

EXAMINING IRS CUSTOMER SERVICE CHALLENGES

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
GOVERNMENT OPERATIONS

AND THE

SUBCOMMITTEE ON HEALTH CARE,
BENEFITS, AND ADMINISTRATIVE RULES

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

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EXAMINING IRS CUSTOMER SERVICE CHALLENGES

Wednesday, March 8, 2017

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT OPERATIONS, JOINT
WITH THE SUBCOMMITTEE ON HEALTH CARE, BENEFITS,
AND ADMINISTRATIVE RULES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittees met, pursuant to call, at 2:10 p.m., in Room 2154, Rayburn House Office Building, Hon. Mark Meadows [chairman of the Subcommittee on Government Operations] presiding.

Present from the Subcommittee on Government Operations: Representatives Meadows, Hice, Jordan, DeSantis, Blum, and Connolly.

Present from the Subcommittee on Health Care, Benefits, and Administrative Rules: Representatives Jordan, Meadows, Grothman, Mitchell, Krishnamoorthi, and Plaskett.

Mr. MEADOWS. The Subcommittee on Government Operations and the Subcommittee on Health Care, Benefits, and Administrative Rules will come to order. And without objection, the chair is authorized to declare a recess at any time.

The IRS is the Federal agency that the average American probably interacts with more frequently than most other agencies in the Federal Government. And as we look at customer service at the IRS and how most Americans experience the Federal Government, we owe it to them to make sure that their experience is clear and helpful. And if the taxpayers can get help from the IRS to understand some of the often more complicated tax obligations, the IRS then does not have to spend as much time looking or providing resources for audits or enforcement.

Unfortunately, the 2015 tax season had one of the worst customer service records in IRS history with only 38 percent of the taxpayers who called the IRS assistance line actually getting a representative. And thereafter, the average wait time was well over 30 minutes.

And so as we look at this, as the IRS calls for more resources, Congress indeed did grant them \$298 million in for the 2016 tax season with \$176 million specifically marked for taxpayer services. As a result, the 2016 filing season was better but still not as good as it was a decade earlier.

So as we look at today's hearing, I am going to keep my opening remarks very brief because we are expecting votes here in just a few minutes. And we will certainly yield to a number of the other

members as they have questions. And I will include some of that in my questioning. And the entire written statement will be made part—or opening statement will be made part of the record.

Mr. MEADOWS. So with that, I will now recognize the ranking member for his opening statement.

Mr. KRISHNAMOORTHY. Thank you, Chairmen Meadows and Jordan, for holding this important hearing on a topic that is so familiar to so many Americans: IRS customer service.

Many of the individuals I represent encounter challenges when dealing with the IRS. The individuals are hardworking, honest Americans who are doing everything they can in order to comply with their tax obligations. I have seen some of these individuals go to great lengths to fulfill their responsibilities: contacting the IRS and others for help, providing what seems like an endless stream of documentation to their agency and their employers in order to get on an installment plan, and in some cases even digging into their hard-earned retirement savings to pay their outstanding tax debts. So while IRS says that it is working hard to improve customer service, it can be difficult for many of my constituents to believe in some cases.

As our nation's tax code becomes increasingly complex, the burden placed on those trying to maintain tax compliances also increases. It is absolutely critical that the IRS have the appropriate channels to assist these well-meaning taxpayers and processes in place to rectify situations in which these channels fail.

For that reason, and as a former small businessman, I hope we can shed some light on the processes currently in existence at the IRS for assisting customers before, during, and after the filing season. All customers deserve to have their questions answered in a timely, effective, and respectful manner.

What does it take to make that happen? As the Oversight Committee, we have a responsibility to ensure that government works effectively and efficiently and is responsive to the citizens it serves. We should encourage agencies to take a hard look at themselves and identify areas that are working, as well as those that need improvement. We should encourage agencies to adopt best practices from other areas of government and the private sector, and we should certainly encourage agencies to listen to feedback from those on the other side of the table. Only after doing that can we have a meaningful discussion of what needs to be done and what resources need to be devoted in order to make our system succeed.

I hope that these are discussions we can have today, and I look forward to the testimony of our witnesses. Thank you. I yield back.

Mr. MEADOWS. I thank the gentleman.

The chair recognizes the gentleman from Ohio, Mr. Jordan, for his opening statement.

Mr. JORDAN. I want to just thank the chairman for helping us put this important hearing together. As we are heading into tax season or into tax season, I think this is going to be some hopefully valuable information for the folks we get the privilege of serving and representing.

So with that, I would yield back and look forward to the witness' testimony.

Mr. MEADOWS. I thank the gentleman. We will hold the record open for five legislative days for any member who would like to submit a written statement.

I will now recognize our panel of witnesses. I am pleased to welcome the Honorable John Dalrymple, deputy commissioner for Services and Enforcement at the Internal Revenue Service. Welcome. Mr. Russell Martin, deputy inspector general with the Treasury, inspector general for the Tax Administration, welcome. And Ms. Jessica Lucas-Judy, acting director of Strategic Issues at the U.S. Government Accountability Office, welcome.

And pursuant to committee rules, all witnesses will be sworn in before they testify, so if you would please rise and raise your right hand.

[Witnesses sworn.]

Mr. MEADOWS. Thank you. Please be seated. And let the record reflect that all witnesses answered in the affirmative.

In order to allow time for discussion, we would ask that you please limit your oral testimony to five minutes, but your entire written testimony and statement will be made part of the record.

And so, Mr. Dalrymple, we will recognize you for five minutes.

WITNESS STATEMENTS

STATEMENT OF JOHN DALRYMPLE

Mr. DALRYMPLE. Thank you. Chairmen Meadows and Jordan, Ranking Member —

Mr. MEADOWS. Maybe just pull the—yes, a little bit closer to you there. Yes.

Mr. DALRYMPLE. I thought I was loud enough. Sorry.

Chairmen Meadows, Jordan, and Ranking Member Krishnamoorthi, and members of the subcommittees, thank you for the opportunity to testify on IRS's taxpayer service efforts.

The IRS spends a significant amount of time and resources on this part of our mission because every taxpayer contact is important to us. The most visible taxpayer service the IRS provides is the delivery of a smooth, problem-free tax filing season so people can file their returns and receive their refunds as quickly and easily as possible. I am pleased to report that, so far, the 2017 filing season has gone smoothly in terms of tax processing and the operation of our information technology systems.

As of February 24, the IRS received more than 53.2 million individual returns on the way to a total of about 152 million. We've issued more than 41.3 million refunds for more than \$127 billion. The average refund so far is more than \$3,000.

During the filing season and throughout the year, the IRS provides assistance to taxpayers to help them meet their tax obligations. With over 150 million individual taxpayers, we realized there is no one-size-fits-all in terms of delivering service to them.

We offer a mix of service channels and are always looking for ways to improve service delivery. Over many years, we've been working to expand our online service offerings because our research tells us that taxpayers increasingly prefer to interact with us through digital channels. Last year, taxpayers visited our website, IRS.gov, more than 500 million times. They used IRS.gov to find

helpful tax information, check on the status of their refund, and perform transactions such as paying their tax bill.

We've also been working to develop an online account at the IRS where taxpayers or their representatives can log in securely, get information about their account, and interact with the IRS as needed. We recognize that there will always be taxpayers who prefer not to interact with the IRS online. For that reason, we will continue providing and improving service on our other channels.

One of these is phone service. The IRS receives more than 63 million taxpayer calls a year on our toll-free lines. A very challenging year in fiscal year 2015 the level of service provided on the phones improved significantly in 2016 as a result of additional funding from Congress. I'm pleased to report that during the 2017 filing season we are again seeing an even improved phone service.

The IRS also provides in-person help to millions of taxpayers who visit our Tax Assistance Centers, or TACs, as we call them. Each of these contacts is also important to the IRS, and to cut down on long lines at our TACs, the IRS in 2015 began testing the idea of letting people make appointments in advance. We extended the appointment process to call—I'm sorry, to all TACs as of this year. Doing so has dramatically cut wait times, and we've had no reports of any lines outside TACs so far this filing season.

Another way the IRS provides in-person help is by supporting nearly 12,000 volunteer income tax assistance and tax counseling for the elderly sites around the country. Volunteers at these sites provide free tax preparation help to eligible individuals. Along with the service we provide on these channels, the IRS also processes nearly 8 million pieces of correspondence from taxpayers each year, and these taxpayers are also important to us.

The IRS remains dedicated to improving taxpayer service across all of our channels. Chairmen Meadows and Jordan, Ranking Member Krishnamoorthi, this concludes my statement, and I'd be happy to take questions.

[Prepared statement of Mr. Dalrymple follows:]

**WRITTEN TESTIMONY OF
JOHN M. DALRYMPLE
DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT
INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS AND
SUBCOMMITTEE ON HEALTH CARE, BENEFITS AND ADMINISTRATIVE
RULES
ON IRS TAXPAYER SERVICE
MARCH 8, 2017**

INTRODUCTION

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees, thank you for the opportunity to discuss the many ways in which the IRS provides assistance to taxpayers, and how we work continuously to improve those services.

Former IRS Commissioner Lawrence Gibbs once said that there are three types of taxpayers: those who comply, those who are trying to comply, and those who are actively trying not to comply. It is the responsibility of the IRS to ensure that those who are complying and trying to comply have everything they need to fulfill their tax obligations. It is also imperative that those two categories of taxpayers can feel confident the IRS will pursue those taxpayers who have decided not to comply.

The IRS is dedicated to helping taxpayers meet their tax obligations. The agency spends a significant amount of time and resources each year fulfilling this critical mission, as every inquiry from a taxpayer is important to us, and we know that taxpayers' overwhelming preference is to not interact with us at all, beyond filing a tax return and getting a refund.

DELIVERING THE TAX FILING SEASON

The most visible taxpayer service the IRS provides is the delivery of a smooth, problem-free tax filing season, so that people can file their returns and receive their refunds as quickly and easily as possible. It is important to note that delivering the filing season does not happen automatically or by accident, but because thousands of dedicated and experienced IRS employees work for months planning for the next filing season and then administering it effectively.

I am pleased to report that the last several filing seasons have gone smoothly in terms of tax return processing. Thus far the 2017 filing season has been no exception. As of February 24, the IRS received more than 52.3 million individual

returns, on the way to a total of about 152 million. We have issued over 41.3 million refunds for more than \$127 billion, with the average refund totaling approximately \$3,071. I would note this smooth operation of the filing season has been accomplished while using antiquated IT systems, as approximately 60 percent of the agency's hardware and 28 percent of its software are out of date and in need of an upgrade. Continuing to rely on such outdated systems is costly and poses a risk of outages or failures.

This tax filing season is notable for certain Protecting Americans from Tax Hikes (PATH) Act changes that were enacted in 2015 and took effect this year. For example, the IRS is now required to hold tax returns until February 15 each year if they claim either the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC). This change and another change accelerating the filing date of Forms W-2 have together helped the IRS improve its ability to spot incorrect or fraudulent returns. Another PATH Act provision required Individual Taxpayer Identification Numbers (ITINs) to expire if they had been issued before 2013 or if they had not been used on a federal tax return for three straight years. While these changes have increased the IRS's ability to detect and stop noncompliance and fraudulent refund claims, they required significant resources and coordination to implement. I am pleased to say that so far it appears that the IRS has been able to implement these important revenue-protecting changes while delivering a successful filing season.

By setting the effective date for these changes about a year after enactment, Congress gave the IRS sufficient lead time to get our systems ready and also prepare taxpayers and tax practitioners, which we greatly appreciate. We spent several months working extensively with many partner groups and using various outreach and communications channels – including press releases, speeches, social media and the annual IRS Nationwide Tax Forums – to get the word out so people would understand what the changes would mean for them. This has greatly reduced the need for taxpayers to call or write us with questions about these changes.

HELPING VICTIMS OF IDENTITY THEFT

Another important aspect of taxpayer service involves protecting taxpayers and their personal data from identity theft, and assisting taxpayers when they discover they have been victimized by identity thieves who use their personal information to file false tax returns and claim fraudulent refunds.

The problem of personal data being used to file fraudulent returns increased dramatically from 2010 to 2012, and for a time overwhelmed law enforcement and the IRS. Since then, we have been making steady progress even within our reduced resources, in terms of protecting against fraudulent refund claims, criminally prosecuting those who engage in this crime, and helping minimize the adverse effect on victims.

That progress has accelerated since 2015, thanks to the collaborative efforts of the Security Summit group. Over the past two years, this strong, unique partnership between the public and private sectors has allowed us to coordinate our efforts on many different levels. As a result, we put in place many new safeguards for the 2016 filing season that produced real results. To illustrate, the number of people who reported to the IRS that they were victims of identity theft declined from 698,700 in Calendar Year (CY) 2015 to 376,500 in CY 2016 – a drop of 46 percent.

Even with this progress, the fraud filters in our processing systems are still catching a large number of false returns, which shows that identity theft continues to be a major threat to tax administration – a threat that receives our sustained vigilance and the continuous strengthening of our defenses against this crime. During Fiscal Year (FY) 2016, our systems stopped more than \$6.5 billion in fraudulent refunds on 969,000 tax returns confirmed to have been filed by identity thieves.

Importantly, the IRS continues its efforts to help taxpayers who have been victims of identity theft. Here too, the IRS has made steady progress over time in our ability to close identity theft cases quickly and efficiently. Several years ago, it was taking us an average of 300 days to close a case, but more recently the IRS has been meeting its goal of resolving cases in an average of 120 days or less. Additionally, case inventory for identity theft victims dropped from about 95,000 at the end of FY 2015 to 34,300 at the end of FY 2016. As of last month, the number was down to 28,900.

TAXPAYER OUTREACH AND EDUCATION

Another way in which the IRS serves taxpayers, especially as they are getting ready for the annual filing season, is by providing them with the information they need to help fulfill their tax obligations. The IRS conducts a wide range of outreach and education efforts, including enlisting the assistance of a variety of partners to serve taxpayers' filing and reporting needs.

A critical part of our work involves partnering with the tax professional community. These groups are critical to the nation's tax system, helping meet the needs of taxpayers ranging from individuals to businesses. The IRS shares information with groups at the national level and works across the country with local tax professional groups.

We have used these partnerships to share critical information related to such issues as identity theft and emerging tax scams, which can help taxpayers as well as tax professionals and businesses watch out for these evolving threats. The work with the tax professional community is also an important component of our Security Summit group.

An important example of the IRS's outreach efforts to the tax professional community involves the annual IRS Nationwide Tax Forums for tax return professionals. More than 10,000 professionals, most of whom are small businesses and self-employed individuals, attended the 2016 Tax Forums. These three-day events were held in five cities over the summer, with sessions providing updates on many critical tax law issues. Additionally, we provide special case resolution services for tax preparers with clients who have unresolved tax issues with the IRS.

Each year at the Tax Forums the IRS also solicits feedback from the tax community to find out how we can better serve them and their clients. For example, the tax professional community is critical to our Future State efforts as they serve taxpayers' needs. We used the 2016 Tax Forums to get feedback and input on the best way the IRS can help meet the evolving needs of taxpayers and the tax professionals who serve them going forward. This effort was well-received by participants last summer, and we plan to continue this effort during the upcoming 2017 Tax Forums.

In addition, the IRS works with a wide range of partner groups to share information to benefit taxpayers. For example, each year on Earned Income Tax Credit (EITC) Awareness Day, the IRS works with hundreds of partners across the nation to share details about this tax credit for working Americans. This year, EITC Awareness day was held on January 27.

In addition, the IRS continues to share information with taxpayers in new and evolving ways to adjust for changes in the communications landscape. Our communications efforts use a variety of channels. Given what our research has told us about taxpayers' preference for receiving information digitally, we have increasingly employed social media, including YouTube and Twitter, to provide important service messages to taxpayers such as important updates about tax law changes, the tax season and consumer alerts involving tax scams. Our Twitter accounts have more than 130,000 followers, and tweets are regularly retweeted by our partners and the tax professional community. In addition, the IRS continues to provide information for taxpayers on YouTube, where our videos have received a total of nearly 12 million views.

Communicating with taxpayers involves not only providing them with tax information, but also finding out what they want and need from the IRS to ease the tax filing experience. The IRS for decades has done customer research to help us understand what service improvements we need to make. Examples include the following:

- The IRS developed a roadmap, the Taxpayer Assistance Blueprint, for future taxpayer service improvements. The Blueprint was initially completed based on a careful analysis of a large body of research, and it

provided critical guidance on how the IRS could enhance the efficiency and effectiveness of service delivery. The IRS continues to update the Blueprint, including updating research and analysis designed to understand taxpayers' evolving preferences for how to get needed assistance. Taxpayer Experience Surveys have been conducted 10 times over the last 16 years, and each one has provided important insights into the needs, opinions and behaviors of individual taxpayers. The most recent survey was conducted for tax year 2014 and completed in 2015.

- The IRS has recently established the Taxpayer Experience Coordinating Council to understand, leverage and expand research activities to gain insights about the taxpayer experience. Members of the Council include IRS operating divisions, the Taxpayer Advocate Service and IRS researchers.

SERVICE DELIVERY CHANNELS

The IRS provides service and assistance throughout the year, particularly during the filing season when the demand is greatest, and it comes through a variety of channels. We provide service online on our website, IRS.gov; answer taxpayer calls on our toll-free line; offer in-person help at our Taxpayer Assistance Centers (TACs); and correspond with taxpayers through the mail. All of our service channels are designed to provide taxpayers and their representatives with the information and answers they need to fulfill their tax responsibilities as quickly and as easily as possible. However, the IRS will not sacrifice the security of taxpayers' information in our efforts to increase taxpayers' ease in getting the information and assistance they need.

The National Taxpayer Advocate noted in her 2016 report to Congress that tax administrators in other countries and the private sector have found that taxpayers and other customers usually prefer a mix of service channels. Consistent with these findings, IRS also provides assistance through a variety of service channels, and we are continuously looking for ways to improve and expand service channels to serve taxpayers' needs. No matter what channel taxpayers choose, every taxpayer contact is important to us.

Online Services

The IRS continually works to improve and expand our online offerings to meet taxpayers' expectations, so they can interact with the IRS just as they do with any financial institution. Taxpayers come to IRS.gov to find information that is important to them, such as information about when their refunds will be sent. Our tool, "Where's My Refund?" was used about 300 million times in FY 2016, and 160 million times already this filing season. Taxpayers also use IRS.gov to find tax information, download forms and pay their tax bills. During FY 2016, taxpayers visited IRS.gov over 500 million times, and have returned over 175 million times so far this fiscal year.

Beginning in 2014, the IRS launched a number of digital applications to further improve taxpayers' interactions with the IRS, focusing on high-volume transactions that taxpayers have said they want to conduct online, and those that minimize burden. These include:

- "Where's My Amended Return?" – a tool that helps taxpayers understand the status of their Form 1040X amended tax returns for the current year and up to three prior years. Status includes information about when their amended return was received, adjusted and completed;
- Get Transcript, which allows taxpayers to go online and download a copy of their tax records from prior years;
- Online Payment Agreement, which taxpayers can use to set up a payment plan and pay their tax obligations over time; and
- Direct Pay, which provides taxpayers with a secure, free, quick and easy online option for making tax payments.

The IRS understands the need to continually improve the online content we provide to taxpayers. For that reason, over the last few years we have updated many of the most-often used sections of IRS.gov through our Content Upgrade program. We have used clearer writing, employed web and editorial best practices, and made design improvements – all to improve taxpayers' online experience and increase taxpayers' understanding of the information provided on IRS.gov.

While the current online content and digital services have been helpful to taxpayers, the IRS is taking a broader look at the future of taxpayer service. Our goal is to find out how we could enhance and expand important services for all taxpayers, no matter what their circumstances.

