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HOW DO IRS BUDGET CUTS AFFECT TAXPAYERS AND THE TAX SYSTEM?

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P R O C E E D I N G S

MR. GAYER: I'm Ted Gayer. I am the vice president and director of Economic Studies here at Brookings, and I'm delighted today to welcome IRS Commissioner John Koskinen, who is here to discuss how the IRS deals with an increasing workload in a time of budget cuts. It's actually a nicely timed event. I like to put one week reminders before important deadlines on my calendar, and so it's nice to have the IRS commissioner here on April 8th. So you've all got your one week reminder of a deadline next week, so we're delighted to have you here again today.

I have -- some of you may know I have a textbook with my friend -- coauthored with my friend, Harvey Rosen, so I pulled it off my shelf. Half of the textbook is devoted to taxes, and we have a quote in there. This is kind of a bonus question, if anybody can name the case. It was an 1899 Supreme Court decision, and in it there's a nice little quote that we pulled. It says, "The power to tax is the one great power upon which the whole national fabric is based. It is as necessary to the existence and prosperity of a nation as is the air he breathes to a natural man. It is not only the power to destroy but also the power to keep alive."

I thought it was a very appropriate quotation to kick off today's event. Clearly, the IRS continues to be an essential part of our system of governance, responsible for collecting tax revenue that amounts to about 18 percent of our economy.

Commissioner Koskinen is the IRS's 48th commissioner. He manages approximately 90,000 employees with a budget of approximately \$11 billion, and that's a budget, as I'm sure he'll allude to today, that has been shrinking over the last five years or so. Maybe more than five years.

Previous to coming to the IRS, he served as the nonexecutive chairman of Freddie Mac from 2008 to 2012 and its acting chief executive officer in 2009. Prior to that, he was the president of the U.S. Soccer Foundation. I've got a lot to talk about with

you on that one. He has also served as deputy mayor and city administrator of Washington, D.C., assistant to the president, and chair of the President's Council on Year 2000 Version, and deputy director for management at the Office of Management and Budget. He has also had 21 years of private sector experience in various leadership positions with the Palmieri Company, helping to turn around large, troubled organizations. I'm detecting a pattern.

The idea is for the commissioner to give a keynote speech and then we're going to follow up with a panel discussion moderated by Howard Gleckman. On that panel we'll hear from Rosemary Marcuss and Nina Olson, both of the IRS; Eric Toder of the Tax Policy Center; and David Williams of Intuit. All of their bios are in the packets that you should have received when you came in this afternoon.

So with that, I'll ask you to please join me in welcoming the commissioner to the podium. Thank you.

(Applause)

MR. KOSKINEN: I have to be careful not to do something with the computer that's here.

I'm delighted to be here. I've got -- over the course of the years I have a number of good friends, both at the Urban Institute and at Brookings, so it's fun to be here and have a chance to talk with you. It's particularly good because rarely do I have a group that actually commemorates tax day every year. So where else could you find that except probably in Washington?

It's normally the point where I would deliver my standard public service announcement reminding everyone to file their taxes by April 15th, but Ted has already taken care of that for me. But, you know, we still have a lot of leading minds on taxes and budget here and so it should be superfluous to make that reminder because nobody here would file their taxes at the last minute I'm sure; right? Including me with a little luck.

Before I begin, I'd like to say a special thank you to Rosemary Marcuss,

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the head of our research division, who helped put together today's event and will be on the next panel. Rosemary is retiring soon after more than three decades of wonderful public service at the IRS, the Bureau of Economic Analysis, and the Congressional Budget Office, and she will be missed by all of us at the IRS, and she's done just a terrific job there.

I also want to recognize someone else who will be on the next panel, Nina Olson, the Taxpayer Advocate. Over nearly 16 months as the IRS commissioner, I've found Nina's advice and recommendations for improvement a great help to me in charting a path forward for the agency.

Turning now to why we're here, I need to thank the Tax Policy Center for selecting my favorite subject for this day's Tax Day event. The question of how the IRS budget cuts affect taxpayers and the tax system is certainly something that keeps me up late at night, and it's something that I think all policymakers in Washington should be losing sleep over and I'm grateful to the Tax Policy Center for fostering a discussion that needs to continue until we achieve the right result.

My view is simple. I believe that the underfunding of the agency is the most critical challenge facing the IRS today, and the serious ramification of five years of budget cuts are becoming increasingly visible and will worsen if action isn't taken soon. This is not just about the agency; it's about the entire tax system. We're coming to the point where the significant reduction has already taken place in the IRS budget are degrading the agency's ability to continue to deliver on its mission, both during the filing season and beyond.

I'm sure most of the people in this room know how critical our situation is, but in case you're just back from a few months in Antarctica or missed this morning's Washington Post or the release this afternoon of the story from Bloomberg, I'll recap it for you -- the IRS budget level, as Ted noted, for Fiscal Year 2015 of \$10.9 billion is \$1.2 billion less than it was five years ago. The IRS is now at its lowest level of funding since

2008. If you adjust for inflation, our budget is now comparable to where we were in 1998. While our budget has been shrinking, however, the taxpayer base has grown by millions. We've also taken on many new responsibilities, such as implementation of the Foreign Account Tax Compliance Act and the tax-related provisions of the Affordable Care Act.

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

You might think that shrinking an agency would force it to do more with less. That may have been true for us in the early going. We have heard the comments on the hill and elsewhere that our funding is deliberately lowered to make sure we think twice about spending. The IRS does need to be as efficient as possible and be careful stewards of funding that we receive from taxpayers. We now save over \$2 million a year as a result of nonlabor cost savings put in place over the last few years.

But after five years of budget cuts and a hiring freeze that has lasted for four years, people need to understand that the IRS is going to have to do less with less. It means that both enforcement and taxpayer service will suffer. The problem is that our levels of staffing are insufficient to deliver on our mission. Consider that the 13,000 employees we've lost since 2010 include 5,000 key enforcement personnel. These are the people who audit returns, conduct collection activities, and include the special agents in our Criminal Investigation division who investigate refund fraud and other cases. We estimate the drop in audit and collection case closures this year will translate into a loss for the government for at least \$2 billion in revenue that otherwise would have been collected. Essentially, the government is foregoing billions of dollars to achieve budget savings of a few hundred million dollars. Since we estimate that every one dollar invested in the IRS budget produces at least four dollars in additional revenue. The

cumulative effect of the cuts in the IRS budget in enforcement personnel alone since Fiscal 2010 results in an estimated \$7-8 billion every year in lost revenue for the government. As some have called it, this amounts to a tax cut for tax cheats.

On the services side, this year we were forced to substantially reduce hiring of extra seasonal help we usually had during the filing season. As a result, our phone level of service at the start of the filing season was just 54 percent, and as we've gotten closer to the end of the filing season, it dipped below 40 percent. That means more than six out of 10 people that called could not reach a live assister. That's simply unacceptable, especially when you consider that our goal for the phone level of service in a given year is 80 percent.

The negative impacts of our underfunding extend to the business side as well. It might sound like good news to some corporations that we're conducting fewer audits, but the ones we do are likely to be more burdensome. Because we have fewer examiners, we specialize training to understand complex business issues. As for tax law guidance needed by businesses, we are having to target our resources more to retail issues involving individuals and their 1040 filing forms. That means guidance sought for more highly-specialized issues in a corporate area will likely suffer as a result.

The risk to our tax system posed by underfunding goes deeper than uncollected revenues, unanswered phones, or unpublished guidance. Service and enforcement need to be viewed as two sides of the same compliance coin because our system is built on the notion of voluntary compliance. If people think they're not going to get caught if they cheat, or they're just fed up because they can't get the help they need from us to file their taxes, the system will be put at risk. Consider that a one percent decline in the compliance rate translates into \$30 billion in lost revenue for the government every year. As Everett Dirksen would have said, "You're into real money."

In describing the situation we find ourselves in, it's important not only to point out what the IRS can't do but also what we can do and are still doing. While the

agency is cutting in discretionary areas over which we have control, we continue to deliver on core functions. A great example is the current tax filing season which has gone smoothly in terms of tax return processing and the technical issues around it and the operations of our IT systems. Through April 3, the IRS has received more than 99 million individual tax returns on the way to an expected 150 million. We've issued more than 77 million refunds for more than \$217 billion.

One thing I've been trying to get people to understand is that delivering the filing season doesn't happen automatically, and it doesn't happen by accident. It happens because of the talent, expertise, and dedication of our workforce. To get ready for this filing season, IRS employees built into the systems we use the backend of the Affordable Care Act, the front end of FATCA, and the Tax Extenders legislation passed in late December, all without missing a beat.

I told employees a year ago during my visits to IRS offices around the country that if we could pull this off it would be an amazing testimonial to the skill and dedication of IRS employees. And that's exactly what it is. In the public sector, as many of you here know, when things go well, they often pass unnoticed. So I view part of my job as to make sure that the public, the press, and the Congress understand the magnitude of this achievement and see it for the great accomplishment that it is.

Let me give you an illustration of the disconnect between our funding levels and our responsibilities. Last December, just three days after cutting our budget by nearly \$350 million, Congress passed legislation requiring the IRS to design and implement two new programs by July 1st of this year. The punchline is those programs -- the ABLE Act and the certification requirement for professional employer organizations didn't come with any additional funding. But we're a can-do agency and we'll play the hand we're dealt, and we'll do the best we can. That's because we have no choice, but we do statutory mandates, even if -- because those mandates are often underfunded -- implementation comes at the expense of taxpayer service and enforcement.

