that the Secretary of Commerce determines to be willful or intentional violations.

(d) DEATH MASTER FILE.—For purposes of this section, the term “Death Master File” means information on the name, social security account number, date of birth, and date of death of deceased individuals maintained by the Commissioner of Social Security, other than information that was provided to such Commissioner under section 205(r) of the Social Security Act (42 U.S.C. 405(r)). Definition.

(e) EXEMPTION FROM FREEDOM OF INFORMATION ACT REQUIREMENT WITH RESPECT TO CERTAIN RECORDS OF DECEASED INDIVIDUALS.—

(1) IN GENERAL.—No Federal agency shall be compelled to disclose the information described in subsection (a) to any person who is not certified under the program established under subsection (b).

(2) TREATMENT OF INFORMATION.—For purposes of section 552 of title 5, United States Code, this section shall be considered a statute described in subsection (b)(3) of such section 552.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), this section shall take effect on the date that is 90 days after the date of the enactment of this Act.

(2) FOIA EXEMPTION.—Subsection (e) shall take effect on the date of the enactment of this Act.

#### SEC. 204. IDENTIFICATION OF INMATES REQUESTING OR RECEIVING IMPROPER PAYMENTS.

(a) INFORMATION PROVIDED TO THE PRISONER UPDATE PROCESSING SYSTEM (PUPS).—

(1) SECTION 202(x)(3)(B)(i)(I) of the Social Security Act (42 U.S.C. 402(x)(3)(B)(i)(I)) is amended by—

(A) inserting “first, middle, and last” before “names”;  
 (B) striking the comma after the words “social security account numbers” and inserting “or taxpayer identification numbers, prison assigned inmate numbers, last known addresses,”;

(C) inserting “dates of release or anticipated dates of release, dates of work release,” before “and, to the extent available”; and

(D) by inserting “and clause (iv) of this subparagraph” after “paragraph (1)”.

(2) SECTION 1611(e)(1)(I)(i)(I) of the Social Security Act (42 U.S.C. 1382(e)(1)(I)(i)(I)) is amended by—

(A) inserting “first, middle, and last” before “names”;  
 (B) striking the comma after the words “social security account numbers” and inserting “or taxpayer identification numbers, prison assigned inmate numbers, last known addresses,”;

(C) inserting “dates of release or anticipated dates of release, dates of work release,” before “and, to the extent available”; and

(D) by inserting “and clause (iv) of this subparagraph” after “this paragraph”.

(b) AUTHORITY OF SECRETARY OF THE TREASURY TO ACCESS PUPS.—

(1) SECTION 202(x)(3)(B).—Section 202(x)(3)(B) of the Social Security Act (42 U.S.C. 402(x)(3)(B)) is amended—

(A) in clause (iv), by inserting before the period the following: “, for statistical and research activities conducted by Federal and State agencies, and to the Secretary of the Treasury for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under federally funded programs”; and

(B) by adding at the end the following:

“(v)(I) The Commissioner may disclose information received pursuant to this paragraph to any officer, employee, agent, or contractor of the Department of the Treasury whose official duties require such information to assist in the identification, prevention, and recovery of improper payments or in the collection of delinquent debts owed to the United States, including payments certified by the head of an executive, judicial, or legislative paying agency, and payments made to individuals whose eligibility, or continuing eligibility, to participate in a Federal program (including those administered by a State or political subdivision thereof) is being reviewed.

“(II) Notwithstanding the provisions of section 552a of title 5, United States Code, or any other provision of Federal or State law, the Secretary of the Treasury may compare information disclosed under subclause (I) with any other personally identifiable information derived from a Federal system of records or similar records maintained by a Federal contractor, a Federal grantee, or an entity administering a Federal program or activity, and may redisclose such comparison of information to any paying or administering agency and to the head of the Federal Bureau of Prisons and the head of any State agency charged with the administration of prisons with respect to inmates whom the Secretary of the Treasury has determined may have been issued, or facilitated in the issuance of, an improper payment.

“(III) The comparison of information disclosed under subclause (I) shall not be considered a matching program for purposes of section 552a of title 5, United States Code.”

(2) SECTION 1611(e)(1)(I).—Section 1611(e)(1)(I) of the Social Security Act (42 U.S.C. 1382(e)(1)(I)) is amended—

(A) in clause (iii), by inserting before the period the following: “, for statistical and research activities conducted by Federal and State agencies, and to the Secretary of the Treasury for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under federally funded programs”; and

(B) by adding at the end the following:

“(v)(I) The Commissioner may disclose information received pursuant to this paragraph to any officer, employee, agent, or contractor of the Department of the Treasury whose official duties require such information to assist in the identification, prevention, and recovery of improper payments or in the collection of delinquent

debts owed to the United States, including payments certified by the head of an executive, judicial, or legislative paying agency, and payments made to individuals whose eligibility, or continuing eligibility, to participate in a Federal program (including those administered by a State or political subdivision thereof) is being reviewed.

“(II) Notwithstanding the provisions of section 552a of title 5, United States Code, or any other provision of Federal or State law, the Secretary of the Treasury may compare information disclosed under subclause (I) with any other personally identifiable information derived from a Federal system of records or similar records maintained by a Federal contractor, a Federal grantee, or an entity administering a Federal program or activity and may redisclose such comparison of information to any paying or administering agency and to the head of the Federal Bureau of Prisons and the head of any State agency charged with the administration of prisons with respect to inmates whom the Secretary of the Treasury has determined may have been issued, or facilitated in the issuance of, an improper payment.

“(III) The comparison of information disclosed under subclause (I) shall not be considered a matching program for purposes of section 552a of title 5, United States Code.”

(c) CONFORMING AMENDMENT TO THE DO NOT PAY INITIATIVE.—Section 5(a)(2) of the Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C. 3321 note) is amended by adding at the end the following:

“(F) Information regarding incarcerated individuals maintained by the Commissioner of Social Security under sections 202(x) and 1611(e) of the Social Security Act.”

### TITLE III—NATURAL RESOURCES

#### SEC. 301. ULTRA-DEEPWATER AND UNCONVENTIONAL NATURAL GAS AND OTHER PETROLEUM RESOURCES.

(a) REPEAL.—Subtitle J of title IX of the Energy Policy Act of 2005 (42 U.S.C. 16371 et seq.) is repealed.

(b) RESCISSION.—Any unobligated funds appropriated for carrying out the subtitle repealed by subsection (a) are rescinded.

#### SEC. 302. AMENDMENT TO THE MINERAL LEASING ACT.

Section 35(b) of the Mineral Leasing Act (30 U.S.C. 191(b)) is amended to read as follows—

“(b) DEDUCTION FOR ADMINISTRATIVE COSTS.—In determining the amount of payments to the States under this section, beginning in fiscal year 2014 and for each year thereafter, the amount of such payments shall be reduced by 2 percent for any administrative or other costs incurred by the United States in carrying out the program authorized by this Act, and the amount of such reduction shall be deposited to miscellaneous receipts of the Treasury.”

Effective date.

#### SEC. 303. APPROVAL OF AGREEMENT WITH MEXICO.

The Agreement between the United States of America and the United Mexican States Concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico, signed at Los Cabos, February 20, 2012, is hereby approved.

43 USC 1356b  
note.

## **ANNUAL REPORT TO CONGRESS**

### **Filing of False and Fraudulent Tax Returns Associated With Individuals Incarcerated in Federal Prisons and State Correctional Facilities**



Submitted by

 **Internal Revenue Service**

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## Section 1. Background

This Annual Report to Congress is required by section 2(e) of the Inmate Tax Fraud Prevention Act of 2008, P.L. 110-428 (the Act). The Act requires that "*The Secretary of the Treasury shall annually submit to Congress and make publicly available a report on the filing of false and fraudulent returns by individuals incarcerated in Federal and State prisons. Such report shall include statistics on the number of false and fraudulent returns associated with each Federal and State prison.*"

Each year, the IRS receives data on prisoners from the Federal Bureau of Prisons (BOP), the District of Columbia (D.C.) and all State Departments of Corrections (DOCs). The data includes the prisoner's name, social security number (SSN), the date the prisoner entered confinement, and expected release date. The IRS uses that data to match against returns filed claiming refunds. Every return filed with a prisoner SSN that claims a refund that is not otherwise stopped by our identity theft (ID) filters is examined by an IRS employee to verify the refund claim. Overall, the IRS stopped and conducted further analysis on 5.7 million suspicious returns in CY 2013. Of those, 71,561 were false and fraudulent returns filed with a prisoner SSN. These 71,561 returns included returns filed by prisoners as well as returns filed by unknown individuals using a prisoner's SSN. The IRS sends notices to the filers of these returns.

### 1.1 Purpose of the Report

The purpose of the IRS Annual Report to Congress is to:

- Identify the total number of false and fraudulent returns by individuals who are incarcerated in the BOP, D.C., and DOCs in calendar year (CY) 2013 (see *Appendix A*).
- Report on the statistical breakdown of CY 2013 false and fraudulent returns by state and by correctional institution within each state (see *Appendix B*).
- Provide insight into the cross-functional coordination, communication, and collaboration across the IRS and with other federal and state agency stakeholders.

### 1.2 Findings of the Report

The IRS identified 71,561 false and fraudulent returns filed in CY 2013 under Social Security Numbers (SSNs) of individuals incarcerated in the BOP, state, and D.C. corrections systems. This volume declined from 137,883 false and fraudulent returns filed in CY 2012, a decrease of 48.1 percent. We attribute this decline to better screening of returns with prisoner SSNs. We believe that paying fewer fraudulent refunds in prior years was the largest contributor to the reduction of fraudulent refund claims using prisoner SSNs in CY 2013.

The IRS fraud filters screen 100% of the returns filed with prisoner SSNs and prevented the payment of \$1.282 billion of revenue, protecting 98.5% of the fraudulent refund dollars claimed. The 1.5% of refund dollars that are refunded to the filer cannot be

prevented due to system limitations, and protecting 100% of all fraudulent refund revenue would require costly system upgrades for which full funding has not been available.

The fraud filters identify tax returns claiming refunds and select for review all returns with a primary (primary and secondary on a joint return) SSN that matches the annual prisoner file of individuals incarcerated in the BOP, state, and D.C. corrections systems. IRS tax examiners review these returns to verify the income, withholding, and refundable credits claimed on the return. If items cannot be verified, the refund claim is denied. Occasionally, returns with prisoner SSNs are caught in our general ID filters, in which case fraudulent refunds are stopped through automated processes rather than through this manual process.

## Section 2. Stakeholder Collaboration

### 2.1 Inmate Census

In late 2011, as in several prior years, the Commissioner of the Wage and Investment (W&I) Division of the IRS requested information for tax administration from the BOP and from State and D.C. corrections systems for the previous 32 months of prisoners on roll. The IRS used the information received from the BOP and from State and D.C. corrections systems during 2013 to identify and address non-compliant prisoner returns before any refunds were released, and to refer certain prisoners to IRS Criminal Investigation.

### 2.2 Legislative History

Information the IRS shares: Amendments to Internal Revenue Code section 6103 (I.R.C. § 6103) in 2008 and 2010 provide the IRS authority to disclose prisoner return information to the BOP and state DOCs when a prisoner may have filed or facilitated the filing of a false return when such disclosure is necessary for effective Federal tax administration. This authority expired at the end of 2011, but an amendment to I.R.C. § 6103 in January 2013 reinstated this authority and made it permanent. This amendment also authorized the IRS to disclose this information to contractors operating on behalf of the BOP and state DOCs, as well as authorized legal representatives of the contractor, BOP and state DOCs. The IRS is currently reaching out to the BOP and all state DOCs to negotiate a new memorandum of understanding to govern the disclosure of information to the prison agencies.

Information shared with the IRS: Internal Revenue Code § 6116 was enacted in 2011, requiring the heads of the BOP and state agencies administering prisons to provide the IRS certain prisoner information by September 15, 2012, and annually thereafter. Before this law was enacted, the BOP, state, and D.C. corrections systems were under no legal obligation to provide this information, but rather supplied it to the IRS on a voluntary basis. Specifically, the BOP voluntarily collaborated with the IRS for over 25 years to provide data to assist them in identifying potentially false and fraudulent tax returns submitted by inmates in the federal prison system. More recently, in December 2013, the IRS was authorized to receive data from the Social Security Administration (SSA) Prisoner Update Processing System regarding the incarceration of prisoners. This new data source should enhance the detection of false and fraudulent tax returns. The IRS is currently working with SSA and the Bureau of Fiscal Services to determine how to improve the availability of prisoner data for IRS use.



### Section 3. Mission, Vision, & Goals

The IRS has fraud detection systems to identify and prevent the issuance of false or fraudulent refund claims, including the ability to identify returns filed by prisoners based on the data provided by the BOP, State, and D.C. corrections systems. While these fraud detection systems have enhanced the way the IRS identifies false and fraudulent returns, not all false and fraudulent returns are detected.

The IRS goals regarding prisoner refund tax compliance continues to be: (1) increase prisoner compliance, (2) reduce erroneous refunds as a result of false or fraudulent returns filed by or facilitated by prisoners, and (3) increase effectiveness for the management of prisoner returns. The IRS has developed a prisoner refund tax compliance strategy to address the challenges of identifying and addressing prisoner tax non-compliance and reducing erroneous refunds. This strategy identifies five key focus areas as detailed below in *Table 3.1-1*.

**Table 3.1-1:** Five Key Focus Areas of the Prisoner Refund Tax Compliance Strategy

Focus Area	Goal of the Focus Area
Data Exchange / Prisoner File	Improve the quality, accuracy, and timeliness of data received from the prisons and improve the process by which data is exchanged between the IRS and prison systems.
Compliance	Improve the process for detecting non-compliant prisoner tax returns and provide viable solutions for resolving these non-compliant tax returns.
MOU Initiative	Establish MOUs with BOP, States, and DC corrections systems that allows the IRS to disclose false and fraudulent tax information received from prisoners to these agencies that may lead to administrative reprimand of non-compliant filers within the prison population.
Outreach	Conduct targeted outreach to prisoners and prison officials to help prisoners better understand and meet their tax responsibilities.
Legislative	Comply with legislative requirements by reporting the performance of the Prisoner Tax Compliance Program to Congress annually.

The IRS collaborated with the BOP and several State corrections systems to develop the mission, vision, and goals of the Prisoner Refund Tax Compliance strategy.

### Section 4. Methodology

The method used to generate the data presented in this Report to Congress includes all false and fraudulent returns filed under the SSNs of full-year prisoners characterized as Primary Prisoner<sup>1</sup>, Primary Lifer<sup>2</sup>, Secondary Prisoner<sup>3</sup>, and Secondary Lifer<sup>4</sup> for the following filing statuses:

- Single
- Married Filing Jointly, when both the primary and secondary filers are prisoners
- Married Filing Separately
- Head of Household
- Qualifying widow(er) with dependent child

This methodology identifies filers as prisoners solely based on data provided by state and federal corrections systems each year that the IRS compiles into its annual Prisoner File.

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<sup>1</sup> **Primary Prisoner (PP)** – The prisoner is listed as the primary Taxpayer Identification Number (TIN) on the return. In addition, the prisoner does not have a 'life' indicator in release date.

<sup>2</sup> **Primary Lifer (PL)** – The prisoner is listed as the primary TIN on the return. In addition, the prisoner has a 'life' indicator in release date.