Through this effort, it became apparent that taxpayers needed services, tools and support that are both innovative and secure, and specific to their needs, especially in relation to online interactions. To that end, we are developing online accounts at the IRS where taxpayers, or their representatives, can log in securely, get the information they need about their account and interact with the IRS as needed.

In December 2016, we took the first step toward a fully functional IRS online account with the launch of an application on IRS.gov that provides information to taxpayers who have straightforward balance inquiries. This new feature allows taxpayers to view their IRS account balance, including the amount they owe for tax, penalties and interest, in a secure, easy and convenient way. Soon, we will add another feature that will let taxpayers see recent payments posted to their account. These balance-due and recent-payment features, when paired with existing online payment options, will increase the availability of self-service interactions with the IRS.

This is just the first step, but an important one. Over time, we will be adding other features to this platform as they are developed and tested with taxpayers and tax professionals. One such service improvement is Taxpayer Digital Communications. This feature, which we are now testing, provides a secure online messaging capability so that taxpayers, their authorized representatives and IRS employees can correspond electronically and resolve issues more quickly than through traditional mail.

As we improve the online experience, we understand the responsibility we have to serve the needs of all taxpayers, whatever their age, income or preferred method of communication. Although our research tells us that taxpayers increasingly prefer to interact with the IRS through digital channels, we recognize there will always be taxpayers who do not have access to the digital economy, or who simply prefer not to conduct their transactions with the IRS online.

Consequently, the IRS remains committed to providing the services these taxpayers need. While we will continue to offer more web-based services, taxpayers will still be able to call our toll-free lines, write to us or obtain in-person assistance if that is how they want to interact with the IRS. In fact, we believe that providing more online services for those who want them will free up valuable resources to allow us to further improve service on our other channels – phone, in person, and correspondence, particularly for those taxpayers with more complex issues.

An excellent example of our commitment to providing service to all taxpayers involves the tax return filing process. Although e-filing by individuals has grown steadily over the years, and is expected to reach 87 percent this filing season, that still leaves roughly 20 million taxpayers filing paper returns. We remain dedicated to serving these paper filers.

In addition, although all tax forms and publications are conveniently available online at IRS.gov, we continue to mail hard copies of tax forms to taxpayers who request them by phone or online. Taxpayers can also obtain copies of many tax forms at our TACs, as well as at their local public libraries.

Telephone Service

The IRS's toll-free telephone line constitutes one of the world's largest customer service phone operations and receives considerable attention from observers of the IRS's taxpayer service delivery, even though it is only one of many channels taxpayers choose to get assistance. The IRS receives more than 63 million taxpayer calls a year, with more than one-third of those, or more than 25 million, handled by our customer service representatives. The rest are calls made to lines providing automated messages containing helpful tax information. Each of these taxpayer contacts is extremely important to us.

After a very challenging year in FY 2015, the level of service (LOS) provided on the phones improved significantly in FY 2016 as a result of additional funding from Congress. We received a total of \$290 million in extra funding to improve service to taxpayers, strengthen cybersecurity and expand our ability to address identity theft.

We used approximately \$178 million of this additional funding to add about 1,000 extra temporary employees to help improve phone service during the filing season. As a result, the average level of service on our toll-free lines during the 2016 tax filing season exceeded 70 percent, compared to the average of 37 percent during the FY 2015 filing season. When the temporary employees went off rolls at the end of the 2016 filing season, phone LOS dropped, and our average for all of FY 2016 ended up at 53 percent, which nonetheless was still higher than 2015.

I'm pleased to report that during the 2017 filing season, we are again seeing improved phone service. We anticipate that the average phone LOS for the filing season as a whole will be about 75 percent. Although we are still performing research to understand what other factors, aside from resources, may be contributing to this year's sustained high LOS, we believe a major factor is a relative lack of major tax law changes enacted in 2016, as call demand is lower than expected. Without such changes, fewer taxpayers need to call us with questions. Another factor is that the 2017 tax filing season has been a smooth one thus far, which also reduces taxpayer inquiries on the phone.

In-Person Assistance

The IRS serves millions of individuals each year at our TACs located around the country, and each of these contacts is extremely important to the IRS. In recent years TACs in many locations experienced such heavy demand during the filing season that taxpayers were lining up for hours before the centers opened, just to ensure they would get in the door. To cut down on those long lines, the IRS in 2015 began testing a new way of doing business: letting people make appointments in advance – a process that had already been used successfully in other countries.

We found the pilot conducted in 2015 to be so successful that, with some adjustments, we have moved to extend the appointment process to all TACs as of this year. We also started a program this year in which taxpayers can make appointments to meet with IRS employees at several Social Security Administration offices.

I am pleased to report that the appointment process has dramatically cut waiting times for taxpayers seeking assistance at TACs. In contrast to the last couple of years, we have had no reports of long lines so far this filing season.

We have also found this arrangement provides major advantages to the taxpayer. First, when a person calls for an appointment, we can tell them what documents they need to bring with them, reducing the number of return trips. Secondly, the IRS employee making the appointment can often help the taxpayer resolve their issue over the phone, eliminating altogether the need to visit a TAC. In fact, we have found that about 50 percent of the taxpayers who call for an appointment resolve their issues during that initial phone contact.

This fiscal year, through February 18, just over 1 million people have called for an appointment. Of that total, about 526,000 – more than half – were able to resolve their issue over the phone, meaning there was no need for the time and expense of visiting a TAC. This is an important point, because we believe TAC employees can now spend more time with those who do visit, as they tend to have more-complex issues that cannot be resolved over the phone.

In implementing this new arrangement, we realized it would take time for people to adjust, so we have also served 610,000 people who walked in without an appointment so far this fiscal year, bringing the total number served so far in FY 2017 to over 1.6 million. The 610,000 number also includes people who visit TACs to pay their tax bill, a transaction for which no appointment is needed.

Given these results, we view the move to appointments as a common-sense change that increases and improves the level and quality of customer service the IRS can provide while minimizing burden on taxpayers. At the same time, we are still getting feedback and adjusting the appointment process to make sure it works as efficiently as possible.

To supplement the in-person service provided at TACs, the IRS is collaborating with various partners to provide a secure Virtual Service Delivery (VSD) capability in some areas where there is limited staffing at a TAC or where no TAC exists. VSD involves taxpayers interacting with live assistants that are located in a different geographic area, via secure IRS computer and high-resolution video capabilities. The computer can be placed in community partner locations, such as public libraries, or in other government offices. We currently have 28 VSD locations serving taxpayers. We will continue to look at VSD as well as exploring other technologies to deliver service in new ways.

Another way the IRS facilitates in-person assistance is through its support of nearly 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites around the country. These sites provide free tax preparation assistance to low-income taxpayers who make \$54,000 or less, as well as older Americans, people with disabilities and those with limited proficiency in English. These VITA and TCE sites are staffed by nearly 90,000 dedicated volunteers, and I'm proud to say that many of them are IRS employees

and retirees. These volunteers help prepare more than 3 million federal income tax returns a year.

The IRS also works with partners to provide the Free File program, which allows taxpayers to prepare and e-file their federal income taxes at no cost. Free File can be used by anyone who earns \$64,000 or less, which is approximately 100 million individuals and families. Free File is made available through an agreement between the IRS and more than a dozen companies that form the Free File Alliance.

The IRS continues to look for ways to make it easier, not only for taxpayers to file their taxes, but to pay what they owe. Although some of the newer options have involved making payments via credit card or through direct debit, the IRS also began offering a new cash payment option, PayNearMe, in 2016. PayNearMe allows taxpayers who want to pay their taxes in cash to go to any of more than 7,000 7-Eleven convenience stores in 34 states to make those payments.

Taxpayer Correspondence

Another aspect of our customer service efforts involves taxpayer written correspondence, which gets less attention than other channels, but is critically important in resolving account and compliance issues for taxpayers and their representatives. In a given year, the IRS processes nearly 8 million pieces of mail from taxpayers. Each of these taxpayer contacts is extremely important to the IRS.

Typically, taxpayers write to the IRS after receiving a notice from the agency about an issue with their tax return. When taxpayers do not receive a timely response from the IRS to their letters, they call for an update. In other words, failing to manage correspondence can actually increase phone demand.

In 2014 and 2015, our inventory of correspondence from taxpayers grew significantly above what it would normally be, because our constrained funding forced us to shorten the period of employment for our seasonal employees who help answer taxpayer correspondence. To illustrate, inventory of pending correspondence stood at 900,000 at the end of FY 2014 and 859,000 at the end of 2015. During 2015, to keep the escalating correspondence backlog from worsening still further, we ultimately shifted resources from the phones to correspondence to answer the letters and prevent additional phone calls.

As noted above, the \$290 million in additional funding we received for 2016 allowed the IRS to significantly improve phone service that year. This also freed up more resources to help reduce the correspondence inventory, which declined to 690,000 by the end of FY 2016, and stood at 539,000 as of last month.

The difficulties we experienced in 2015 with both correspondence and phone service need to be seen in a broader budget context, which includes the availability of user fees to supplement resources for taxpayer service. We have allocated user fees to effectively fund taxpayer service activities when discretionary appropriations are lower than what is necessary to support taxpayers' demand for services.

Historically, the IRS had spent about \$150 million a year in user fees on taxpayer service. But in 2015, we needed funding to maintain many of our current information technology (IT) systems and for IT upgrades needed to implement numerous unfunded legislative mandates. Therefore, for the 2015 filing season, we were forced to divert user fees to prepare for the upcoming filing season. As a result, only \$45 million was available from user fees to help fund taxpayer service in 2015. To help make up this shortfall, we transferred \$30 million from enforcement to taxpayer service that year.

It is important to note the number of provisions enacted by Congress over the last several years that came with little or no funding for their implementation. This list includes: the Affordable Care Act (ACA); Foreign Account Tax Compliance Act (FATCA); a new certification program for professional employer organizations; reauthorization of the Health Coverage Tax Credit (HCTC); the private debt-collection program; the registration requirement for newly created 501(c)(4) organizations; the seriously delinquent debt certification program; the delay of refunds of returns claiming the EITC and ACTC; and expiration of ITINs.

As you can see from the multiple service channels and options we offer taxpayers and their representatives, and our continuous efforts to find ways to improve and expand those options, we take former IRS Commissioner Gibbs' admonition seriously about efficiently and effectively serving the needs of all taxpayers, especially those who comply and those trying to comply.

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi and Members of the Subcommittees, the IRS has always believed, and continues to believe, that every taxpayer is important, and we need to serve each one in whatever manner they interact with us. For that reason, the agency and its workforce remain dedicated to improving taxpayer service throughout the year, especially approaching and during the filing season, through outreach, education and across all channels. We look forward, with Congress's help, to continuing to do so. This concludes my statement. I would be happy to take your questions.

Mr. MEADOWS. Thank you so much for your testimony. As Murphy's law would have it, they called votes just about the time that you started speaking. And so what we are going to do is go into recess. And for planning purposes, it will actually be subject to the call of the chair, but for those of you that may want to get a cup of coffee, if you will plan on being back here no later than 10 till 3:00. It may be later than that but certainly—the subcommittees stand in recess subject to the call of the chair.

[Recess.]

Mr. MEADOWS. The subcommittees will come to order. Thank you all for your patience and willingness to stay with us throughout this.

Mr. Dalrymple, I want to congratulate you on your upcoming retirement. A little birdie told me that you were retiring in a couple of weeks, so we will try to make this as painless as possible. How about that?

Mr. DALRYMPLE. You can't imagine how I appreciate that.

Mr. MEADOWS. And before I recognize you, Mr. Martin, I want to recognize Mr. Sapp who is here from Drake Software, a good friend and constituent from back in North Carolina, who actually deals with these kinds of issues. And so it is good to have you here as well.

So, Mr. Martin, you are recognized for five minutes.

STATEMENT OF RUSSELL MARTIN

Mr. MARTIN. Thank you. Chairmen, Ranking Members, and members of the subcommittee, thank you for the opportunity to testify on IRS's efforts to provide customer service to taxpayers, including those who are victims of identity theft.

For the 2017 filing season, taxpayers have multiple options to choose from when they need assistance from the IRS. Examples include the toll-free telephone lines, face-to-face assistance, the mail, self-assistance through IRS.gov, and social media channels such as Twitter and Facebook.

Despite other available options, taxpayers continue to use the telephone as the primary method to seek assistance from the IRS. The IRS is projecting a 75 percent level of service for the 2017 filing season, an increase from 72 percent reported for the 2016 filing season. The level of service represents the relative success rate of taxpayers who call the IRS for assistance.

As of February 11, 2017, the IRS reports it answered approximately 2.5 million calls and provided an 82 percent level of service. Each year, millions of taxpayers also seek assistance from one of the IRS's 376 walk-in offices known as Taxpayer Assistance Centers or TACs. Although the IRS reports there are 376 TACs for the 2017 filing season, 24 are not open because they have not been staffed. The IRS estimates that the number of taxpayers it will assist at its TACs will continue to decrease. The IRS plans to assist more than 3.4 million taxpayers at its TACs in fiscal year 2017, a 22 percent decrease from fiscal year 2016.

Taxpayers also interact with the IRS through the mail. The IRS's ability to timely process taxpayer correspondence remains a challenge. IRS management stated that the reduction in available staff

is the most significant factor in not timely responding to taxpayer correspondence.

In response to increased demand for online self-assistant options, the IRS continues to increase the services they provide online. However, as we have reported, the risk of unauthorized access to tax accounts increases as the IRS expands its focus on delivering online tools. Therefore, it is critical that the methods the IRS uses to authenticate individuals' identities provide a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them.

Much of the IRS's ability to serve taxpayers require staffing. Beginning in fiscal year 2015, the IRS made some resource decisions, which significantly affected the level of service provided to taxpayers. This included shifting a significant portion of the user fees it collects to operation support to implement other obligations required by law. In fiscal year 2016, the IRS received \$178 million in additional funding by Congress. As a result, it has increased its level of service substantially from its low of 38 percent in fiscal year 2015.

The IRS also continues to devote significant resources to assist victims of identity theft. In July 2015 the IRS created a centralized unit to combine the skills of employees working identity theft cases in multiple functions into one directorate. This has resulted in improvements in case closure time frames and a reduction in case closing errors.

To help protect identity theft victims and improve authentication, the IRS began issuing unique identification numbers to eligible taxpayers in fiscal year 2011. The issuance of these numbers to confirmed victims of identity theft reduces IRS's resources needed to resolve identity theft cases. Specifically, this number helps the IRS verify a victim's identity at the time their tax return is filed and, as a result, not delay the processing of the taxpayer's return or issuance of their refund.

However, TIGTA has identified that confirmed victims of identity theft tax accounts were not always consistently updated to ensure that these identification numbers were generated as required. This results in the need to unnecessarily use additional resources to review future tax return filings.

TIGTA has reported that the trend of lower budgets and reduced staffing has affected the IRS's ability to deliver its priority program areas, including customer service and enforcement activities. The allocation of limited resources requires difficult decisions to balance customer service with enforcement activities.

This ends my statement, and I look forward to your questions.
[Prepared statement of Mr. Martin follows:]

**JOINT HEARING BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
SUBCOMMITTEE ON HEALTH CARE, BENEFITS
AND ADMINISTRATIVE RULES AND
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES**

“Examining the IRS’s Customer Service Challenges”



**Testimony of
Russell P. Martin, Assistant Inspector General for Audit
Treasury Inspector General for Tax Administration**

March 8, 2017

Washington, D.C.

TESTIMONY
OF
RUSSELL P. MARTIN, ASSISTANT INSPECTOR GENERAL FOR AUDIT
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
before the
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
SUBCOMMITTEE ON HEALTH CARE, BENEFITS
AND ADMINISTRATIVE RULES AND
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U.S. HOUSE OF REPRESENTATIVES

“Examining the IRS’s Customer Service Challenges”
March 8, 2017

Chairman Jordan, Chairman Meadows, Ranking Member Krishnamoorthi, Ranking Member Connolly, and Members of the Subcommittees, thank you for the opportunity to testify on the customer service challenges facing the Internal Revenue Service (IRS).

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress in 1998 and is mandated to promote integrity in America’s tax system. It provides independent audit and investigative services to improve the economy, efficiency, and effectiveness of IRS operations. TIGTA’s oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA plays the key role of ensuring that the approximately 83,000 IRS employees¹ who collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns, and issued more than \$400 billion in tax refunds during Fiscal Year (FY) 2016,² have done so in an effective and efficient manner while minimizing the risks of waste, fraud, and abuse.

TIGTA’s Office of Audit reviews all aspects of Federal tax administration and provides recommendations to improve IRS systems and operations; ensure the fair and equitable treatment of taxpayers; and detect and prevent waste, fraud, and abuse in tax administration. The Office of Audit places an emphasis on statutory coverage required by the IRS Restructuring and Reform Act of 1998 (RRA 98)³ and other laws, as

¹ Total IRS staffing as of January 7, 2017. Included in the total are approximately 16,200 seasonal and part-time employees.

² IRS, *Management’s Discussion & Analysis, Fiscal Year 2016*.

³ Pub. L. No. 105-206, 112 Stat. 685 (1998) (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

well as on areas of concern raised by Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders.

TIGTA continues to review the IRS's efforts to provide quality customer service and recommend areas for improvement. Although the IRS has implemented recommendations to better assist the American taxpayer, significant challenges remain.

In this section of my testimony, I will briefly discuss the status of the 2017 tax return Filing Season⁴ and the IRS's efforts to provide customer service to taxpayers, including those who are victims of identity theft.

STATUS OF THE 2017 FILING SEASON

The annual tax return filing season is a critical time for the IRS because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. During Calendar Year 2017, the IRS expects to receive approximately 152 million (approximately 17.7 million paper and 134.3 million electronic) individual income tax returns. As of February 17, 2017, the IRS had received more than 42.5 million tax returns—more than 40.4 million (95.2 percent) of which were electronically filed and more than 2 million (4.8 percent) of which were filed on paper. The IRS has issued more than 32.9 million refunds totaling more than \$103.2 billion.

Implementation of tax law changes will continue to present challenges in the 2017 Filing Season. As in previous years, the IRS had to identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS had to revise its various tax forms, instructions, and publications and reprogram its computer systems to ensure tax returns are accurately processed. Problems with tax return processing may delay tax refunds, affect the accuracy of taxpayer accounts, and/or result in the generating of incorrect notices.

For the 2017 Filing Season, tax law changes include the continued implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010⁵ (collectively referred to as the Affordable Care Act or ACA), and provisions from the Protecting Americans from Tax Hikes Act of

⁴ The period from January 1 through mid-April when most individual income tax returns are filed.

⁵ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the Internal Revenue Code and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

2015 (PATH Act)⁶ specifically intended to reduce fraudulent and improper refundable credit claims.⁷ For example, these provisions modify the filing dates for income and withholding documents to January 31st.

The law further mandates that no refund based on claims for the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC) may be made to a taxpayer before February 15th. These provisions will provide the IRS with additional time to review refund claims based on the EITC and ACTC at the time tax returns are processed to validate income reported to support the amount claimed. In September 2014, TIGTA identified 677,000 Tax Year 2012 tax returns for which third-party Forms W-2, *Wage and Income Statement*, were not sent to the IRS by the employer for either the taxpayer and/or spouse listed on the tax return. These tax returns claimed EITCs totaling more than \$1.7 billion.