It's a strange position for us to be in. The IRS is such a capable agency that Congress keeps giving us new responsibilities. We deliver on those responsibilities and we deliver smooth filing seasons year after year, and then they tell us, "Well, we'll give you less money and see how you do next year." Up until now, we've been able to manage, but I'm extremely concerned that the cracks are beginning to show. I've said it before but I think it bears repeating, I never found an organization in my 20 years in my private sector experience that said, "I think I'll take my revenue-producing arm, set it off to the side, start it for funds, and just see how it does." But that's what's happening now to the IRS, and so my view is what I want people to understand is that this is a real threat to the capacity of the agency over time to meet its mission. People need to know what's at stake.

The problem goes beyond not having enough employees to adequately run current operations. The continuing underfunding of the IRS threatens our ability to properly develop our workforce so that we have a viable operation five to 10 years down the road. As I mentioned, part of the problem is simply having fewer people. The high watermark of the agency's workforce in terms of size was in 1992, and since then we've lost more than 30,000 full-time employees and are at our lowest level since the '80s.

The current compensation of the IRS workforce also presents a challenge. The problem is simple -- our workforce is maturing at a rapid rate. In fact, a portion of our workforce over 50 years of age has been growing steadily during the last several years. Today, more than half of our employees are in that age group, and we estimate that by next year more than 25 percent of the IRS workforce will be eligible to retire. By 2010, that number will be over 40 percent. Meanwhile, the number of IRS employees under 30 has been steadily declining and is now less than 3 percent of our workforce -- 1,900 people out of 87,000.

Essentially, the IRS is facing its own version of a baby bust. Our future workforce is generally overlooked in our funding discussions, and yet this issue is critical

to the future of the agency and will only grow in importance in the months and years ahead. As I've noted along the way, my term will end before the full magnitude of this problem is visible to the outsiders, but it would be irresponsible to just slide along without beginning to address the situation.

In talking about issues posed by the underfunding of the agency, one of my biggest concerns involves our inability to fully improve and modernize our information technology systems. Because of inadequate resources, the IRS is operating with antiquated systems that are increasingly at risk as we continue to fall behind in upgrading both hardware infrastructure and software. Despite more than a decade of upgrades to the agencies core business systems, we still have very old technology running alongside our more modern systems. As I've said, it's a Model T but has a great GPS system and wonderful sound system and a rebuilt engine, but ultimately it is still a Model T.

We have, in fact, many applications that were running when John F. Kennedy was president. About the only good thing you can say about them is, as I determined at a cybersecurity meeting last week, that the code they use has been out of date for so long, it has the unintended effect of creating problems for hackers who may be hacking in and trying to figure out how the system works.

So that's our case for adequate funding of the IRS, but I think we need to broaden the discussion. I am increasingly convinced the IRS needs to do more and take a different approach and one that doesn't just rely on resources. Our goal isn't merely to get enough funding to hire back 13,000 people and go backwards in time and perform the way we used to. We are not going to build the IRS back to the year 2010; we need to be looking forward to a new, improved way of doing business. This involves looking at the future in a more comprehensive way and considering how we can take advantage of the latest technology to move the taxpayer experience to a new level and do it in a way that's cost effective for the government.

In particular, we're focused on how best to use our limited information

technology resources. Our goal is for taxpayers to have a more complete online experience for all their transactions with the IRS. The online experience should give everyone confidence in knowing that they can take care of their tax obligations in a fast, secure, and consistent manner.

The goal is not unrealistic. We're not trying to go to the moon or Mars. We're simply saying that people should expect the same level of service when dealing with the IRS in the future as they have now from their financial institutions whether it's a bank, mortgage company, or brokerage company. The idea is that taxpayers would have an account at the IRS where they or their preparers can log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually and there would be much less need for in-person help either by waiting in line at an IRS assistance center or calling in by phone.

Improving assistance to taxpayers in this way can also help us on the compliance front. We need to be faster and smarter in that area. With a more modern system, the IRS could identify problems in tax returns when a return is filed rather than coming back to taxpayer's years after the fact while the meter is running on potential penalties and interest. We want to interact with taxpayers as soon as possible so that those issues can be corrected without costly follow-up contact or labor-intensive audits.

And it's not as though all of this would be new. To the extent we've been able to, even with our budget constraints, we've already made significant improvements in our technology to serve taxpayers. For example, one of our most popular features on IRS.gov is the "Where is my refund" electronic tracking tool. Taxpayers have already used it more than 187 million times this filing season, and it's very close to surpassing the total for all of last year. I always try to note it doesn't mean we have 187 million taxpayers. There are some people who just can't resist punching the button to see where their refund is.

Another good example is Get Transcript, which was launched last year. It's a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of seconds. So far this year, taxpayers have used this application to obtain more than 15 million copies of previously filed tax information. In both cases, without the online applications, all of those people would have been remitted to either calling us on the phone, trying to call us on the phone, or walking into one of our assistance centers. Without them, we've been able to provide better service than we would -- even though it's hard to imagine how it could get worse -- but it's better than it would be if all those people were on the phone or standing in line.

So while we already have a few of the building blocks in place, we still need to engage in a full court press -- I went to Duke so I'm using terms like "full court press" today just because it seemed right -- in an organized way to build toward a better online filing experience.

In moving towards this future state, I should mention that the IRS will continue the extremely valued partnerships we have with the private sector. These partners run the gamut from the tax industry, from tax professional return preparers to developers of software and other projects. They're critical to our ability to run a system that helps millions of people each year fulfill their tax obligations and we will look to our partners for assistance as we continue down this road.

I would also point out that as we improve the online filing experience, we recognize the responsibility we have to serve the needs of all taxpayers, whatever their age, income, or station in life. Improving service to taxpayers must include special consideration for those who aren't comfortable in the digital environment or cannot afford to or don't have access to online transactions. In the end, both our ability to improve both online and traditional challenge of taxpayer service will depend, as we've said, on future levels of the agency funding. But even with our budget constraints, we are going to continue to find some funds to support these efforts to build towards the future even at

the expense of other areas of activities. Otherwise, if we just wage a guerilla-style fight every year through the continuing funding challenges, focusing only on the present, we'll wake up in five years and be no further down the road than we are today, and in fact, we'll be five years farther behind.

So that's our story. The challenges facing the IRS today leave policymakers with a very clear choice. A decision to adequately fund the IRS will give us the tools we need to fulfill our mission and build for the future. A decision to keep underfunding the agency will punish taxpayers, reduce the revenue needed to fund the government, and inject risk into our system of voluntary tax compliance. I will continue urging the Congress to make the right decision.

I took this job nearly 16 months ago because I understand the critical role the IRS plays in lives of taxpayers and in the operation and funding of the government. I know I speak for the thousands of professional, dedicated employees of the IRS when I say that we're committed to continuing to do all we can to build for the future in the interest of serving the American taxpayer.

Thank you, and I'd be happy to answer any questions you have.

(Applause)

MR. GLECKMAN: Mr. Koskinen, thank you very much for that very interesting talk. The plan here is that the commissioner and I will chat for about 10 minutes and then you all will have about 10 minutes to ask some questions. And I'm going to ask you to please make them questions and not speeches. Since there's a limited amount of time, in respect of your fellow audience members, just keep them as questions.

MR. KOSKINEN: You can send me the speeches afterwards.

MR. GLECKMAN: Afterwards. Absolutely.

And then the panel will come up and they'll have an opportunity to discuss this.

Commissioner, I want to start by saying I didn't think you could make yourself less popular but then you had to talk about going to Duke.

I couldn't help but notice that in the last few days, two candidates have announced for president. One of them said this -- "The IRS is too big, too powerful, and we should absolutely scrap the code." And in another place he said, "We should abolish the IRS and preserve our liberty." And the other said, "I think we ought to abolish the IRS."

To try to put this in corporate terms, and I know it's not an exact analogy, but it is as if people want to run for chairman of the board who really would like to eliminate the enterprise. How does an organization respond to that?

MR. KOSKINEN: As I've said in the past, I understand that there are different ways of framing issues as you go. I think in both cases what people are basically saying and I think resonates with most people in the public is the tax code is too complicated. So some people talking about abolishing the IRS have said, "Everybody ought to be able to file on a simple small card," but the only way you could do that is if you had a very simple tax code. And I've made it clear from the start that while tax policies, the domain and providence of the Treasury Department, the White House, and the Congress, we're just into tax administration. Once I've said that, I've also told members of the Congress that anything they want to do to simplify the tax code, we'll do our best to try to help and be supportive because it is beyond the pale of understanding. I don't know how anybody understands the full sweep of the impact of the code.

Chairman Camp of the Ways and Means Committee, before he retired introduced a very comprehensive proposal for tax reform and had a way of framing it that tax code was longer than the Bible without any of the good news. I told him my rule of life is I will give him credit for that statement for a year and then I'm just stealing it for my own as we go forward. But I do think, as I've said, unless you think you can run the

government with no money, if people are going to file on a short form or even a larger form, somebody has to be there to collect the money. Somebody has to make sure that the numbers are right; that somebody is reporting the right amount of income against which they are applying a simple formula, which I assume would be simple.

So I view it as a concern, cry against the complexity of the tax code and a desire to make it simpler, and from my standpoint, if we could do that it would be a great step forward, and I think the IRS employees would agree with me.

MR. GLECKMAN: That said, it's been a long time since Congress only asked the IRS to collect money. You now run a large welfare organization through the earned income credit and the child tax credit. You're responsible for managing a huge health insurance program. Is it realistic for Congress to continue to expect a tax collecting agency to do all of these things that really have nothing to do with collecting taxes?