<sup>3</sup> **Secondary Prisoner (SP)** – The prisoner is listed as the secondary TIN on the return. In addition, the prisoner does not have a 'life' indicator in release date.

<sup>4</sup> **Secondary Lifer (SL)** – The prisoner is listed as the secondary TIN on the return. In addition, the prisoner has a 'life' indicator in release date.

## Section 5. Findings

An analysis of the compiled data provided by the BOP, State, and D.C. corrections systems revealed three key findings:

**Finding #1:** For CY 2013, the IRS identified 71,561 false and fraudulent returns filed using prisoner SSNs (see *Appendix A*).

**Finding #2:** Florida and Georgia were the top two jurisdictions and accounted for 27 percent of the identified false and fraudulent returns filed in CY 2013 (see *Table 5.1-1*).

**Finding #3:**

Florida and Georgia were the top two jurisdictions and accounted for 27 percent of the 71,561 false and fraudulent returns filed in CY 2013. Nearly half of these 71,561 returns were filed by individuals using prisoner SSNs for prisoners in the top 5 jurisdictions. The top 20 jurisdictions, by volume of false and fraudulent returns identified, represent nearly 86 percent of the total number of identified false and fraudulent prisoner returns (see *Table 5.1-1*).

**Table 5.1-1:** Top 20<sup>5</sup> jurisdictions listed by the Percentage of the Total False and Fraudulent Prisoner Returns

Rank	State Code	State Name	Number of Total False Returns	Percentage of Total
1	FL	Florida	12,034	16.82
2	GA	Georgia	7,035	9.83
3	FD	Federal	6,479	9.05
4	CA	California	5,204	7.27
5	AL	Alabama	4,333	6.05
6	TN	Tennessee	3,629	5.07
7	PA	Pennsylvania	3,172	4.43
8	TX	Texas	2,746	3.84
9	MI	Michigan	2,038	2.85
10	MS	Mississippi	2,036	2.85
11	SC	South Carolina	1,823	2.55
12	OH	Ohio	1,574	2.20
13	AZ	Arizona	1,554	2.17
14	LA	Louisiana	1,511	2.11
15	NJ	New Jersey	1,267	1.77
16	IN	Indiana	1,161	1.62
17	AR	Arkansas	1,042	1.46
18	CO	Colorado	1,010	1.41
19	OK	Oklahoma	995	1.39
20	NC	North Carolina	773	1.08
<b>Total</b>			<b>61,416</b>	<b>86%</b>

<sup>5</sup> Inmate tax fraud is highly correlated with prison population.

Notes:

Percentages are based on the total Number of Identified False and Fraudulent Prisoner Returns, (71,581 in CY 2013).

**Appendix A**  
**Identified False and Fraudulent Returns Filed by State (CY 2013)**

State Code	State Name	Quantity of False Returns
AK	Alaska	87
AL	Alabama	4,333
AR	Arkansas	1,042
AZ	Arizona	1,554
CA	California	5,204
CO	Colorado	1,010
CT	Connecticut	507
DC	District of Columbia	3
DE	Delaware	418
FD	BOP	6,479
FL	Florida	12,034
GA	Georgia	7,035
HI	Hawaii	42
IA	Iowa	187
ID	Idaho	139
IL	Illinois	743
IN	Indiana	1,161
KS	Kansas	328
KY	Kentucky	761
LA	Louisiana	1,511
MA	Massachusetts	141
MD	Maryland	420
ME	Maine	99
MI	Michigan	2,038
MN	Minnesota	415
MO	Missouri	403
MS	Mississippi	2,036
MT	Montana	138
NC	North Carolina	773
ND	North Dakota	298
NE	Nebraska	213
NH	New Hampshire	246
NJ	New Jersey	1,267
NM	New Mexico	225
NV	Nevada	496
NY	New York	692
OH	Ohio	1,574
OK	Oklahoma	995
OR	Oregon	213
PA	Pennsylvania	3,172
RI	Rhode Island	31
SC	South Carolina	1,823
SD	South Dakota	35
TN	Tennessee	3,629
TX	Texas	2,746
UT	Utah	203
VA	Virginia	682
VT	Vermont	473
WA	Washington	497
WI	Wisconsin	388
WV	West Virginia	243
WY	Wyoming	379
<b>TOTAL</b>		<b>71,561</b>

Note: this list is shown in alphabetical order by State Code

**Appendix B**  
**Identified False and Fraudulent Returns Filed by Institution (CY 2013)**

Note: Institutions with a reported full-year inmate population of less than 10 inmates are not listed.

"^" indicates the value of the institution's quantity is less than 10.

**B-1. Alaska (AK)**

Institution Name	Qty	Institution Name	Qty
HUDSON CF	23	LEMON CREEK CC	^
SPRING CREEK CC	14	NORTH STAR CTR	^
ANCHORAGE EM	^	PALMER EM	^
ANCHORAGE JAIL	^	PALMERMED CC	^
FAIRBANKS EM	^	PALMERMIN CC	^
GLACIER MANOR	^	PARKVIEW	^
GLENWOOD CTR	^	WILDWOOD CC	^
GOOSE CREEK CC	^	WILDWOOD PRETRIAL	^
HILAND MTN CC	^	WILDWOOD TRANSITIONAL	^
JUNEAU EM	^		

**B-2. Alabama (AL)**

Institution Name	Qty	Institution Name	Qty
WILLIAM E DONALDSON CORR FAC	415	CAMDEN COMM WORK CENTER	12
ST CLAIR CORRECTIONAL FAC	410	ETOWAH COMMUNITY CORRECTIONS	11
HOLMAN PRISON	311	LOXLEY COMMUNITY WORK CENTER	11
BIBB COUNTY CORRECTIONAL FAC	270	CATTLE RANCH	10
VENTRESS CORRECTIONAL CENTER	265	ADOC CLARKE COUNTY MALE	^
STATON CORRECTIONAL CENTER	228	ALA THERAPEUTIC ED FACILITY FEMALE	^
LIMESTONE CORRECTIONAL CENTER	217	BIRMINGHAM COMM WORK CENTER	^
EASTERLING CORRECTIONAL CENTER	215	CALHOUN COMMUNITY CORRECTIONS	^
FOUNTAIN CORRECTIONAL CENTER	207	CAMDEN WORK RELEASE	^
BULLOCK CORRECTIONAL FACILITY	200	CENTRAL RECORDS MONITOR	^
DRAPER CORRECTIONAL CENTER	177	COLBERT COMMUNITY CORRECTIONS	^
ELMORE CORRECTIONAL FACILITY	161	CULLMAN COMMUNITY CORRECTIONS	^
UNASSIGNED	76	DEKALB COMMUNITY CORRECTIONS	^
JO DAVIS CORRECTIONAL CENTER	71	ELBA COMM WORK CENTER	^
CHILDERSBURG COMM WORK CENTER	54	ESCAMBIA COMMUNITY CORRECTIONS	^
RED EAGLE WORK CENTER	50	ETOWAH	^
KILBY RCC	46	FEDERAL PRISONS ACT 86	^
BULLOCK MENTAL HEALTH UNIT	42	GEORGIA	^
DECATUR WORK RELEASE	42	HAMILTON COMM WORK CENTER	^
HOLMAN DEATH ROW	41	HOUSTON	^
TUTWILER PRISON	41	JACKSON	^
MOBILE WORK RELEASE	36	JACKSON COMMUNITY CORRECTIONS	^
LOXLEY WORK RELEASE	35	JEFFERSON SRP	^
JEFFERSON COMMUNITY CORRECTIONS	32	KILBY INFIRMARY	^
ATMORE COMM WORK CENTER	30	LAUDERDALE COMMUNITY CORRECTIONS	^

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Institution Name	Qty	Institution Name	Qty
FRANK LEE YOUTH CENTER	29	LAWRENCE	^
KILBY CORRECTIONAL FACILITY	29	LAWRENCE COMMUNITY CORRECTIONS	^
MONTGOMERY WOMENS FACILITY	29	LEE	^
BIRMINGHAM WORK RELEASE	28	LIMESTONE	^
CHILDERSBURG WORK RELEASE	28	LIMESTONE COMMUNITY CORRECTIONS	^
ELBA WORK RELEASE	28	LOVELADY CENTER BHAM AL	^
ALA THERAPEUTIC ED FACILITY MALE	27	MADISON	^
LIMESTONE SPECIAL UNIT	27	MADISON COMMUNITY CORRECTIONS	^
DECATUR COMM WORK CENTER	26	MADISON SRP	^
HAMILTON WORK RELEASE	24	MARION COMMUNITY CORRECTIONS	^
FRANK LEE WORK RELEASE	23	MOBILE COMM WORK CENTER	^
PRE THERAPEUTIC COMMUNITY PROGRAM	23	MOBILE SRP	^
HAMILTON A I	22	MONTGOMERY	^
TUTWILER ANNEX	20	MONTGOMERY SRP	^
TUSCALOOSA COMMUNITY CORRECTIONS	16	MORGAN COMMUNITY CORRECTIONS	^
ALEX CITY COMM WORK CENTER	15	MORGAN SRP	^
ALEX CITY WORK RELEASE	15	ST CLAIR COMMUNITY CORRECTIONS	^
HOUSTON COMMUNITY CORRECTIONS	14	TENNESSEE	^
MOBILE COMMUNITY CORRECTIONS	14	WALKER COMMUNITY CORRECTIONS	^
MONTGOMERY COMMUNITY CORRECTIONS	14	WILLIAM E DONALDSON DEATH ROW	^
FRANKLIN COMMUNITY CORRECTIONS	13		

**B-3. Arkansas (AR)**

Institution Name	Qty	Institution Name	Qty
CUMMINS UNIT	133	AR STATE POLICE	^
OUACHITA RIVER CORRECTIONAL UNIT	108	ARKANSAS COUNTY 309WORK	^
VARNER UNIT	89	CALHOUN COUNTY 309WORK	^
MCPHERSON UNIT	69	CLAY COUNTY 309WORK	^
WRIGHTSVILLE UNIT	61	CRAIGHEAD COUNTY 309WORK	^
EAST AR REGION UNIT	55	CUMMINS MODULAR UNIT	^
VARNER SUPER MAX	50	DALLAS COUNTY 309WORK	^
TUCKER UNIT	46	FAULKNER COUNTY 309WORK	^
NORTH CENTRAL UNIT	42	FAYETTEVILLE PP	^
BENTON WORK RELEASE	37	GREENE COUNTY 309WORK	^
EAST AR REGIONAL MAX UNIT	37	MISS OO REGIONAL MAINTENANCE	^
GRIMES UNIT	37	MISSISSIPPI COUNTY WR	^
PINE BLUFF UNIT	35	MONROE COUNTY 309WORK	^
DELTA REGIONAL UNIT	32	NW AR CCC	^
MAXIMUM SECURITY UNIT	30	NW ARK WORK RELEASE	^
RANDALL L WILLIAMS COR FACILITY	28	ORCU MH RESIDENTIAL PROG UNIT	^
WRIGHTSVILLE HAWKINS FOR MALES	20	PULASKI COUNTY BACKUP LIST	^
TEXARKANA WORK RELEASE	19	SHERIDAN CITY 309 WORK	^
WRIGHTSVILLE HAWKINS CENTER	14	TEXARKANA REGIONAL MAINTENANCE	^
WRIGHTSVILLE HAWKINS WORK RELEASE	11	WASHINGTON COUNTY 309WORK	^
PB UNIT WORK RELEASE	10	WRIGHTSVILLE HAWKINS SPU	^
ALETA	^		

**B-4. Arizona (AZ)**

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Institution Name	Qty	Institution Name	Qty
ASPCLEWIS	298	ASPCFLORENCE	137
CONTRACTEDPRISONS	227	ASPCDOUGLAS	76
ASPCPERRYVILLE	190	ASPCWINSLOW	56
ASPCYUMA	181	ASPCSAFFORD	39
ASPCUCSON	177	ASPCPHOENIX	^
ASPCYEMAN	166		

**B-5. California (CA)**

Institution Name	Qty	Institution Name	Qty
CALIFORNIA STATE PRISON LOS ANGELES	281	CALIFORNIA CORRECTIONAL CENTER	103
CALIPATRIA STATE PRISON	218	CALIFORNIA STATE PRISON SAN QUENTIN	96
TALLAHATCHIE COUNTY CORR FA	214	VALLEY STATE PRISON FOR WOMEN	95
AVENAL STATE PRISON	207	FOLSOM STATE PRISON	82
CALIFORNIA INSTITUTION FOR MEN	204	CENTRAL CALIFORNIA WOMENS FACILITY	80
CENTINELA STATE PRISON	203	PAROLE PROGRAM REGION II	77
CALIFORNIA SUBSTANCE ABUSE TRAT	201	NORTH KERN STATE PRISON	75
PLEASANT VALLEY STATE PRISON	199	MULE CREEK STATE PRISON IONE	73
SIERRA CONSERVATION CENTER	185	PAROLE PROGRAM REGION I	73
CALIFORNIA CORRECTIONAL INSTITUTION	182	WASCO STATE PRISON RECEPTION CTR	72
CALIFORNIA STATE PRISON SOLANO	178	PELICAN BAY STATE PRISON	71
SALINAS VALLEY STATE PRISON	176	PAROLE PROGRAM REGION IV	67
KERN VALLEY STATE PRISON	169	DEUEL VOCATIONAL INSTITUTION	66
CALIFORNIA MENS COLONY	163	CALIFORNIA MEDICAL FACILITY	62
CORRECTIONAL TRAINING FACILITY	162	NORTH FORK CORRECTIONAL FACILITY	60
CALIFORNIA STATE PRISON CORCORAN	150	CALIFORNIA INSTITUTION FOR WOMEN	54
RICHARD J DONOVAN CORRECTIONAL FA	144	RED ROCK CORRECTIONAL CENTER	48
IRONWOOD STATE PRISON	141	CHUCKAWALLA VALLEY STATE PRISON	47
CALIFORNIA REHABILITATION CENTER	135	PAROLE PROGRAM REGION III	32
HIGH DESERT STATE PRISON	116	SACRAMENTO CENTRAL OFFICE	13
LA PALMA CORRECTIONAL CENTER	107	GOLDEN STATE CCF	10
CALIFORNIA STATE PRISON SACRAMENTO	104	LEGAL PROCESSING UNIT	^

**B-6. Colorado (CO)**

Institution Name	Qty	Institution Name	Qty
COMMUNITY CENTERS	164	KIT CARSON CORRECTIONAL FACILITY	19
STERLING CORRECTIONAL FACILITY	88	TRINIDAD CORRECTIONAL FACILITY	17
FREMONT CORRECTIONAL FACILITY	76	SAN CARLOS CORRECTIONAL FACILITY	14
DENVER WOMENS CORRECTIONAL FAC	63	BUENA VISTA MINIMUM CENTER	13
INTENSIVE SUPERVISION PROGRAM	62	SKYLINE CORRECTIONAL CENTER	11
BENT COUNTY CORRECTIONAL FACILITY	54	CENTENNIAL CORRECTIONAL FACILITY	10
CROWLEY COUNTY CORRECTIONAL FAC	53	INMATEFUGITIVE STATUS	10
COLORADO TERRITORIAL CORR	43	COLORADO CORRECTIONAL CENTER	^
ARKANSAS VALLEY CORRECTIONAL FAC	39	COMMUNITY REGRESS ISP	^
LA VISTA CORRECTIONAL FACILITY	38	COMMUNITY YOS PHASE 3	^
LIMON CORRECTIONAL FACILITY	33	DENVER RECEPTION DIAGNOSTIC CTR	^
CHEYENE MOUNTAIN REENTRY CENTER	31	FEDERAL TRACKING OTHER STATE FED	^