In response to the January 20, 2017, Affordable Care Act Executive Order directing Federal agencies to exercise authority and discretion available to them to reduce potential burden on taxpayers, the IRS changed its processes and procedures on February 3, 2017. These changes now will allow electronic and paper-filed tax returns to be accepted for processing in instances in which taxpayers do not indicate their health care coverage status. At the start of the filing season, processes and procedures were developed to reject electronically filed tax returns from taxpayers that did not claim an exemption from insurance coverage or self-report a Shared Responsibility Payment (SRP).⁸ For those taxpayers that filed a paper tax return, the IRS would hold their tax return and correspond with the taxpayer. If the taxpayer did not respond or provide adequate documentation, the IRS would assess the SRP.

For the 2017 Filing Season, as of February 23, 2017, the IRS has processed 1.3 million tax returns that reported \$4.9 billion in Premium Tax Credits⁹ that were either received in advance or claimed at the time of filing. In addition, the IRS has received approximately 36.5 million tax returns reporting that all members of the taxpayer's family maintained minimum essential coverage as required by the ACA, with

⁶ Consolidated Appropriations Act of 2016, Pub. L. No. 114-113, Div. Q, (2015).

⁷ A refundable credit allows taxpayers to reduce their tax liability to below zero and thus receive a tax refund even if no income tax was withheld or paid.

⁸ A payment based on each month that individuals or their dependents are without Minimum Essential Coverage and do not qualify for an exemption. Minimum Essential Coverage is health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum Essential Coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.

⁹ A refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Affordable Insurance Exchange.

more than 1.5 million tax returns reporting shared responsibility payments totaling \$986 million for not maintaining the required health insurance coverage. During the 2016 Filing Season, as of March 3, 2016, a total of 2.7 million taxpayers self-reported SRP payments totaling \$1 billion.

INCREASED DEPENDENCE ON TECHNOLOGY-BASED ASSISTANCE SERVICES

For the 2017 Filing Season, taxpayers have multiple options to choose from when they need assistance from the IRS, including assistance through the toll-free telephone lines,¹⁰ face-to-face assistance at the Taxpayer Assistance Centers (TAC) or Volunteer Program sites, and self-assistance through IRS.gov and various other social media channels (e.g., Twitter, Facebook, and YouTube). However, the IRS is continuing its trend towards increasing dependence on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The IRS notes that this approach allows it to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction.

Self-assistance options can be accessed 24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. As of February 11, 2017, the IRS reports that the IRS2Go application had 1.78 million active users.

In addition, the IRS uses various forms of social media, including YouTube, Twitter, Tumblr, and Facebook, to provide customer service and outreach. As of February 11, 2017, there have been 675,537 views of IRS YouTube videos and a total of 157,879 Twitter followers. In an effort to redirect taxpayers to online services, the IRS continues to expand its online tools available on IRS.gov. The IRS advises that its website is the best source for answers to their tax questions. The IRS reports more than 98.6 million visits to IRS.gov this filing season, as of February 11, 2017.

However, as we have reported, the risk of unauthorized access to tax accounts increases as the IRS expands its focus on delivering online tools. The increasing number of data breaches in the private and public sectors means more personal information than ever before is available to unscrupulous individuals. Many of these data are detailed enough to enable circumvention of most authentication processes.

¹⁰ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free".

Therefore, it is critical that the methods the IRS uses to authenticate individuals' identities provide a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them.

The IRS's goal is to eventually provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts, and corresponding digitally with the IRS. In November 2015, TIGTA reported that, although the IRS recognizes the growing challenge it faces in establishing effective authentication processes and procedures, the IRS had not established a Service-wide approach to managing its authentication needs.¹¹ As a result, the level of authentication the IRS uses for its various services was not consistent. The existence of differing levels of authentication assurance among the various access methods increased the risk of unscrupulous individuals accessing and obtaining personal taxpayer information and/or defrauding the tax system.

In response to TIGTA recommendations, the IRS has undertaken a number of steps to provide for more secure authentication, including strengthening application and network controls. However, we continue to have concerns about the IRS's logging and monitoring abilities over all connections to IRS online systems. We are currently assessing the IRS's efforts to improve its authentication. This includes evaluating whether the IRS has properly implemented secure eAuthentication in accordance with Federal standards for public access to IRS online systems and effectively resolved identified control weaknesses. We expect to issue the final report in September 2017.

TRADITIONAL SERVICES CONTINUE TO BE ELIMINATED OR REDUCED

Despite other available options, most taxpayers continue to use the telephone as the primary method to contact the IRS about their account. The IRS is projecting a 75 percent Level of Service¹² for the 2017 Filing Season with an overall projected Level of Service for FY 2017 of 64 percent. For the 2017 Filing Season, as of February 11, 2017, the IRS reports that there were approximately 12.6 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. Assistors answered approximately 2.5 million calls and provided an 82.1 percent Level of Service with a 7.1 minute Average Speed of Answer.¹³ The reported Level of Service for the 2016 Filing Season as of February 13, 2016 was

¹¹ TIGTA, Ref. No. 2016-40-007, *Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed* (Nov. 2015).

¹² 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 in reaching an assistor.

¹³ The average amount of time for an assistor to answer the call after the call is routed to a call center.

76.1 percent.

In addition, the IRS's ability to timely process taxpayer correspondence remains a challenge. As of May 7, 2016, the IRS reported 1 million cases in its over-aged inventory. This inventory includes, but is not limited to, amended tax returns, responses to taxpayer notices, and identity-theft cases. Inventory greater than 45 calendar days is generally considered over-aged. Staff responsible for working taxpayer correspondence are divided between working taxpayer correspondence and staffing the customer service telephone lines. IRS management stated that the reduction in available staff is the most significant factor in the increasing over-age inventory.

To address congressional inquiries regarding the IRS's allocation of resources to taxpayer service, we reviewed the IRS's Taxpayer Services appropriation¹⁴ for FY 2013 to FY 2016. In December 2016, we reported that, overall, the IRS's appropriation to Taxpayer Services increased \$198 million from FY 2013 to FY 2016.¹⁵ However, the amount of user fee receipts¹⁶ the IRS used to supplement its annual Taxpayer Services appropriation was only about \$40 million of the total \$421 million user fee receipts in FY 2015. This \$40 million is a 79 percent decrease in the supplemented amount to the annual Taxpayer Services appropriation since FY 2013.

IRS officials stated that the reason for the decrease in the amount of user fee receipts supplementing the Taxpayer Services annual appropriation in FY 2015 was that the Operations Support appropriation¹⁷ continued to be reduced despite funding needs to implement legislative obligations. The implementation of these laws requires the use of funding from the Operations Support appropriation. These include the ACA, Foreign Account Tax Compliance Act¹⁸ and the implementation of the Health Coverage Tax Credit. Each of these laws requires funding over several years to implement; however, the IRS did not receive additional funding to implement them.

¹⁴ Funds used to provide support for programs that focus on helping taxpayers understand and meet their tax obligations.

¹⁵ TIGTA, Ref. No. 2017-40-013, *Analysis of Resources Allocated to Taxpayer Services* (Dec. 2016).

¹⁶ The IRS has statutory authority to supplement its annual appropriations with user fee receipts received from various services provided to taxpayers. For example, the IRS charges taxpayers a user fee when taxpayers do not have the funds necessary to fully pay their taxes and instead enter into an installment agreement with the IRS.

¹⁷ Funds used to provide support for functions that are essential to the overall operation of the IRS, such as infrastructure and information services.

¹⁸ Pub. L. No. 111-147, §§ 501-541, 124 Stat 71, *96-116 (2010) (codified in scattered sections of 26 U.S.C.).

Our review also identified that the overall number of Full-Time Equivalents (FTE)¹⁹ allocated by the IRS to the functional area that works taxpayer correspondence and provides telephone assistance steadily decreased from FY 2013 to FY 2015. Specifically, the overall number of FTEs decreased by about 11 percent (14,757 to 13,157 FTEs) between FYs 2013 and 2015. Moreover, of the reduced FTEs allocated to this functional area, the IRS continued to allocate a higher percentage of them to working correspondence rather than answering the telephones. These actions resulted in 38.1 percent Level of Service in FY 2015.

In FY 2016, Congress appropriated an additional \$290 million for key areas that directly support taxpayers. This additional funding was the first significant increase to the IRS budget in six years. In its spending plan for these funds, the IRS informed Congress that \$178.4 million would be used to increase telephone Level of Service. The IRS reported a toll-free telephone Level of Service of 53.4 percent for FY 2016, including a 72.1 percent Level of Service for the filing season. In total, the IRS's Taxpayer Services appropriation was approximately \$2.3 billion of its total \$11.2 billion budget in FY 2016. In addition, the IRS also increased the amount of user fee receipts to \$66.4 million used to supplement its annual Taxpayer Services appropriation.

Besides telephone or correspondence assistance, each year many taxpayers seek assistance from one of the IRS's 376 walk-in offices (TACs). Although the IRS reports 376 TACs for the 2017 Filing Season, 24 TACs are not opened because they have not been staffed. The IRS estimates that the number of taxpayers it will assist at its TACs will continue to decrease. IRS plans to assist more than 3.4 million taxpayers at its TACs in FY 2017, an approximately 22.5 percent decrease from FY 2016. The IRS indicated that budget cuts and its strategy of appointment service at TACs, along with continued promotion of alternative service options, will result in the reduction of the number of employees to assist taxpayers at the TACs.

In June 2014, TIGTA reported that the IRS eliminated or reduced services at TACs.²⁰ For example, the IRS eliminated providing assistance with preparing tax returns. The IRS indicated that its strategy of not offering services at TACs that can be obtained through other service channels, such as the IRS's website, is the reason that the IRS plans to assist fewer taxpayers at the TACs. However, in making its decision, the IRS did not perform the required evaluation to assess the additional burden on

¹⁹ A measure of labor hours. One FTE equals eight hours multiplied by the number of compensable days in a fiscal year. For FY 2016, one FTE was equal to 2,096 staff hours.

²⁰ 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).

taxpayers most likely to visit a TAC (such as low-income, elderly, and limited-English-proficient taxpayers). Between FY 2014 and FY 2016, the IRS reduced the number of taxpayers it assisted by 18 percent.

The IRS is implementing initiatives in an effort to better assist those individuals seeking assistance from a TAC. For the 2017 Filing Season, the IRS has transitioned all TACs to appointment service. The IRS indicated that they initially began providing services at TACs by appointment, in an attempt to alleviate long lines that sometimes occur at many TACs and to help ensure that taxpayers' issues are timely resolved. In addition, when taxpayers contact the IRS to schedule an appointment, an IRS assistor will attempt to resolve the taxpayer's question or provide the taxpayer with information on alternative services. The IRS reports that during the first quarter of FY 2017, IRS employees answered over 500,000 calls resulting in approximately 260,000 that necessitated a TAC appointment. As of February 11, 2017, taxpayers had scheduled 452,934 appointments. The IRS notes that taxpayers that travel to a TAC without an appointment are assisted if there is availability. As of the first quarter of FY 2017, the IRS reported that they provided a walk-in exception to the requirement for an appointment to nearly 70,000 taxpayers.

The IRS also offers Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at a remote TAC. For the 2017 Filing Season, the IRS offered Virtual Service Delivery at 28 partner site locations. It should be noted that of the 24 walk-in offices that do not have staff, the IRS is providing service through Virtual Service Delivery located at community partners at four of these locations. The IRS reports that 990 taxpayers had used the service as of February 11, 2017.

Finally, the IRS has an initiative to co-locate with the Social Security Administration to assist taxpayers who are victims of identity theft. For the 2017 Filing Season, the IRS has placed employees in four Social Security Administration locations. TIGTA is planning a follow-up audit to assess the IRS's efforts to expand customer service options to taxpayers seeking face-to-face assistance.

SIGNIFICANT RESOURCES CONTINUE TO BE ALLOCATED TO ASSIST VICTIMS OF IDENTITY THEFT

Identity-theft tax refund fraud occurs when an individual uses another person's name and Taxpayer Identification Number²¹ to file a fraudulent tax return. Unscrupulous individuals steal identities for use in submitting tax returns with false income and withholding documents to the IRS for the sole purpose of receiving a fraudulent tax refund. Tax-related identity theft adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardships.

In addition to the legislation that requires income and withholding documents to be provided to the IRS by January 31st to further enhance IRS fraud detection capabilities, the IRS initiated the W-2 Acceleration Program in Processing Year (PY)²² 2016. This initiative enables the IRS to receive Forms W-2 directly from reporting agents,²³ Federal agencies, and State governments to supplement the W-2 data received from the Social Security Administration with additional third-party data as early in the filing season as possible. The accelerated reporting of Forms W-2 information has proven to have an added benefit of allowing the IRS to exclude legitimate tax returns from identity theft treatment because the income information matched. For example, the IRS reports that the use of the accelerated income information in PY 2016, as of April 25, 2016, resulted in the IRS excluding 33,628 tax returns from identity theft treatment because the income information matched. This reduces the burden on taxpayers filing legitimate tax returns and their refunds being delayed.

However, TIGTA reviews have identified long delays in case resolution and account errors, and that not all identity-theft victims receive Identity Protection Personal Identification Numbers (IP PIN).²⁴ For example, in March 2015,²⁵ we reported that victims continue to experience long delays waiting for the IRS to resolve their cases

²¹ A nine-digit number assigned to taxpayers for identification purposes. Depending upon the taxpayer, the number can be an Employer Identification Number, a Social Security Number (SSN), or an Individual Taxpayer Identification Number.

²² The calendar year in which the tax return or document is processed by the IRS.

²³ A reporting agent is a payroll service provider that is authorized to perform certain acts on behalf of its clients' employees.

²⁴ An IP PIN is a six-digit number assigned to taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their SSNs to file fraudulent Federal income tax returns.

²⁵ TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

and issue their refunds. Our review of a statistically valid sample of 100 identity theft tax accounts resolved by the IRS between October 1, 2012, and September 30, 2013, revealed that the IRS took an average 278 days to resolve the tax accounts. Our report also identified that IRS employees did not correctly resolve 17 of the 100 tax accounts. We reported that an estimated 25,565 (10 percent) of the 267,692 taxpayers whose accounts were resolved may have been incorrectly resolved, resulting in delayed issuance of refunds to victims or in some victims receiving an incorrect refund amount.

In July 2015, the IRS created the Identity Theft Victim Assistance (IDTVA) Directorate to combine the skills of employees working identity-theft cases in multiple functions into one directorate. The goal is to improve the taxpayer's experience working with the IRS to resolve his or her tax-related identity-theft case. Approximately 1,200 employees work in the IDTVA Directorate to resolve taxpayer-initiated identity-theft cases.²⁶ TIGTA's current review²⁷ of all taxpayer initiated refund cases closed from August 1, 2015, through May 25, 2016, identified improvements in case closure timeframes and a reduction in case closing errors in comparison to our prior audit completed before the IDTVA Directorate was created. The IRS's efforts to centralize operations under a unified leadership, along with its enhanced procedures and processes, have contributed to the improvements identified since our prior audit. We plan to issue our final report in April 2017.

To provide relief to identity-theft victims, the IRS began issuing IP PINs to eligible taxpayers in FY 2011. For PY 2016, the IRS issued more than 2.7 million IP PINs to taxpayers for use in filing their tax returns. TIGTA is currently assessing IRS actions to address prior recommendations regarding the administration of the IP PIN Program and determined that some improvements are needed.²⁸ Specifically, TIGTA identified that taxpayer accounts were not always consistently updated to ensure that IP PINs were generated for taxpayers as required. For example, the IRS did not generate an IP PIN for more than 2 million taxpayers for whom the IRS resolved an identity-theft case by confirming that the taxpayer was a victim. This results from inconsistent processes and procedures when closing resolved identity-theft cases. Without the

²⁶ A taxpayer-initiated identity theft case is created when taxpayers contact the IRS to report that after filing their tax return they received a notice indicating the return was rejected because someone (an identity thief) already filed a return using the same Social Security Number and name.

²⁷ TIGTA, Audit No. 201640015, *Identity Theft Victim Assistance Directorate*, report scheduled for April 2017.

²⁸ TIGTA, Audit No. 201640017, *Identity Protection Personal Identification Numbers (Follow-up)*, report scheduled for March 2017.

required marker on their account to generate an IP PIN, these taxpayers will experience delays when tax returns are subsequently filed.

Additionally, the PY 2016 IP PIN notice continues to contain inaccurate information. For example, the IRS mailed more than 2.7 million IP PIN notices to taxpayers for PY 2016 erroneously instructing them not to use their IP PIN if they are claimed as a dependent on a tax return. These instructions conflict with PY 2016 e-file programming, which requires the IP PIN assigned to a dependent to be used on a filed tax return. For those taxpayers that follow the erroneous instructions, their electronically filed returns without the assigned IP PIN listed for a dependent will be rejected.

Furthermore, we identified that the IRS's Opt-in Program was designed to focus on taxpayers in States and locations with the highest per capita rate of identity theft and offer them the opportunity to obtain an IP PIN before becoming a victim of tax-related identity theft. However, the IRS has not updated its identification of locations that may now have the highest per capita rate based on identity-theft complaints. In addition, taxpayers in Opt-in locations may not be aware of the option to obtain an IP PIN. TIGTA plans to issue its final report in March 2017.

In November 2016, TIGTA reported that additional actions can be taken to improve the accuracy and timeliness of processing tax return requests by victims of identity theft.²⁹ In 2015, the IRS changed its policy to allow identity-theft victims to receive, upon request, redacted copies of fraudulent tax returns filed using their names and SSNs. To process taxpayer requests, the IRS established a new program called the Fraudulent Return Request Program. According to the IRS, it has received, as of December 31, 2016, more than 7,200 requests for copies of fraudulent returns since the program's inception in November 2015.

While the IRS took prompt action to establish this program, TIGTA's review of a statistically valid sample of 130 taxpayer requests, from a population of 1,962 taxpayer requests as of March 11, 2016, identified 33 taxpayer requests with one or more processing errors. Based on the results of this sample, TIGTA projects that 498 taxpayers' requests could contain processing errors. These errors included not timely processing the request, not providing a copy of the fraudulent tax return, and not

²⁹ TIGTA, Ref. No. 2017-40-011, *Actions Can Be Taken to Improve Processes of a Newly Developed Program That Enables Victims of Identity Theft to Request Copies of Fraudulent Tax Returns* (Nov. 2016).

properly redacting all required information from the return, such as taxpayer names, street numbers of an address, and telephone numbers.

Individuals can also learn that they are victims of employment identity theft if they receive a notification from the IRS of an income discrepancy between the amounts reported on their tax returns to the amount employers reported to the IRS. This can occur when an innocent taxpayer's stolen identity is used to gain employment. It can cause significant burden due to the incorrect computation of taxes and Social Security benefits based on income that does not belong to the taxpayer.

In August 2016, we reported that during the period February 2011 to December 2015, the IRS identified almost 1.1 million taxpayers who were victims of employment identity theft, but were not notified.³⁰ We have an ongoing audit that is evaluating the IRS's processes to identify and mark victims' tax accounts and notify the Social Security Administration to ensure that individuals' Social Security benefits are not affected by the misuse of their identities to gain employment.³¹ During our review, the IRS announced that it will notify victims of employment identity theft starting January 2017. The notification letter describes steps the taxpayers could take to prevent further misuse of their personal information, including reviewing their earnings with the Social Security Administration to ensure that their records are correct. TIGTA expects to issue its report in April 2017.

We at TIGTA take seriously our mandate to provide independent oversight of the IRS in its administration of our Nation's tax system. As a result, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively and to provide high-quality service to taxpayers.

Chairman Jordan, Chairman Meadows, Ranking Member Krishnamoorthi, Ranking Member Connolly, and Members of the Subcommittees, thank you for the opportunity to share my views.

³⁰ TIGTA, Ref. No. 2016-40-065, *Processes Are Not Sufficient to Assist Victims of Employment-Related Identity Theft* (Aug. 2016).

³¹ TIGTA, Audit No. 201640028, *Employment Related Identity Theft – Returns Processing*, report scheduled for April 2017.