MR. KOSKINEN: That's a good reminder that what I should have said as well is if you're going to have a simple little card that you fill out your adjusted gross income, you then have to figure out what you're going to do with all of these programs, the tax credit programs that we run. You either have to abolish them or you have to have a more complicated form for the people who are eligible for the educational tax credit, the child tax credit, the earned income tax credit. It is, again, ironic as shown in December, that at the same time people attack the IRS, they keep giving us more things to do, and to some extent, particularly in the social welfare area, that's because they ultimately understand, even though they may not say it, that we are very efficient and that, in fact, we will get the job done.

And in fact, one of the points that if I'd had a little more time in my speech I would have noted, that in terms of efficiency and some members on the hill have talked about, well, we purposefully cut your budget to make you more efficient, the OECDs is about the issue their update on tax efficiency from around the world and the

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IRS spends half the amount to collect a dollar of revenue than the tax administrations for Germany, France, England, Canada, and Australia. We're spending half as much. Now, there are obviously dissimilarities between the two of them, but that will tell you, give you some indication of how efficient we are. So you're exactly right.

Now, I've met with tax administrators from around the world, and a number of them have tax credit programs or social programs of one kind or another, and I think again, because people have discovered it's a simple way to reach out to the constituencies. I mean, we've got \$150 million individual tax returns, so they cover the gamut of people across income strata, except for those who don't make enough income to file, and if they're working at all, they can then file and be eligible for the earned income tax credit. But it is true that we earned income tax credit is an interesting duality. On the one hand, we have an obligation to make sure everybody who is eligible knows about the program and applies. We reach about 80 percent of the people eligible, partially because about 30 percent of the beneficiaries turn over every year -- people get a better job, they move out of qualification, or they quit working and are no longer eligible.

And on the other hand, we have to try to make sure that only the right people get the right amount, and it's one of the major challenges we have because -- and I was looking at the educational tax credit draft report from the inspector general -- Congress has a way of giving us requirements to pay tax credits and then getting us the third-party information after the credits have already been done. So on the educational reform area, we do educational tax credits. We don't get the information from -- we're not required to get the information from colleges and universities until the end of March, but people are expecting their credits in January, February, and into March. So it is more complicated than you'd expect, and it is true, it's a very good point, most people thinking about the IRS and paying their taxes have no idea the amount of money and the amount of time and effort we spend running programs Congress has given us to run, and in effect, a social welfare agency. I'd be happy to give some of these programs over to

somebody else, whether it's HHS or the Labor Department, and our life would be a lot simpler.

MR. GLECKMAN: You have obviously been pushing very hard to get Congress to give you more money. I'm not sure whether you think it's likely that you're going to get much more money. But let me ask you to get out your crystal ball for a minute and just ask, if you don't get additional funding -- not even talking about more cuts in your budget -- but if you don't get additional funding, what will the IRS look like in five years?

MR. KOSKINEN: Well, that's our concern. When I got there, John Dalrymple, deputy commissioner for Service and Enforcement, and I have been talking about what the vision of the future ought to be, the answer to that question, "What should the IRS look like?" And that's why I've talked about what the future ought to be for an individual taxpayer. The concern I have, and that's where we've begun -- I started to look at the demographics. When I got the chart that showed we had 650 people under 25 out of 87,000, it became clear to me that we have a significant problem in the workforce. So that if we -- again, my point about guerilla war, fighting your way through the budget each year, is you're going to wake up one day, as somebody said recently, if we don't do something about this and we keep being constrained and having to restrain hiring and we look at the aging workforce, we're going to go out of business one day. Simply, we won't have anybody there and everybody will have retired, the knowledge will have been gone, and we're going to have this significant challenge.

So with flat -- let's assume flat funding, which hasn't been the case for the last five years, but if we're successful and just got held flat for 2016, it means that the good news is things won't get a lot worse, but the bad news is they won't get significantly better. So part of our challenge in trying to build toward that future is to find ways to make even modest investments in information technology to try to move more and more people onto the web where we can to give them better service as quickly as we can, and

to try to move them out of the channels of calling us and coming, walking into our Taxpayer Assistance Center, so that the people who need to get a hold of us -- whether they don't have access to the web or they have complicated questions that need to be answered -- can get through on the phone or can get service at a walk-in center. But I do think if we go just flat for the next five years, with inflationary forces and no additional responsibilities -- and it's been a while since we didn't have any -- the IRS is going to become increasingly dysfunctional in terms of its basic mission. And my concern is not just what do we collect with our own efforts, \$50 or \$60 billion a year which is a lot of money -- my concern is at some point the voluntary tax compliance system begins to erode. And as I've said, that's not an on/off switch. You can't wake up one day and say, "Wow, I didn't know that was going to happen; here's some more money."

So part of the reason I'm so serious about this is that people need to understand the five-year implications and ramifications of where we're headed. And as I've said in other context, I don't want anybody to say we didn't warn you. So you should treat this as your warning that this is a real problem. It's a serious problem. And we're beyond the simplicity of saying, "Well, we'll cut your budget and you'll be more efficient," or "We'll make sure you know what you're doing." Cut our budget again and I know what we're going to do. We're going to have fewer people. We'll have technology that doesn't respond effectively. We'll do fewer audits. And if that makes somebody comfortable that we now are paying more attention to what we're doing that will be the result, but it does seem to me a fairly strange way to run an organization where we are the producers of 92 percent of the revenues that run the government.

MR. GLECKMAN: One last question and I'll turn it over to the audience.

Have you seen any evidence yet that this is affecting compliance?

MR. KOSKINEN: No. We don't -- compliance is a difficult thing to measure. The economy has been good, so tax revenues go up. When the economy gets not so good, tax revenues go down. That, by itself, doesn't tell you much about

compliance. Rosemary's good research and analytic and statistical organization does tax gap analyses. We audit 13,000 returns a year for three years will give us 40,000 returns, and we go through those in detail. Not to catch people who haven't paid their taxes, but to see what is going on with compliance. That's how we know what our improper payment rate is more or less with the earned income tax credit. So we expect by the end of this year, early next year, to issue the next updated tax gap report which will give us some indications of where we are with compliance. The problem with compliance is we're not measuring one percent at a throw, and so my concern about it is whenever it gets to be visible and noticeable, it's going to be a lot more than one percent and it'll be a lot harder to fix.

MR. GLECKMAN: Thank you.

A few questions from the audience. Yes, sir. And please wait for the mic. And introduce yourself if you could.

SPEAKER: (Inaudible) the older people as they retire to help solve some of your budget problem?

MR. KOSKINEN: It would. If we weren't in a position where, as I said, this year, the only way we could deal with a budget cut was to say we wouldn't hire anybody. In other words, the only way we've gotten down by 13,000 people is primarily attrition. But you're exactly right.

The other side of the coin though is the people who are retiring have wonderful years of experience and great knowledge and insight, so part of the challenge for us is how do we engage in what we call our knowledge management program we've just started over the last year which is how do we capture as much of that experience and those insights and the way they do their business with those employees before they go. But you're right; at some point in time, and particularly my concern is when you simply say we're not hiring, then wherever the turnover is greatest you have the biggest need. So as often happens -- I saw it in the private sector a lot -- in some places we have

dislocations, we don't have enough support people because we haven't hired anybody, so we have not enough secretaries or administrative support, and in some places we don't have enough people to run the IT help desk. But if we rationalize the process, had an ability to fill positions appropriately, then you're right; over time, it's important for an organization to bring young, bright people in. They'll start earlier, at an earlier stage in their career, there will be less experience, which is why even in the worst of days this year and next year we're going to continue to train people because I don't think we can afford to send people out to deal with the public who don't know what they're talking about or aren't properly supported.

But it goes back to the Baby Bust problem. Not only do we need younger, experienced, energetic people coming into the workforce; we actually in five to 10 years, when we look at need for frontline managers and supervisors, if we keep going the way we're going, we're going to look at a group and there's not going to be anybody there. So it has all of these factors to it. But you're right; if we balanced out the workforce over time, that would actually assuage us. I think if we could get enough money to move forward with our information technology work, the call volume would go down. And as I've tried to get the appropriators to understand, if we get more money, we're not talking about hiring 13,000 more people. We ought to be able, because we have such an antiquated system, if we just, as Terry Mulholland, the head of our IT says, "We shouldn't be at the cutting edge; we should just be fast followers." My way of putting it is I'd love to be in the 21st century with our IT rather than the 20th century. But it's all part of that kind of single package.

MR. GLECKMAN: Questions?

Yes, ma'am. Wait for the mic.

MS. KRAMER: Hi, Kaitlyn Kramer with Brookings.

You had mentioned that you lost 5,000 enforcement employees. I was wondering when making those cuts to the Enforcement division, to what degree does

return on investment of the various enforcement activities inform those cuts?

MR. KOSKINEN: Actually, what we have is, as I say, we have to do statutory mandates, so we have no choice about FATCA and the Affordable Care Act or the new bills that Congress has passed. The second highest priority for it after that is to run the filing season and collect the \$3 trillion we collect, so we'll do whatever we can to make that mechanics work. So that leaves us with enforcement, tax payer services, and IT. And so when you take a cut, we've done the best we can to try to balance that. We get -- our appropriations come in those buckets, so to some extent we're constrained by where the appropriators put the funding. But in terms of the tradeoff, we have probably 3,000 fewer people answering phone calls right now than we used to have to go along with the 5,000 fewer enforcement people and the 3,000 people we put into identity theft.