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DELTA CORRECTIONAL CENTER	31	INTERSTATE CORRECTION COMPACT	^
BUENA VISTA CORRECTIONAL FACILITY	29	RIFLE CORRECTIONAL CENTER	^
COLORADO STATE PENITENTIARY	25	TRANSPORT BETWEEN FACILITIES	^
FOUR MILE CORRECTIONAL CENTER	22	YOUTHFUL OFFENDER SYSTEM	^
ARROWHEAD CORRECTIONAL CENTER	21		

**B-7. Connecticut (CT)**

Institution Name	Qty	Institution Name	Qty
DISCHARGE	106	CONSIGNCOMPAT OTHER STATE	^
OSBORN CI	54	HARTFORD CC	^
MACDOUGALL CI	53	HARTFORD PAROLE	^
CHESHIRE CI	41	MANSON YI	^
ROBINSON CI	37	MAPLE STREET HOUSE	^
ENFIELD CI	31	MORRIS HOUSE	^
WILLARDCYBULSKI CI	27	NEW HAVEN CC	^
RADGOWSKI CI	24	NEW HAVEN COMMUNITY ENFORCEMENT	^
CORRIGAN CI	19	NORTHERN CI	^
GARNER CI	19	NOW INC	^
YORK CI	19	REENTRY FURLOUGH	^
BROOKLYN CI	16	REVOKED RETURN TO CUSTODY	^
WALKER RSMU	14	WATERBURY COMMUNITY ENFORCEMENT	^
NIANTIC ANNEX	10	WATERBURY PAROLE	^
BRIDGEPORT COMMUNITY ENFORCEMENT	^	WATKINSON HOUSE	^
BRIDGEPORT PAROLE	^		

**B-8. District of Columbia (DC)**

Institution Name	Qty	Institution Name	Qty
CENTRAL DETENTION FACILITY	^		

**B-9. Delaware (DE)**

Institution Name	Qty	Institution Name	Qty
JTVCC JAMES T VAUGHN CORRECTIONAL C	404	SCI SUSSEX CORRECTIONAL INSTITUTION	^
BWCI BAYLOR WOMENS CORRECTIONAL	10		

**B-10. Federal<sup>6</sup> (FD)**

Institution Name	Qty	Institution Name	Qty
MIAMI FDC	286	PHOENIX FCI	30
ATLANTA USP	136	ALLENWOOD USP	29
COLEMAN MED FCI	134	CHICAGO MCC	29
MIAMI FCI	109	EL PASO CCM	29
LEE USP	106	GREENVILLE FCI	29
DESIGN SENTENCE COMPUTATION CTR	99	ALDERSON FPC	28

<sup>6</sup> The DOJ advised that the Designation and Sentencing Computation Centers and the Mid Atlantic, North Central, North East, South Central, and Western Regional Office filers are state concurrency cases or in private facilities, and therefore not in a BOP facility. Federal Prisons located in ten states accounted for 67% of the volume as follows: FL 21%, TX 8%, CA 8%, GA 6%, PA 5%, SC 5%, KY 4%, NC 3%, LA 3% and WV 3%.

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Institution Name	Qty	Institution Name	Qty
FORT DIX FCI	98	CUMBERLAND FCI	28
TALLAHASSEE FCI	93	FAIRTON FCI	28
COLEMAN LOW FCI	90	MCRAE CI	28
COLEMAN I USP	89	MINNEAPOLIS CCM	28
POLLOCK MED FCI	81	MONTGOMERY CCM	28
YAZOO CITY FCI	81	SAN ANTONIO CCM	28
BROOKLYN MDC	80	BUTNER FMC	27
HONOLULU FDC	80	ORLANDO CCM	27
JESUP FCI	79	RIVERS CI	27
GUAYNABO MDC	78	TEXARKANA FCI	27
RALEIGH CCM	78	WASECA FCI	27
BENNETTSVILLE FCI	74	BUTNER MED I FCI	26
OKLAHOMA CITY FTC	74	HERLONG FCI	26
POLLOCK USP	73	SEATTLE CCM	26
VICTORVILLE USP	71	MANCHESTER FCI	25
HAZELTON USP	70	MCKEAN FCI	25
BEAUMONT USP	69	MILAN FCI	25
SAN DIEGO MCC	68	PHILADELPHIA CCM	25
COLEMAN II USP	66	BUTNER LOW FCI	24
FORREST CITY FCI	65	FLORENCE HIGH USP	24
ESTILL FCI	64	CINCINNATI CCM	23
HOUSTON CCM	64	ENGLEWOOD FCI	23
EDGEFIELD FCI	63	NEW ORLEANS CCM	23
FORREST CITY MED FCI	60	ALLENWOOD MED FCI	22
ATLANTA CCM	59	BRYAN FPC	22
MARIANNA FCI	59	LA TUNA FCI	22
LEXINGTON FMC	58	LORETTO FCI	22
WILLIAMSBURG FCI	58	DALLAS CCM	21
BECKLEY FCI	56	DEVENS FMC	21
MCCREARY USP	56	PEKIN FCI	21
FORT WORTH FCI	55	PENSACOLA FPC	21
MEMPHIS FCI	54	PHOENIX CCM	21
MIAMI CCM	52	SPRINGFIELD USMCFP	21
MCDOWELL FCI	51	DETROIT CCM	20
VICTORVILLE MED II FCI	49	MORGANTOWN FCI	20
YAZOO CITY MED FCI	49	RAY BROOK FCI	20
LOMPOC USP	48	SACRAMENTO CCM	19
ELKTON FCI	47	SAFFORD FCI	19
LONG BEACH CCM	47	SALT LAKE CITY CCM	19
PHILADELPHIA FDC	47	SOUTHEAST REGIONAL OFFICE	19
LOS ANGELES MDC	46	TUCSON FCI	19
OAKDALE FCI	46	DUBLIN FCI	18
TERRE HAUTE USP	46	LOMPOC FCI	18
VICTORVILLE MED I FCI	46	OXFORD FCI	18
CARSWELL FMC	45	TERMINAL ISLAND FCI	18
DANBURY FCI	45	D RAY JAMES CORR FACI CI	16
PETERSBURG MED FCI	45	MARION USP	15
SEAGOVILLE FCI	45	MENDOTA FCI	15

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Institution Name	Qty	Institution Name	Qty
SEATAC FDC	45	CENTRAL OFFICE	14
ATWATER USP	44	ADAMS COUNTY CORR CTR CI	13
BUTNER MED II FCI	44	ALLENWOOD LOW FCI	13
NASHVILLE CCM	43	FLORENCE FCI	13
DIST OF COLUMBIA CCM	42	YANKTON FPC	13
TALLADEGA FCI	42	DENVER CCM	12
BEAUMONT LOW FCI	41	OTISVILLE FCI	12
BEAUMONT MED FCI	41	ROCHESTER FMC	12
THREE RIVERS FCI	41	SANDSTONE FCI	12
GILMER FCI	39	BALTIMORE CCM	11
PETERSBURG FCI	39	BIG SPRING CI	11
TERRE HAUTE FCI	39	OAKDALE FDC	10
TUCSON USP	38	CIBOLA COUNTY CI	^
LEWISBURG USP	37	DALBY CI	^
BIG SANDY USP	36	DULUTH FPC	^
ASHLAND FCI	34	EDEN CI	^
KANSAS CITY CCM	34	FLORENCE ADMAX USP	^
ST LOUIS CCM	34	LIMESTONE DC	^
EL RENO FCI	33	MIDATLANTIC REGIONAL OFFICE	^
HOUSTON FDC	33	MOSHANNON VALLEY CI	^
LEAVENWORTH USP	33	NE OHIO CORR CTR CI	^
MONTGOMERY FPC	33	NORTH CENTRAL REGIONAL OFFICE	^
BIG SPRING FCI	32	NORTHEAST REGIONAL OFFICE	^
CANAAN USP	32	PITTSBURGH CCM	^
NEW YORK MCC	32	REEVES CI	^
SHERIDAN FCI	32	REEVES DC	^
NEW YORK CCM	31	SOUTH CENTRAL REGIONAL OFFICE	^
SCHUYLKILL FCI	31	TAFT CI	^
BASTROP FCI	30	WESTERN REGIONAL OFFICE	^
CHICAGO CCM	30		

**B-11. Florida (FL)**

Institution Name	Qty	Institution Name	Qty
SOUTH BAY CF	279	POMPANO TRANSCNTR	32
BLACKWATER CF	271	MARTIN WORK CAMP	31
DADE CI	243	HOLMES WORK CAMP	30
OKEECHOBEE CI	242	HOLLYWOOD WRC	29
MARTIN CI	240	PUTNAM CI	29
EVERGLADES CI	227	BROWARD CI	27
GADSDEN CF	225	MADISON WORK CAMP	26
WAKULLA ANNEX	210	MIAMI DADE	26
JACKSON CI	209	HARDEE WORK CAMP	25
LOWELL ANNEX	208	JACKSON WORK CAMP	24
GRACEVILLE CF	207	LIBERTY WORK CAMP	24
FLORIDA STATE PRISON	205	SUNCOAST WRC FEM	24
HARDEE CI	203	SUWANNEE WORK CAMP	24
COLUMBIA ANNEX	201	GAINESVILLE WC	23
CHARLOTTE CI	200	GRACEVILLE WORK CAMP	23
LOWELL CI	200	MAYO WORK CAMP	23
UNION CI	198	WPALM BEACH WRC	22

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Institution Name	Qty	Institution Name	Qty
SANTA ROSA CI	190	BRADENTON TRANSCNTR	21
DESOTO ANNEX	187	RMC WORK CAMP	21
NWFRC MAIN UNIT	177	BAKER WORK CAMP	20
MAYO CI ANNEX	174	TOMOKA WORK CAMP	20
WAKULLA CI	169	WALTON WORK CAMP	20
CALHOUN CI	167	CFRC SOUTH	19
FRANKLIN CI	167	OPA LOCKA WRC	19
COLUMBIA CI	166	SANTA FE WRC	19
TAYLOR ANNEX	166	ST PETE WRC	19
HAMILTON ANNEX	165	TRANSHOUSE INCKISS	19
GULF CI ANNEX	163	BREVARD WORK CAMP	18
MADISON CI	163	DUVAL	18
GULF CI	157	GULF FORESTRY CAMP	18
APALACHEE EAST UNIT	155	HILLSBORO	18
POLK CI	155	MARION WORK CAMP	18
LIBERTY CI	150	OKALOOSA WORK CAMP	17
CENTURY CI	145	CENTURY WORK CAMP	16
TOMOKA CI	140	LANCASTER WC	15
HOMESTEAD CI	139	PINELLAS	15
MOORE HAVEN CF	139	BRIDGES OF POMPANO	14
SUWANNEE CI ANNEX	138	FT MYERS WORK CAMP	14
HOLMES CI	136	ORLANDO TRANSCENTER	14
TAYLOR CI	133	REALITY HOUSE	14
JEFFERSON CI	131	TALLAHASSEE WRC	14
OKALOOSA CI	129	BRIDGES OF ORLANDO	13
SANTA ROSA ANNEX	127	KISSIMMEE WRC	13
WALTON CI	125	LAKE CITY WRC	13
LAWTEY CI	122	BRIDGES OF JACKSONVI	12
RMC MAIN UNIT	121	DAYTONA WRC	12
HAMILTON CI	120	LOXAHATCHEE RP	12
MARION CI	120	PENSACOLA WRC	12
LAKE CI	119	BARTOW WRC	11
SUMTER CI	119	BIG PINE KEY RP	11
AVON PARK CI	115	ORANGE	11
CROSS CITY CI	112	ARCADIA ROAD PRISON	10
LOWELL RECEPT CENTER	105	BERRYDALE FRSTRY CMP	10
LAKE CITY CF	104	COCOA WRC	10
SUWANNEE CI	104	DINSMORE WRC	10
HERNANDO CI	101	ORLANDO WRC	10
CFRC EAST	98	PALM BEACH	10
BAKER CI	95	ALABAMA	^
APALACHEE WEST UNIT	93	ATLANTIC WRC	^
BAY CF	83	COLLIER	^
NWFRC ANNEX	83	FEDERAL CUSTODY	^
SFRC	80	FORT PIERCE WRC	^
ZEPHYRHILLS CI	78	GEORGIA	^
FSP WEST UNIT	77	LARGO RP	^
LANCASTER CI	65	LEE	^
CFRC MAIN	63	LEON	^

## CY 2013 Annual Report to Congress

Institution Name	Qty	Institution Name	Qty
WAKULLA WORK CAMP	59	MAINE	^
AVON PARK WORK CAMP	58	MANATEE	^
RMG WEST UNIT	58	NASSAU	^
UNKNOWN 2	56	PANAMA CITY WRC	^
SFRC SOUTH UNIT	54	PASCO	^
SAGO PALM RE ENTRY C	48	PINELLAS WRC	^
LARGO RESRE ENTRY C	42	REENTRY CTR OF OCALA	^
CROSS CITY WORK CAMP	40	SAME LOCATION	^
QUINCY ANNEX	40	SANTA ROSA	^
SUMTER WORK CAMP	39	SARASOTA	^
GLADES WORK CAMP	37	SEMINOLE	^
TAYLOR WORK CAMP	36	SHISA HOUSE EAST	^
BAY CITY WORK CAMP	35	SHISA HOUSE WEST	^
CALHOUN WORK CAMP	34	ST LUCIE	^
DESOTO WORK CAMP	34	SUMTER BTU	^
LOWELL WORK CAMP	32	TARPON SPRGS WRC	^
MIAMI NORTH WRC	32	TENNESSEE	^
POLK WORK CAMP	32	VOLUSIA	^

## B-12. Georgia (GA)

Institution Name	Qty	Institution Name	Qty
COFFEE CORR FACILITY	412	SPALDING COUNTY CI	49
MACON STATE PRISON	327	COLUMBUS TC	48
SMITH STATE PRISON	312	MONTGOMERY STATE PRISON	48
WHEELER CORR FACILITY	307	COASTAL TC	46
WARE STATE PRISON	268	ATL TRANSITIONAL CTR M	40
HAYS STATE PRISON	267	ALBANY TRANSITIONAL CT	35
WILCOX STATE PRISON	257	CARROLL COUNTY CI	34
AUTRY STATE PRISON	230	AUGUSTA TC	33
TELFAIR STATE PRISON	229	TROUP COUNTY CI	32
DOOLY STATE PRISON	223	THOMAS COUNTY CI	29
VALDOSTA SP	210	LAGRANGE TC	28
CALHOUN STATE PRISON	209	MACON TRANSITIONAL CTR M	28
HANCOCK STATE PRISON	205	RICHMOND COUNTY CI	28
GA STATE PRISON	194	HALL COUNTY CI	27
JOHNSON STATE PRISON	189	DECATUR COUNTY CI	26
RIVERBEND CORR FACILITY	177	SUMTER COUNTY CI	24
ROGERS STATE PRISON	177	SMITH TC	23
AUGUSTA STATE MED PRISON	170	CLAYTON COUNTY CI	22
PHILLIPS STATE PRISON	169	CLARKE COUNTY CI	19
WASHINGTON STATE PRISON	167	JEFFERSON COUNTY CI	19
CENTRAL STATE PRISON	158	LONG	19
PULASKI STATE PRISON	146	COWETA COUNTY CI	18
BALDWIN STATE PRISON	125	EFFINGHAM COUNTY CI	18
DODGE STATE PRISON	125	TERRELL COUNTY CI	18
ARRENDALE STATE PRISON	115	COLQUITT COUNTY CI	16
COASTAL STATE PRISON	104	GWINNETT COUNTY CI	16
RUTLEDGE STATE PRISON	102	JACKSON COUNTY CI	16