Mr. MEADOWS. Thank you, Mr. Martin.
Ms. Lucas-Judy?

STATEMENT OF JESSICA LUCAS-JUDY

Ms. LUCAS-JUDY. Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, members of the subcommittees, thank you for this opportunity to discuss GAO's recommendation for improving IRS customer service. My statement today focuses on two areas: IRS's performance in 2016 compared to prior years and its efforts to improve service for victims of identity theft.

During the filing season, millions of taxpayers contact IRS. The service also processes most of the approximately 150 million tax returns it receives during this time and issues more than 100 million refunds. The scale of these operations, as well as IRS's declining resources, have raised concerns about its ability to provide service to taxpayers. Maintaining quality customer service is important because it helps taxpayers comply with the tax code.

Regarding the first area, performance, IRS provided better telephone service to callers during the 2016 filing season compared to 2015. More people who wanted to speak to an assister were able to get through. In fact, it was the highest level of service for a filing season since 2011. However, IRS performance during the full fiscal year remained low.

In addition, wait times were much shorter than in 2015, 11 minutes rather than 23 minutes on average. Total calls where taxpayers abandoned the call, were disconnected, or received a busy signal declined about 10 percent. These improvements were because IRS devoted additional resources and staff to answering calls, as well as offered overtime to staff after receiving additional funding and allocating user fees.

However, IRS does not make customer service information, including average wait time, easily available such as through an online dashboard. Without this information, taxpayers are not well informed on what to expect when they're requesting services from IRS. Accordingly, we recommended that IRS display customer service standards and performance online, and the agency agreed.

The second area is customer service for victims of identity theft refund fraud. IRS estimates it paid at least \$2 billion identity theft refunds in 2015. Such fraud also burdens honest taxpayers because authenticating their identities can delay processing their returns and their refunds.

We found IRS has overall improved aspects of service for victims of this fraud. For example, IRS reduced its backlog of cases and began consolidating inventory and better managing its case flow. However, we did find three things that IRS could further improve. First, IRS's file retrieval and scanning processes contributed to delays and unnecessary document requests. We reviewed a sample of 16 identity theft cases, and in two of those cases it had taken six weeks or more for IRS to retrieve and scan the requested documents, during which time the assisters closed the cases without receiving the documents. This leads to the question whether or not they were even needed. We recommended IRS review its retrieval

and scanning procedures for improvements, which IRS agreed to do.

Second, we found potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters. In discussion groups, IRS assisters and managers told us some assisters may release refunds even if indicators on the account show the tax return was under review for identity theft. We recommended IRS improve its data or collect new data to monitor how and why assisters might be releasing refunds before closing these types of cases.

IRS disagreed, stating that the problem was not widespread and current processes are sufficient. However, we maintain the data IRS was using had weaknesses and were not sufficient to make that determination.

In response to our draft report, IRS sent us an analysis that they said showed this type of error does occur but may not be as widespread as the discussion group participants suggested. We'll continue to work with IRS on this important issue.

Finally, we found IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. By not doing so, IRS is limiting taxpayers' ability to take action to protect its dependents' identity. We recommended IRS revise notices to victims to include information such as whether dependents were claimed on the fraudulent return, and IRS agreed with this.

In summary, as taxpayers file their returns for 2016, it's important that IRS ensures timely, quality service. IRS can increase transparency and accountability by implementing our recommendations to provide performance information, improve file retrieval and scanning, determine how assisters might release refunds, and notify taxpayers when dependents' identities have been used fraudulently.

This concludes my prepared remarks, and I'll be happy to answer any questions that you may have.

[Prepared statement of Ms. Lucas-Judy follows:]



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Testimony

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2016 FILING SEASON

IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds

Statement of Jessica Lucas-Judy, Acting Director,
Strategic Issues

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees:

Thank you for the opportunity to discuss our January 2017 report on the Internal Revenue Service's (IRS) customer service.¹ As taxpayers file their returns for 2016, it is important that the IRS ensures timely and quality service. In recent years, IRS has experienced declining resources and an increased workload. For example, in December 2015, we reported that IRS provided the lowest level of telephone service during fiscal year 2015 compared to prior years.² Callers experienced long wait times and difficulty in reaching an IRS assistor. The severe decline in service highlights the challenges of managing IRS's operations and underscores the importance of IRS making tough decisions to improve service. Maintaining quality customer service is important because it helps taxpayers comply with the tax code.

IRS also has been confronted with the growing problem of identity theft (IDT) refund fraud over the past several years. IDT refund fraud occurs when a fraudster obtains an individual's Social Security number, date of birth, or other personally identifiable information (PII), and uses it to file a fraudulent tax return seeking a refund.³ This crime is an evolving and costly problem that causes hardship for legitimate taxpayers who are victimized and demands an increasing amount of IRS resources. IDT refund fraud burdens honest taxpayers because authenticating their identities is likely to delay the processing of their returns and refunds. IRS estimates that at least \$14.59 billion in IDT tax refund fraud was

¹GAO, *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, GAO-17-186 (Washington, D.C.: January 31, 2017).

²GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, GAO-16-151 (Washington, D.C.: Dec. 16, 2015). For additional information see our Key Issues web page on tax administration, http://www.gao.gov/key_issues/tax_administration/issue_summary.

³This testimony discusses IDT refund fraud and not employment fraud. IDT employment fraud occurs when an identity thief uses a taxpayer's name and Social Security number to obtain a job.

attempted in calendar year 2015—of which it prevented at least \$12.35 billion (85 percent), but at least \$2.24 billion (15 percent) was paid.⁴

My remarks today highlight the findings from our January 2017 report on aspects of IRS's customer service, including for those who are victims of IDT refund fraud. Accordingly, this testimony addresses (1) how well IRS provided service to taxpayers in 2016 compared to its performance in prior years, and (2) its efforts to improve service for IDT victims, including selected internal control processes.

To conduct this work, we analyzed IRS documents and data for fiscal years 2011 through 2016 related to the filing season and reviewed 16 randomly selected IDT cases open or closed during a 10-month period in 2015 and 2016. We also conducted 5 discussion groups with 15 IRS assistants and 13 managers who handle IDT cases, and interviewed IRS officials and external stakeholders, such as representatives from the tax preparation industry. The results of the case studies and discussion groups are not generalizable but provide a better understanding of the characteristics of various IDT cases that IRS handles as well as the perspectives of IRS assistants and managers handling IDT cases. We compared IRS actions to federal standards for evaluating performance and internal control. Our January 2017 report includes a detailed explanation of the methods used to conduct our work. The work on which this testimony is based was performed in accordance with generally accepted government auditing standards.

In summary, we found that IRS provided better telephone service to callers during the 2016 filing season—generally between January and mid-April—compared to 2015. However, its performance during the full fiscal year remained low. Furthermore, IRS does not make this nor other types of customer service information easily available to taxpayers, such as in an online dashboard. Without easily accessible information, taxpayers are not well informed of what to expect when requesting services from IRS. We also found that IRS has improved aspects of service for victims of IDT refund fraud. However, inefficiencies contribute to delays, and potentially weak internal controls may lead to the release

⁴Given current and emerging risks, in 2015, we expanded our high risk area on the enforcement of tax laws to include IRS's efforts to address IDT refund fraud. See GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

of fraudulent refunds. In turn, this limits IRS's ability to serve taxpayers and protect federal dollars.

Specifically, IRS's file retrieval and scanning processes contributed to delays and unnecessary requests for documents, potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters, and IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. Accordingly, we recommended that IRS display customer service standards and performance online; review its retrieval and scanning processes; improve existing data or collect new data to monitor how and why assistors release refunds before closing an IDT or duplicate return case; and revise its notices to IDT victims. IRS disagreed with our recommendation to improve data for monitoring refund releases, stating that the problem is not widespread and current processes are sufficient. We maintain that the data IRS uses are not sufficient to make such a determination. IRS agreed with the remaining three recommendations.

IRS Improved Telephone Service Compared to Last Year, but Does Not Make Customer Service Information Easily Available

In our January 2017 report, we found that IRS provided better telephone service to callers during the 2016 filing season compared to 2015.⁵ For example, IRS's level of telephone service—which is defined as the percentage of people who want to speak with an assistor and were able to reach one—was 72 percent during the 2016 filing season compared to 37 percent during the 2015 filing season. This was the highest level of service reached during this time since 2011. In addition, during the 2016 filing season, taxpayers waited about 11 minutes to speak with an IRS assistor, which was substantially better than IRS expected and an improvement over the close to 23-minute average in the previous filing season.

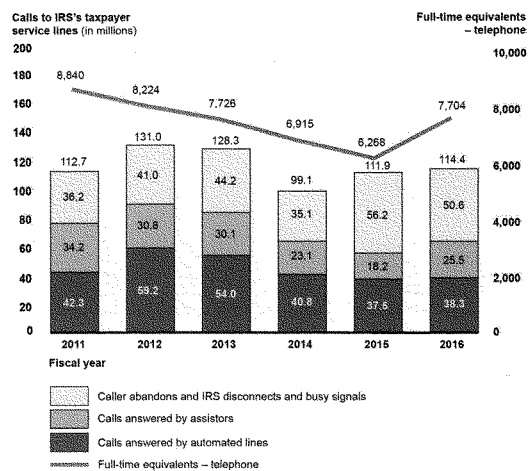
Figure 1 shows that, in fiscal year 2016, call volume increased from 111.9 million calls to slightly more than 114 million calls (about 2 percent) and full-time equivalents answering phone calls increased from 6,268 to 7,704 (about 23 percent) compared to the prior year.⁶ Total calls where

⁵Most taxpayers file their tax returns between mid-January and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers receive extensions from IRS, which allows them to delay filing (but not payment) until as late as October 15.

⁶Full-time equivalents represent the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year. For example, in fiscal year 2016 there were 2,096 compensable hours.

taxpayers abandoned the call, were disconnected, or received a busy signal declined by about 10 percent (from 56.2 million in 2015 to 50.6 million in 2016). IRS officials attributed the improvements to additional appropriations from the Congress and user fee funds, which in part allowed for more hiring and use of overtime compared to the prior year.⁷

Figure 1: IRS's Ability to Answer Telephone Calls Improved Compared to Last Year but Remains Lower than Prior Years



Source: GAO analysis of IRS data. | GAO-17-492T

⁷Federal agencies may assess a fee to users when providing goods and services. These fees are referred to as user fees. While IRS does not need congressional approval of its user fee spending plan, it must obtain approval from the Department of the Treasury and the Office of Management and Budget. For fiscal year 2016, IRS was directed to wait 30 days following the submission of the user fee spending plan before obligating these funds. 161 Cong. Rec. H10135-36 (Dec. 17, 2015). For additional information about IRS's budget, see GAO, *IRS 2017 Budget: IRS Could Improve Presentation of Budget Data in Its Congressional Justification*, GAO-16-695 (Washington, D.C.: July 21, 2016).

IRS provides key stakeholders, including Congress and federal oversight agencies, historical performance data and forecasts concerning what it expects to deliver during the fiscal year, such as for telephone level of service. However, this information is not necessarily designed for or accessible to taxpayers. One exception is that, on the telephone, IRS provides taxpayers with an expected wait time to speak with an assistor. Key performance information, such as level of service and average wait time, is not easily available to taxpayers when they access IRS's website. IRS does not make such information or other types of customer service information easily available to taxpayers, such as in an online dashboard. Without easily accessible information, taxpayers are not well informed on what to expect when requesting services from IRS. Therefore, we recommended that IRS display customer service standards and performance online so that it is easily accessible and improves the transparency of its service. IRS agreed with this recommendation.

**IRS Improved
Aspects of Service
but Inefficiencies and
Potentially Weak
Internal Controls
Reduce IRS's Ability
to Serve IDT Victims
and Protect Federal
Dollars**

In our January 2017 report, we found that IRS has improved aspects of service for victims of IDT refund fraud.⁸ For example, IRS formed an IDT reengineering team to improve customer service and began implementing the team's recommendations to streamline the process, such as consolidating inventory and better managing IDT case flow. However, inefficiencies contribute to delays, and potentially weak internal controls may lead to the release of fraudulent refunds. In turn, this limits IRS's ability to serve taxpayers and protect federal dollars. While IRS has reduced its backlog of IDT cases and formed a team to improve its handling of these cases, we identified three areas for potential improvement, as follows:

- **Inefficiencies in file retrieval and scanning.** We found that file retrieval and scanning processes contributed to delays and unnecessary requests for documents. For example, in 2 of 16 IDT cases we reviewed, resolution was delayed by at least 1 month while an assistor waited for another unit to retrieve and scan documents into IRS's system. In one of those cases, the document request was unnecessary because the assistor closed the case without the document. In our discussion groups with IRS staff, 14 of 28 assistors and managers generally agreed that delays in receiving scanned documents were a primary factor that delayed case resolution. Assistors and managers described a typical waiting period of more

⁸GAO-17-186.

than 30 days for document requests to be fulfilled. IRS officials noted that some documents must be retrieved from IRS's paper records storage facilities, which can take time to locate and then scan. Inefficient processes and unnecessary requests to retrieve and scan documents can delay case resolution and refunds to the legitimate taxpayer. As a result, we recommended that IRS review its retrieval and scanning procedures to identify training or guidance needs. IRS agreed with this recommendation.

- **Weaknesses in internal control processes.** We found that potential weaknesses in IRS's internal control processes could lead to IRS paying refunds to fraudsters. In discussion groups with us, IRS assistants and managers said some assistants may release refunds even if indicators on the account show that the tax return is under review for IDT, or two returns have been filed for that taxpayer. Some participants said assistants answering telephone calls can release these holds because they do not understand the codes on the taxpayer's account. IRS officials said that these errors are not widespread and provided data that they said would support their position. However, we identified weaknesses in those data, which IRS officials acknowledged. We recommended that IRS should improve existing data and collect new data, as needed, to effectively monitor how often and why IRS staff release refunds before closing an IDT (or duplicate return) case. Based on these data, IRS should take corrective steps such as providing training or guidance to assistants.

IRS disagreed with this finding and recommendation. In its written response, IRS stated that we concluded that frozen refunds were being erroneously released to fraudsters by customer service employees.⁹ This was incorrect. As stated in our report, we identified a potential weakness that could lead to releases of fraudulent refunds. IRS also said that it was aware that some refunds are released by assistants prior to the case being closed and that its current methods are sufficient for detecting such errors and the problem is not widespread. However, as we noted, the data that IRS provided do not include sufficient information for IRS to determine the extent to which the problem exists nor the total number of erroneous refunds.

After several discussions with IRS officials about the weaknesses we identified in the data, officials acknowledged these weaknesses and explained that they generated some of these data in response to our findings. Nevertheless, officials maintained that their current methods

⁹GAO-17-186.

are sufficient. We stand by our finding that the data IRS provided are not sufficient to monitor how often and why assistors are releasing refunds before IDT or duplicate return cases are closed, and we believe that the associated recommendation is warranted. In response to our draft report, in January 2017 officials provided another analysis of IRS data that they said showed this type of error does occur but may not be as widespread as the discussion group participants suggested. We will continue to work with IRS to determine if these additional data are sufficient to address our recommendation.

- **No notification for dependents.** We found that IRS does not notify taxpayers when a dependent's identity appears on a fraudulent return. According to IRS officials, the agency does not consider a dependent to be a victim if his or her Social Security number had been used as a dependent on a fraudulent return. However, IRS has previously provided guidance to taxpayers when a dependent was a victim of identity theft. After one data breach in 2015, IRS notified taxpayers and provided information on actions that parents could take to protect a minor's identity when their dependents were also victims. By not notifying taxpayers that their dependents' information may have been used to commit fraud, IRS is limiting taxpayers' ability to take action to protect their dependents' identity. Therefore, we recommended that IRS revise its notices to IDT victims to include information such as whether dependents were claimed on the fraudulent return and how to request a redacted copy of the fraudulent return. IRS agreed with this recommendation.

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees, this concludes my prepared remarks. I look forward to answering any questions that you may have.

GAO Contact and Staff Acknowledgments

For questions about this statement, please contact me at (202) 512-9110 or lucasjudyj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony were Joanna Stamatiades, Assistant Director; Jehan Chase; James Cook; Robert Gebhart; Kirsten B. Lauber; Kimberly Madsen; Erin Saunders-Rath and Robert Robinson.

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Mr. MEADOWS. Thank you all.

The chair recognizes the gentleman from Ohio, Mr. Jordan, for five minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Dalrymple, why has taxpayer service at the IRS been terrible?

Mr. DALRYMPLE. Taxpayer service at the IRS has been improving, in fact, I think this year is a perfect example of where taxpayer service could be going forward given the resources necessary

Mr. JORDAN. Taxpayer advocates said that taxpayer service is the number one most serious problem at the Internal Revenue Service. The current Commissioner, someone who, frankly, I am not a big fan of, said it was “abysmal.” Mr. Meadows, the chairman, indicated in his opening comments that 38 percent of the callers asking for assistance, only 38 percent actually got to a representative.

Mr. DALRYMPLE. That was in 2015. In —

Mr. JORDAN. That is why I said why has taxpayer service at the IRS been terrible?

Mr. DALRYMPLE. Well, it’s—it was clearly a resource issue, Congress.

Mr. JORDAN. Resource issue?

Mr. DALRYMPLE. Yes.

Mr. JORDAN. Could it be your priorities were misplaced? Could that be a problem?

Mr. DALRYMPLE. I don’t think so. I think the real issue here is how the budget actually works. You know, the IRS receives its budget in three specific categories: taxpayer service, enforcement, and operation support. And in order to move money from—between those appropriations, it has to ask for permission from Congress to do so.

And in 2015 actually we moved \$30 million from enforcement into our taxpayer service operation. So I don’t think that’s —

Mr. JORDAN. And you asked Congress for that —

Mr. DALRYMPLE. And we asked Congress to do that, and they allowed us to do that.

Mr. JORDAN. Why didn’t you ask for more? Why didn’t you ask for it more often —

Mr. DALRYMPLE. We had —

Mr. JORDAN.—to offset this terrible performance —

Mr. DALRYMPLE. We—if —

Mr. JORDAN.—with 30-minute wait times, only 38 percent actually talk to a representative.

Mr. DALRYMPLE. The —

Mr. JORDAN. Your own Commissioner said it was abysmal.

Mr. DALRYMPLE. It was abysmal. There’s not enough money to go around for anything. The audit rates at the IRS have also dropped

Mr. JORDAN. Well, let’s talk about —

Mr. DALRYMPLE.—dramatically. It’s —

Mr. JORDAN. Let me just give you one example of what I would argue is mismanagement of taxpayer resources at the Internal Revenue Service. You know a gentleman named Terry Milholland?

Mr. DALRYMPLE. I—he was the former CIO.

Mr. JORDAN. He was former what?

Mr. DALRYMPLE. The former CIO.

Mr. JORDAN. Chief information officer?

Mr. DALRYMPLE. Yes.

Mr. JORDAN. Okay. And was he chief information officer when the IRS targeted conservative groups? Was he functioning in that role at that time?

Mr. DALRYMPLE. I'm not certain when he became CIO.

Mr. JORDAN. Yes, between 2008 and 2016 he definitely was. Was he chief information officer when Lois Lerner's hard drive crashed?

Mr. DALRYMPLE. I think he probably was.

Mr. JORDAN. He was. And was he chief information officer— officer, excuse me, when 422 backup tapes were destroyed at the IRS, tapes under subpoena?

Mr. DALRYMPLE. I think he would have been the CIO at that point.

Mr. JORDAN. Yes. And was he the gentleman who issued the preservation order to not destroy those 422 backup tapes?

Mr. DALRYMPLE. He could have been.