So what you're trying to do is you're making a balancing decision to try to figure out, okay, how do I minimize the negative impact of the cuts I'm going to take? So we understand that depending on how you measure it, every revenue agent, revenue officer, criminal investigator produces somewhere between a million and a half and a million -- \$800,000 a year each. So we know when we in effect leave money on the table -- you can talk to any revenue agent and they will tell you, "We know" -- it's not a question of guessing -- "when we look at returns, we start with the returns that have the biggest, most egregious problems, and so we're leaving it on the table. That's the point of tax cuts for tax cheats. There are people out there who have made mistakes in their returns, consciously or otherwise, that we're simply not going to reach because we don't have the people. If we put more people into enforcement, we'd have even more miserable taxpayer service on our phones and our walk-in centers because we don't have enough people there anyway.

As I've say in my confirmation hearing, I spent 20 years dealing with troubled, bankrupt, large private sector companies. I've never dealt with a company where across the board anywhere you went there aren't enough people. There aren't

enough people in chief counsel. There aren't enough people in appeals. There aren't enough people in any of our operating divisions, and it's just systemic. And I learned that not because people were complaining, just as I interviewed people, everybody who ran anything, getting ready. It was clear across the board. They would describe how they were dealing with the fact that they didn't have enough people. So it was a positive discussion from their standpoint and I was just stunned that there was literally no place that had enough people.

MR. GLECKMAN: One more. Maybe two more questions.

Yes, ma'am.

MS. RISER: My name is Mindy Riser.

Two quick comments and a question.

The quick comments. In my dealings with IRS by phone, I have almost uniformly found fine people and helpful people who take their jobs serious.

There's an increase in phishing. I've also gotten calls. Luckily I was in another part of the U.S. and I didn't answer the phone, but someone pretending to be an IRS person and, you know, you're in trouble, and call me back. And the person called me a second time, and then I called the IRS and they told me, phishing, once again.

My question is this. It's a naïve question but I've always been curious. We hear that --

MR. KOSKINEN: Those are the worst. When somebody says, "You know, I don't understand this." You grab your wallet and then you say yes.

MS. RISER: Yeah. The question is this. We've heard of multi, multi-million dollar payments by corporations, banks that have not paid their appropriate taxes, manipulated. Where does that money go, and is there any way that the IRS can get a hold of some of that? We're talking probably billions at this point.

MR. KOSKINEN: We are talking about billions every year. As I say, we collect \$60-70 billion a year just in our enforcement activities alone. None of that comes

to us. It all goes to the general treasury fund. And in some ways, and in fact in a lot of ways it probably shouldn't come to us. In other words, one of the things, it's clear in the way we run the organization is nobody gets measured by, let alone paid a performance award by how much they collect. So people should be comfortable when they're negotiating or talking with us that the agent they're dealing with isn't going to get more or less pay depending on how much you end up owing. But it is attractive.

At one of my recent hearings, an appropriations hearing, actually, somebody suggested, you know, we're doing this. We could give a little of that money to the IRS, and it certainly would help with our funding problem. But I think ultimately we need to be funded directly and people ought to be comfortable that by being more aggressive we're not helping ourselves by building the budget up.

I would note, just maybe as a closing point, I now -- I've been to 37 offices. I've held frontline meetings with frontline employees at every place, managers at every place, union people at every place, had lunch every place with 20 employees. And when I talk to -- go to call centers, the issue I get from people in the call centers isn't that they're underpaid or they're everybody is harassing. The issue they have is there aren't enough people to answer the phone and provide the service that our employees think taxpayers have a right to get.

And I talked to one woman who had been promoted out of -- you know, into a managerial position out of the call center who went back. And she said she went back, and I think it reflects what everybody I've talked to in a call center -- the reason they're there is because they feel a sense of satisfaction. If you've got a question, they can answer it and they feel they've helped you.

So last year, as I was wandering around seeing these 13,000 employees and listening to them, one of the objections I got from call center people was it was the year we had said because of the concern about the lines, we would answer simple tax questions. If you had a complicated tax law question, you had to go to our website or

someplace else. And the employees kept saying, "But we know the answers." And I had to explain to them we know the answer but by definition, it takes longer to answer the question and therefore, the queue gets longer. So we had no choice but to say these are the questions you can answer; these are off limits. And as I say, it's not good for taxpayers. They ought to be able to get that answer. And in fact, we ought to reverse it. We ought to be answering the complicated questions; the simple ones are the ones you ought to go to the website for.

But the bottom line, and I think it's important for people to understand, is that the people who care most about that are, in fact, the people in the call centers who feel they could help taxpayers more if they just had more resources.

MR. GLECKMAN: Commissioner, thank you very much.

(Applause)

MS. MARCUSS: Good afternoon. I wasn't sure of the choreography so I was just sitting here. Thank you, Howard.

So thank you very much, Howard. And thank you to the Tax Policy Center, the Urban Institute, and Brookings, for inviting us here and featuring the IRS budgetary dilemma on tax day this year. Perhaps you're doing that in the spirit that those of us who are associated with taxes are definitely in a challenging endeavor. And April is as good a time as any to commemorate that. So thank you.

I'm also delighted to be participating with this panel. They're all well-established tax experts, and Eric and David as well, part of their distinguished careers were at the service where they are still fondly remembered. And it's always a pleasure to be on a panel with Nina, who is simply our most important, trusted advisor and commentator. And Nina is a black belt at keeping the experience for the taxpayer in the forefront. And I'm going to talk about that today, too. But Nina will be more dynamic. I'm an economist. Nina will be much more dynamic, but this is, in fact, the issue of the day.

And thank you so much for coming here, you in the audience. You are

our people. You've come here in April on a drizzly day to hear us talk about the IRS budget. Thank you.

So the commissioner talked about a more complete online experience for all taxpayers, and that is, in fact, what the IRS is focused on now, and this is what we're working on. And I'd like to take this opportunity just to put some bones on that and to explain what it is that we're doing.

These would be online taxpayer accounts. Secure online communications. Better infrastructure for telephone and Tax Assistance Center people so they can fix things the first time around. Better service delivery through all channels. And the taxpayers and their representatives, tax preparers, would be more in the driver's seat for issue resolution. I mean, three out of five taxpayers use paid preparers.

Taxpayers could arrange payments online. They could pay online. And this would allow us to deploy people to work with taxpayers who want or need personal contact, and many do, and many will. They will persist. Those people need to be trained better, and they need to be given information technology to do the job.

And the point that I want to emphasize this afternoon is it will also reduce the cost of enforcement, including the cost of enforcement to the taxpayers themselves. The cost borne by the taxpayers.

So what's new at the service about this? Well, pretty much everything is new about that image. But what's new with the service is we're actually taking a comprehensive look at this. We have figured out what investment is needed in what order, and we've translated that into budget initiatives, so we can, going forward, describe what it is that we need to do to be a 21st century tax administration. And we can put that forward to the Congress, and we can show how we will be responsible and accountable for the funding and the investment that will be needed for that. That will benefit tech savvy taxpayers, but it will also benefit other taxpayers as Commissioner Koskinen had mentioned.

It will reduce taxpayer burden. For example, the cost of coming into compliance through exam, for which over a million taxpayers have an experience every year. It will provide more cost-effective enforcement which should raise net revenue per dollar spent, and it also builds more bridges and more cooperation with our partners -- that is tax preparers and software companies. And we appreciate the title of today, which is "How Budget Cuts Affect Taxpayers and the Tax System."

And this is the point that I would like to leave you with. I want to broaden the picture of who bears the cost of a low-tech tax system. We should think of the total cost of compliance of having two parts -- the cost to the IRS, the cost to the fisc, the administrative cost, and the tax borne by the taxpayer. And the costs borne by the taxpayers are unevenly distributed, and the costs borne by the taxpayers overall far exceed the administrative cost of running the IRS.

So the story in the Washington Post today is a story of taxpayers bearing the cost of a low-tech IRS. I mean, you can go online and you can change your address for Ranger Rick Magazine in a minute, and that gentleman reported in the Post today that he just wanted to change his address didn't get in two days running. I mean, as the commissioner said, that's not going to Mars; that's like information technology number one.

So we at the IRS are determined to move through this path towards better information technology. And I'll give you two examples of how we think this will make a big difference in my few minutes remaining.

We want to move, and we'll be able to move, issue identification resolution forward in time. For example, for many taxpayers, during the filing season. Now, keep in mind that four out of five taxpayers are anticipating a refund. Any delay in the adjudication of their tax return is a delay in a payment which to many of them is the largest single payment they will get during the year. So if we can do that, if we can preemptively look at the tax returns and communicate with taxpayers, say by email, be

able to say, like the gentleman in the Post story today as well, you've got a very big refund. That is exactly what we see in identity theft returns. Could you provide some documentation for why that refund is so big? Well, apparently, he had it in his pocket for the two days he was waiting to get in to talk to someone. It could be uploaded and sent to an IRS that could deal online.

And keeping in mind that traditional enforcement in our world is expensive. So we can effectively lower the cost, and I'll give an example of two ways.

So for preemptive preemption and quick outreach to taxpayers if we could deal with taxpayers online. Over half of returns have at least one error. But it's not really cost effective to seek to evaluate all or even a majority of those because the apparent deficiency is less in monetary terms and the cost of addressing that where the cost of the approaches we have at hand is very high and the cost to the taxpayers of that examination to the taxpayer actually end up in exam given today's IRS technology and communications channels, often substantially exceeds the return to the fisc.