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LEE STATE PRISON	87	VALDOSTA TC	14
GA DIAG CLASS PRISON	82	BULLOCH COUNTY CI	13
MUSCOGEE COUNTY CI	73	HARRIS COUNTY CI	13
WALKER STATE PRISON	65	SCREVEN COUNTY CI	13
CLAYTON TC	55	MITCHELL COUNTY CI	12
METRO TRANSITIONAL CTR	54	APPLING	^
FLOYD COUNTY CI	53	HELMS FACILITY	^
BURRUS CORR TRN CNTR	49	TURNER	^
EMANUEL SWAINSBORO	49	WEST CENTRAL	^
JENKINS CORR FACILITY	49		

**B-13. Hawaii (HI)**

Institution Name	Qty	Institution Name	Qty
HALAWA CORRECTIONAL FACILITY	^	OTHER OUT OF STATE	^
HAWAII COMMUNITY CORRECTIONAL CTR	^	SAGUARO CORRECTIONAL CENTER	^
MAUI COMMUNITY CORRECTIONAL CENTER	^	WAIAWA CORRECTIONAL FACILITY	^
OAHU COMMUNITY CORRECTIONAL CTR	^	WOMENS COMMUNITY CORRECTIONAL CTR	^

**B-14. Iowa (IA)**

Institution Name	Qty	Institution Name	Qty
NEWTON CORRECTIONAL FACILITY	41	CLARINDA CORRECTIONAL FACILITY	17
ANAMOSA STATE PENITENTIARY	31	IOWA CORRECTIONAL INSTITUTION FOR	14
FORT DODGE CORRECTIONAL FACILITY	26	NORTH CENTRAL CORRECTIONAL FAC	12
MOUNT PLEASANT CORRECTIONAL FACILIT	21	IOWA MEDICAL CLASSIFICATION CENTER	^
IOWA STATE PENITENTIARY	20		

**B-15. Idaho (ID)**

Institution Name	Qty	Institution Name	Qty
ST ANTHONY WORK CENTER ST ANTHONY	20	JAIL BACKLOG	^
IDAHO CORRECTIONAL CENTER BOISE	19	JUDICIAL DISTRICT	^
IDAHO STATE CORRECTIONAL INSTITUTIO	16	NAMPA COMMUNITY WORK CENTER	^
IDAHO FALLS COMMUNITY WORK CENTER I	11	NORTH IDAHO CORRECTIONAL INST	^
CORRECTIONAL ALTERNATIVE PLACEMENT	^	POCATELLO WOMANS CORRECTIONAL	^
COUNTY JAIL	^	RECORDS BUREAU TRACKING	^
EAST BOISE COMMUNITY WORK CENTER BO	^	SICI COMMUNITY WORK CENTER	^
IDAHO CORRECTIONAL INSTITUTION OROF	^	SOUTH BOISE WOMENS CORRECTIONAL	^
IDAHO MAXIMUM SECURITY INSTITUTION	^	SOUTH IDAHO CORRECTIONAL INST	^

**B-16. Illinois (IL)**

Institution Name	Qty	Institution Name	Qty
STATEVILLE	64	VIENNA	26
MENARD	46	PINCKNEYVILLE	24
JACKSONVILLE	42	DANVILLE	22
SHERIDAN	41	EAST MOLINE	22
ILLINOIS RIVER	38	PONTIAC	22
DECATUR	34	GRAHAM	21
DIXON	34	CENTRALIA	20
SHAWNEE	34	VANDALIA	20

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Institution Name	Qty	Institution Name	Qty
WESTERN ILLINOIS	34	TAYLORVILLE	15
HILL	32	ROBINSON	13
LOGAN	31	DWIGHT	12
LAWRENCE	29	SOUTHWESTERN ILLINOIS	^
BIG MUDDY RIVER	28	TAMMS	^
LINCOLN	27		

**B-17. Indiana (IN)**

Institution Name	Qty	Institution Name	Qty
INDIANA STATE PRISON	153	CENTRAL OFFICE INBOUND	^
NEW CASTLE CORRECTIONAL FACILITY	132	CHAIN O LAKES CORRECTIONAL FACILITY	^
MIAMI CORRECTIONAL FACILITY	115	COMMUNITY TRANSITION PROGRAM	^
PUTNAMVILLE CORRECTIONAL FACILITY	110	EDINBURGH CORRECTIONAL FACILITY	^
WESTVILLE CORRECTIONAL FACILITY	97	EVANSVILLE VOA WORK RELEASE	^
PENDLETON CORRECTIONAL FACILITY	86	HENRYVILLE CORRECTIONAL FACILITY	^
CORRECTIONAL INDUSTRIAL FACILITY	68	MARION COUNTY WORK RELEASE CTR	^
BRANCHVILLE CORRECTIONAL FACILITY	49	MIAMI CORRECTIONAL LEVEL ONE FAC	^
PLAINFIELD CORRECTIONAL FACILITY	49	NEW CASTLE LEVEL ONE FACILITY	^
ROCKVILLE CORRECTIONAL FACILITY	37	NEW CASTLE PSYCHIATRIC UNIT	^
NEW CASTLE CORRECTIONAL ANNEX	36	OUT OF STATE FACILITY	^
WABASH VALLEY D LEVEL THREE FAC	34	PENDLETON CORRECTIONAL LEVEL ONE	^
WABASH VALLEY E LEVEL FOUR FAC	28	SHORT TERM OFFENDER FACILITY	^
INDIANA WOMENS PRISON	24	SOUTH BEND COMMUNITY RE ENTRY	^
MADISON CORRECTIONAL FACILITY	18	WABASH VALLEY A LEVEL ONE FACILITY	^
LIBERTY HALL WORK RELEASE	17	WABASH VALLEY S LONG TERM SEG FAC	^
RECEPTION DIAGNOSTIC CENTER	15	WESTVILLE CONTROL UNIT	^
INDIANAPOLIS RE ENTRY EDUCATION FAC	14	WESTVILLE LEVEL ONE FACILITY	^

**B-18. Kansas (KS)**

Institution Name	Qty	Institution Name	Qty
LANSING CORRECTIONAL FACILITY CENT	61	LARNED CORRECTIONAL MENTAL HEALTH	11
HUTCHINSON CORRECTIONAL FAC	59	ELLSWORTH CORRECTIONAL FACILITY	^
EL DORADO CORRECTIONAL FAC CENTRAL	54	HUTCHINSON CORR FAC WORK RELEASE	^
TOPEKA CORRECTIONAL FACILITY CENTRA	40	LARNED STATE HOSPITAL	^
NORTON CORRECTIONAL FACILITY CENTRA	29	NORTON CORRECTIONAL FACILITY EAST	^
LANSING CORRECTIONAL FACILITY EAST	18	TOPEKA WORK RELEASE	^
WICHITA WORK RELEASE CENTER	18	WINFIELD CORRECTIONAL FACILITY	^
HUTCHINSON CORRECTIONAL FACILITY EA	14		

**B-19. Kentucky (KY)**

Institution Name	Qty	Institution Name	Qty
LUTHER LUCKETT CORR COMPLEX	89	HARDIN COUNTY JAIL	^
EASTERN KY CORR COMPLEX	88	HARLAN COUNTY JAIL	^
KENTUCKY STATE REFORMATORY	88	HART COUNTY JAIL	^
NORTHPOINT TRAINING CENTER	58	HENDERSON COUNTY JAIL	^
WESTERN KY CORR COMPLEX	41	HOPKINS COUNTY JAIL	^
MARION ADJUSTMENT CENTER	35	JACKSON COUNTY JAIL	^

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Institution Name	Qty	Institution Name	Qty
KY CORR INST FOR WOMEN	27	JEFFERSON COUNTY DET CNTR	^
LITTLE SANDY CORR COMPLEX	27	JOHNSON COUNTY JAIL	^
GREEN RIVER CORR COMPLEX	26	KCIW ASSESSMENT	^
KENTUCKY STATE PENITENTIARY	21	KENTON COUNTY DET CNTR	^
ROEDERER ASSESSMENT CNTR	20	LARUE COUNTY JAIL	^
BLACKBURN CORR COMPLEX	13	LAUREL COUNTY JAIL	^
DISMAS CHARITIES PORTLAND	13	LEE COUNTY DET CNTR	^
FULTON COUNTY JAIL	11	LESLIE COUNTY JAIL	^
MARION COUNTY JAIL	10	MADISON COUNTY JAIL	^
BARREN COUNTY JAIL	^	MARSHALL COUNTY JAIL	^
BELL COUNTY FORESTRY CAMP	^	MASON COUNTY DET CNTR	^
BELL COUNTY JAIL	^	MCCRACKEN COUNTY JAIL	^
BLUEGRASS CAREER DEVELOPMENT CTR	^	MEADE COUNTY JAIL	^
BOONE COUNTY JAIL	^	MUHLENBERG COUNTY JAIL	^
BOYLE COUNTY JAIL	^	NELSON COUNTY JAIL	^
CALLOWAY COUNTY JAIL	^	PADUCAH COMMUNITY CENTER	^
CAMPBELL COUNTY JAIL	^	PERRY COUNTY JAIL	^
CASEY COUNTY DET CNTR	^	PIKE COUNTY JAIL	^
CHRISTIAN COUNTY JAIL	^	POWELL COUNTY JAIL	^
CLAY COUNTY JAIL	^	ROCKCASTLE COUNTY JAIL	^
CRITTENDEN COUNTY JAIL	^	ROEDERER CORR COMPLEX	^
DAVISS COUNTY DET CNTR	^	SHELBY COUNTY JAIL	^
DISMAS CHARITIES OWENSBORO	^	SIMPSON COUNTY JAIL	^
FAYETTE COUNTY DET CNTR	^	TODD COUNTY JAIL	^
FRANKLIN COUNTY REGIONAL JAIL	^	TRANSITIONS TWO RIVERS	^
GRANT COUNTY JAIL	^	TRANSITIONS YORK STREET	^
GRAVES COUNTY JAIL	^	WARREN COUNTY JAIL	^
GRAYSON COUNTY JAIL	^	WEBSTER COUNTY JAIL	^
GREENUP COUNTY JAIL	^	WHITLEY COUNTY DET CNTR	^

**B-20. Louisiana (LA)**

Institution Name	Qty	Institution Name	Qty
OFFICE OF ADULT SERVICES NORTH	638	AVOUELLES CORRECTIONAL CENTER	40
OFFICE OF ADULT SERVICES SOUTH	327	ALLEN CORRECTIONAL CENTER	38
LOUISIANA STATE PENITENTIARY	131	LA CORRECTIONAL INST FOR WOMEN	35
HUNT CORRECTIONAL CENTER	61	RAYBURN CORRECTIONAL CENTER	33
OFFICE OF ADULT SERVICES FEMALE	55	WADE CORRECTIONAL CENTER	26
WINN CORRECTIONAL CENTER	54	C PAUL PHELPS CORRECTIONAL CENTER	22
OFFICE OF PROBATION AND PAROLE	50	FORCHT WADE CORRECTIONAL CENTER	^

**B-21. Massachusetts (MA)**

Institution Name	Qty	Institution Name	Qty
SOUZA BARANOWSKI CORRECTIONAL	22	COUNTY FEDL INTERSTATE DOC	^
MCI CONCORD	20	MA ALCOHOL AND SUBST ABUSE CTR	^
MCI SHIRLEY MEDIUM	16	MASS TREATMENT CENTER	^
OLD COLONY CORRECTIONAL CENTER	15	MCI CEDAR JUNCTION	^
MCI NORFOLK	13	MCI FRAMINGHAM	^



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N E C C	11	MCI PLYMOUTH	^
BOSTON PRE RELEASE	^	NCCI GARDNER	^
BRIDGEWATER STATE HOSPITAL	^	PONDVILLE CORRECTIONAL CENTER	^
BROOKE HOUSE	^	SOUTH MIDDLESEX CORR CTR	^

**B-22. Maryland (MD)**

Institution Name	Qty	Institution Name	Qty
EASTERN CORRECTIONAL INSTITUTION	50	BALTIMORE CITY DETENTION CENTER	^
MARYLAND CORRECTIONAL TRAINING CENT	49	BALTIMORE PRE RELEASE UNIT	^
JESSUP CORRECTIONAL INSTITUTION	35	BROCKBRIDGE CORRECTIONAL FACILITY	^
MARYLAND CORRECTIONAL INSTITUTION W	35	CENTRAL HOME DETENTION UNIT	^
NORTH BRANCH CORRECTIONAL INSTITUTI	35	CENTRAL MARYLAND CORRECTIONAL F	^
ROXBURY CORRECTIONAL INSTITUTION	34	DIVISION OF CORRECTION HQ	^
WESTERN CORRECTIONAL INSTITUTION	28	EASTERN PRERELEASE UNIT	^
MARYLAND RECEPTION DIAG CLASS CENTE	27	PATUXENT INSTITUTION	^
MARYLAND CORRECTIONAL INST HAGERSTO	16	PATUXENT INSTITUTION ANNEX	^
JESSUP PRERELEASE UNIT	13	PATUXENT INSTITUTION FOR WOMEN	^
MARYLAND CORRECTIONAL INSTITUTION J	11	PATUXENT INSTITUTION FOR YOUTH	^
EASTERN CORRECTIONAL INSTITUTION AN	10	PATUXENT INSTITUTION MENTAL H	^
METROPOLITAN TRANSITION CENTER	10	POPLAR HILL PRERELEASE UNIT	^
BALTIMORE CITY CORRECTIONAL CENTER	^	SOUTHERN MARYLAND PRERELEASE U	^

**B-23. Maine (ME)**

Institution Name	Qty	Institution Name	Qty
MAINE STATE PRISON	44	BOLDUC CORRECTIONAL FACILITY	10
MAINE CORRECTIONAL CENTER	27	CHARLESTON CORRECTIONAL FACILITY	^
DOWNEAST CORRECTIONAL FACILITY	12		