Mr. JORDAN. He definitely was. I have seen it. And did Mr. Milholland live in Washington, D.C.?

Mr. DALRYMPLE. I'm not sure where Mr. Milholland lived.

Mr. JORDAN. Yes. He lived in Texas. In fact, in 2015 alone, \$55,000 was spent by Mr. Milholland, taxpayer money, for him to commute to Texas, come up here to Washington, and 30 weeks of commuting back and forth, the guy who is in charge of maintaining—keeping the records, the guy who gave the preservation order that wasn't followed, backup tapes destroyed, \$55,000, \$18,000 for lodging, \$7,000 for meals and incidentals, \$2,500 for airport parking, 14—\$1,100, excuse me, for mileage and toll reimbursement, \$1,500 he charged for taxi service. He probably took taxis instead of Uber.

Mr. DALRYMPLE. I'm not sure when Uber even began, Congressman.

Mr. JORDAN. Well, it was certainly in 2016, 2015. So maybe it is that the IRS doesn't have the priorities in the right place. Do you know what is streamlined critical pay authority, Mr. Dalrymple?

Mr. DALRYMPLE. Streamlined critical pay authority allows the IRS to be able to direct hire skilled individuals that we need to, particularly generally in our IT functions to be able to —

Mr. JORDAN. Allows you to pay them more than they would otherwise get, right, more than the top salary allowed under the pay schedule for Federal work?

Mr. DALRYMPLE. For SES, that's correct.

Mr. JORDAN. Yes. Was Mr. —

Mr. DALRYMPLE. And—but also in addition to that, it allows us to directly hire them quickly because these people —

Mr. JORDAN. Okay, quickly.

Mr. DALRYMPLE.—have skills that don't —

Mr. JORDAN. You hired this guy quickly, but he couldn't move here in eight years. He still lived in Texas charging in one year alone \$55,000, couldn't take Uber, took a taxi instead. Was Mr. Milholland getting critical pay?

Mr. DALRYMPLE. I believe he was.

Mr. JORDAN. I know he was, right? So he was getting paid more than any other Federal worker, couldn't live here, \$55,000 in one year, hanging out at the Hyatt, taking taxis, reimburse him for everything you can imagine it looks like here. And while he is the chief technology officer, the guy who is critically important, we have got to pay more than we pay anyone else in the Federal Government under his watch, the chief technology officer, Lerner's hard drive crashes, 422 backup tapes are destroyed even though he personally gave the preservation order to preserve all communication. And here is the kicker: He purchased some \$12 million email archiving system that these guys at GAO said he never even implemented, \$12 million just thrown down the drain. And you are telling me that it is improving and it wasn't pathetic and it wasn't terrible?

Mr. DALRYMPLE. You asked me about the taxpayer service activities, not about the IT organization. And by the way, they don't work for me.

Mr. JORDAN. Was this taxpayer dollars that were used for Mr. Milholland?

Mr. DALRYMPLE. I assume that they would have been, of course

Mr. JORDAN. Of course, right?

Mr. DALRYMPLE.—appropriated dollars.

Mr. JORDAN. And you just told me you can ask to have money transferred and that we have already given the authority to do that in situations to actually better serve the taxpayers. All I am saying is it could be priorities are a little out of place at the IRS, and that is contributing to the pathetic taxpayer treatment, customer service, or lack of customer service that the hardworking taxpayers of this country have been receiving. I went over time, Mr. Chairman. I appreciate the indulgence.

Mr. MEADOWS. I thank the gentleman. The chair recognizes the gentleman from Virginia, Mr. Connolly, for five minutes.

Mr. CONNOLLY. I thank the chair, and I would ask —

Mr. MEADOWS. A generous five minutes.

Mr. CONNOLLY. I thank the chair. I ask that my opening statement be entered into the record without objection.

Mr. MEADOWS. Without objection.

Mr. CONNOLLY. I thank the chair. Welcome to the panel.

Well, in listening to my friend Mr. Jordan—and I will say this underscores for me why it makes sense to have the seat of government here in Washington and limit some of this remote location for some of our key hires.

Why was Mr. Milholland traveling back and forth from Texas, Ms. Lucas-Judy?

Mr. DALRYMPLE. I really don't know what Mr. Milholland's arrangement was with the IRS.

Mr. CONNOLLY. Do you know, Ms. Lucas-Judy?

Ms. LUCAS-JUDY. No, I don't.

Mr. CONNOLLY. Okay. Mr. Martin?

Mr. MARTIN. No, I do not.

Mr. CONNOLLY. Okay. I guess I want to shift the subject a little bit to the—well, the budget and the IT budget in particular, which

you brought up, Mr. Dalrymple. Ms. Lucas-Judy, how much has IRS budget been cut in the last six or seven years, about \$1 billion or more?

Ms. LUCAS-JUDY. It's been about—a decline of about \$900 million.

Mr. CONNOLLY. I am sorry?

Ms. LUCAS-JUDY. About \$900 million since 2011 I believe.

Mr. CONNOLLY. Okay. And how many—in terms of numbers of personnel, what has been the reduction or increase net?

Ms. LUCAS-JUDY. I don't have the precise figures. I'd be happy to get those to you. But I know it's—the number of full-time equivalents has gone down across —

Mr. CONNOLLY. Rather significantly, has it not?

Ms. LUCAS-JUDY. Yes.

Mr. CONNOLLY. Do you know, Mr. Martin?

Mr. MARTIN. I would agree it's gone down rather —

Mr. CONNOLLY. No, I am not asking —

Mr. MARTIN.—but I don't have the—I don't have a specific number.

Mr. CONNOLLY. Mr. Dalrymple, do you know? I can't hear you, sir.

Mr. DALRYMPLE. Seventeen thousand employees over that span.

Mr. CONNOLLY. Fewer?

Mr. DALRYMPLE. Fewer.

Mr. CONNOLLY. Net?

Mr. DALRYMPLE. Net.

Mr. CONNOLLY. Seventeen thousand. Well, that is a number worth GAO's attention, Ms. Lucas-Judy. I mean, it is has not just gone down a bit. Seventeen thousand by any account is a lot.

Ms. LUCAS-JUDY. Yes, and that is something that GAO has noted in a number of our reports, and we are looking at —

Mr. CONNOLLY. But, I mean—but isn't that —

Ms. LUCAS-JUDY.—capital management —

Mr. CONNOLLY. Isn't that about 20 percent of the workforce?

Ms. LUCAS-JUDY. Yes.

Mr. CONNOLLY. Well, that is a lot of people. And your budget has gone down almost by \$1 billion. I mean, even if everyone whistled while they work, I would think those kinds of reductions might have some effect on productivity and on the ability to provide high-quality customer service. Fair statement, Ms. Lucas-Judy?

Ms. LUCAS-JUDY. Yes, sir.

Mr. CONNOLLY. From a management point of view. Now, sometimes we do more with less. Sometimes we make ourselves more efficient. But when I look at IRS, given the, you know, unceasing war on the IRS and the constant drumbeat about Lois Lerner and the so-called attack on certain political orientation of various organizations, it has all seemingly been a justification for gutting the IRS, an agency we don't like because it is big and it is the vehicle that finances the enterprise, which we also apparently don't like.

Would you say, Mr. Dalrymple, that these cuts have had an appreciable effect on the ability of the IRS to fully perform its mission?

Mr. DALRYMPLE. Absolutely. Taxpayer service has been in some instances abysmal. I mean, the Commissioner was right about that.

We haven't been able to answer the telephones when we should. We haven't been able to answer correspondence as—at the speed we should. We haven't been able to develop online services at the rate we should for taxpayers. Our audit rates are down dramatically. Our collection—our collections are down over time. There

Mr. CONNOLLY. Just speaking of collection so people understand, how much money is left on the table do we estimate every year really owed to the government but not collected because of lack of resources?

Mr. DALRYMPLE. Well, the tax gap is estimated at about \$450 billion, and that's just —

Mr. CONNOLLY. A year?

Mr. DALRYMPLE. A year.

Mr. CONNOLLY. Wow. That is a lot of money. Okay. One thinks about what one could do with that amount of money if you had it.

And on the IT side, last time we looked at this I want to say the average age of computers at the IRS was about seven years. I assume it is now older. Is that about right, Mr. Dalrymple?

Mr. DALRYMPLE. I can't comment on that. I'm not a—I'm not familiar enough —

Mr. CONNOLLY. Ms. Lucas-Judy, do you know?

Ms. LUCAS-JUDY. I do know that we have recommended that IRS needs to modernize a lot of its systems —

Mr. CONNOLLY. Right.

Ms. LUCAS-JUDY.—that that will go a long way towards helping the organization.

Mr. CONNOLLY. But, I mean, if you are replacing computers every seven or eight years, that is not the industry standard. The industry standard is more like two to three years, is that right?

Ms. LUCAS-JUDY. Right. And they are relying a lot on legacy systems.

Mr. CONNOLLY. Correct. And so—that is right, on top of that. So part of the problem, what could go wrong with that? Well, a lot of hard drive crashes like that which occurred in the IRS that was certainly the focus of hearings in this committee, is that not correct?

Ms. LUCAS-JUDY. I'm not—I have not looked at that specific instance.

Mr. CONNOLLY. Well, I am not asking about that specific instance. I am generally saying when computers are that old and

Ms. LUCAS-JUDY. They do become unreliable.

Mr. CONNOLLY. Right. And we have problems. And the guidance in some parts of the IRS anyhow—correct me if I am wrong—was in order to archive material, the instructions were print and save. Ever hear of that, Mr. Dalrymple?

Mr. DALRYMPLE. I have, and that's —

Mr. CONNOLLY. That is astounding. And we have, what, 81,000 employees, something like that?

Mr. DALRYMPLE. Something in that neighborhood —

Mr. CONNOLLY. Yes.

Mr. DALRYMPLE.—including all of the full-time folks plus temporaries and seasonal —

Mr. CONNOLLY. Right.

Mr. DALRYMPLE.—et cetera.

Mr. CONNOLLY. And we have got data on every single tax filer, which is several hundred million, right?

Mr. DALRYMPLE. That's correct.

Mr. CONNOLLY. So what could go wrong with that? So at the very least, hopefully, we here in Congress, if we are concerned about customer service, if we are concerned about the very issues that have been cited, maybe we could make a smart investment in IT to make the IRS more efficient, doing more with less, and we can close that gap of the amount of money owed but not collected, my shorthand, I think obviously could make an appreciable difference in financing other investments, including the new President's defense initiative, which is \$54 billion, a small part of the \$450 billion you referred to.

So with that I yield back. Thank you, Mr. Chairman.

Mr. JORDAN. [Presiding] Mr. Martin, just real quick, my good friend from Virginia said the so-called targeting. When TIGTA did its report, did it use the term so-called or did it say targeting took place at the IRS?

Mr. MARTIN. We said inappropriate criteria was used.

Mr. JORDAN. Okay. I appreciate that. I appreciate that.

The gentleman from Georgia is recognized.

Mr. HICE. Thank you, Mr. Chairman.

Mr. Dalrymple, let me just go with you here. I am shocked—actually, not shocked. Probably all of us have experienced these kind of statistics with the IRS, but in 2015, less than 10 percent of the callers whose returns were flagged as suspicious for possible identity theft, less than 10 percent were able to get through an IRS helpline. What is that number now?

Mr. DALRYMPLE. Well, our levels of service right now on our helplines is right around 80 percent. We're scheduling about 75 percent for this filing season and about 70 percent overall.

Mr. HICE. More than 60 percent could not get through the National Taxpayer Advocate phoneline that is the safety net. What is that figure now?

Mr. DALRYMPLE. I have no idea what the—what it is.

Mr. HICE. In 2015 the IRS received more calls than ever. Is that true?

Mr. DALRYMPLE. Yes. And the reason for that—that's true is because people call back over and over if they can't get through so

Mr. HICE. Okay. Well, it doesn't matter to me what the reason is but they received more calls than ever and answered fewer calls

Mr. DALRYMPLE. That's correct.

Mr. HICE.—than ever. Do you know what official time is?

Mr. DALRYMPLE. I do know what official time is.

Mr. HICE. Do you have any idea how many people with the IRS are on official time?

Mr. DALRYMPLE. I couldn't tell you that number. I have no idea.

Mr. HICE. Could you get that number and provide it for me?

Mr. DALRYMPLE. Yes, we can.

Mr. HICE. All right. I would like a divided in those that are 100 percent —

Mr. DALRYMPLE. Sure.

Mr. HICE.—versus those that are part-time.

Mr. DALRYMPLE. Absolutely.

Mr. HICE. Thank you for that.

Mr. HICE. In 2012, our reports show that the IRS approved 62 people to be 100 percent on official time as contact service representatives. These are people answering phones, that type of thing, approved 62. I am assuming that is 62 more than what perhaps were on official time before. Now, official time means that they are hired to do IRS work but they end up doing union work. In 2012 you had 62 of them that you approved who were customer service reps that went to 100 percent. In addition to that, there were another 70 that were approved for other IRS jobs. Any idea how many phone calls those 62 people could have answered?

Mr. DALRYMPLE. I couldn't tell you that. I —

Mr. HICE. Our calculations show that those 62 people could have answered approximately 11,000 phone calls a week. That is over half-a-million phone calls a year, and yet you were not able to answer phone calls. People were waiting in line. And I am quite confident that there are more people on official time now at the IRS than there were five years ago. Is that a fair assessment?

Mr. DALRYMPLE. I have no idea how many people were on official time.

Mr. HICE. Okay. But we are going to find out that, and like I said, I'm confident. Was there any discussion during 2015 on those who were on official time 100 percent of their time—was there any discussion saying that a crisis was underway of getting people who are on official time to come off and go back to work?

Mr. DALRYMPLE. No. That's governed by our union contract. So no, there was no discussion —

Mr. HICE. So who allows these people to go on official time to begin with?

Mr. DALRYMPLE. Well, if they're in a position—a specific position with the union that allows for them to be on 100 percent official time, that's governed by our union contract.

Mr. HICE. So you have no say-so—no one at the IRS has any say-so whatsoever as to how many people are on official time?

Mr. DALRYMPLE. We have—they have to justify their official time based on the amount of time that they're expected —

Mr. HICE. And you are not able to justify your reason for them not to be on official time because you have a crisis with people not being able to get in to the IRS?

Mr. DALRYMPLE. I have to say I'm not familiar enough with the union contract to be able to say that we couldn't move them to work status —

Mr. HICE. So so far as you know there is no mechanism in place for the IRS to retrieve people who are on official time to come back to work?

Mr. DALRYMPLE. I'm not aware—it's possible that the union contract allows for that but I'm not certain.

Mr. HICE. Don't you think that might be something to be certain of if there is such a catastrophe where people are not able to get answers?

Mr. DALRYMPLE. I think that it's probably something I should know but I don't.

Mr. HICE. I think it probably is, too. I have just got a couple of seconds left. You know, we hear of these kind of issues over and over, and the IRS has come before this Congress, this committee over and over, and always the answer is we need more resources. I am absolutely convinced the IRS does not need—you don't have a resource problem; you have a waste problem. You have got people right there who were hired to do the job who are going off doing union work rather than the job for which they were paid to do. That seems awfully wasteful to me on the backs of taxpayers and on the backs of people who need answers to their tax returns.

Mr. Chairman, I yield back. Thank you.

Mr. JORDAN. I thank the gentleman.

I now recognize the gentleman from Illinois for his five minutes of questions.

Mr. KRISHNAMOORTHY. Thank you, Mr. Chairman.

Mr. Dalrymple, after your experience here, are you still planning to retire in two weeks?

Mr. DALRYMPLE. If not earlier.

[Laughter.]

Mr. DALRYMPLE. Just kidding.

Mr. KRISHNAMOORTHY. Well, in any case, thank you all for coming today. I know this is not a—I think it is always useful to have a feedback loop and obviously this hearing is part of that process.

Look, as a former small business owner, I too have struggled to consistently obtain quality, timely customer service from the agency. I don't think this is just merely one or two data points. I think that there are a lot of people who have struggled at times. But I hope and believe that you want to do your best to improve the level of service there.

One question I have is, you know, does the IRS survey taxpayers to better understand, you know, their concerns? And if so, how does that process work?

Mr. DALRYMPLE. We do survey taxpayers and on a fairly regular basis. We've surveyed taxpayers individually, we survey practitioners. So we do a fair amount of survey work and have for quite some time, in fact, that is how we have focused our whole view of what the future of the IRS should look like in the work that we're doing so we know what taxpayers want and need and how they want to get that information, et cetera. We have that information available to us.

Mr. KRISHNAMOORTHY. But do you do the survey or do you have third parties do these surveys?

Mr. DALRYMPLE. We get them through surveys we do ourselves. We get them through surveys that are done for us. So we have multiple ways of getting that information and data.

Mr. KRISHNAMOORTHY. And these percentages that you folks quote, the 70, 80 percent, and so forth, who actually completes—how is that percentage computed?

Mr. DALRYMPLE. It's a model that we've—we have that we've agreed with our auditors on in terms of how it is calculated. It goes back, you know, almost 20 years. And so, yes, it's a model that we use. We know exactly how—what our demand is, how many people try to get in, how many people weren't able to get in, how many people got cut off, et cetera. All that goes into the level of service number that I've mentioned.

Mr. KRISHNAMOORTHY. Right. Let me just suggest that perhaps you folks may want to take another look at this model of how you survey taxpayers to determine what is really underlying their concerns, you know, what is working, what is not working, and with regard to what is working, learning from those best practices. What is not working, we have to kind of deal with it. And I know from personal experience as a former small business owner, as well as people I have worked with, you know, there is just a kind of a—how do I say it—kind of a frustration that they are not being heard sometimes. And so I think I respectfully submit that perhaps you should go back and take a look at these customer survey methodologies, as well as those percentages that you compute, because I am not sure that they are consistent with how people perceive the IRS. And I think that if you did that, it might be, you know, a salutary benefit for all of us really.

Ms. Lucas-Judy, I have a question. Do you folks kind of try to get a sense of what are the best practices of the IRS and, you know, how to learn from them?

Ms. LUCAS-JUDY. One of the things you're talking about, the customer service in looking at surveys and models, one of the things that we have recommended for a long time that IRS do is compare its phone service with best in the business —

Mr. KRISHNAMOORTHY. Right. Right.

Ms. LUCAS-JUDY.—you know, try to do some sort of benchmarking.

Mr. KRISHNAMOORTHY. Right.

Ms. LUCAS-JUDY. Initially, when we made the recommendation, IRS did not agree with it. They thought that, okay, they're the only ones who provide that kind of service —

Mr. KRISHNAMOORTHY. Right.

Ms. LUCAS-JUDY.—and there's nobody really comparable out there to look at. But I'm pleased to say that in working with IRS over the last couple of years on this, they've come around and decided that it actually would be worthwhile to do a benchmarking study. And, in fact, they completed the study and we're reviewing it now to try to see—because you can never get to 100 percent. You would love to be able to answer 100 percent of the calls, never have anybody get a busy signal, but that's not realistic. And so we were hoping that they can look at what other industries do to figure out what is a good level of service, what is a good target to strive for.

Mr. KRISHNAMOORTHY. Yes, I think it is really important to borrow from what we learn in the private sector about benchmarking against the best practices out there for customer service and just generally, you know, how do you handle such a large volume of calls and make sure that people are treated fairly, with respect, with dignity and responsiveness?

And so if you leave with anything today, I would just respectfully submit that there has to be a bigger emphasis on that going forward because at this time, I mean, given how people perceive government and the IRS, we can't afford for them to—their trust to further erode. And so I would respectfully, you know, request you folks to really take a hard look at this and do some soul-searching on this.

Thank you. I yield back.

Mr. JORDAN. The gentleman from Michigan is recognized.