So if we're able to evaluate before we accept returns, keeping in mind that for many of our enforcement responses it's more than a year after the filing that the taxpayer hears about them, if we can deal with taxpayers digitally early, we will have many returns that actually never move into exam.

And then the other aspect, here, again, I want to emphasize that we at the IRS look at the total cost of administration as including the cost to the taxpayer, and these are not so apparent and it's not apparent when the IRS is struggling for budget that much of this additional cost is being borne by the taxpayers.

So if we invest to improve the taxpayer experience, it will lower the total administrative and taxpayer burden cost per dollar of enforcement revenue and raise net revenue. And here's a way to think about it. Voluntary compliance revenue has a higher total rate of return after you subtract the cost of the IRS, the administrative cost, and the burden to the taxpayer, than enforcement revenue.

Taxpayers, just to file each year, incur about \$60 billion in costs. Our estimates show that taxpayers who end up in exams bear another 10 percent, another six billion in costs, and many fewer people, a million -- a million in exam and maybe seven or eight million in various stages of accounts receivable -- bear all that cost. So the cost of compliance to the taxpayers dwarfs the cost that the IRS is expending. So this is where much of the burden of a low-tech IRS rests. It rests with the people standing in line in Dallas that you read about today, but it rests also with taxpayers who are trying to come into compliance in a very low tech world.

So where are we now? We're at the first steps. The commissioner mentioned get transcripts. That's something that we're doing. There are online payment agreements that taxpayers can structure but they have to be handed off to the IRS and the IRS gets back to them.

So we know we have a long way to go. We know this requires investment. To move anything like an interactive IRS is going to involve quite a bit of investment. A change in the skill mix. We're developing comprehensive plans of how we will deploy that investment, how we will get there. We have translated that into budget initiatives so we can be accountable for that. We're taking first steps now because we must demonstrate that an investment in the IRS is not going to just reduce these long lines from four hours to two hours. No one would invest in that. It would bring the IRS up to an organization like any other financial organization or indeed you can order a sandwich online. I mean, there's a lot of things that you can't do at the IRS because of our information technology. And we'll also allow new ways of working with our partners, such as software companies, paid preparers.

So I will turn the podium over to the others on the panel. I'm very interested to hear what they have to say, and then we'll be looking forward to taking your questions.

(Applause)

MR. TODER: Thank you. I'm Eric Toder with the Tax Policy Center. Let me make sure I know how to work this. Okay, good.

I'm very glad to be here. I want to thank Commissioner Koskinen for coming and speaking to us on our Tax Day event, and thank Rosemary and others at the IRS for helping to organize this.

I'm probably the outlier on this panel. My organization deals with tax policy, not tax administration, and as the commissioner pointed out, there's a division of labor in the U.S. government, the elected officials. And the White House and the Treasury and Congress make the tax laws; the IRS administers the tax laws. That's, of course, very important for us to remember that distinction, but we also should understand division is not as clean as we'd like to think it is.

Tax administrators operating with scarce resources inevitably influence policy outcomes by their choice on how much to spend on enforcement, how much to spend on service, who to audit, and how intensively to audit particular issues on tax returns. So the outcomes of policies do depend on what the IRS does.

And, of course, from the other side, the policies that the president and Congress enact are not going to work unless the IRS can effectively enforce them. So there is much more of a link between the two than we commonly think.

I'm going to comment on three areas -- a little bit on trends and IRS resources, and I'll be a little bit repetitive of what the commissioner said and what Rosemary said. A few comments, again, slightly repetitive on changes in IRS workload that have happened that have accompanied the nongrowth in resources, and those are really coming from two sources. One, demographic changes, changes in the economy, which none of us can do very much about, and then other from policy changes which we have done something about. And finally, I want to make a few comments on whether or not tax reform would help matters.

So let's start with the data here. The upper left-hand quadrant shows

real IRS operating costs in billions of 2014 dollars, and that you could see has gone up only slowly over time and then dropped pretty sharply after 2010. All these pictures look the same with this big break after 2010. Operating costs on the top right as a percentage of GDP. I could have also shown operating costs relative to labor costs or wage index that would have looked very similar, and that has been declining gradually over time. The IRS budget as a share of the U.S. economy has been shrinking, but again, there's this more precipitous drop after 2010.

The bottom left shows average IRS employment again dropping but really plummeting in the last few years, and as the commissioner, there are also the demographic issues at the IRS with the aging of the workforce and the increasing number of experienced people who are retiring or eligible for retirement.

And finally, the last one actually doesn't show the same picture. That's operating costs per dollar of collection. That's bounced around but hasn't really moved up and down very much, but that's really being driven more by collections than by operating costs. The fluctuations are due to revenues going down during recession, going down when there are tax cuts, going up when there are tax increases and there are economic booms.

So the important thing about this figure is the level, not the trend, about four-tenths of a cent it costs the IRS for every dollar it raises in revenue, which as the commissioner said, is very low in terms of international comparisons.

So I just have a little bit of data. While IRS funding has been level or declining, individual tax returns filed have grown. Between '98 and 2005, the number of itemizers grew. The characteristics of returns have also changed. You have more returns with business income which are more complicated to examine. You have more returns with partnership or S-corp income. You have more returns filing AMT, although that's a lone number and it's more or less stable. And you have more people filing the earned income tax credit. Those are from the individual area.

On the business side, there have also been changes. There's been the growth in internationalization and the increased tax avoidance, both by individuals and corporations, which the IRS has to deal with. Deal with transfer pricing, deal with all those complex international corporate issues. And on the business side, there's been the very large growth over the past 20-30 years in the share of businesses that are organized as S-corporations and partnerships instead of C-corps, and that creates the additional issue that you not only have to audit the individual taxpayer with that form of income and see whether they're reporting correctly what the entity has reported to them, but you have to make sure the entity is reporting it correctly and it's reporting it correctly to the right taxpayers. So that makes the job very complicated. These are entities that don't pay any taxes themselves but what they report affects individual tax revenues a lot.

Finally, I'll get to the policy issue on tax expenditures. It's very kluge. I always resent it when people try to add up the number of individual tax expenditures, and here I am doing it. And it's pretty arbitrary because it really depends on how you group different provisions and the JCT and the Treasury does things differently. In defense of myself, I'll say I used Treasury figures which I adjusted to make them consistent to the changes back and forth and the way they reported different things differently during the Bush administration. And since it's all coming from the Treasury it's a consistent measure. And what you can see is every year the number of tax expenditures grows. So this is something that is growing.

The dollar volume of tax expenditures as a percentage of GDP -- oh, by the way, back to the last chart. At the bottom I have refundable credits, which have multiplied by a factor of 500, going from one to five, and that might seem like a pretty small number even though it's a large growth, but again, these refundable credits could be a major headache.

And now I'll talk about the revenue loss. This is just from individual tax expenditures including the focus of this talk is on individual taxes. And that's individual

tax expenditures that are including those that individuals claim on business income. And those numbers have been gradually rising over time, and the bottom of that chart, at the top, a black box -- shows dark blue -- shows the revenue losses. The bottom shows the portion of those tax expenditures which comes from the refundable portion of refundable credits which are scored as outlays in budgets. And note that that's really gone up from, again, a small number, but from .26 percent to .58 percent of GDP.

And if you look at the next chart, the refundable credits are really scheduled to soar, primarily because of the premium assistance credit under the Affordable Care Act. But also, the earned income credit, even though this chart from Treasury assumes the elimination or the expiration of the expansions enacted in 2009, the earned income credit still continues to grow over time.

So why does this matter? One, the tax expenditures creates a lot of boundary problems between activities that do or do not qualify for tax breaks, so that multiplies the compliance issues for taxpayers. The administration issues for the IRS the things that need to be checked. And finally, refundable credits, as Nina has reminded me at times, create additional opportunities for refund fraud and that's, of course, a serious threat to the system.

So I would make one more comment about this. When you look at the revenue per dollar collected, the .4 cents per dollar, it really should be more like .3 cents if you were to count the tax expenditures, add that back into revenue and saying what the IRS is really doing is not collecting 18 percent of GDP; it's collecting 24 percent of GDP and then it's giving 6 percent of it back in terms of programmatic policies. So the job is a lot bigger than it seems.

So let me make a few comments on tax reform because some people say, "Oh, the solution to the problem is tax reform." Clearly, if you went to a flat tax as we discussed in the discussion with the commissioner or VAT replacing the income tax, you would reduce compliance costs but you would have a very, very different kind of tax

system and a very different kind of economic policy, and so you can't just evaluate that in terms of a solution to the IRS. That is a very, very big change in social and economic policy for this country.

The more modest tax reforms, such as 1986 or Representative Dave Camp's, would eliminate or reduce tax expenditures and lower rates, and when you think about them, tax reform is trying to reduce the cost of the tax system, but what are the costs of the tax system? Well, if you talk to economists, a little arcane concept, but economists would say the biggest cost to the tax system is what's called the excess burden, the fact that because there are taxes and because taxes are not neutral, it causes people to behave differently than they would in the absence of the tax system, reduces economic efficiency, reduces output.

So everybody who talks about tax reform says reducing those costs and helping economic growth are the biggest reason for reforming the tax system. Those are the biggest costs of operating the tax system.

The second cost is the compliance cost for individuals and businesses in complying with the tax system. That turns out to be about 10 to 15 percent of the cost of tax revenue raised, which is maybe less than the excess burden but still a substantial cost. Then you get to the costs of administration, which are way less, about .4 cents per dollar.