**B-24. Michigan (MI)**

Institution Name	Qty	Institution Name	Qty
HURON VALLEY COMPLEX WOMEN	217	WEST SHORELINE CORRECTIONAL FAC	50
CHIPPEWA CORRECTIONAL FACILITY	154	HANDLON MICHIGAN TRAINING UNIT	43
CARSON CITY CORRECTIONAL FACILITY	100	MARQUETTE BRANCH PRISON	42
GUS HARRISON CORRECTIONAL FACILITY	98	OJIBWAY CORRECTIONAL FACILITY	42
COTTON CORRECTIONAL FACILITY	91	NEWBERRY CORRECTIONAL FACILITY	40
KINROSS CORRECTIONAL FACILITY	89	BARAGA MAXIMUM FACILITY	36
MID MICHIGAN CORRECTIONAL FACILITY	82	THUMB CORRECTIONAL FACILITY	31
MACOMB CORRECTIONAL FACILITY	80	IONIA MAXIMUM CORRECTIONAL FAC	25
PARNAL CORRECTIONAL FACILITY	70	INTENSIVE REENTRY PROGRAM MALE	19
ST LOUIS CORRECTIONAL FACILITY	70	INTENSIVE REENTRY PROGRAM FEMALE	^
BELLAMY CREEK CORRECTIONAL FACILITY	65	MAXEY	^
BROOKS CORRECTIONAL FACILITY	60	MOUND CORRECTIONAL FACILITY	^
MICHIGAN REFORMATORY	60	SAI FEMALE PROGRAM CASSIDY LAKE T	^
JACKSON COOPER STREET FACILITY	59	SAI MALE INTAKE AREA FOR CASSIDY LA	^
RYAN CORRECTIONAL FACILITY	59	UNITED STATES PRISON	^
OAKS CORRECTIONAL FACILITY	57	VIRTUAL PRISON CLARE COUNTY JAIL	^
CHARLES EGELER RECEPTION AND GUIDAN	55	VIRTUAL PRISON JACKSON COUNTY JAIL	^

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LAKELAND MENS CORRECTIONAL FACILIT	54	VIRTUAL PRISON LENAWEE COUNTY JAIL	^
SAGINAW CORRECTIONAL FACILITY	53	VIRTUAL PRISON OSCEOLA SHERIFFS CO	^
PUGSLEY CORRECTIONAL FACILITY	52	VIRTUAL PRISON VANBUREN COUNTY J	^
ALGER CORRECTIONAL FACILITY	51		

**B-25. Minnesota (MN)**

Institution Name	Qty	Institution Name	Qty
MINNESOTA CORRECTIONAL FACILITY FAR	98	MINNESOTA CORR FACILITY OAK PARK H	29
MN CORR FACILITY WILLOW RIVER MOOSE	87	MINNESOTA CORRECTIONAL FACILITY S	26
MINNESOTA CORR FACILITY STILLWATER	80	MINNESOTA CORRECTIONAL FACILITY R	^
MINNESOTA CORR FACILITY LINO LAKES	50	MINNESOTA CORRECTIONAL FACILITY ST	^
MINNESOTA CORRECTIONAL FACILITY RUS	35	MINNESOTA CORRECTIONAL FACILITY T	^

**B-26. Missouri (MO)**

Institution Name	Qty	Institution Name	Qty
WOMENS EASTERN REC DIAG CORR CTR	32	JEFFERSON CITY CORRECTIONAL CTR	19
MOBERLY CORRECTIONAL CENTER	29	ALGOA CORRECTIONAL CENTER	17
WESTERN MISSOURI CORRECTIONAL CTR	29	MISSOURI EASTERN CORRECTIONAL CTR	16
CHILlicoTHE CORRECTIONAL CENTER	26	OZARK CORRECTIONAL CENTER	15
EASTERN RECEPTION DIAGNOSTIC CORR	26	POTOSI CORRECTIONAL CENTER	14
SOUTH CENTRAL CORRECTIONAL CENTER	26	WESTERN RECEPTION DIAGNOSTIC CORR	14
FARMINGTON CORRECTIONAL CENTER	25	MARYVILLE TREATMENT CENTER	13
NORTHEAST CORRECTIONAL CENTER	24	TIPTON CORRECTIONAL CENTER	11
CROSSROADS CORRECTIONAL CENTER	22	CREMER THERAPEUTIC COMMUNITY CTR	^
SOUTHEAST CORRECTIONAL CENTER	21	FULTON RECEPTION DIAGNOSTIC CTR	^
BOONVILLE CORRECTIONAL CENTER	20		

**B-27. Mississippi (MS)**

Institution Name	Qty	Institution Name	Qty
MISSISSIPPI DOC	1529	WINSTON CCF	26
WILKINSON CCF	153	BOLIVAR CCF	24
EAST MISS CCF	137	HOLMES CCF	23
ISSAQUENA CCF	29	LEAKE CCF	23
STONE CCF	29	GEORGE CCF	18
CARROLL CCF	27	JEFFERSON CCF	18

**B-28. Montana (MT)**

Institution Name	Qty	Institution Name	Qty
MONTANA STATE PRISON	88	DAWSON COUNTY CORRRECTIONS FAC	^
CROSSROADS CORRECTIONAL CENTER	29	MONTANA STATE HOSPITAL WARM S	^
CASCADE COUNTY DETENTION CENTER	^	MONTANA WOMENS PRISON	^

**B-29. North Carolina (NC)**

Institution Name	Qty	Institution Name	Qty
LANESBORO CI	60	CASWELL CC	^
BERTIE CI	49	CATAWBA CC	^

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Institution Name	Qty	Institution Name	Qty
NASH CI	41	Craggy CC	^
SCOTLAND CI	37	Craven CI	^
BROWN CREEK CI	35	DAN RIVER PWF	^
PASQUOTANK CI	34	DAVIDSON CC	^
TABOR CI	31	FORSYTH CC	^
SOUTHERN CI	27	FOUNTAIN CCW	^
NC CI WOMEN	26	FRANKLIN CC	^
MAURY CI	25	GASTON CC	^
HARNETT CI	22	GREENE CI	^
ALEXANDER CI	20	HOKE CI	^
MARION CI	20	JOHNSTON CI	^
COLUMBUS CI	18	LINCOLN CC	^
LUMBERTON CI	15	MORRISON CI	^
SWANNANOVA CCW	14	MOUNTAIN VIEW CI	^
ALBEMARLE CI	13	NEUSE CI	^
AVERY MITCHELL CI	13	NORTH PIED CCW	^
HYDE CI	13	ODOM CI	^
CENTRAL PRISON	12	ORANGE CC	^
EASTERN CI	12	PAMLICO CI	^
PIEDMONT CI	12	PENDER CI	^
CALEDONIA CI	11	POLK CI	^
TILLERY CC	11	RALEIGH CCW	^
WARREN CI	11	ROBESON CC	^
FOOTHILLS CI	10	SAMPSON CI	^
NEW HANOVER CC	10	SANFORD CC	^
BLADEN CC	^	TYRRELL PWF	^
BUNCOMBE CC	^	WAKE CC	^
CALDWELL CC	^	WAYNE CC	^
CARTERET CC	^	WILKES CC	^

**B-30. North Dakota (ND)**

Institution Name	Qty	Institution Name	Qty
NORTH DAKOTA STATE PENITENTIARY	120	BISMARCK TRANSITION CENTER	12
JAMES RIVER CORRECTIONAL CENTER	108	HEART OF AMERICA CORR TREATMENT	^
MISSOURI RIVER CORRECTIONAL CENTER	30	LAKE REGION CORRECTIONAL CENTER	^
DAKOTA WOMENS CORRECTIONAL REHAB	14	TOMPKINS REHABILITATION AND C	^

**B-31. Nebraska (NE)**

Institution Name	Qty	Institution Name	Qty
NEBRASKA STATE PENITENTIARY	51	NEBRASKA CORR CENTER FOR WOMEN	16
TECUMSEH STATE COR INSTITUTION	50	COMMUNITY CORRECTIONS OMAHA	^
COMMUNITY CORRECTIONS LINCOLN	32	DIAGNOSTIC AND EVALUATION CENTER	^
LINCOLN CORRECTIONAL CENTER	27	WORK ETHIC CAMP	^
OMAHA CORRECTIONAL CENTER	18		

**B-32. New Hampshire (NH)**

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Institution Name	Qty	Institution Name	Qty
NH STATE PRISON FOR MEN	139	NH STATE PRISON FOR WOMEN	^
NORTHERN NH CORRECTIONAL FACILITY	60	SECURE PSYCHIATRIC UNIT	^
COMMUNITY CORRECTIONS	33		

**B-33. New Jersey (NJ)**

Institution Name	Qty	Institution Name	Qty
NORTHERN STATE PRISON	273	NEW JERSEY STATE PRISON	65
GARDEN STATE YOUTH CORRECTIONAL F	175	EDNA MAHAN CORRECTIONAL FACILITY	44
SOUTH WOODS STATE PRISON	147	MOUNTAINVIEW YOUTH CORRECTIONAL F	32
ADULT DIAGNOSTIC AND TREATMENT C	134	ALBERT C WAGNER YOUTH CORR	25
BAYSIDE STATE PRISON	124	MID STATE CORRECTIONAL FACILITY	21
EAST JERSEY STATE PRISON	105	CENTRAL RECEPTION AND ASSIGNMENT	18
SOUTHERN STATE CORRECTIONAL F	104		

**B-34. New Mexico (NM)**

Institution Name	Qty	Institution Name	Qty
LEA COUNTY CORRECTIONAL CENTER	61	CENTRAL NEW MEXICO CORR FACILITY	24
PENITENTIARY OF NEW MEXICO	33	SOUTHERN NEW MEXICO CORR F	13
NEW MEXICO WOMENS CORR FACILITY	27	ROSWELL CORRECTIONAL CENTER	^
NORTHEAST NM DET FACILITY	26	SPRINGER CORRECTIONAL CENTER	^
GUADALUPE COUNTY CORR FAC	25	WESTERN NEW MEXICO CORR FACILITY	^

**B-35. Nevada (NV)**

Institution Name	Qty	Institution Name	Qty
HIGH DESERT STATE PRISON	96	PIOCHE CONSERVATION CAMP	10
SOUTHERN DESERT CORRECTIONAL CTR	77	THREE LAKES VALLEY CONSERVATION CAM	10
LOVELOCK CORRECTIONAL CENTER	66	CARLIN CONSERVATION CAMP	^
FLORENCE MCCLURE WOMENS CORR	44	CLARK COUNTY DETENTION CENTER	^
NORTHERN NEVADA CORRECTIONAL CTR	26	ELY CONSERVATION CAMP	^
ELY STATE PRISON	23	HUMBOLDT CONSERVATION CAMP	^
STEWART CONSERVATION CAMP	22	JEAN CONSERVATION CAMP	^
CASA GRANDE TRANSITIONAL HOUSING	21	NORTHERN NEVADA RESTITUTION CENTER	^
WARM SPRINGS CORRECTIONAL CENTER	21	OUT OF STATE CONFINEMENT	^
OUTSIDE HC	13	TONOPAH CONSERVATION CAMP	^
RESIDENTIAL CONFINEMENT	12	WELLS CONSERVATION CAMP	^

**B-36. New York (NY)**

Institution Name	Qty	Institution Name	Qty
ATTICA CORRECTIONAL FACILITY	37	ORLEANS CORRECTIONAL FACILITY	12
AUBURN CORRECTIONAL FACILITY	33	RIVERVIEW CORRECTIONAL FACILITY	12
FISHKILL CORRECTIONAL FACILITY	31	COLLINS CORRECTIONAL FACILITY	10
BARE HILL CORRECTIONAL FACILITY	30	LAKEVIEW SHOCK INCARCERATION C F	10
FRANKLIN CORRECTIONAL FACILITY	30	ADIRONDACK CORRECTIONAL FACILITY	^
CLINTON CORRECTIONAL FACILITY	25	ALTONA CORRECTIONAL FACILITY	^
MARCY CORRECTIONAL FACILITY	20	BAYVIEW CORRECTIONAL FACILITY	^
SING SING CORRECTIONAL FACILITY	20	BEACON CORRECTIONAL FACILITY	^
WYOMING CORRECTIONAL FACILITY	20	BUTLER ASACTC	^

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Institution Name	Qty	Institution Name	Qty
GREAT MEADOW CORRECTIONAL FACILITY	19	CAPE VINCENT CORRECTIONAL FACILITY	^
GREEN HAVEN CORRECTIONAL FACILITY	19	DOWNSTATE CORRECTIONAL FACILITY	^
MID STATE CORRECTIONAL FACILITY	19	HALE CREEK ASACTC	^
GOWANDA CORRECTIONAL FACILITY	18	HUDSON CORRECTIONAL FACILITY	^
MOHAWK CORRECTIONAL FACILITY	18	MT MCGREGOR CORRECTIONAL FACILITY	^
FIVE POINTS CORRECTIONAL FACILITY	17	OGDENSBURG CORRECTIONAL FACILITY	^
GREENE CORRECTIONAL FACILITY	17	OTISVILLE CORRECTIONAL FACILITY	^
UPSTATE CORRECTIONAL FACILITY	17	QUEENSBORO CORRECTIONAL FACILITY	^
GOUVERNEUR CORRECTIONAL FACILITY	16	ROCHESTER CORRECTIONAL FACILITY	^
COXSACKIE CORRECTIONAL FACILITY	14	SHAWANGUNK CORRECTIONAL FACILITY	^
EASTERN CORRECTIONAL FACILITY	14	SOUTHPORT CORRECTIONAL FACILITY	^
WALL KILL CORRECTIONAL FACILITY	14	SULLIVAN CORRECTIONAL FACILITY	^
BEDFORD HILLS CORRECTIONAL FACILITY	13	TACONIC CORRECTIONAL FACILITY	^
LINCOLN CORRECTIONAL FACILITY	13	ULSTER CORRECTIONAL FACILITY	^
LIVINGSTON CORRECTIONAL FACILITY	13	WASHINGTON CORRECTIONAL FACILITY	^
ALBION CORRECTIONAL FACILITY	12	WATERTOWN CORRECTIONAL FACILITY	^
CAYUGA CORRECTIONAL FACILITY	12	WENDE CORRECTIONAL FACILITY	^
ELMIRA CORRECTIONAL FACILITY	12	WOODBOURNE CORRECTIONAL FACILITY	^
GROVELAND CORRECTIONAL FACILITY	12		

**B-37. Ohio (OH)**

Institution Name	Qty	Institution Name	Qty
MANSFIELD CORRECTIONAL INSTITUTION	98	SOUTHERN OHIO CORRECTIONAL FACILITY	53
WARREN CORRECTIONAL INSTITUTION	97	SOUTHEASTERN CORRECTIONAL INSTITUTI	51
RICHLAND CORRECTIONAL INSTITUTION	93	NOBLE CORRECTIONAL INSTITUTION	50
LEBANON CORRECTIONAL INSTITUTION	92	BELMONT CORRECTIONAL INSTITUTION	45
OHIO REFORMATORY FOR WOMEN	89	CORRECTIONAL RECEPTION CENTER	43
ROSS CORRECTIONAL INSTITUTION	78	DAYTON CORRECTIONAL INSTITUTION	41
MARION CORRECTIONAL INSTITUTION	76	ALLEN CORRECTIONAL INSTITUTION	39
LONDON CORRECTIONAL INSTITUTION	70	TRUMBULL CORRECTIONAL INSTITUTION	35
LAKE ERIE CORRECTIONAL INSTITUTION	69	LORAIN CORRECTIONAL INSTITUTION	29
TOLEDO CORRECTIONAL INSTITUTION	66	CORRECTIONS MEDICAL CENTER	19
GRAFTON CORRECTIONAL INSTITUTION	64	NORTHEAST PRE RELEASE CENTER	18
NORTH CENTRAL CORRECTIONAL INSTITUT	61	OHIO STATE PENITENTIARY	15
PICKAWAY CORRECTIONAL INSTITUTION	59	HOCKING CORRECTIONAL FACILITY	10
MADISON CORRECTIONAL INSTITUTION	57	FRANKLIN PRE RELEASE CENTER	^
CHILLICOTHE CORRECTIONAL INSTITUTIO	56		