Mr. MITCHELL. Thank you. And, Mr. Dalrymple, first let me wish you well in your retirement. I hope it goes well for you, sir.

Let me ask you, in 2016, Commissioner Koskinen testified that as he computed, the return investment for enforcement operations is roughly \$4 for every \$1 spent on enforcement. Can you enlighten the committee as to how that calculation was made? Because I understand that the number was thrown out there but there is no description of how that calculation was—that return investment was calculated.

Mr. DALRYMPLE. Actually, I'd be happy to get the calculation and submit it back to the record. I can't describe it specifically, but basically let me give some general —

Mr. MITCHELL. Well, rather than take up a lot of time, if you would submit that to the committee, that would be appreciated. I have questions, and rather than tie them up —

Mr. DALRYMPLE. Sure. Certainly.

Mr. MITCHELL. I would like to see that. That would be—I am a business guy like my colleague from Illinois and would like to know how—I believe return investment matters.

Mr. DALRYMPLE. Just a small point on that, it's a compendium, so some things we have \$15 or \$20 to \$1 return, some we have \$3 or \$4 to \$1 return, et cetera. So it's a compendium and we can get you that information.

Mr. MITCHELL. Have you done a similar analysis in terms of return investment for customer service spending? And what is that number?

Mr. DALRYMPLE. We've had a very difficult time finding any way to measure that. We've tried over the years, but to be honest, we've never come up with a legitimate measure of return on investment for service activities.

Mr. MITCHELL. Okay. Enforcement comprises about 43 percent of your budget as of this year, \$11.2 billion, which is roughly \$5 billion just doing quick a government math. You spoke of moving \$30 million from enforcement to customer service.

Mr. DALRYMPLE. Right.

Mr. MITCHELL. With all due respect, I mean, of a budget of \$5 billion for enforcement, moving \$30 million is like the light bill for the week. I mean do we really seriously think that is going to make an impact on it—from business, \$30 million of \$5 billion isn't much.

Mr. DALRYMPLE. Well, it's \$30 million against a \$2 billion budget for taxpayer service, so it's a bigger percentage for them. Having said that, though, it's not a huge amount. It's what was necessary to reach certain levels of either inventory or levels of service on the phone, et cetera. So we had the additional \$290 million that Con-

gress gave us, which \$178 million of it was dedicated to taxpayer service. We had some monies from user fees that we put into taxpayer services, and then in addition to that we still had a shortfall in terms of where we wanted to be in terms of levels of service, and we were able to move another \$30 million out of enforcement into taxpayer service. Now —

Mr. MITCHELL. And even after moving the money, you still end up with significant shortfalls of reasonable customer service response.

Mr. DALRYMPLE. Well, for this year, as I said, we're very close to—we're between 75 and 80 percent on our telephone level of service. Our inventories and correspondence are the lowest they've been in four years. Generally speaking, taxpayer services here is the best it's been in the last five or six years. And I can't really speak prior to that.

Mr. MITCHELL. Well, let me suggest that—I mean, part of the frustration that my colleagues noted about the reputation of the IRS is the difficulty people have, as you have already heard, getting someone to answer the phone. Now, for the world of the private sector, we actually had standards of that.

Mr. DALRYMPLE. Right.

Mr. MITCHELL. Calls were answered in three to four rings. In fact, we actually had secret shoppers that went around and shopped it to see if calls were answered, and when they were answered, did they get their questions responded to.

Mr. DALRYMPLE. Right.

Mr. MITCHELL. It seems to me that you haven't set the same kinds of standards that we would expect in the private business world.

Mr. DALRYMPLE. We actually do some of that. We have quality reviewers that shop the lines, listen for responses, whether they're correct or not. You know, we are not in business for a profit so we don't really want to answer the telephone in—on the first or second ring because what that means is you are actually waiting for the next call to come in.

Mr. MITCHELL. Well, what is your standard for answering the phone?

Mr. DALRYMPLE. We would love to be at about an 85 to 86 percent level of service, which would mean basically that people were waiting less than a minute or two to get the next assister on the line.

Mr. MITCHELL. Now, I am new here —

Mr. DALRYMPLE. And we've been there before. We have achieved that in the past.

Mr. MITCHELL. When were you there last?

Mr. DALRYMPLE. In the—you know, I—just a little history here. I left the—I retired from the service before in 2006.

Mr. MITCHELL. And you came back?

Mr. DALRYMPLE. And I came back. I was asked to come back. I was also—at one point in time the Commissioner Wage and Investment Division, which handles all of our telephone services. When I was Commissioner of the Wage and Investment Division, our telephone service was in the high 80s, and at that point in time we started to drift into the high 90s. We actually found out that we

had employees waiting for the next call, which is not an efficient way for a government to run their telephone systems. So about 85 to 87 percent we found out was really the right place to be if we could get our telephone service to that level.

Mr. MITCHELL. Well, my time is expired. I thank the chair. And let me wish you well again in your retirement, sir.

Mr. DALRYMPLE. Thank you.

Mr. MITCHELL. Thank you.

Mr. DALRYMPLE. I appreciate that.

Mr. MITCHELL. I yield back.

Mr. JORDAN. The gentleman from Florida is recognized.

Mr. DESANTIS. Thank you, Mr. Chairman.

Mr. Dalrymple, the news just broke this afternoon that two years after the fact the IRS has located almost 7,000 documents that are related to the targeting of conservative groups. Are you familiar with those documents?

Mr. DALRYMPLE. I am not.

Mr. DESANTIS. Are you familiar with the news report?

Mr. DALRYMPLE. I am not.

Mr. DESANTIS. We would like to know on our committee if you can get us an answer —

Mr. DALRYMPLE. Sure.

Mr. DESANTIS.—whether those are documents that have previously been provided to this committee or to other committees in the Congress —

Mr. DALRYMPLE. I'll find that out.

Mr. DESANTIS.—because we went through this for years and years and there were a lot of emails that were destroyed, there were backup tapes, and it was really, really frustrating to do that experience.

Mr. DESANTIS. We have asked, a number of us on the committee, for the President to make a change at the IRS to really bring in some new blood so we can start reforming the agency. And the targeting was one of the issues and how the agency responded to that, but there is also issues that we see about really a contempt for the taxpayer. I mean, the agency will go and they will, you know, try to get taxpayers dead to rights on producing their taxes and all this other stuff, but then you have employees—you had a single IRS employee that spent, according to a Senate Committee on Finance report, spent \$43,000 staying at the Ritz-Carlton in Pentagon City. How is that acceptable?

Mr. DALRYMPLE. I'm not familiar with a report that says that we had an IRS employee that spent \$43,000 staying at the Ritz-Carlton.

Mr. DESANTIS. It was over the course of a year. It was a lot of stays obviously, but that is the —

Mr. DALRYMPLE. Well, I have to assume that the Ritz-Carlton was offering government rate per diem at that location is all I can assume, but I don't know the particulars around that.

Mr. DESANTIS. Well, it would be the type of thing that I think it would be tough for that to have been the most appropriate thing.

You also had—again, this is the same report, the Senate Finance Committee, IRS employee rented a \$1 million townhome in Arling-

ton for almost \$5,000 a month with tax dollars. I mean, how is that acceptable?

Mr. DALRYMPLE. Again, I'm not really familiar with that.

Mr. DESANTIS. Okay. Well, this is I think frustrating for us. And I know there are a lot of taxpayers that they don't feel that they always get the benefit of the doubt from the IRS. In fact, when Congress reduced the budget for the IRS in response to the targeting, there was a major drop-off in customer service. It was very difficult for the people, the taxpayers to get through. So the bureaucracy was really not affected. It was all put on the taxpayer. And you had people that really couldn't get their questions answered, and that obviously has a lot of effects for our economy and for their well-being.

Ms. Lucas-Judy, let me ask you this. What are the metrics that the IRS uses to assess customer service, to measure it?

Ms. LUCAS-JUDY. The primary one is the one we've been talking about, the telephone level of service, but they also for correspondence—for paper correspondence they track the percentage of—the backlog. They track the percentage that are what they call overage, so those that are 45 days or older. They track the traffic to the different services that they provide online, as well as —

Mr. DESANTIS. Does it track whether people are satisfied with their level of service?

Ms. LUCAS-JUDY. That I think would be a question that I would defer to Mr. Dalrymple.

Mr. DALRYMPLE. Actually, we do—we survey every taxpayer that we have contact with on a satisfaction survey, so the answer is yes, we do.

Mr. DESANTIS. Okay. And so you keep—do you know what percentage of callers are satisfied?

Mr. DALRYMPLE. Actually, the number's quite high so—but I don't know what it is off the top of my head, but I could get that for you.

Mr. DESANTIS. Okay.

Mr. DESANTIS. Now, did we satisfactorily answer your question? Is that kind of the way you go about it in terms of customer service?

Mr. DALRYMPLE. It's a series of questions that try to get at how satisfied the taxpayer was with the interaction that they had.

Mr. DESANTIS. Ms. Lucas-Judy, what are the GAO recommendations, if any, about—are there other metrics that can be used so that the IRS can better understand the issue with customer service?

Ms. LUCAS-JUDY. Well, we've made a number of recommendations, including that they have a comprehensive customer service strategy to help them determine overall among telephones, correspondence, walk-in, online, what they're looking for ideally and what's the most efficient, most effective way to get to that.

We've also made recommendations that they have other metrics for correspondence, that they include performance targets for their correspondence. And in addition, we've got some recommendations—we've made some suggestions to Congress that would help IRS as well in terms of having authority to adjust or correct math errors that they see.

Mr. DESANTIS. Great. My time is up. Mr. Chairman, these emails, we need the answers on those emails —

Mr. JORDAN. Sure do.

Mr. DESANTIS.—and see, were they responsive to us then not provided? And they may have been provided because this is in the context of a FOIA suit with Judicial Watch, but even within the context of that FOIA suit, this is two years late where they said they didn't have them and now all of a sudden they are producing them. And so —

Mr. JORDAN. No, we will —

Mr. DESANTIS.—that obviously is troubling. I yield back.

Mr. JORDAN. Well, sir, I thank the gentleman for raising that issue and the others.

Do you need congressional authority to move user fee dollars around, Mr. Dalrymple?

Mr. DALRYMPLE. No, that authority was granted to us back in the '90s to be able to use that —

Mr. JORDAN. You can use it wherever you want?

Mr. DALRYMPLE. Yes.

Mr. JORDAN. You can use it on customer service?

Mr. DALRYMPLE. Yes.

Mr. JORDAN. Did you focus in on customer service or were some of those user fees moved over to implement the Affordable Care Act?

Mr. DALRYMPLE. We used—we did have to use user fees for the Affordable Care Act, FATCA, the FAST Act, the PATH Act, the HTCS, the human—HCTC. We've had a number of —

Mr. JORDAN. But of those acts, which one would you have used more—which one was probably the bigger hurdle or the one that required most of the user fee dollars? Would it be the Affordable Care Act?

Mr. DALRYMPLE. It would be a guess for me to answer that. I can find out for certain —

Mr. JORDAN. Well, give me your best guess. You have worked there a few years.

Mr. DALRYMPLE. I would guess—I would have guessed it would have been the ACA.

Mr. JORDAN. Yes, so would I. So would I. So that could have contributed to the terrible customer service that taxpayers were receiving.

You mentioned earlier that —

Mr. DALRYMPLE. But that's a legislative mandate.

Mr. JORDAN. No, I understand.

Mr. DALRYMPLE. Yes.

Mr. JORDAN. I understand.

Mr. DALRYMPLE. Okay.

Mr. JORDAN. Yes. The ability to use the user fees or the ACA or both?

Mr. DALRYMPLE. Both.

Mr. JORDAN. Right. I understand that. But the ACA is one I didn't vote for.

Mr. DALRYMPLE. I can't —

Mr. JORDAN. I didn't vote for the user fee, the ability to move the user fees because I wasn't here.

Mr. DALRYMPLE. I appreciate that. Okay.

Mr. JORDAN. You mentioned earlier that the budget has been reduced at the IRS and that, as a result of that, there is 17,000 less people working at the IRS. Is that accurate?

Mr. DALRYMPLE. That's accurate, yes.

Mr. JORDAN. Okay. I mean, that is reflecting your testimony in an accurate way, I think. What time frame are you talking about, that 17,000?

Mr. DALRYMPLE. I believe that's between 2010 and 2016.

Mr. JORDAN. And that 17,000 were because you received fewer dollars in your budget. Were those people let go? Were they fired? Were they said, dismissed?

Mr. DALRYMPLE. Most of them were either—have retired and not hired behind or we didn't bring as many temporary or seasonal employees on because that's —

Mr. JORDAN. So no one was actually told to hit the road?

Mr. DALRYMPLE. We did—there was no riff if that's what you're asking.

Mr. JORDAN. That is exactly what I am asking.

Mr. DALRYMPLE. No, not to my knowledge.

Mr. JORDAN. Okay.

Mr. DALRYMPLE. Again, I didn't report back to the IRS until 2013, but I don't believe there was a riff.

Mr. JORDAN. So people retired, you just didn't rehire?

Mr. DALRYMPLE. That's right.

Mr. JORDAN. Okay.

Mr. DALRYMPLE. Or hire people that would have come back from a seasonal job, so that is a bit different. If you're a seasonal employee with us, we don't have to offer your season back to you, and in instances like that —

Mr. JORDAN. No, I understand. You probably hire a few more people at tax season than other times of the year I can guess.

Mr. DALRYMPLE. A lot more, yes.

Mr. JORDAN. Right. I get that. Okay. If he is ready, we will get Mr. Grothman. We will just be at ease for a second while we wait for the gentleman from Wisconsin to come back. Is Glenn coming?

The gentleman from Wisconsin is recognized.

Mr. GROTHMAN. I know, you know, you certainly keep track of the quality of your folks and I hope you do. Years ago, I used to do taxes. And at the time not just me, other people felt compared to the Wisconsin Department of Revenue, because obviously we dealt with them both, that if you talk to your guys on the phone, they weren't always the sharpest. They didn't know their own laws. You know, you would call them three times and you would get three different answers. Well, you call them twice, you get two different answers anyway. Do you monitor the quality of your folks? I haven't done taxes for 20 years, but do you have an opinion as to whether your folks know what the law is?

Mr. DALRYMPLE. Yes. Actually, we do monitor their—every call is—can be monitored. We have a quality review system that statistically selects calls at random for quality assurance, and during that process, we determine whether—one of the main things we're looking for is did the taxpayer get the correct answer. And actually,

we do quite well there. So if you get through to us, you're going to get pretty high quality.

Mr. GROTHMAN. Has it improved over time?

Mr. DALRYMPLE. It's really been pretty stable over time, in the high 90 percent range.

Mr. GROTHMAN. How long have you been monitoring it?

Mr. DALRYMPLE. At least 20 years. And 20 years ago it was actually quite low. Probably for the last 10 or 15 years it's been quite high.

Mr. GROTHMAN. Better than 20 years ago, you have improved. Some of the stuff they want to know here is the amount that can be spent traveling by employees and, you know, it says here Federal employees can spend over \$7,000 per month on lodging. Do you keep track of that or what is your travel policy for your people when they get around?

Mr. DALRYMPLE. Well, first—well, travel policy isn't set by the IRS; it's set by—you know, government-wide by —

Mr. GROTHMAN. Right, right, I understand.

Mr. DALRYMPLE.—the GSA. So we do monitor, and we actually monitor how many people are traveling at any time and how long they're traveling. And we don't generally have very many people traveling for extended periods unless they're on some project. But that's typically what we monitor.

Mr. GROTHMAN. And how does it work? If somebody goes out there for a week or whatever, I mean, how much are they allowed to spend? Who determines where they stay, that sort of thing?

Mr. DALRYMPLE. It's based on the per diem rate, so if they find a place to stay within the per diem rates, then, you know, they're—we don't ask them, you know, where they're staying or prohibit them from staying in places that are within those —

Mr. GROTHMAN. Okay.

Mr. DALRYMPLE.—rates.

Mr. GROTHMAN. I am going to give you a more open-ended question, and any one of you can answer it. And in part I think of the earned income tax credit, but in any event, people are always—you know, have ideas how to use the tax code for more and more things. Hopefully, this time around we use it for less and less, but historically, Congress always liked to use it for more and more. And I sometimes think when Congressmen propose things, they don't think how it is going to look to the Internal Revenue Service who has to deal with it, like somebody once came up with the earned income tax credit and they apparently didn't think of the fact that if you fill out a form and get a \$5,000 check, fill out an easy form, a lot of people will take a crack at it, which is why the fraud is so high.

But do you have any comments on the earned income tax credit? Or are there any other parts of the tax forms that you feel invites cheating or I guess I would say would require you to spend a lot more on compliance than you would want to?

Mr. DALRYMPLE. Anything that is a refundable credit has always been a challenge for the Internal Revenue Service so whether it's the earned income tax credit or the advanced child tax credit, anything that actually is refundable back to the taxpayer. And by the

way, there are corporate refundable credits, too. They're not just to individuals.

Mr. GROTHMAN. Right.

Mr. DALRYMPLE. They cause us difficulty from a compliance standpoint.

Mr. GROTHMAN. Okay. So when you retire and run for Congress, you are going to take a swing at these things?

Mr. DALRYMPLE. I am not running for Congress.

Mr. GROTHMAN. Oh. But you would take a swing at these things?

Mr. DALRYMPLE. I don't know that I'd take a swing at them because, you know, there are reasons for them I understand. But from a tax standpoint they are challenging.

Mr. GROTHMAN. From a compliance standpoint they require a lot of your resources, and the reason they require a lot of your resources is they invite fraud, right?

Mr. DALRYMPLE. They invite confusion and fraud both.

Ms. LUCAS-JUDY. The GAO has reported that EITC does have a very high improper payment rate, and part of the reason for that is the complexity of the credit itself. And it's also self-reported.

Mr. GROTHMAN. Right. It would be easy if one wanted to cheat to try to cheat, right?

Mr. DALRYMPLE. Right.

Ms. LUCAS-JUDY. That's one of the reasons I think that IRS does audit—a lot of audits of EITC returns.

Mr. GROTHMAN. What happens when you find somebody has gotten a few thousand dollars they shouldn't get?

Mr. DALRYMPLE. Well, what we try to do is actually find out that before they get the money back, so we do—most of those audits that were referred to are pre-refund audits. We do over 300,000 of those every year, so we're stopping the refund from going out on the front end. It's very, very unlikely to get an EITC refund back if it's given to a taxpayer.

Mr. GROTHMAN. Once it is out, it is gone, huh?

Mr. DALRYMPLE. It is very difficult to get it back at that point.

Mr. GROTHMAN. Do you ever try to do anything with those people?

Mr. DALRYMPLE. I'm sorry?

Mr. GROTHMAN. Do you ever try to do anything with those people? I mean —

Mr. DALRYMPLE. Yes —

Mr. GROTHMAN.—if somebody—if it is very apparent that somebody is claiming a credit they shouldn't get, does anything happen to the people who do that?

Mr. DALRYMPLE. Well, actually, we bar them from getting the credit then afterwards. The other thing that would be incredibly helpful would be to have correctible error authority around earned income tax credit in terms—because we have to do examinations on all of these. If we had correctible error authority, the process would be much easier to stop the refunds when we saw them.

Mr. GROTHMAN. What does that mean, correctible error authority?

Mr. DALRYMPLE. It means that when it's an obvious error on the return, we can actually reverse the credit that's being asked for as

opposed to having to do a full examination to be able to stop the credit.

Mr. GROTHMAN. Okay. I know my chairman is indulging me, but you know I love this committee.

Mr. JORDAN. That is good.

Mr. GROTHMAN. I will give you one more—can I have one more question?

Mr. JORDAN. You sure can.