So if you're thinking of tax reform as a purpose of reducing the cost of operating the IRS, that is the last thing that matters in tax reform. Tax reform is about other things, and because it's the last thing that matters, I think it's very doubtful to expect that tax reformers, when they get through all the other goals of tax reform, are really going to care about that.

So my bottom line is no matter what you do with tax reform, you really have to adequately fund the IRS.

And I will turn this over to Nina.

(Applause)

MR. GLECKMAN: Our next speaker is Nina Olson.

MS. OLSON: That's more complicated than I can handle. I am technologically challenged on PowerPoint. I never use PowerPoint slides, but this is a special occasion. I'm using some PowerPoint slides to make my point.

Today, I'm going to talk about trust and power and how that relates to the funding cuts of the IRS, and in particular, how that relates to the funding cuts of taxpayer service.

As I think we talked about in the beginning, the IRS is the most powerful creditor in the United States today. It has awesome powers to assess tax and collect tax, in many instances without giving the taxpayer the right first to go to the United States Tax Court before they pay the tax, and certainly, we don't have to go to any court of law to do most of our collection actions. We don't have to ask a judge to let us grab money from your checking account, from your wages, or anything like that. We don't need to get a court's opinion to file a lien, a federal notice of tax lien. And I think this power cannot -- we cannot think about the budget cuts unless we keep in mind this power of the IRS.

And so if you have an -- and that sort of triggers some of the visceral reactions that people have to the IRS and that you hear in some of the presidential statements. You know, the IRS can actually take your hard-earned dollars. And so if you have a power like that, you want that power to be very, very regulated and careful. You want it to be used legitimately. So you want the employees in the IRS to be trained, and you want the IRS to be accessible by you. You want to be able to get through to that power and say, "Don't do this to me. You know, you got it wrong, IRS, and I've got the information to tell you. I'm entitled to that dependency exemption or that earned income tax credit. I switched the digits on my return. Listen to me. Fix them. Let me get that \$3,000." You want due process in that tax system, the ability to come in. What we promise in our Taxpayer Bill of Rights, the right to challenge the IRS and be heard.

So let's look at how the IRS is doing as the taxpayers attempt to reach the IRS and be heard. I have been practicing now for four decades. I thought about whether I'd say 40 years or four decades. There's no good way to say -- two score I have been practicing and involved in the tax system, and I have never, ever seen anything like this filing season on the phones.

This is just the rollup -- the customer account services are really all of our taxpayer help lines. And so a year ago, we were able to answer seven out of every 10 calls, and this is the filing season, so it starts from January 1st, and today we can't even answer four out of 10 calls, and you have to wait on average 24 minutes.

Now, let's look at some of the lines. The top line is the 1040 number, the number that taxpayers call, 25 percent of the calls that want to get through to a live assister are getting through after the privilege of waiting 22 minutes.

Now, I just want to note to you all that actually, the IRS has changed some policies up front this year, that sort of these numbers mask. As bad as these numbers are, these numbers mask what the taxpayer experience is because the IRS, I think, rationally made the decision that if you're looking at on average 22 minutes of sitting on a line, we know what volume we're getting, and there is no way that a human being is going to be able to pick up that phone and answer you within a reasonable period of time, so we do what we call -- I love this term -- the courtesy disconnect -- at the very beginning of the call. And this year, to date, in the filing system, we have -- or through Fiscal Year 2015 this one is, 6.8 million calls at the beginning of the process, and that is seven times more this year to date as it was last year to date. That's extraordinary and shows you how much the limited access is that taxpayers have.

Now, to just keep going a little bit further, I want to talk about what actually people are supposed to be doing when they reach us on the phones. They can ask us about math error corrections. I gave you the example of the switch digits on the social security number. They ask for penalty abatement. I was sick. I could not do X. I

relied on my return preparer that we're pushing people to rely on more and more even though they're unregulated and there's no minimum standards to prepare income tax returns. They can ask to enter into installment agreements so that we don't go out and grab that money from their account. If they can't get through, guess what we're going to do? It's all automated, folks. If we don't hear from you, we're reaching out, scheduling that -- touching your account or your wages and then you're going to have to get in queue to return the proceeds because you can't pay for your food or your medicine. This has happening every single day. It is happening while we're standing up here.

You can call the IRS to get them on these phones to put you into currently not collectible status, which says I cannot afford to pay my basic living expenses if you take my money. If you can't get through the phones, then we are taking your basic -- not, you know, extraordinary or extravagant -- basic living expenses. No food. No housing. That's what we can do. That's the exercise of the power that the IRS has. And it is not a legitimate -- it looks to the taxpayer like an illegitimate exercise of power. And in fact, while you're standing in line at the walk-in sites or waiting on the phones for anywhere from on average 25 minutes but maybe not more, and if you're a low income person and you have a lunch break that might be a half an hour, you know, you cannot wait for 25 minutes on average. It might be that you have the 45 minute wait. You're going to have to hang up and then bad things are going to happen to you. And again, that drives even down to the more expensive use of resources on the collection side or the enforcement side, or the taxpayer advocate side, the organization I head, because anytime we get a case in, there are two employees working that case -- my employee and the IRS employee that we're making do the right thing. Okay?

So how cost efficient? Someone was asking about return of investment. You can see the downstream consequences of failing to fund the phones. And there is no answer to the phones except more human beings. It just a math problem. And no matter how much we drive to the online process, there is an unmet demand. And IRS's

research and my own office's research show that there is an unmet demand for people who have problems that cannot get through to the IRS and it cannot be solved online. They need to talk to a person and they cannot get to that person. So as we move people to other things, the phones have not dropped. We've had more hits on the refund online product, and yet our phones are still getting the calls. It's just a different group of taxpayers with a different group of issues, including those 6.8 million that couldn't even get through.

So let me come back to power a minute. You can't -- taxpayer trust in the IRS and the legitimate use of power is -- I am more and more believing is what drives voluntary compliance. And as we walk away from the ability for taxpayers to talk to us and the ability of us to hear what taxpayers are saying, our actions look increasingly arbitrary and capricious in the illegitimate use of power. And that, more than the absence of the decrease of auditors and collection personnel, that is what I believe is going to drive the compliance rate down because taxpayers will take every opportunity they can to not report income, to not engage with us. To not feel like they're part of a greater civic whole and that taxes play a role in government, and a legitimate role in government. You know, the government is sending a message that we can't talk to you right now. We're busy. You know, we're busy answering other calls, but we're busy and your call doesn't get through. And how that feels to the individual taxpayer and how that feeling translates into their actions going forward is to me the crisis in our tax administration system today.

And I will just say one last thing about this point about power; that as the IRS moves to online, and as the IRS moves to automated enforcement activity, and activity where there is no personal engagement between the IRS employee. And as the IRS moves away from a physical presence in the states, there are today, you know, 13 states where there is no one located in that state to conduct outreach and education to small businesses. Okay? No one person in that state. All right?

That's a quarter of our states. As we become more and more remote,

then it is likely that the only interaction that taxpayers will have with an IRS employee is when they are trying to do something bad to you. They are trying to take your property. There's no one answering the phone to talk to you about why they shouldn't be taking your property, but there are people that will come knocking on your door to take your property. What does that mean for the taxpayer's relationship and trust in the most powerful creditor that we have in the United States? Just some things to think about.

(Applause)

MR. WILLIAMS: I'm Dave Williams. Actually, of the folks on the panel, I've worked at the IRS the longest, believe that or not. I've had a career both working in the U.S. Senate and then working in tax administration at the IRS.

Just to give you a sense of that, when I talk about some of this stuff as we go forward, the very first tax bill on which I worked was the 1986 Tax Reform Act. I had just come out of grad school and I got to work on the tax exempt bond provisions, and that act, of course, as you know, lives in legend as the Holy Grail of tax reform, at least in myth; I don't think in fact that's the case, and it's certainly not an achievable goal today.

But I was able also when I went to the IRS to have the privilege of working on running the earned income tax credit program which for me to this day is a really high honor because of what that program does for people. It is run through the tax code and therefore it has challenges, but the ability to say I was able to run one of the largest means-tested anti-poverty programs in the world is a pretty cool thing, which is part of why -- and the commissioner didn't mention it -- something about working with the IRS has to -- you have to think about it as the amazing things that you can do for and with people and not just as a job.

So with that frame, I left the IRS a couple of years ago, went back to Capitol Hill briefly, and then went to work for Intuit. And just a comment about the company before I make a few comments.

Most folks think of Intuit as the TurboTax Company, so the DIY world. You might find it interesting to know that we also sell tax software to more than 100,000 tax companies, professionals, small -- we call them solo printers. They're very small companies. But we also think about ourselves and are beginning to articulate it more as a full-service company. And so some of the comments you'll hear me make are intended -- I'm still getting into that frame -- are intended to think about the industry as a whole.

I'm going to make just a couple comments. One is about the challenge to the IRS. You've heard a lot about it today but just a brief comment about that. The technology enablement is where I want to focus. I'm heartened to hear some of the things Rosemary was talking about what's coming to the IRS. One of my other jobs at the IRS was the director of Electronic Tax Administration. And in fact, I think the commissioner may have used, or Rosemary may have used part of my speech from 10 years ago when we made some of those very same predictions and comments. That is not a criticism; it is one of the things that I always found challenging at the IRS, is there were things that were the program of the future and they always would be. And it is my hope that we have past -- crossed that Rubicon, however you want to think about it, and that we really are at a point where we can begin to move forward.