**B-38. Oklahoma (OK)**

	Qty	Institution Name	Qty
DAVIS CORRECTIONAL FACILITY HOLDENV	96	JOHN LILLEY CORRECTIONAL CENTER	23
LAWTON CORRECTIONAL FACILITY	63	OKLAHOMA STATE REFORMATORY	23
R B DICK CONNER CORRECTIONAL CENTER	54	JOSEPH HARP CORRECTIONAL CENTER	22
MABEL BASSETT CORRECTIONAL CENTER	46	NORTHWEST DISTRICT GPS	22
ENID COMMUNITY CORRECTIONS CENTER	45	OKLAHOMA STATE PENITENTIARY	22
WILLIAM S KEY CORRECTIONAL CENTER	41	HILLSIDE COMMUNITY CORRECTIONAL C	21
TULSA DIST COMMUNITY CORRECTIONS CE	40	NORTHEAST OKLAHOMA CORR CENTER	17
HOWARD MCLEOD CORRECTIONAL CENTER	36	LAWTON COMMUNITY CORRECTIONAL CTR	15
MACK ALFORD CORRECTIONAL CENTER	35	CENTRAL DISTRICT GPS	14

## CY 2013 Annual Report to Congress

	Qty	Institution Name	Qty
DR EDDIE WARRIOR CORRECTIONAL CENTE	34	TULSA COUNTY GPS	13
SOUTHEAST DISTRICT 3 CWC MCALESTER	34	CLARA WATERS COMMUNITY CORR CTR	12
OKLAHOMA CITY COMMUNITY CORRECTIONA	33	LEX ASSESSMENT RECEPTION CENTER	12
CIMARRON CORRECTIONAL FACILITY	29	CHARLES E BILL JOHNSON CORR CENTE	11
JESS DUNN CORRECTIONAL CENTER	29	NORTHEAST DISTRICT GPS	11
JIM E HAMILTON CORRECTIONAL CENTER	29	KATE BARNARD COMMUNITY CORR CTR	^
LEXINGTON CORRECTIONAL CENTER	26	MABEL BASSETT ASSESSMENT RECEP	^
UNION CITY COMMUNITY CORRECTIONS CE	26	SOUTHEAST DISTRICT GPS	^
JACKIE BRANNON CORRECTIONAL CENTER	25	SOUTHWEST DISTRICT GPS	^
JAMES CRABTREE CORRECTIONAL CENTER	24	TULSA COUNTY EMP	^

**B-39. Oregon (OR)**

Institution Name	Qty	Institution Name	Qty
OREGON STATE PENITENTIARY	41	INSTITUTION BASED RECORDS OFFICE	^
SNAKE RIVER CORRECTIONAL INSTITUTIO	32	MILL CREEK CORRECTIONAL FACILITY	^
TWO RIVERS CORRECTIONAL INSTITUTION	22	POWDER RIVER CORRECTIONAL FACILITY	^
COFFEE CREEK CORRECTIONAL FACILITY	19	SANTIAM CORRECTIONAL INSTITUTION	^
EASTERN OREGON CORRECTIONAL INSTITU	17	SHUTTER CREEK CORRECTIONAL INSTITUT	^
CCCF MINIMUM	15	SOUTH FORK FOREST CAMP	^
COLUMBIA RIVER CORRECTIONAL INSTITU	14	SRCI MINIMUM	^
OREGON STATE CORRECTIONAL INSTITUTI	13	TRCI MINIMUM	^
DRCI MINIMUM	^	WARNER CREEK CORRECTIONAL FACILITY	^

**B-40. Pennsylvania (PA)**

Institution Name	Qty	Institution Name	Qty
SCI GRATERFORD	337	SCI MERCER	90
SCI ROCKVIEW	256	SCI PITTSBURGH	90
SCI DALLAS	206	SCI GREENE	84
SCI COAL TOWNSHIP	204	SCI RETREAT	80
SCI FAYETTE	189	SCI MUNCY	74
SCI CRESSON	177	SCI LAUREL HIGHLANDS	63
SCI MAHANCOY	145	SCI GREENSBURG	59
SCI ALBION	144	SCI WAYMART	56
SCI HOUTZDALE	135	SCI CAMBRIDGE SPRINGS	55
SCI FOREST	134	SCI CHESTER	54
SCI SOMERSET	123	SCI FRACKVILLE	49
SCI SMITHFIELD	122	SCI PINE GROVE	21
SCI HUNTINGDON	116	QUEHANNA BOOT CAMP	16
SCI CAMP HILL	94		

**B-41. Rhode Island (RI)**

Institution Name	Qty	Institution Name	Qty
MEDIUM SECURITY JOHN J MORAN FACILI	12	MAXIMUM SECURITY	^
HIGH SECURITY CENTER	^	MINIMUM SECURITY	^
INTAKE SERVICE CENTER	^	WOMENS FACILITY I	^

**B-42. South Carolina (SC)**

## CY 2013 Annual Report to Congress

Institution Name	Qty	Institution Name	Qty
TURBEVILLE CORRECTL INST	236	LEATH CORRECTL INST	53
LEE CORRECTIONAL INST	191	MACDOUGALL CORRECTL INST	40
FRANCIS LIEBER CORRECTL INST	115	CAMILLE GRAHAM CORRECTIONAL INST	39
KERSHAW CORRECTL INST	111	LIVESAY PRE RELEASE CENTER	34
MCCORMICK CORRECTIONAL INST	111	GOODMAN CORRECTL INST	31
RIDGELAND CORRECTL INST	109	MANNING CORRECTL INST	27
BROAD RIVER CORR INST	102	KIRKLAND RECEPTION EVALUATION CNTR	25
EVANS CORRECTIONAL INSTITUTIONN	98	PALMER PRE RELEASE CENTER	21
ALLENDALE CORRECTL INST	79	CAMPBELL PRE RELEASE CENTER	19
TRENTON CORRECTIONAL INST	76	LOWER SAVANNAH PRE RELEASE CENTER	18
PERRY CORRECTIONAL INST	67	WALDEN CORR INSTITUTION	14
STEVENSON CORRECTL INST	66	COASTAL PRE RELEASE CENTER	11
TYGER RIVER CORRECTL INST	61	CATAWBA PRE RELEASE CENTER	10
WATEREE RIVER CORRECTL INST	59		

**B-43. South Dakota (SD)**

Institution Name	Qty	Institution Name	Qty
DURFEE STATE PRISON	^	RAPID CITY MINIMUM UNIT	^
JAMESON PRISON ANNEX	^	STATE PENITENTIARY	^
JAMESON UNIT C	^	YANKTON MINIMUM UNIT	^

**B-44. Tennessee (TN)**

Institution Name	Qty	Institution Name	Qty
WEST TENNESSEE STATE PENITENTIARY	635	WHITEVILLE CORRECTIONAL FACILITY	231
NORTHWEST CORRECTIONAL COMPLEX	599	RIVERBEND MAXIMUM SECURITY INST	153
HARDEMAN COUNTY CORRECTIONAL FAC	447	SOUTHEASTERN TENN ST REGIONAL COR	135
MORGAN COUNTY CORRECTIONAL COMP	366	CHARLES B BASS CORRECTIONAL COMP	124
NORTHEAST CORRECTIONAL COMPLEX	257	TENNESSEE PRISON FOR WOMEN	95
TURNERY CENTER INDUSTRIAL COMPLEX	246	LOIS M DEBERRY SPECIAL NEEDS FACILI	59
SOUTH CENTRAL CORRECTIONAL FACILITY	235	MARK H LUTTRELL CORRECTIONAL CTR	47

**B-45. Texas (TX)**

Institution Name	Qty	Institution Name	Qty
BETO	98	CLEMENS	17
POLUNSKY	85	LEBLANC	17
MCCONNELL	82	MONTFORD	17
COFFIELD	71	MOUNTAIN VIEW	17
STILES	71	WALLACE	17
GIB LEWIS	66	C MOORE	16
CHRISTINA MELTON CRAIN UNIT	65	HOLLIDAY	16
HUNTSVILLE	65	HUTCHINS	16
WYNNE	62	LOCKHART WORK FAC	16
ELLIS	59	STEVENSON	16
MICHAEL	56	GOREE	15
NEAL	54	LINDSEY SJ	15
ESTELLE	49	LOPEZ	15
MURRAY	49	GARZA WEST	14
RAMSEY I	48	HIGHTOWER	14
TELFORD	48	HILLTOP	14

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Institution Name	Qty	Institution Name	Qty
ALLRED	47	J MIDDLETON	14
HOBBY	46	BYRD	13
BILL CLEMENTS	45	SANCHEZ	13
EASTHAM	45	BARTLETT	12
DARRINGTON	43	BRIDGEPORT	12
SMITH	42	COLE	12
ROBERTSON	40	HALBERT	12
FERGUSON	39	HODGE	12
DALHART	37	LYCHNER	12
CONNALLY	36	SKYVIEW	12
TERRELL	36	TRAVIS JAIL	12
ALFRED HUGHES	32	JAMES LYNAUGH	11
TORRES	32	WILLACY	11
PLANE JAIL	31	DIBOLL PRIV	10
DANIEL	30	JOE F GURNEY	10
DOLPH BRISCOE	29	B MOORE	^
DOMINGUEZ	29	BATEN	^
MAC STRINGFELLOW	29	BRIDGEPORT PPT	^
GIST	28	CAROL YOUNG COMPLEX	^
SEGOVIA	27	CHASE FIELD W6	^
MINERAL WELLS PPT	26	COTULLA	^
ROACH	26	DUNCAN	^
LOCKHART PRIV P	24	FORMBY	^
LUTHER	24	FORT STOCKTON	^
PACK I	24	GOODMAN	^
KYLE	23	HENLEY	^
WAYNE SCOTT	23	HOSPITALGALV	^
EAST TEXAS TREATMENT FACILITY	22	JESTER IV	^
JESTER III	22	KEGANS STATE J	^
HAMILTON	21	MARLIN	^
POWLEDGE	21	ROACH WRK CMP	^
THOMAS HAVINS	21	RUDD	^
BOYD	20	SAN SABA	^
GARZA EAST	20	SOUTH TEXAS ISF	^
NEY	20	TULIA	^
SANDERS ESTES	20	VANCE	^
BRADSHAW	19	WARE	^
DAWSON ST JL	19	WEST TEXAS HOSP	^
JORDAN	19	WHEELER	^
CLEVELAND	18		

**B-46. Utah (UT)**

Institution Name	Qty	Institution Name	Qty
UTAH STATE PRISON	117	CENTRAL UTAH CORRECTIONAL FACILITY	40
COUNTY JAIL CONTRACT HOUSING	41	OTHER STATE HOUSING	^



**B-47. Virginia (VA)**

Institution Name	Qty	Institution Name	Qty
ST BRIDES CORRECTIONAL CENTER	56	DEERFIELD CORRECTIONAL CENTER	12
SUSSEX II STATE PRISON	53	BLAND CORRECTIONAL CENTER	^
LAWRENCEVILLE CORRECTIONAL CENTER	47	BRUNSWICK WORK CENTER	^
GREENSVILLE CORRECTIONAL CENTER	46	CAROLINE CORRECTIONAL UNIT	^
WALLENS RIDGE STATE PRISON	39	CENTRAL VIRGINIA CORRECTIONAL UNIT	^
DEEP MEADOW CORRECTIONAL CENTER	37	COLD SPRINGS WORK CENTER	^
SUSSEX I STATE PRISON	37	DEERFIELD MENS WORK CENTER	^
NOTTOWAY CORRECTIONAL CENTER	34	DEERFIELD WOMENS WORK CENTER	^
RED ONION STATE PRISON	30	DILLWYN CORRECTIONAL CENTER	^
INDIAN CREEK CORRECTIONAL CENTER	25	GREENSVILLE WORK CENTER	^
HAYNESVILLE CORRECTIONAL CENTER	24	HALIFAX CORRECTIONAL UNIT	^
AUGUSTA CORRECTIONAL CENTER	23	JAMES RIVER CORRECTIONAL CENTER	^
FLUVANNA CORRECTIONAL CENTER FOR	23	JAMES RIVER WORK CENTER	^
POWHATAN CORRECTIONAL CENTER	20	MARION CORRECTIONAL TREATMENT C	^
GREEN ROCK CORRECTIONAL CENTER	19	MECKLENBURG CORRECTIONAL CENTER	^
COFFEEWOOD CORRECTIONAL CENTER	16	NOTTOWAY WORK CENTER	^
BASKERVILLE CORRECTIONAL CENTER	15	PATRICK HENRY CORRECTIONAL UNIT	^
KEEN MOUNTAIN CORRECTIONAL CENTER	15	POWHATAN RECEPTION CLASSIFICATION	^
POCAHONTAS STATE CORRECTIONAL C	15	RUSTBURG CORRECTIONAL UNIT	^
BUCKINGHAM CORRECTIONAL CENTER	14	VIRGINIA CORRECTIONAL CENTER FOR W	^
LUNENBURG CORRECTIONAL CENTER	14	WISE CORRECTIONAL UNIT	^

**B-48. Vermont (VT)**

Institution Name	Qty	Institution Name	Qty
NORTHERN STATE CORRECTIONAL FAC	155	NORTHEAST REGIONAL CORRECTIONAL F	38
SOUTHERN STATE CORRECTIONAL FAC	88	SOUTHEAST WORK CAMP	32
NORTHWEST STATE CORRECTIONAL FAC	59	MARBLE VALLEY REGIONAL CORR	30
CHITTENDEN REGIONAL CORRECTIONAL	53	CALEDONIA COUNTY WORK CAMP	18

**B-49. Washington (WA)**

Institution Name	Qty	Institution Name	Qty
AHCC	70	LCC	^
CRCC	63	LINCOLN PARK WORK RELEASE	^
SCCC	51	LONGVIEW WORK RELEASE	^
WSP MAIN	34	MADISON INN WORK RELEASE	^
CBCC CLOSE CUST	23	MCC IMU	^
WSP MSU	23	MCC SOU	^
MCC TRU	20	MCCGW	^
MCC WSR MSU	19	OCC	^
MCC WSR	17	OLYMPIA WORK RELEASE	^
AHCC MSU	16	PENINSULA WORK RELEASE	^
CCCC	16	PROGRESS HOUSE WORK RELEASE	^
WCCW	15	RATCLIFF HOUSE WORK RELEASE	^
CRCC MSU	14	REYNOLDS WORK RELEASE	^
CBCC MSC	13	SCCC IMU	^

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Institution Name	Qty	Institution Name	Qty
WCCW MSC	13	TRI CITIES WORK RELEASE	^
BELLINGHAM WORK RELEASE	^	WASHINGTON CORRECTIONAL CTR FOR W	^
BISHOP LEWIS WORK RELEASE	^	WCC IMU	^
BROWNSTONE W R	^	WCC RC	^
CBCC IMU	^	WCC TC	^
ELEANOR CHASE HOUSE W R	^	WSP IMU	^
INTERSTATE COMPACT INMATES	^		