Mr. GROTHMAN. If there is one business, refundable business tax credit or one corporate tax credit, refundable credit that you feel is prone to be given erroneously, what would it be, if something comes to mind? You mentioned it is not just earned income tax credit; there are business credits, too.

Mr. DALRYMPLE. I can't think of one off the top of my head, but I'd be happy to come back to you with —

Mr. GROTHMAN. Yes, think of some so we can—yes. And how many of the EITCs percentagewise did you guys review do you think are fraudulent or erroneous? I should put it that way.

Mr. DALRYMPLE. Yes. Because—the point that my colleague from the GAO made is this is an incredibly complex law for a very unsophisticated group of taxpayers. And so a lot of the mistakes made are not necessarily fraudulent. They are honest mistakes. And then the other thing that you've got here are not normal nuclear families, so determining who has the ability to claim the dependent, et cetera, all those things are incredibly difficult in this environment.

Mr. GROTHMAN. You are a nice man, Mr. Dalrymple, but I think you are naive. I think they do it on purpose. But —

Mr. DALRYMPLE. Yes, I don't know that many people would call me that, but I appreciate that actually.

Mr. GROTHMAN. You are a nice guy, as we say. Okay. Thank you much.

Mr. JORDAN. Let the record show the gentleman kept us waiting and still got eight minutes of questioning.

[Laughter.]

Mr. JORDAN. Let me thank our witnesses. And, Mr. Dalrymple, we want to wish you the best in your retirement.

Mr. DALRYMPLE. Thank you.

Mr. JORDAN. Thank you for being here on this important subject and for the important work that you do in uncovering what has been happening at the IRS.

I would ask unanimous consent that members have five legislative days to submit questions for the record. Without objection, so ordered.

The subcommittees stand adjourned.

Mr. DALRYMPLE. Thank you.

[Whereupon, at 4:33 p.m., the subcommittees were adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

62

STATEMENT OF

NINA E. OLSON

NATIONAL TAXPAYER ADVOCATE

JOINT HEARING ON

IRS CUSTOMER SERVICE CHALLENGES

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT OPERATIONS

AND

**SUBCOMMITTEE ON HEALTH CARE, BENEFITS AND ADMINISTRATIVE
RULES**

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

MARCH 8, 2017

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Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees:

Thank you for inviting me to submit this statement regarding customer service challenges at the Internal Revenue Service.¹

Last year, I and the Taxpayer Advocate Service (TAS) embarked on an extraordinary endeavor to actively engage with the taxpayers we serve. As announced in my 2015 Annual Report to Congress, in which we analyzed the IRS's "Future State vision," I traveled the country and held 12 Public Forums on Taxpayer Needs and Preferences.² Together with Members of Congress, including Chairman Meadows, I heard directly from taxpayers and their representatives about the challenges they face in complying with the tax laws and dealing with the IRS.³ TAS also held "Future State" focus groups of tax return preparers and practitioners at the IRS Tax Forums.⁴ And we engaged every TAS office in meetings about the Future State because TAS typically assists between 220,000 and 250,000 taxpayers a year in resolving their problems with the IRS, so our employees see first-hand the challenges taxpayers face.⁵

We also conducted a nationwide survey of U.S. taxpayers to hear directly what they need in the way of taxpayer service.⁶ Finally, my immediate staff identified significant

¹ 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 are providing courtesy copies of this statement to both the IRS and the Treasury Department.

² See National Taxpayer Advocate 2015 Annual Report to Congress xv. National Taxpayer Advocate Public Forums were held in the following locations: Washington, DC (Feb. 23, 2016); Glen Ellyn, IL (Mar. 9, 2016 with Congressman Roskam); Bronx, NY (Mar. 18, 2016 with Congressman Serrano); Hendersonville, NC (Apr. 4, 2016 with Congressman Meadows); Harrisburg, PA (Apr. 8, 2016); Red Oak, IA (May 5, 2016 with Senator Grassley); Baltimore, MD (May 13, 2016 with Senator Cardin); Washington, DC (May 17, 2016); Parma, OH (Aug. 16, 2016 with Congressman Renacci); Portland, OR (Aug. 18, 2016); Los Angeles, CA (Aug. 22, 2016 with Congressman Becerra); and San Antonio, TX (Aug. 30, 2016 with Congressman Doggett).

³ For information about and full transcripts from the National Taxpayer Advocate Public Forums, see <https://taxpayeradvocate.irs.gov/public-forums> (last visited on Mar. 4, 2017).

⁴ TAS Communications and Liaison, *2016 IRS Nationwide Tax Forums TAS Focus Group Report: Preparers' Thoughts About IRS's Proposed Future State* (Oct. 2016), https://taxpayeradvocate.irs.gov/Media/Default/Documents/ResearchStudies/2016_TaxForum_FutureState_FocusGroup_Report.pdf.

⁵ For the results of the discussions with TAS employees, see <https://taxpayeradvocate.irs.gov/public-forums> (last visited on Mar. 4, 2017).

⁶ See National Taxpayer Advocate 2016 Annual Report to Congress, vol. 2, at 1-30 (Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*).

research on topics that have relevance for tax administration, including approaches to voluntary compliance, worldwide taxpayer service, alternative dispute resolution, taxpayer rights, fraud detection, online accounts, and the impact of geographic presence and focus. We expanded our searches beyond the tax literature, to psychology, behavioral economics, organizational theory, network theory, marketing, and other disciplines. These literature reviews are published in volume 3 of the National Taxpayer Advocate's 2016 Annual Report to Congress.

Last year's "learning tour" culminated in a Special Focus section of my most recent Annual Report to Congress, in which I set forth my observations and recommendations to turn the IRS into a taxpayer-centric 21st century tax administration.⁷ The Special Focus is appended in its entirety to this testimony, but I summarize some of my findings and recommendations below.

I. Simplify the Internal Revenue Code

At the outset I note the need for comprehensive tax reform, including provisions relating to the taxation of individuals. The compliance burdens the current tax code imposes are overwhelming for taxpayers and the IRS alike. My staff analyzed IRS data for 2015 and determined that individuals and businesses spend about six billion hours a year complying with the code's filing requirements – not including the millions of additional hours they spend responding to IRS audits or notices. If tax compliance were an industry, it would be one of the largest in the United States. To consume six billion hours, the "tax industry" requires the equivalent of three million full-time workers.

The tax code, which runs several million words, contains more than 200 tax deductions, credits, exclusions, and similar tax breaks, known collectively as "tax expenditures." In combination, the Treasury Department has estimated that tax expenditures in Fiscal Year 2016 came to about \$1.4 trillion – more than the \$1.2 trillion Congress appropriated to fund the entire federal government. Put simply, Congress now spends more money each year through the tax code than it spends through the appropriations process.⁸

⁷ National Taxpayer Advocate 2016 Annual Report to Congress 1-41 (*Special Focus: IRS Future State: The National Taxpayer Advocate's Vision for a Taxpayer-Centric 21 Century Tax Administration*), https://taxpayeradvocate.irs.gov/Media/Default/Documents/2016-ARC/ARC16_Volume1_SpecialFocus.pdf.

⁸ For prior discussions of tax compliance burdens and recommendations for tax reform, see National Taxpayer Advocate 2012 Annual Report to Congress 3-23 (Most Serious Problem: *The Complexity of the Tax Code*); 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*); *Fundamental Tax Reform: Hearing Before the H. Comm. on Ways and Means*, 112th Cong. 6-38 (2011) (statement of Nina E. Olson, National Taxpayer Advocate), <https://www.gpo.gov/fdsys/pkg/CHRG-112hrg70869/pdf/CHRG-112hrg70869.pdf>; *Public Meeting of the President's Advisory Panel on*

As the National Taxpayer Advocate, I believe the most effective and comprehensive way to reduce taxpayer burden is for Congress to vastly simplify the Internal Revenue Code.

II. Establish Competency Standards for Federal Tax Return Preparers

Despite the complexity of the current tax code, anyone may hold himself or herself out as a tax return preparer. Two studies conducted by the Government Accountability Office (GAO) illustrate the consequent inaccuracy of tax returns.⁹ In both studies, GAO auditors posed as taxpayers and had 19 returns prepared, and also in both studies, 17 out of the 19 preparers computed the wrong tax liability. In most cases, the preparers caused taxpayers to underpay (subjecting them to audit adjustments later), while in other cases, the preparers caused taxpayers to overpay. High-quality return preparation is critical because the majority of taxpayers pay preparers to complete their returns for them, and the consequences of filing inaccurate tax returns can be significant.

In the past, legislation requiring tax return preparers to pass a minimum competency test and keep up on tax-law changes through continuing education was approved by the Senate on a voice vote,¹⁰ and has been introduced by Republicans and Democrats in the House.¹¹ I recommend Congress pass this legislation so that, as long as the tax code remains so complicated, taxpayers will be better served by the tax return preparation industry.¹²

Federal Tax Reform (Mar. 3, 2005) (statement of Nina E. Olson, National Taxpayer Advocate), <http://govinfo.library.unt.edu/taxreformpanel/meetings/meeting-03032005.html>.

⁹ See GAO, GAO-14-467T, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors* (2014), <http://www.gao.gov/assets/670/662356.pdf>; GAO, GAO-06-563T, *Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors* (2006), <http://www.gao.gov/assets/120/113330.pdf>. See also Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2008-40-171, *Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors* (Sept. 3, 2008).

¹⁰ Tax Administration Good Government Act, H.R. 1528 (incorporating S. 882), 108th Cong. (2004) (approved by the Senate by unanimous consent on May 19, 2004).

¹¹ See, e.g., Taxpayer Return Preparer Competency Act, H.R. 4141, 114th Cong. (2015) (sponsored by Congresswoman Diane Black); Taxpayer Rights Act, H.R. 4128, 114th Cong. § 202 (2015) (sponsored by Congressman Xavier Becerra).

¹² For prior discussions of preparer problems and recommendations for minimum standards, see National Taxpayer Advocate Fiscal Year 2015 Objectives Report to Congress 71-78; National Taxpayer Advocate 2013 Annual Report to Congress 61-74 (Most Serious Problem: *Regulation of Return Preparers: Taxpayers and Tax Administration Remains Vulnerable to Incompetent and Unscrupulous Return Preparers While the IRS Is Enjoined From Continuing Its Efforts to Effectively Regulate Unenrolled Preparers*); National Taxpayer Advocate 2009 Annual Report to Congress 41-69 (Most Serious Problem: *The IRS Lacks a Servicewide Return Preparer Strategy*); National Taxpayer Advocate 2006 Annual Report to Congress 197-221 (Most Serious Problem: *Oversight of Unenrolled Return Preparers*); National Taxpayer Advocate 2004 Annual Report to Congress 67-88 (Most Serious Problem: *Oversight of*

III. To Fairly, Effectively, and Efficiently Administer the Tax System, the IRS Needs More Funding, But It Also Should Orient Its Mission Around Taxpayer Service and Taxpayer Rights

To create an environment that encourages taxpayer trust and confidence, the IRS must change its culture from one that is enforcement-oriented to one that is service-oriented. Of the IRS's current appropriated budget of \$11.2 billion, 43 percent is allocated to enforcement, while less than six percent is allocated to taxpayer outreach and education activities.¹³ In 2014, the IRS ceased all tax return preparation in its Taxpayer Assistance Centers (TACs), sharply curtailed the scope of tax-law questions it would answer during the filing season on its telephone lines and in its TACs, and stopped answering any tax-law questions after April 15.

The TACs, which were previously known as "walk-in sites," moved to an "appointment only" system this year. I previously recommended the IRS offer appointments by request as an option. However, the IRS's new policy against accepting walk-in taxpayers has led to considerable taxpayer frustration and a failure to meet taxpayer needs. Many – if not most – taxpayers have no way of knowing the IRS is no longer accepting walk-ins, so some travel considerable distances only to be sent home. The IRS cites customer satisfaction surveys to suggest taxpayers are pleased with the appointment-only approach. But these surveys are misleading because they are only administered to taxpayers who have been served. They do not reflect the opinions of taxpayers who are turned away. The IRS has reduced the number of TACs from 401 to 376 since 2011.¹⁴ In addition, 22 TACs have no staff, while 95 have only one employee.¹⁵

Twelve states have no Appeals Officers stationed within their boundaries,¹⁶ and 14 states have no IRS liaisons to Small Business and Self-Employed taxpayers.¹⁷ In fact,

Unenrolled Return Preparers); National Taxpayer Advocate 2003 Annual Report to Congress 270-301 (Legislative Recommendation: *Federal Tax Return Preparers: Oversight and Compliance*); National Taxpayer Advocate 2002 Annual Report to Congress 216-30 (Legislative Recommendation: *Regulation of Federal Tax Return Preparers*).

¹³ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113 (2015). An additional 33 percent of the IRS budget is allocated to the Operations Support account, which is used to support program activities. The balance of the budget is allocated mostly to returns processing and to the Business Systems Modernization account.

¹⁴ In 2011, the IRS operated 401 TACs. IRS response to TAS information request (Dec. 23, 2014). As of December 31, 2016, the IRS operated 376 TACs, a reduction of six percent. IRS response to TAS fact check (Dec. 20, 2016).

¹⁵ IRS response to TAS fact check (Dec. 20, 2016).

¹⁶ The 12 states that lack a permanent Appeals Officer are Alaska, Arkansas, Delaware, Idaho, Kansas, Montana, North Dakota, New Mexico, Rhode Island, South Dakota, Vermont, and Wyoming. There is also no Appeals Office in the territory of Puerto Rico. IRS Office of Appeals response to TAS information request (June 6, 2016).

according to IRS data, the agency dedicates only 98 employees to conduct outreach and education to the roughly 57 million Small Business and Self-Employed taxpayers (*i.e.*, taxpayers who are self-employed or own small businesses), and only 376 employees to conduct outreach and education to the nearly 125 million Wage and Investment taxpayers (*i.e.*, taxpayers who are classified as “employees”). Meanwhile, the IRS has over 3,000 revenue officers (who conduct field collection activities) and over 8,800 revenue agents (who conduct field audit activities).¹⁸

Figure 1: Locations with Specified Employees in the Last Pay Period of the Fiscal Year

Number of Locations, Employees, or Visitors	2011	2012	2013	2014	2015	2016
IRS Offices (Cities)	541	523	510	499	479	470
Appeals Officers (AOs)	1,129	1,058	958	881	795	739
Revenue Officers (ROs)	4,402	4,035	3,703	3,441	3,191	3,072
Revenue Agents (RAs)	11,959	11,258	10,502	9,776	9,090	8,871
Stakeholder Liaison Outreach Employees	137	123	119	110	105	98
Stakeholder Partnerships, Education and Communication Outreach Employees	522	475	444	405	386	365
Taxpayer Assistance Centers (TACs)	401	401	398	382	378	376
TAC Service Reps	1,639	1,515	1,484	1,520	1,423	1,267

Despite this imbalance, the IRS budget request for FY 2017 sought an increase of 7.2 percent in enforcement funding, as compared with an increase of just 3.1 percent in taxpayer services funding.¹⁹ This proposal to increase enforcement funding by more than twice the rate of taxpayer services funding was made against a backdrop in which the agency has been unable to meet basic taxpayer needs. Among calls routed to its telephone assistors, the IRS was able to answer only 38 percent in FY 2015 and 53 percent in FY 2016, and taxpayers who managed to get through to the IRS were kept on hold for an average of 30 minutes and 18 minutes, respectively, in those years.²⁰

For calendar year 2017, although the IRS is showing a much higher level of service (LOS) on general assistor calls, it has only been able to answer 37 percent of the nearly

¹⁷ The 14 states are Alaska, Delaware, Hawaii, Kentucky, Mississippi, Montana, North Dakota, Nebraska, New Hampshire, South Dakota, Vermont, West Virginia, Wisconsin, and Wyoming. There also is no liaison in the District of Columbia. IRS response to TAS fact check (Dec. 15, 2016); IRS Human Resources Reporting Center, Report of Small Business/Self-Employed (SB/SE) Job Series 0526, Stakeholder Liaison Field Employees as of the week ending October 1, 2016 (Dec. 1, 2016).

¹⁸ IRS response to TAS fact check (Dec. 16, 2016).

¹⁹ IRS FY 2017 Budget-in-Brief, at 1, <https://www.irs.gov/PUP/newsroom/IRS%20FY%202017%20BIB.pdf>.

²⁰ IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Sept. 30, 2016) (showing both FY 2015 and FY 2016 toll-free telephone performance statistics).

1.4 million calls received on its Installment Agreement/Balance Due line.²¹ This is down 53 percent over the same period last year. The hold time for the taxpayers who actually get through on this line is up even more significantly – from ten minutes last year to 57 minutes this year.²² *To be clear: The 1.4 million taxpayer calls to this line generally reflect taxpayers who owe money to the IRS and are trying to make arrangements to resolve their delinquent tax debts. Yet the IRS is not accepting 63 percent of these calls, and it is making the other 37 percent of callers wait nearly one hour to get through.*

Much of this state of affairs has been brought about by sustained decreases in the IRS's annual appropriation over the last decade – about 19 percent on an inflation-adjusted basis.²³ Despite these cuts, the IRS must deliver a filing season in which it processes some 150 million individual tax returns and issues over 115 million refunds totaling over \$345 billion,²⁴ while guarding against between \$22 and \$24 billion in identity theft and refund fraud,²⁵ and implementing legislative changes that have averaged more than one a day since 2001.²⁶ Cuts of this magnitude ultimately hurt taxpayers. Each year, the IRS receives more than 100 million telephone calls, roughly five million taxpayer visits in its TACs, and some ten million pieces of correspondence from taxpayers responding to proposed tax adjustment notices.²⁷ Without sufficient staffing, the IRS cannot handle

²¹ See IRS, Joint Operations Center, *Snapshot Reports: Product Line Detail: Installment Agreement/Balance Due* (week ending Feb. 25, 2017).

²² IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending Feb. 25, 2017) (showing calendar year 2017 year-to-date telephone performance statistics with a comparison to the corresponding period in 2016).

²³ In FY 2010, the agency's appropriated budget stood at \$12.1 billion. For FY 2016, its budget was \$11.2 billion, a reduction of nearly eight percent over the six-year period. Inflation over the same period is estimated at nearly 11 percent. See Office of Management and Budget, *Fiscal Year 2016 Budget of the U.S. Government, Historical Tables* (230-31), Table 10.1, <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/hist.pdf> (showing Gross Domestic Product (GDP) and year-to-year increases in the GDP). In addition, the IRS was required to implement the statutory requirements of the Patient Protection and Affordable Care Act and the Foreign Account Tax Compliance Act during this time, causing a further drain on its resources.

²⁴ IRS Pub. 558, *IRS Data Book 2015* (Mar. 2016), Tables 2, 7 and 8. Figures are for FY 2015.

²⁵ Treasury Inspector General for Tax Administration, Ref. 2015-40-026, *Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft 2* (Apr. 24, 2015).

²⁶ Unpublished data provided by Wolters Kluwer Tax & Accounting to TAS (Dec. 8, 2016). Wolters Kluwer notes there is some subjectivity in computing these numbers because the counts are tied to how legislation is written. In general, an "Act Finding List" lists every Act section (or portion thereof) in a given Public Law and the corresponding amendment(s) it makes to the Internal Revenue Code. For example, assume an Act adds three new sections to the Internal Revenue Code. If the Act contains three sections that each adds one Code section, Wolters Kluwer would count three Code changes. But if the Act contains one section that adds a new Part to the Internal Revenue Code and that Part, in turn, contains the same three new Code sections, Wolters Kluwer would count one Code change.