So with that frame, the reality that you've heard from all the others I think, I've experienced, and I think we need to recognize it as we look at a discussion about resources, and that is the IRS's big and continually growing mission. It's not just growth in the population. It's not just growth in complexity in the tax system. It's complexity in our entire lives. And it is a complexity in things that this year have been particularly noticeable, like the growth in tax fraud. And I will talk a little bit about that now and just say it is a threat I think that threatens the very fabric of the tax administration ecosystem. It does not affect one company or one actor; it affects everybody and it affects our ability and will affect our ability to administer the tax code going forward.

So more on that later. But I think the recognition of all that leads me to

believe that there is not a solution that can be effectuated just by the IRS to many of the problems or challenges that I just mentioned, or by industry. And there's an actor that's not here today that actually I think is becoming more and more apparent, which is all of those state departments of revenue who also have an incredibly important role in what I would like to call the tax ecosystem. And I think that anything that we talk about in terms of impacting the IRS, we need to recognize there's a whole ecosystem out there of actors who are affected by changes in the environment in which we all have to cope, and also environments specifically here in Washington.

I would note that the commissioner -- this is not the first time the commissioner has talked about using technology to help the IRS meet its objectives. Obviously, as the guy who now works in industry after a long career in government, I am going to talk about technology because I actually believe it will make an enormous difference in the ability of the IRS and the entire tax ecosystem to meet customer needs, whether that's on the service side or the compliance side, and I'll touch a little bit on both. I think those are incredibly important.

I do want to ask though, how many people in the audience have a flip phone? Don't be shy. You can put your hands up. Wait, wait, no one? Both of you back there in the corner. I see -- when I think about a flip phone. I saw Jean is checking. Jean, is that a flip phone you have? Okay, yeah. I don't remember because I don't use it that much.

When you think about technology, I want you to think about how quickly it moves, and think about the word "innovation." I think one of the challenges the IRS and many places face is the speed with which technology evolves. It was a challenge when I was there, and what has happened since that time is technology has sped up. And so when I think about how we can help the IRS and what the challenges are that are facing the IRS, and I think about technology, I think there is -- obviously, there is an incredibly important role that industry can play in helping the IRS, and in fact, the entire

tax ecosystem, meet the challenges that it faces. We've talked about them. You've heard about the challenges from everyone else. I fundamentally believe that the only way some of these challenges can be met, whether it's in the constrained budget environment we find today or an expansive budget environment that was probably in existence about the time I worked at the IRS where the budget continually went up to meet continuing needs. I don't believe that IRS can succeed without industry in partnership and cooperation.

I know that there are folks who have concerns about how one involves industry, and I want to talk about that a little bit because I think it is very important that when we talk about partnership, we also understand that there are limits and there should be constraints or principles which I would articulate and will articulate about how the IRS, the states, and the ecosystem should work, and specifically, expectations of industry in order to help.

So when I asked you about your cell phone, that was not just a joke; it brings to mind the fact that this device which most of you have probably seen. How many of you have an iPhone 6+? Because the plus really matters; right? This thing is already out of date. Literally, out of date, because it's been surpassed in the past two months alone by several other devices. And this is the hottest thing on the market. This was the biggest Christmas present around; right? And I think the commissioner had it right; the expectations that people form in their daily lives are the ones they bring to their interactions with government.

So if you're used to the iPhone 6 and you think that's new and you're still looking at a flip phone, it's a real challenge to break that barrier and actually communicate with people. And so I think industry can help IRS leapfrog, deliver benefits and experiences that the IRS wants to deliver to its customers, to its taxpayers, in ways that actually meet their expectations.

I do have one area where before I articulate the principle4s -- there's one

thing that I just want to mention. And I actually have come to believe this more and more, and it's probably one of the areas where Nina and I will somewhat disagree -- we disagree on a lot of things but we are still quite good friends, I will say that -- is that I think in general people do not want to interact with the IRS. I don't think that's a hard concept to grasp, but I think it's pretty obvious. It is why virtually everyone either employs tax software or a preparer to do their returns, with the exception of Nina Olson, and I suspect some of the other people in this room who take perverse pleasure in doing their returns themselves and the importance of it.

I think if you recognize that reality, you need to think about how do we bridge our relationships with taxpayers to enable tax agencies to do what they need to do to provide the service and the compliance that they have to provide? In that context, I think industry can make a huge difference but with guiding principles.

And so let me just articulate some of the principles as proposals for you to think about as you think about how the IRS should engage with industry.

Number one is clarity of goal. What are you trying to achieve? And the more specific you can be, the more effective you can be. Because if you say "better service," well, we can all nod and smile, but how does one actually make service better? What is it that we're trying to achieve? Is it reduce time on the phones? Is it average speed of answer? What are the metrics that we use? And the more clear you can be about what you expect, the better industry can help you with it.

Secondly, clear roles and responsibilities. And I think that's absolutely important when you think about let's say tax fraud, for example. IRS is the law enforcement agency. The industry cannot be a law enforcement agency by law. So understanding what it is that's expected of industry, what the role and responsibility of industry and players in it has to be defined by the IRS and the state departments of revenue, but clearly understanding who is doing what in this system, very important.

I have 33 seconds. I see a thumb pointing to the time. No worries.

It also should be as you think about what you might want to require of industry or ask, it should be standards-based. So if you're trying to deliver services through tax practitioners, it shouldn't be specific about exactly what they should do. You should be looking at the outcome or the objective you're trying to achieve. If it is better service, what specifically are you trying to achieve and enable industry to innovate to try to meet that.

And lastly, and this is one that I think is a principle that often raises concerns when one talks about the participation in industry which is that taxpayers should be and recognized to be the owner and controllers of their own data. It is not Industry's, and for that matter, it is not Government's; it's theirs. And to the maximum extent possible, in all of the system, when you're thinking about empowering taxpayers through industry or any other way, you should be thinking about the IRS as part of it -- excuse me, you should be thinking about the control of the data as part of it, and the IRS should recognize that.

So I've actually hit my 10 minutes. So let me stop right there. I think we're moving to a panel discussion at this point. Okay.

(Applause)

MR. GLECKMAN: (Inaudible) to Dave on this question about technology. Were you saying that this is a bad idea or just that we have to be very careful in how we do it, and to his principles, how should the service think about this sort of new technology without getting in the kind of trouble that you're working about?

MS. OLSON: Well, I think there's one thing that the commissioner referenced, and I'm glad to hear him say it. I've been sort of a broken record about this. My office did some research to look at who the taxpayers who are eligible for a program the IRS administers called the Low Income Taxpayer Clinic Program. And these are taxpayers who are so low income, Congress has said that you are eligible to get assistance from federally-funded programs in IRS disputes. Two hundred fifty percent

federal poverty level, 46 percent of the individual taxpayer base is at or below 250 percent federal poverty level. That's from our data from 2013. That's extraordinary. And we did a profile of what are the characteristics of these taxpayers. This is the population that we are going to say go online. This is the population that we are saying give their preparers the ability to go online and do transactions on their accounts. These are the preparers who are unregulated, often unaffiliated with large chains, so there is no training that they have, and we're opening up our accounts for them to have that information. And my concern about that is in our rush to go online, that we are not thinking about the characteristics of these taxpayers. We are not coming up with a migration strategy so that they're not dropped on the floor, you know, without any services provided to them.

And then you go to the cost. We are taking things that were previously free for these taxpayers because the IRS provided them, and we are shifting them to generally preparers, because a lot of them don't have access to online themselves, and so this is an intermediary. And nobody is going to do that for free. There is a cost involved in that. And it's regressive, as one of our folks out in the audience was saying, you know, in the administration of the system. So I don't view it as a bad thing. I actually think that technology is a great enabler, but I am saying that -- and this is one of the consequences of the budget -- is that it drives us to drop services before we have strategy to replace them. And what happens to people in the meantime? And the commissioner himself has said, you know, I've said this a lot, "Trust lost is almost impossible to regain." How do you bring them back into the system after that? So we have to have a migration strategy and we have to use data and psychology and sociology and all those skills to understand what the consequences of our actions are and this shift to the future. And we're not -- also, I'll say this last thing about this point. We're not a bank. You know, we're not an airline. We are the Internal Revenue Service. We can do a lot worse things to you than you missing your plane. So, you know, we just have to really keep that in mind when we talk about eliminating services for taxpayers.

MR. GLECKMAN: Rosemary, you talked about putting this together in a budget. Can you talk about how much it would cost to create this new system?

MS. MARCUSS: Well, a lot. But right now, I'm not exactly sure how much.

I wanted to respond to a couple of Nina's points because I completely agree with them. The last thing we need to worry about right now is rushing because it is a very long process. I mean, I think Nina is exactly right. We've really been forced to drop services before the vision comes. And David, I'm very brought up short on how many times this has been said, but it will be a fairly major investment, and it will take a long time.

And one of Nina's points -- I agree with all of them, but a really critical one is it really does involve a lot of work to figure out who are these taxpayers, why they behave the way they behave. We have no impression that everyone will gain from technology. What we are trying to do is get ahead of the such low-tech response that we're inefficient using people, like in the Washington Post article where trained advisors were giving our deli line tickets to people who were trying to get into a tax assistance center. So Nina is exactly right; we really do have to figure out a migration strategy, and the idea is to bring -- to free up the people and train them who are really needed, and people are needed in a lot of these things. Phones require people, and the hope is that we can actually routinize the things that are not the things that matter and then get people on the things that do matter. So it will be a major, long-term investment.