**B-50. Wisconsin (WI)**

Institution Name	Qty	Institution Name	Qty
OSHKOSH CI	36	MILW SECURE DF	^
STANLEY	31	NEW LISBON	^
WAUPUN PROPER	24	OAK HILL CI	^
JACKSON CI	22	RACINE YOUTH CF	^
RACINE CI	22	STURT TRANS FCY	^
TAYCHEEDA CI	22	WCCS BLK RIVER	^
FOX LAKE CI	21	WCCS DRUG ABUSE	^
COLUMBIA CI	18	WCCS FLAMBEAU	^
WI RESOURCE CTR	17	WCCS GORDON	^
WCCS ELLSWORTH	14	WCCS KENOSHA	^
KETTLE MORAIN	13	WCCS MCNAUGHTON	^
REDGRANITE	13	WCCS ME SHERRER	^
GREEN BAY CI	11	WCCS OREGON	^
CHIPPEWA VLY TF	10	WCCS ST CROIX	^
PDCI	10	WCCS THOMPSON	^
WI SEC PROG FAC	10	WCCS WINNEBAGO	^
DODGE PROPER	^	WCCS WOMENS CC	^
FELM CHANEY CC	^	WSPF G P	^
JOHN C BURKE CORRECTIONAL CENTER	^		

**B-51. West Virginia (WV)**

Institution Name	Qty	Institution Name	Qty
HUTTONSVILLE CORRECTIONAL CENTER	50	NORTHERN CORRECTIONAL CENTER	^
SAINT MARYS CORRECTIONAL CENTER	28	NORTHERN REGIONAL JAIL	^
MOUNT OLIVE CORRECTIONAL COMPLEX	23	OHIO COUNTY CORRECTIONAL COMPLEX	^
MCDOWELL COUNTY CORRECTIONAL CTR	18	OTHER STATE COUNTY	^
PRUNTYTOWN CORRECTIONAL CENTER	16	OTHER STATE DOC	^
LAKIN CORRECTIONAL CENTER	13	PARKERSBURG CORRECTIONAL CENTER	^
BECKLEY CORRECTIONAL CENTER	^	POTOMAC HIGHLANDS REGIONAL JAIL	^
CENTRAL REGIONAL JAIL	^	SLAYTON WORK CAMP	^
CHARLESTON WORK RELEASE	^	SOUTH CENTRAL 42	^
DENMAR CORRECTIONAL CENTER	^	SOUTH CENTRAL 43	^
EASTERN REGIONAL JAIL	^	SOUTH CENTRAL 47	^
ENHANCED SUPERVISION 03	^	SOUTH CENTRAL 49	^
HUNTINGTON WORK RELEASE	^	SOUTH WESTERN 20	^
NORTH CENTRAL 15	^	SOUTHWESTERN REGIONAL JAIL	^
NORTH CENTRAL REGIONAL JAIL	^	TYGART VALLEY REGIONAL JAIL	^

## CY 2013 Annual Report to Congress

Institution Name	Qty	Institution Name	Qty
NORTH WESTERN 7	^	WESTERN REGIONAL JAIL	^

**B-52. Wyoming (WY)**

Institution Name	Qty	Institution Name	Qty
WYOMING STATE PENITENTIARY	180	WYOMING HONOR FARM	17
WYOMING MEDIUM CORRECTIONAL INST	137	WYOMING WOMENS CENTER	15
WYOMING HONOR CONSERVATION CAMP	30		

## Appendix C

### Inmate Tax Fraud Prevention Act of 2008

PUBLIC LAW 110-428—OCT. 15, 2008

122 STAT. 4839

Public Law 110-428  
110th Congress

#### An Act

To amend the Internal Revenue Code of 1986 to permit the Secretary of the Treasury to disclose certain prisoner return information to the Federal Bureau of Prisons, and for other purposes.

Oct. 15, 2008  
[H.R. 7082]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SECTION 1. SHORT TITLE.

This Act may be cited as the “Inmate Tax Fraud Prevention Act of 2008”.

Inmate Tax  
Fraud Prevention  
Act of 2008.  
26 USC 1 note.

#### SEC. 2. DISCLOSURE OF PRISONER RETURN INFORMATION TO FEDERAL BUREAU OF PRISONS.

(a) IN GENERAL.—Subsection (k) of section 6103 of the Internal Revenue Code of 1986 (relating to disclosure of certain return and return information for tax administration purposes) is amended by adding at the end the following new paragraph:

26 USC 6103.

“(10) DISCLOSURE OF CERTAIN RETURN INFORMATION OF PRISONERS TO FEDERAL BUREAU OF PRISONS.—

“(A) IN GENERAL.—Under such procedures as the Secretary may prescribe, the Secretary may disclose to the head of the Federal Bureau of Prisons any return information with respect to individuals incarcerated in Federal prison whom the Secretary has determined may have filed or facilitated the filing of a false return to the extent that the Secretary determines that such disclosure is necessary to permit effective Federal tax administration.

“(B) RESTRICTION ON REDISCLOSURE.—Notwithstanding subsection (n), the head of the Federal Bureau of Prisons may not disclose any information obtained under subparagraph (A) to any person other than an officer or employee of such Bureau.

“(C) RESTRICTION ON USE OF DISCLOSED INFORMATION.—Return information received under this paragraph shall be used only for purposes of and to the extent necessary in taking administrative action to prevent the filing of false and fraudulent returns, including administrative actions to address possible violations of administrative rules and regulations of the prison facility.

“(D) TERMINATION.—No disclosure may be made under this paragraph after December 31, 2011.”.

(b) RECORDKEEPING.—Paragraph (4) of section 6103(p) of such Code is amended by striking “(k)(8)” both places it appears and inserting “(k)(8) or (10)”.

122 STAT. 4840

PUBLIC LAW 110-428—OCT. 15, 2008

26 USC 7803. (c) EVALUATION BY TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION.—Paragraph (3) of section 7803(d) of such Code is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “; and”, and by adding at the end the following new subparagraph: “(C) not later than December 31, 2010, submit a written report to Congress on the implementation of section 6103(k)(10).”

Deadline.  
Reports.

26 USC 6103  
note.

Public  
information.  
26 USC 7207  
note.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to disclosures made after December 31, 2008.

(e) ANNUAL REPORTS.—The Secretary of the Treasury shall annually submit to Congress and make publicly available a report on the filing of false and fraudulent returns by individuals incarcerated in Federal and State prisons. Such report shall include statistics on the number of false and fraudulent returns associated with each Federal and State prison.

### SEC. 3. RESTORATION OF CERTAIN JUDICIAL SURVIVORS' ANNUITIES.

(a) IN GENERAL.—Section 376 of title 28, United States Code, is amended by adding at the end the following:

“(x) In the case of a widow or widower whose annuity under clause (i) or (ii) of subsection (h)(1) is terminated because of remarriage before attaining 55 years of age, the annuity shall be restored at the same rate commencing on the day the remarriage is dissolved by death, divorce, or annulment, if—

“(1) the widow or widower elects to receive this annuity instead of any other survivor annuity to which such widow or widower may be entitled, under this chapter or under another retirement system for Government employees, by reason of the remarriage; and

“(2) any payment made to such widow or widower under subsection (o) or (p) on termination of the annuity is returned to the Judicial Survivors' Annuities Fund.”

(b) CONFORMING AMENDMENT.—Section 376(h)(2) of title 28, United States Code, is amended by striking the period at the end and inserting “, subject to subsection (x).”

Applicability.  
28 USC 376 note.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—This section and the amendments made by this section shall take effect on the first day of the first month beginning at least 30 days after the date of the enactment of this Act and shall apply in the case of a remarriage which is dissolved by death, divorce, or annulment on or after such first day.

(2) LIMITED RETROACTIVE EFFECT.—

(A) IN GENERAL.—In the case of a remarriage which is dissolved by death, divorce, or annulment within the 4-year period ending on the day before the effective date of this section, the amendments made by this section shall apply only if the widow or widower satisfies the requirements of paragraphs (1) and (2) of section 376(x) of title 28, United States Code (as amended by this section) before—

(i) the end of the 1-year period beginning on the effective date of this section; or

(ii) such later date as Director of the Administrative Office of the United States Courts may by regulation prescribe.

(B) RESTORATION.—If the requirements of paragraph (1) are satisfied, the survivor annuity shall be restored, commencing on the date the remarriage was dissolved by death, annulment, or divorce, at the rate which was in effect when the annuity was terminated.

(C) LUMP-SUM PAYMENT.—Any amounts becoming payable to the widow or widower under this subsection for the period beginning on the date on which the annuity was terminated and ending on the date on which periodic annuity payments resume shall be payable in a lump-sum payment.

Approved October 15, 2008.

**Appendix D**  
**The 2010 Amendment to the Inmate Tax Fraud  
Prevention Act of 2008**

124 STAT. 1356

PUBLIC LAW 111-198—JULY 2, 2010

Public Law 111-198  
111th Congress

An Act

July 2, 2010  
[H.R. 5623]

To amend the Internal Revenue Code of 1986 to extend the homebuyer tax credit for the purchase of a principal residence before October 1, 2010, in the case of a written binding contract entered into with respect to such principal residence before May 1, 2010, and for other purposes.

Homebuyer  
Assistance and  
Improvement Act  
of 2010.  
26 USC 1 note.

*Be it enacted by the Senate and House of Representatives of  
the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the “Homebuyer Assistance and Improvement Act of 2010”.

**SEC. 2. EXTENSION OF HOMEBUYER CREDIT FOR CERTAIN PURCHASES PURSUANT TO BINDING CONTRACTS.**

26 USC 36.

(a) **IN GENERAL.**—Paragraph (2) of section 36(h) of the Internal Revenue Code of 1986 is amended by striking “paragraph (1) shall be applied by substituting ‘July 1, 2010’” and inserting “and who purchases such residence before October 1, 2010, paragraph (1) shall be applied by substituting ‘October 1, 2010’”.

(b) **CONFORMING AMENDMENT.**—Subparagraph (B) of section 36(h)(3) of such Code is amended by inserting “, and for ‘October 1, 2010’” after “for ‘July 1, 2010’”.

26 USC 36 note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to residences purchased after June 30, 2010.

**SEC. 3. APPLICATION OF BAD CHECKS PENALTY TO ELECTRONIC PAYMENTS.**

(a) **IN GENERAL.**—Section 6657 of the Internal Revenue Code of 1986 is amended—

(1) by striking “If any check or money order in payment of any amount” and inserting “If any instrument in payment, by any commercially acceptable means, of any amount”, and

(2) by striking “such check” each place it appears and inserting “such instrument”.

26 USC 6657 note.

(b) **EFFECTIVE DATES.**—The amendments made by this section shall apply to instruments tendered after the date of the enactment of this Act.

**SEC. 4. DISCLOSURE OF PRISONER RETURN INFORMATION TO STATE PRISONS.**

(a) **IN GENERAL.**—Subparagraph (A) of section 6103(k)(10) of the Internal Revenue Code of 1986 is amended—

(1) by inserting “and the head of any State agency charged with the responsibility for administration of prisons” after “the head of the Federal Bureau of Prisons”, and

(2) by striking “Federal prison” and inserting “Federal or State prison”.

(b) RESTRICTION ON REDISCLOSURE.—Subparagraph (B) of section 6103(k)(10) of such Code is amended—

26 USC 6103.

(1) by inserting “and the head of any State agency charged with the responsibility for administration of prisons” after “the head of the Federal Bureau of Prisons”, and

(2) by inserting “or agency” after “such Bureau”.

(c) RECORDKEEPING.—Paragraph (4) of section 6103(p) of such Code is amended by inserting “(k)(10),” before “(l)(6),” in the matter preceding subparagraph (A).

(d) CLERICAL AMENDMENT.—The heading of paragraph (10) of section 6103(k) of such Code is amended by striking “OF PRISONERS TO FEDERAL BUREAU OF PRISONS” and inserting “TO CERTAIN PRISON OFFICIALS”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to disclosures made after the date of the enactment of this Act.

26 USC 6103 note.

#### SEC. 5. AMENDMENT OF TRAVEL PROMOTION ACT OF 2009.

(a) TRAVEL PROMOTION FUND FEES.—Section 217(h)(3)(B) of the Immigration and Nationality Act (8 U.S.C. 1187(h)(3)(B)) is amended—

(1) by striking “subsection (d) of section 11 of the Travel Promotion Act of 2009.” in clause (ii) and inserting “subsection (d) of the Travel Promotion Act of 2009 (22 U.S.C. 2131(d)).”; and

(2) by striking “September 30, 2014.” in clause (iii) and inserting “September 30, 2015.”.

(b) IMPLEMENTATION BEGINNING IN FISCAL YEAR 2011.—Subsection (d) of the Travel Promotion Act of 2009 (22 U.S.C. 2131(d)) is amended—

(1) by striking “For fiscal year 2010, the” in paragraph (2)(A) and inserting “The”;

(2) by striking “quarterly, beginning on January 1, 2010,” in paragraph (2)(A) and inserting “monthly, immediately following the collection of fees under section 217(h)(3)(B)(i)(I) of the Immigration and Nationality Act (8 U.S.C. 1187(h)(3)(B)(i)(I)).”;

(3) by striking “fiscal years 2011 through 2014,” in paragraph (2)(B) and inserting “fiscal years 2012 through 2015.”;

(4) by striking “fiscal year 2010,” in paragraph (3)(A) and inserting “fiscal year 2011.”;

(5) by striking “fiscal year 2011,” each place it appears in paragraph (3)(A) and inserting “fiscal year 2012.”; and

(6) by striking “fiscal year 2010, 2011, 2012, 2013, or 2014” in paragraph (4)(B) and inserting “fiscal year 2011, 2012, 2013, 2014, or 2015”.

#### SEC. 6. PAYGO COMPLIANCE.

The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement titled “Budgetary Effects of PAYGO Legislation” for this Act, submitted for printing in the



124 STAT. 1358

PUBLIC LAW 111-198—JULY 2, 2010

Congressional Record by the Chairman of the House Budget Committee, provided that such statement has been submitted prior to the vote on passage.

Approved July 2, 2010.

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LEGISLATIVE HISTORY—H.R. 5623:  
CONGRESSIONAL RECORD, Vol. 156 (2010):  
June 29, considered and passed House.  
June 30, considered and passed Senate.

**Appendix E**  
**Section 502 of the United States - Korea Free**  
**Trade Agreement Implementation Act**

125 STAT. 460

PUBLIC LAW 112-41—OCT. 21, 2011

**SEC. 502. REQUIREMENT FOR PRISONS LOCATED IN THE UNITED STATES TO PROVIDE INFORMATION FOR TAX ADMINISTRATION.**

26 USC 6117. (a) IN GENERAL.—Subchapter B of chapter 61 of the Internal Revenue Code of 1986 is amended by redesignating section 6116 as section 6117 and by inserting after section 6115 the following new section:

26 USC 6116. **“SEC. 6116. REQUIREMENT FOR PRISONS LOCATED IN UNITED STATES TO PROVIDE INFORMATION FOR TAX ADMINISTRATION.**

Deadline. “(a) IN GENERAL.—Not later than September 15, 2012, and  
 Lists. annually thereafter, the head of the Federal Bureau of Prisons  
 Time period. and the head of any State agency charged with the responsibility for administration of prisons shall provide to the Secretary in electronic format a list with the information described in subsection (b) of all the inmates incarcerated within the prison system for any part of the prior 2 calendar years or the current calendar year through August 31.

“(b) INFORMATION.—The information with respect to each inmate is—

- “(1) first, middle, and last name,
- “(2) date of birth,
- “(3) institution of current incarceration or, for released inmates, most recent incarceration,
- “(4) prison assigned inmate number,
- “(5) the date of incarceration,
- “(6) the date of release or anticipated date of release,
- “(7) the date of work release,
- “(8) taxpayer identification number and whether the prison has verified such number,
- “(9) last known address, and
- “(10) any additional information as the Secretary may request.