²⁷ IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot, IRS Enterprise Total* (final week of each fiscal year for FY 2008 through FY 2016) (showing telephone call volumes exceeding 100 million in every year); IRS Wage & Investment Division, *Business Performance Review 7* (1st Quarter – FY 2017,

this volume of traffic quickly and accurately. In addition, cuts in enforcement funding require the IRS to rely more heavily on automated notices, which are often unclear and sometimes inaccurate, and then taxpayers often cannot reach an employee to obtain clarification or resolve the matter.

In this funding environment, the IRS has to make hard choices. Taxpayer service is a likely target for reductions, because it is difficult (but not impossible) to measure the return-on-investment of such activities. While the IRS can compute that every dollar spent on collection activities bring in \$9.60,²⁸ the IRS has no such measure for revenue brought in by answering tax-law questions on the phones or providing free tax return preparation service for low income, disabled or elderly taxpayers in the TACs.

Notwithstanding these funding challenges, the IRS in a variety of ways signals to its employees that it disproportionately values enforcement. For example, the IRS every year posts annual "Enforcement and Service Results" on its website.²⁹ This generally consists of five or six pages of enforcement data (including audit rates for individuals and business entities, enforcement dollars assessed, enforcement dollars collected, liens filed, levies issued, and criminal indictments and convictions), with a single page of taxpayer service data tacked on at the end. There is a lot of truth to the well-known adage, "you get what you measure." The fact that the word "Enforcement" comes first and is much more heavily emphasized makes a statement to the public – and to the IRS's own employees – about agency priorities.

Congress has previously expressed concern about the IRS's focus on enforcement at the expense of service. In the IRS Restructuring and Reform Act of 1998 (RRA 98), Congress directed the IRS to "restate its mission to place a greater emphasis on serving the public and meeting taxpayers' needs."³⁰ In response, the IRS adopted the following mission statement: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and *by applying the tax law* with integrity and fairness to all."³¹ (Emphasis added.) In 2009 – with no public discussion or notice to Congress – the IRS quietly changed its mission statement to read: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and *enforce the tax law* with integrity and fairness to all."³² (Emphasis

Feb. 9, 2017) (showing 5.6 million visits in FY 2015 and 4.5 million visits in FY 2016); IRS, Joint Operations Center, *Adjustments Inventory Reports: July-September Fiscal Year Comparison* (FY 2007 through FY 2016) (showing annual taxpayer correspondence volumes regarding potential adjustments has ranged from a low of 7.3 million letters to a high of 11.8 million letters and has averaged around ten million per year).

²⁸ IRS FY 2017 Budget-in-Brief, at 10, <https://www.irs.gov/PUP/newsroom/IRS%20FY%202017%20BIB.pdf>.

²⁹ IRS, *Fiscal Year 2015 Enforcement and Service Results*, <https://www.irs.gov/uac/newsroom/fiscal-year-2015-enforcement-and-service-results>.

³⁰ IRS Restructuring and Reform Act, Pub. L. No. 105-206, Title I, § 1002, 112 Stat. 685, 690 (1998).

³¹ IRM 1.1.1.1 (Mar. 1, 2006).

³² IRM 1.1.1.2 (June 2, 2015).

added.) This shift in tone and emphasis – from *applying* the law to *enforcing* the law – suggests the IRS leadership disagreed with the Congressional directive and decided to place greater emphasis on “enforcement” in its mission statement.

Perhaps the most important point I am trying to make is that service and enforcement should not be treated as an “either/or” proposition. The IRS, like any tax administrator, should have one overriding goal – to increase tax compliance, and particularly voluntary tax compliance. That means, for example, that part of every compliance touch should involve talking to the taxpayer and making sure the taxpayer understands what he or she did wrong so he or she is less likely to do it again. Indeed, if the IRS engages with taxpayers in this way, it might even learn where it is wrong itself – as it often is. Regardless, there is substantial research and documentary evidence that show a service-oriented approach toward tax administration is effective and efficient, and maximizes *long-term* voluntary compliance. Moreover, the Taxpayer Bill of Rights provides U.S. taxpayers with, among other things, the right to challenge the IRS’s position *and be heard*.³³ The last part of that right is critical. It is not enough simply for taxpayers to be able to object; the IRS must *listen*. This right is fundamental to procedural due process.

All this is not to say that IRS employees don’t care about taxpayer service, nor am I saying the IRS is “just” focused on enforcement. But I do believe that IRS employees and the taxpaying public often see things quite differently. Often, the IRS doesn’t clearly see how it is presenting itself to the public. For example, as part of the process of developing the IRS’s Future State vision, each of the four IRS Business Operating Divisions (or BODs) began by developing its own Concept of Operations (CONOPS) and an accompanying “taxpayer vignette” to illustrate how its vision of the Future State will work. Notably, each BOD’s vignette shows the IRS contacting a taxpayer to conduct an audit or otherwise challenge a taxpayer’s return, and in every case, the vignette shows the taxpayer ultimately conceding the IRS is correct and consenting to the IRS’s proposed adjustment. At best, these vignettes reveal a lack of sensitivity as to how external stakeholders (such as taxpayers) will perceive them. At worst, they suggest to the taxpaying public that the IRS believes it is always right and the taxpayer is always wrong.³⁴

³³ See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are codified in the Internal Revenue Code. See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, § 401(a) (2015) (codified at IRC § 7803(a)(3)).

³⁴ “I find it funny that in both scenarios, there’s more taxes. I think that reflects the idea that this model is about the IRS finding new ways to use technology for their benefit, and not for taxpayer purposes.” Statement of Audience Member, National Taxpayer Advocate Public Forum 39 (Aug. 18, 2016), https://taxpayeradvocate.irs.gov/Media/Default/Documents/PublicForums/PortlandOR_Transcript_081816.pdf. “I’m a CPA, and I’ve been practicing for 35 years... [T]he examples here – both end up resolving in more tax being owed – is like, ‘We were right, you were wrong, pay us the money.’” *Id.* at 55-56.

Accordingly, I recommend that the IRS:

- Revise its mission statement to re-emphasize a non-coercive approach to tax administration and explicitly affirm the role of the Taxpayer Bill of Rights as the guiding principle for tax administration.³⁵

IV. Greater Congressional Oversight Over the IRS's Strategic and Operational Plans Would Help Restore Trust in the Tax System

Congress has a significant role to play in ensuring that the IRS has adequate resources to do its job and that it allocates those resources wisely. Appropriate oversight and greater transparency increase taxpayer trust in the tax agency and the tax system. As part of the reorganization mandated by Congress in RRA 98, Congress held joint annual hearings, over five years, to review the IRS strategic plan.³⁶ The hearing participants included three members (two majority and one minority) from each of the congressional committees with jurisdiction over the IRS – Senate Finance, Appropriations, and Governmental Affairs, and House Ways and Means, Appropriations, and Governmental Reform and Oversight. The hearings were to cover the following topics:

- (1) IRS progress in meeting its objectives under its strategic and business plans;
- (2) IRS progress in improving taxpayers service and compliance;
- (3) IRS progress on technology modernization; and
- (4) The annual filing season.³⁷

By reinstituting these joint oversight hearings, Congress can provide the IRS with the opportunity to articulate, with specificity, its need for additional resources and its plans for applying them. Hearing from both the IRS and outside experts – including tax professional organizations, business representatives, Low Income Taxpayer Clinics, and behavioral scientists – Congress will better understand the challenges that both the IRS and taxpayers face. It can then make informed decisions about the level and general application of resources necessary for the IRS to provide U.S. taxpayers with a 21st century tax administration that they can trust and admire.

³⁵ See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are now listed in the Internal Revenue Code. See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, § 401(a) (2015) (codified at IRC § 7803(a)(3)).

³⁶ Pub. L. No. 105-206, § 4001 (enacting IRC § 8021(f)) and § 4002 (amending IRC § 8022), 112 Stat. 685, 783-784 (1998).

³⁷ H.R. Rep. No. 105-364, at 84-85 (1997). The IRS Restructuring Commission earlier recommended that Congress create a joint committee on IRS administration, which would conduct joint hearings on similar topics. National Commission on Restructuring the IRS, *A Vision for a New IRS* 11 (June 25, 1997).

Accordingly, I recommend that Congress:

- Reinstated the joint review of the IRS strategic plans and budget provided for under IRC §§ 8021(f) and 8022;
- Require the IRS to submit a comprehensive “Future State” plan that describes in detail its vision for a 21st century IRS, including an explanation of how this vision meets the needs and preferences of different U.S. taxpayer segments as well as a description of the challenges and obstacles the IRS faces in achieving this “Future State;” and
- Provide funding for IRS initiatives that enhance and maintain voluntary compliance and that align with the needs and preferences of taxpayers as they attempt to comply with the tax laws.

V. The IRS Must Better Understand the Needs and Preferences of Its Diverse Taxpayer Population to Increase Long-Term Voluntary Tax Compliance

With respect to the IRS’s plans for its Future State, I have previously written about my concerns in the National Taxpayer Advocate’s 2015 Annual Report to Congress.³⁸ In addition to calling attention to the IRS’s lack of transparency with taxpayers and Congress about the specifics of its plans, I expressed concerns about the IRS’s move away from person-to-person assistance and compliance contacts in favor of impersonal electronic “self-service” and greater reliance on private third parties to provide for-fee services previously provided by the IRS for free, thereby increasing taxpayers’ costs for the “privilege” of paying their taxes.

While the IRS has partially addressed my concerns about transparency³⁹ and the Commissioner has made clear that the IRS does not intend to eliminate phone or in-person assistance,⁴⁰ I remain unconvinced that the IRS Future State vision addresses the diverse needs and preferences of the diverse U.S. taxpayer population. At the heart of the Future State vision is the IRS online account. I myself previously have advocated for an online account,⁴¹ because for many taxpayers and many types of activities, it can be convenient and informative. Indeed, I applaud the IRS for developing an online

³⁸ National Taxpayer Advocate 2015 Annual Report to Congress 3-13 (Most Serious Problem: *Taxpayer Service: The IRS Has Developed a Comprehensive “Future State” Plan That Aims to Transform the Way It Interacts with Taxpayers, But Its Plan May Leave Critical Taxpayer Needs and Preferences Unmet*).

³⁹ See IRS, <https://www.irs.gov/uac/newsroom/irs-future-state> (last visited on Mar. 4, 2017).

⁴⁰ See, e.g., *Tax Return Filing Season: Hearing Before the H. Subcomm. On Oversight, Comm. on Ways and Means*, 114th Cong. (Apr. 19, 2016) (written statement of John Koskinen, Commissioner, Internal Revenue Service).

⁴¹ See, e.g., National Taxpayer Advocate 2013 Annual Report to Congress, vol. 2, at 67-96 (Research Study: *Fundamental Changes to Return Filing and Processing Will Assist Taxpayers in Return Preparation and Decrease Improper Payments*).

account option that seems simple, clear, and effective for taxpayers in accomplishing certain basic tasks. However, as we heard repeatedly in our Public Forums and our TAS employee focus groups, digital interaction is not appropriate for certain taxpayer populations, nor is it suitable for taxpayers with intensely factual and specific matters (which is what all but the most simple tax transactions are).

For example, over 46 percent of individual taxpayers filing returns in 2016 are low income taxpayers, having incomes at or below 250 percent of the federal poverty level.⁴² These taxpayers can ill afford to pay more for tax return preparation and assistance. Moreover, TAS survey research shows that 33 million U.S. taxpayers have no broadband access at home, including 14 million U.S. taxpayers who have no home Internet access at all.⁴³ Thus, for a significant portion of the taxpaying population, the IRS Future State, with its heavy emphasis on an online account and online "self-correction," will leave them out in the cold.

Even among taxpayers who are able to go online, there are significant concerns about being able to pass authentication screens, sharing financial information over the Internet, and sharing personal information with the government. After the IRS established its current online account in the fall of 2016 with three-factor security authentication, only about 30 percent of the taxpayers who attempted to create an online account were able to do so.⁴⁴ Thus, the necessity to protect the integrity of taxpayer data creates a barrier to access. I am not suggesting we should reduce our security. To the contrary, I believe protecting the security of taxpayer information is absolutely essential. But we must recognize that providing this security has implications for how many taxpayers will be able to access their accounts electronically and how many will need to contact the IRS by telephone or in TACs.

According to a recent TAS nationwide survey of U.S. taxpayers, more than half of the Low Income, Senior, and Disabled respondents said they do not feel secure sharing personal financial information over the Internet. Indeed, even among the Not Low Income population, over 43 percent of taxpayers said they do not feel secure sharing their personal financial information over the Internet. And significant percentages of all taxpayer segments said they do not feel secure sharing personal information with a government agency. In fact, only 33 percent of the Not Low Income population, 19

⁴² Of the 135.8 million individual taxpayers who had filed Tax Year 2015 individual income tax returns through October 2016, nearly 63 million taxpayers (46.2%) had Total Positive Income at or below 250 percent of the federal poverty level. These numbers exclude filers who are claimed as a dependent on another tax return. IRS Compliance Data Warehouse, Individual Returns Transaction File for Tax Year 2015 (returns processed through October 31, 2016).

⁴³ See National Taxpayer Advocate 2016 Annual Report to Congress, vol. 2, at 1-30 (Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*).

⁴⁴ IRS response to TAS fact check (Dec. 20, 2016) (providing data through Dec. 18, 2016). The IRS declined to provide us with an updated pass rate and has said it will no longer make the rate available. Email from IRS Identity Assurance Executive to National Taxpayer Advocate (Mar. 4, 2017).

percent of the Low Income, 16 percent of the Seniors, and 18 percent of Disabled taxpayers said they are comfortable sharing personal information with the government. These findings have profound implications for taxpayers' willingness to interact with the IRS online in all but the most rudimentary of actions.⁴⁵

Accordingly, I recommend that the IRS, in collaboration with my office, undertake a comprehensive study of taxpayer needs and preferences by taxpayer segment, using telephone, online, and mail surveys, focus groups, town halls, public forums, and research studies. These initiatives should be designed to determine *taxpayer* needs and preferences, and not be biased by the IRS's own desired direction. I also recommend that Congress direct the IRS and the National Taxpayer Advocate to jointly report on the results of this comprehensive study.

VI. Conclusion

The sharp reduction in IRS funding since FY 2010 has left the IRS with fewer resources with which to meet taxpayer needs. Without sufficient resources, there is simply no way the IRS can effectively serve the 100 million taxpayers who call, the ten million taxpayers who write, and the five million taxpayers who visit the IRS each year.

However, I believe the IRS's culture is also a source of its customer service challenges. Historically, I think it is clear the IRS has viewed itself as an "enforcement first" agency rather than a "service first" agency. In my conversations with IRS leaders, they do not agree with my assessment, but I think that disagreement highlights that there is a significant difference between how the IRS views itself and how taxpayers view it. There are many examples of this, and in this statement I have cited several – a budget that provides considerably more funding for Enforcement than for Taxpayer Services, particularly outreach and education; the 2009 change in the IRS mission statement from "applying" the law to "enforcing" the law; the dearth of IRS employees assigned to perform outreach and education activities; and the vignettes in which the agency's four operating divisions illustrate their "Future State" through compliance examples where the IRS is always right and the taxpayer is always wrong – and no outreach and education is illustrated.

Several incidents over the last few years have reduced the confidence of many Members of Congress in the leadership of the IRS. Largely as a result of that reduced confidence, Congress has cut the IRS budget to the point where the agency is now struggling to meet taxpayer needs. For the sake of our country's roughly 150 million individual taxpayers and ten million business-entity taxpayers, I believe it is critical that Congress and the IRS work together to find a better way forward. The IRS should take steps to rebuild congressional trust, and Congress should respond by providing the IRS

⁴⁵ See National Taxpayer Advocate 2016 Annual Report to Congress, vol. 2, at 1-30 (Research Study: *Taxpayers' Varying Abilities and Attitudes Toward IRS Taxpayer Service: The Effect of IRS Service Delivery Choices on Different Demographic Groups*).

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. I have tried to offer some recommendations to help in this regard, and I believe the most important is for Congress to hold regular oversight hearings on core IRS work – taxpayer service, audits and collection activities – so it can be confident the funds it provides are being well spent.

1. **Rep. Hice asked how many IRS employees are on “official time” for National Treasury Employees’ Union (NTEU) business. He asked for this number to be provided for both full-time and part-time union stewards. He also asked about approvals for employees to use official time, and whether there is any mechanism in place for the IRS to disallow employee use of official time.**

The IRS had 65,429 bargaining unit employees in 2016. There are 1,925 IRS employees who may use “official time” to perform their representational duties for the NTEU, and of these employees, 185 are full-time stewards and 1,740 are part-time stewards. The National Agreement between IRS and NTEU (National Agreement) limits the number of full-time NTEU stewards to 217 employees, but there is no limit for part-time stewards. Part-time stewards annually spend an average of about 120 hours on official NTEU duties.

Official time is authorized by section 7131 of Title 5 (Government Organization and Employees) of the United States Code and by the National Agreement to allow IRS employees to represent the NTEU on certain workplace matters when they would otherwise be in a duty status. We work closely with NTEU on many matters that benefit the IRS, our employees, and taxpayers, including major taxpayer service improvement projects. From Fiscal Year (FY) 2012 to FY 2016, official time hours decreased by 18% from 568,699 to 466,070 hours. This represents less than 0.3% of IRS full-time-equivalent employee hours (including duty time, official time, and leave) in FY 2016.

NTEU selects IRS employees from many different IRS business units to work as NTEU stewards. The National Agreement limits the type of activities that IRS employees can perform while using official time, and requires part-time stewards to get approval from their supervisors to engage in NTEU representational duties.

2. **Rep. Mitchell noted that in 2016, Commissioner Koskinen testified that the return on investment for enforcement operations was \$4 for every \$1 spent on enforcement, and asked how this calculation was made.**

The calculation of \$4 returned for every \$1 spent on enforcement is based on the annual Total Enforcement Revenue Collected (TERC) divided by the total IRS budget, as shown in the table below. TERC is the sum of tax, penalties and interest collected through our enforcement actions. This estimate does not include any indirect effects of IRS service and enforcement efforts on voluntary compliance.

	2011	2012	2013	2014	2015	2016	Average
TERC (\$M)	55,229	50,188	53,345	57,146	54,203	54,292	54,067
IRS Budget (\$M)	12,122	11,817	11,199	11,291	10,945	11,235	11,435
Overall ROI	4.6	4.2	4.8	5.1	5.0	4.8	4.8

3. **Rep. DeSantis asked about documents discussed in a press release issued on March 9 by Judicial Watch, the plaintiff in a FOIA suit. The suit is based on FOIA requests made by the plaintiff relating to the selection of individuals and section 501(c)(4) organizations for audit. Rep. DeSantis asked whether these documents were previously provided to the Oversight Committee or any other committee in Congress.**

The documents responsive to the FOIA requests generally involve different topics and time frames than those that were responsive to the Congressional investigations into the section 501(c)(4) tax exempt determinations process. The FOIA requests focus on selection for audit, rather than the determinations process. Notwithstanding these differences, the IRS is taking the proactive step of producing additional documents to key Congressional committees, including the Oversight Committee. Our review of the documents provided through April 18, 2017, identified only two documents relating to the determinations process that were responsive to the Congressional investigations but not previously produced. Those two documents are Internal Revenue Manual provisions and, as such, they were already publicly available.

4. **Rep. Grothman asked about refundable business or corporate tax credits that are susceptible to improper payment.**

Although there are a few refundable business tax credits, they are not prone to the same vulnerabilities as fraudulent claims for the earned income tax credit.

Section 168(k)(4), for example, allows corporations or consolidated groups with alternative minimum tax (AMT) credits to accelerate the use of these credits instead of claiming the bonus depreciation for eligible qualified property. This credit is refundable. Although there have been adjustments in this area, the adjustments are not based on fraud, but rather on a disagreement of interpretation.