“(c) FORMAT.—The Secretary shall determine the electronic format of the information described in subsection (b).”

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter is amended by striking the item relating to section 6116 and by adding at the end the following new items:

“Sec. 6116. Requirement for prisons located in United States to provide information for tax administration.  
 “Sec. 6117. Cross reference.”

## Appendix F

### Section 209 of the American Taxpayer Relief Act of 2012

126 STAT. 2324

PUBLIC LAW 112-240—JAN. 2, 2013

**SEC. 206. EXTENSION OF SPECIAL RULE FOR CONTRIBUTIONS OF CAPITAL GAIN REAL PROPERTY MADE FOR CONSERVATION PURPOSES.**

26 USC 170.

(a) **IN GENERAL.**—Clause (vi) of section 170(b)(1)(E) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **CONTRIBUTIONS BY CERTAIN CORPORATE FARMERS AND RANCHERS.**—Clause (iii) of section 170(b)(2)(B) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

Applicability.  
26 USC 170 note.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to contributions made in taxable years beginning after December 31, 2011.

**SEC. 207. EXTENSION OF ABOVE-THE-LINE DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES.**

26 USC 222 note.

(a) **IN GENERAL.**—Subsection (e) of section 222 is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to taxable years beginning after December 31, 2011.

**SEC. 208. EXTENSION OF TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT PLANS FOR CHARITABLE PURPOSES.**

26 USC 408 note.  
Applicability.

(a) **IN GENERAL.**—Subparagraph (F) of section 408(d)(8) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(b) **EFFECTIVE DATE; SPECIAL RULE.**—

(1) **EFFECTIVE DATE.**—The amendment made by this section shall apply to distributions made in taxable years beginning after December 31, 2011.

(2) **SPECIAL RULES.**—For purposes of subsections (a)(6), (b)(3), and (d)(8) of section 408 of the Internal Revenue Code of 1986, at the election of the taxpayer (at such time and in such manner as prescribed by the Secretary of the Treasury)—

(A) any qualified charitable distribution made after December 31, 2012, and before February 1, 2013, shall be deemed to have been made on December 31, 2012, and

(B) any portion of a distribution from an individual retirement account to the taxpayer after November 30, 2012, and before January 1, 2013, may be treated as a qualified charitable distribution to the extent that—

(i) such portion is transferred in cash after the distribution to an organization described in section 408(d)(8)(B)(i) before February 1, 2013, and

(ii) such portion is part of a distribution that would meet the requirements of section 408(d)(8) but for the fact that the distribution was not transferred directly to an organization described in section 408(d)(8)(B)(i).

**SEC. 209. IMPROVE AND MAKE PERMANENT THE PROVISION AUTHORIZING THE INTERNAL REVENUE SERVICE TO DISCLOSE CERTAIN RETURN AND RETURN INFORMATION TO CERTAIN PRISON OFFICIALS.**

(a) **IN GENERAL.**—Paragraph (10) of section 6103(k) is amended to read as follows:

“(10) **DISCLOSURE OF CERTAIN RETURNS AND RETURN INFORMATION TO CERTAIN PRISON OFFICIALS.**—

“(A) IN GENERAL.—Under such procedures as the Secretary may prescribe, the Secretary may disclose to officers and employees of the Federal Bureau of Prisons and of any State agency charged with the responsibility for administration of prisons any returns or return information with respect to individuals incarcerated in Federal or State prison systems whom the Secretary has determined may have filed or facilitated the filing of a false or fraudulent return to the extent that the Secretary determines that such disclosure is necessary to permit effective Federal tax administration.

“(B) DISCLOSURE TO CONTRACTOR-RUN PRISONS.—Under such procedures as the Secretary may prescribe, the disclosures authorized by subparagraph (A) may be made to contractors responsible for the operation of a Federal or State prison on behalf of such Bureau or agency.

“(C) RESTRICTIONS ON USE OF DISCLOSED INFORMATION.—Any return or return information received under this paragraph shall be used only for the purposes of and to the extent necessary in taking administrative action to prevent the filing of false and fraudulent returns, including administrative actions to address possible violations of administrative rules and regulations of the prison facility and in administrative and judicial proceedings arising from such administrative actions.

“(D) RESTRICTIONS ON REDISCLOSURE AND DISCLOSURE TO LEGAL REPRESENTATIVES.—Notwithstanding subsection (h)—

“(i) RESTRICTIONS ON REDISCLOSURE.—Except as provided in clause (ii), any officer, employee, or contractor of the Federal Bureau of Prisons or of any State agency charged with the responsibility for administration of prisons shall not disclose any information obtained under this paragraph to any person other than an officer or employee or contractor of such Bureau or agency personally and directly engaged in the administration of prison facilities on behalf of such Bureau or agency.

“(ii) DISCLOSURE TO LEGAL REPRESENTATIVES.—The returns and return information disclosed under this paragraph may be disclosed to the duly authorized legal representative of the Federal Bureau of Prisons, State agency, or contractor charged with the responsibility for administration of prisons, or of the incarcerated individual accused of filing the false or fraudulent return who is a party to an action or proceeding described in subparagraph (C), solely in preparation for, or for use in, such action or proceeding.”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 6103(a) is amended by inserting “subsection (k)(10),” after “subsection (e)(1)(D)(iii).”.

(2) Paragraph (4) of section 6103(p) is amended—

(A) by inserting “subsection (k)(10),” before “subsection (l)(10),” in the matter preceding subparagraph (A),

(B) in subparagraph (F)(i)—

(i) by inserting “(k)(10),” before “or (l)(6),” and

- (ii) by inserting “subsection (k)(10) or” before “subsection (l)(10),” and
- (C) by inserting “subsection (k)(10) or” before “subsection (l)(10),” both places it appears in the matter following subparagraph (F)(iii).
- 26 USC 7213. (3) Paragraph (2) of section 7213(a) is amended by inserting “(k)(10),” before “(l)(6).”
- 26 USC 6103 note. (c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

### TITLE III—BUSINESS TAX EXTENDERS

#### SEC. 301. EXTENSION AND MODIFICATION OF RESEARCH CREDIT.

##### (a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (B) of section 41(h)(1) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

(2) CONFORMING AMENDMENT.—Subparagraph (D) of section 45C(b)(1) is amended by striking “December 31, 2011” and inserting “December 31, 2013”.

##### (b) INCLUSION OF QUALIFIED RESEARCH EXPENSES AND GROSS RECEIPTS OF AN ACQUIRED PERSON.—

(1) PARTIAL INCLUSION OF PRE-ACQUISITION QUALIFIED RESEARCH EXPENSES AND GROSS RECEIPTS.—Subparagraph (A) of section 41(f)(3) is amended to read as follows:

##### “(A) ACQUISITIONS.—

“(i) IN GENERAL.—If a person acquires the major portion of either a trade or business or a separate unit of a trade or business (hereinafter in this paragraph referred to as the ‘acquired business’) of another person (hereinafter in this paragraph referred to as the ‘predecessor’), then the amount of qualified research expenses paid or incurred by the acquiring person during the measurement period shall be increased by the amount determined under clause (ii), and the gross receipts of the acquiring person for such period shall be increased by the amount determined under clause (iii).

“(ii) AMOUNT DETERMINED WITH RESPECT TO QUALIFIED RESEARCH EXPENSES.—The amount determined under this clause is—

“(I) for purposes of applying this section for the taxable year in which such acquisition is made, the acquisition year amount, and

“(II) for purposes of applying this section for any taxable year after the taxable year in which such acquisition is made, the qualified research expenses paid or incurred by the predecessor with respect to the acquired business during the measurement period.

“(iii) AMOUNT DETERMINED WITH RESPECT TO GROSS RECEIPTS.—The amount determined under this clause is the amount which would be determined under clause (ii) if ‘the gross receipts of’ were substituted for ‘the qualified research expenses paid or incurred by’ each place it appears in clauses (ii) and (iv).

## Appendix G

### Section 204 of the Bipartisan Budget Act of 2013

PUBLIC LAW 113-67—DEC. 26, 2013

127 STAT. 1179

(A) IN GENERAL.—The total amount of the penalty imposed under this subsection on any person for any calendar year shall not exceed \$250,000.

(B) EXCEPTION FOR WILLFUL VIOLATIONS.—Subparagraph (A) shall not apply in the case of violations under paragraph (1) that the Secretary of Commerce determines to be willful or intentional violations.

(d) DEATH MASTER FILE.—For purposes of this section, the term “Death Master File” means information on the name, social security account number, date of birth, and date of death of deceased individuals maintained by the Commissioner of Social Security, other than information that was provided to such Commissioner under section 205(r) of the Social Security Act (42 U.S.C. 405(r)). Definition.

(e) EXEMPTION FROM FREEDOM OF INFORMATION ACT REQUIREMENT WITH RESPECT TO CERTAIN RECORDS OF DECEASED INDIVIDUALS.—

(1) IN GENERAL.—No Federal agency shall be compelled to disclose the information described in subsection (a) to any person who is not certified under the program established under subsection (b).

(2) TREATMENT OF INFORMATION.—For purposes of section 552 of title 5, United States Code, this section shall be considered a statute described in subsection (b)(3) of such section 552.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), this section shall take effect on the date that is 90 days after the date of the enactment of this Act.

(2) FOIA EXEMPTION.—Subsection (e) shall take effect on the date of the enactment of this Act.

#### SEC. 204. IDENTIFICATION OF INMATES REQUESTING OR RECEIVING IMPROPER PAYMENTS.

(a) INFORMATION PROVIDED TO THE PRISONER UPDATE PROCESSING SYSTEM (PUPS).—

(1) SECTION 202(x)(3)(B)(i)(I) of the Social Security Act (42 U.S.C. 402(x)(3)(B)(i)(I)) is amended by—

(A) inserting “first, middle, and last” before “names”;

(B) striking the comma after the words “social security account numbers” and inserting “or taxpayer identification numbers, prison assigned inmate numbers, last known addresses,”;

(C) inserting “dates of release or anticipated dates of release, dates of work release,” before “and, to the extent available”; and

(D) by inserting “and clause (iv) of this subparagraph” after “paragraph (1)”.

(2) SECTION 1611(e)(1)(I)(i)(I) of the Social Security Act (42 U.S.C. 1382(e)(1)(I)(i)(I)) is amended by—

(A) inserting “first, middle, and last” before “names”;

(B) striking the comma after the words “social security account numbers” and inserting “or taxpayer identification numbers, prison assigned inmate numbers, last known addresses,”;

(C) inserting “dates of release or anticipated dates of release, dates of work release,” before “and, to the extent available”; and

(D) by inserting “and clause (iv) of this subparagraph” after “this paragraph”.

(b) AUTHORITY OF SECRETARY OF THE TREASURY TO ACCESS PUPS.—

(1) SECTION 202(x)(3)(B).—Section 202(x)(3)(B) of the Social Security Act (42 U.S.C. 402(x)(3)(B)) is amended—

(A) in clause (iv), by inserting before the period the following: “, for statistical and research activities conducted by Federal and State agencies, and to the Secretary of the Treasury for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under federally funded programs”; and

(B) by adding at the end the following:

“(v)(I) The Commissioner may disclose information received pursuant to this paragraph to any officer, employee, agent, or contractor of the Department of the Treasury whose official duties require such information to assist in the identification, prevention, and recovery of improper payments or in the collection of delinquent debts owed to the United States, including payments certified by the head of an executive, judicial, or legislative paying agency, and payments made to individuals whose eligibility, or continuing eligibility, to participate in a Federal program (including those administered by a State or political subdivision thereof) is being reviewed.

“(II) Notwithstanding the provisions of section 552a of title 5, United States Code, or any other provision of Federal or State law, the Secretary of the Treasury may compare information disclosed under subclause (I) with any other personally identifiable information derived from a Federal system of records or similar records maintained by a Federal contractor, a Federal grantee, or an entity administering a Federal program or activity, and may redisclose such comparison of information to any paying or administering agency and to the head of the Federal Bureau of Prisons and the head of any State agency charged with the administration of prisons with respect to inmates whom the Secretary of the Treasury has determined may have been issued, or facilitated in the issuance of, an improper payment.

“(III) The comparison of information disclosed under subclause (I) shall not be considered a matching program for purposes of section 552a of title 5, United States Code.”

(2) SECTION 1611(e)(1)(I).—Section 1611(e)(1)(I) of the Social Security Act (42 U.S.C. 1382(e)(1)(I)) is amended—

(A) in clause (iii), by inserting before the period the following: “, for statistical and research activities conducted by Federal and State agencies, and to the Secretary of the Treasury for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under federally funded programs”; and

(B) by adding at the end the following:

“(v)(I) The Commissioner may disclose information received pursuant to this paragraph to any officer, employee, agent, or contractor of the Department of the Treasury whose official duties require such information to assist in the identification, prevention, and recovery of improper payments or in the collection of delinquent

debts owed to the United States, including payments certified by the head of an executive, judicial, or legislative paying agency, and payments made to individuals whose eligibility, or continuing eligibility, to participate in a Federal program (including those administered by a State or political subdivision thereof) is being reviewed.

“(II) Notwithstanding the provisions of section 552a of title 5, United States Code, or any other provision of Federal or State law, the Secretary of the Treasury may compare information disclosed under subclause (I) with any other personally identifiable information derived from a Federal system of records or similar records maintained by a Federal contractor, a Federal grantee, or an entity administering a Federal program or activity and may redisclose such comparison of information to any paying or administering agency and to the head of the Federal Bureau of Prisons and the head of any State agency charged with the administration of prisons with respect to inmates whom the Secretary of the Treasury has determined may have been issued, or facilitated in the issuance of, an improper payment.

“(III) The comparison of information disclosed under subclause (I) shall not be considered a matching program for purposes of section 552a of title 5, United States Code.”.

(c) CONFORMING AMENDMENT TO THE DO NOT PAY INITIATIVE.—Section 5(a)(2) of the Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C. 3321 note) is amended by adding at the end the following:

“(F) Information regarding incarcerated individuals maintained by the Commissioner of Social Security under sections 202(x) and 1611(e) of the Social Security Act.”.

### TITLE III—NATURAL RESOURCES

#### SEC. 301. ULTRA-DEEPWATER AND UNCONVENTIONAL NATURAL GAS AND OTHER PETROLEUM RESOURCES.

(a) REPEAL.—Subtitle J of title IX of the Energy Policy Act of 2005 (42 U.S.C. 16371 et seq.) is repealed.

(b) RESCISSION.—Any unobligated funds appropriated for carrying out the subtitle repealed by subsection (a) are rescinded.

#### SEC. 302. AMENDMENT TO THE MINERAL LEASING ACT.

Section 35(b) of the Mineral Leasing Act (30 U.S.C. 191(b)) is amended to read as follows—

“(b) DEDUCTION FOR ADMINISTRATIVE COSTS.—In determining the amount of payments to the States under this section, beginning in fiscal year 2014 and for each year thereafter, the amount of such payments shall be reduced by 2 percent for any administrative or other costs incurred by the United States in carrying out the program authorized by this Act, and the amount of such reduction shall be deposited to miscellaneous receipts of the Treasury.”.

Effective date.

#### SEC. 303. APPROVAL OF AGREEMENT WITH MEXICO.

The Agreement between the United States of America and the United Mexican States Concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico, signed at Los Cabos, February 20, 2012, is hereby approved.

43 USC 1356b  
note.