MR. GLECKMAN: So this is what worries me when I hear "long-term investment" at the IRS. I remember back in the 1970s talking to people at the service about technology, and the process is so slow. A design is built, a RFP is put out, and before that RFP is even completed, the technology is obsolete. How can -- David, I'll ask you this -- how can the service make this transition in the careful way that Nina was talking about and Rosemary was talking about, without getting caught in this trap of

building a system that's already out of date?

MR. WILLIAMS: So a couple of things. First of all, I think the IRS actually does a remarkable job with technology, despite what I'm about to say, which is that speed matters. I really do believe that we don't have a long time to wait. I think the IRS has fundamentally demonstrated its ability to manage technology, and the best example of that is to look at the ACA implementation this year. I mean, the predictions of cataclysm that were accompanying every discussion about ACA right up until the filing system vanished when you realize that the IRS had figured out most of the major problems and dealt with them in advance. That said, I actually think speed matters a lot, and I think this is where partnering between business and government can actually make a difference, both on the service side -- and I actually agreed both with Nina and Rosemary about the notion that not everyone is going to move immediately to technology. There are segments that will or already are, and so you need to think more carefully.

But there are also on the compliance side places where industry can partner. And I'll give you an example. I never let go of wanting to solve some of the EITC challenges, so I convinced the Treasury and the IRS earlier this year, late last year, to work with us on an experiment where we could use behavioral economics in one of our online products to prompt EITC taxpayers who might be willing to fudge a little bit, to make the right choice. In other words, to actually run a real-time experiment very quickly to determine whether we could help the IRS with a small piece of a very specific goal, and I think there are lots of those opportunities out there where -- and this can be done on the tax practitioner side as well. I think there are many places where we could be working to think about interesting ways of innovating against the goals that the IRS and the states have articulate using technology. And there's just one small example of it.

MR. GLECKMAN: Let me switch gears a little bit and ask about this compliance issue. I asked the commissioner about it and he said he had not yet seen

any real evidence of change in compliance. I talked to other people out there who say, well, taxpayers are getting more aggressive because they know they are much less likely to be audited.

What's your sense of it, Rosemary? Are you beginning to see compliance problems?

MS. MARCUSS: When you see what the service had to do this year in responding to taxpayers, you have to worry. You asked me if I can see it. It's a very hard thing to measure. It's measuring against a counterfactual. You can't really see it. So it's hard. And there's enough error around your measure so that it's hard to see small changes. But we are very, very worried about that. That really is the engine of the revenue production for the U.S. government. It's high. It's effective, and as Commissioner Koskinen said, "You don't come back after you've lost that."

And so we really are worried. We will be doing another estimate. We're doing one now. And as the commissioner said, if we pick up a change, it'll be a noticeable change. So it's obviously a very big worry. And it goes to what Nina was saying. This is the heart of really alienation of taxpayers.

MS. OLSON: You know, if I can just say something here. You know, 2 percent -- only 2 percent of the trillions of dollars that the IRS brings in is directly attributable to enforcement actions. Okay? Two percent. So all the other dollars are coming in either because of taxpayer service or because of the indirect effect of the enforcement action, the perceived -- the perception that the IRS is going to come out and get you. And that is, you know, or that they might. They might find you. And that is -- it's hard to assess out exactly what the ratio of that is. But we have pulled the numbers over the last -- since before 1998 through today just on the pure collection revenue, looking at how many revenue officers people had, how many ACS people -- automated collections-type people they had, how many liens the IRS was issuing, how many levies the IRS was issuing. And I'm here to tell you it is inelastic. It doesn't matter. The years after 1998

when our collections just went down like this and they stopped issuing liens and levies, the revenues were just like this, and that's inflation adjusted dollars. And in fact, you just look at that and you think it doesn't matter recession, it doesn't matter anything. The collection activity, regardless of your staffing, regardless of your enforcement, it's stable. I have no explanations for that. And that's one of my Holy Grail, like can I figure it out finally?

So I don't know what the impact is going to be of us not having a certain number of auditors and a certain number of collectors. I do know that the conversations about the IRS being a toothless tiger might have some risk taking, particularly at the greatest -- the population that does the greatest risk taking, because that's the hardest for us to find. And that goes back to the regressivity of tax administration; that we're going to go after the poor little people who were deer in the headlights and made some little mistake because we can find them, but we won't be able to go after the people who are doing the most regressive stuff because we can't find them. We don't have the resources; we don't have the training.

MS. MARCUSS: I mean, Nina is making a really big point. When you look at what is enforcement revenue, it's \$50 billion out of \$3 trillion. But what is that bigger picture is the perception that the service is on the case of tax fraud all the time. I mean, one of the things that you learn when you're inside the IRS is the breathtaking amount of attempts for fraudulent tax filing. Just breathtaking. And so the perception that the service is not holding out against fraud, where the fraudsters are using high technology is a very big issue. And for the 2 percent -- Nina is right. We can slice those numbers a thousand ways and they're kind of flat. But partly that is also that it takes five and six years to resolve a lot of the big cases. So there's this enormous inertia in that data. The corporations put the money in escrow and it sits around for six years and then we get it at the end of the six years. So that's not where the action is, but the perception and the reality that you are actively protecting the fisc from a breathtaking level. And as

David and others have said, a growing level of fraudulent activity. And internally, you realize how serious that is and how important that reality, but also that perception. But it's not the going after the person in exam. That's a million taxpayers a year. They bear a very high cost. We would really like to be able to deal with those taxpayers who since we can address so few are highly likely to owe taxes. But we aren't a punishment agency; we are the tax administration, and those taxpayers are paying very high compliance costs, many of which are related to our low technology.

MR. GLECKMAN: Eric, let me ask you the policy question that you discussed a little bit in your presentation. So we're talking about all these expensive, complicated ways to make this system work. Is this just kind of getting chewing gum and rubber bands as long as the tax code itself is so complicated and as long as the service is being asked to do things that really have nothing to do with collecting tax revenue?

MR. TODER: No. I actually don't think so. I think that, you know, obviously, it costs a lot more to administer a complicated tax code than a simple one, but the tax code is complicated because we want the law to do certain things, because we want to deliver social programs in a certain way. And given that level of complication, we're spending .4 cents on enforcement for every \$100 of revenue that comes in. We can afford to spend more if we want to have a tax system that is a social welfare agency and accomplishes those goals. It's just a misdirection of resources in my view.

Now, whether the IRS -- how much the IRS is capable of doing a job with more money, that's something my colleagues on the panel can probably address better than me, and I certainly have some doubts about that in my mind, but certainly, with less money and the cuts, they cannot do an adequate job.

MR. GLECKMAN: Let's give you all an opportunity to ask a few questions and then maybe we'll come back.

Len, let's start with you.

LEN: I actually want to get back to the flip phone. My mother worked for

the IRS Service Center in Philadelphia in 1967 and they were doing a major overhaul of their IT systems. And 10 years later they were done and they had a state-of-the-art 1967 computer system. And forever since then that's been the case, that eventually, just because of the way that the system works is that they're always behind in this.

When I was at Treasury, Charles Rosati was there, a tech expert, somebody with proven ability to get this kind of stuff done. And as far as I know, the problem -- we still have the flip phone problem. It seems like they need to do something fundamentally different, and maybe you're getting at that. How can they solve this technology problem even if they had the resources?

MS. OLSON: Are you asking me?

LEN: I guess I'm asking all of you. Dave sort of implied he could move from flip phones --

MS. OLSON: That's evil. Just evil.

First of all, I think that the commissioner is right. He's not trying to be the leader in this, but we would like to get into the 21st century, and we'd certainly like to get out of COBALT. So that would be a good start.

You know, I've been privy to so many conversations about this over the years, and I do feel like the IRS is making progress in this area. I think that it is very hard. Part of the problem is getting people to understand that you're going to have to invest some dollars and you won't see the immediate return on it. You won't be able to say -- you know, and in our budgeting environment where you have to sort of show that you've got -- there's no cost to you investing those dollars, that's just not going to happen.

So I think that it is a challenge for the IRS. I'm going to go back to something that David said about the ACA. I mean, I've been privy to all of the planning on the ACA for the last three years, and one thing I saw, which was really different from other programs that the IRS has been given is we had three years to get our act together and deliver something, and it's amazing what the IRS can do when it's given that time

and it's able to put a structure around the planning. And putting a structure and having the oversight of contractors, et cetera, and our side of it has gone off, you know, there's glitches but relatively without glitch, which is huge for this program, as opposed to the first-time homebuyer credit where you get in the middle of a filing season. How do you do that? You know, programming as people are filing their returns? So I think that's part of it. You've got to have the lead time, very short lead. Three years is still a short time, but I don't know. You pick it up from there

MR. WILLIAMS: I actually think, particularly in government we often get boxed into this reality that this is how government works and it takes time. And that is true. I mean, we, at the IRS, had critical pay authority in which one could bring executives in from the private sector, and there were sort of two categories of executives -- those who were ready to run things because they just knew how it worked, and those who recognized that this is an objective function with more constraints who actually tried to optimize within those constraints. And the ones who couldn't see the constraints failed nine times out of nine times, and the others were more effective. And so what I'm about to say is not meant to be criticism of the agency but I do believe -- and this is based on my two years of experience in the private sector, so take it for what it's worth -- I work in an industry where innovation happens at the pace of hours. Literally hours, where one can test in an environment a change, certainly in the DIY space. But even in an assisted, which is the term we would use for the tax practitioner space, literally has tried to change things within a matter of weeks or days to see, and running controlled experiments in that space. That mindset of having to innovate and move very quickly is not something that's going to be grafted onto government as an immediate thing. However, bringing people in who understand the limited objective function but also see problems differently and are inside trying to actually think about solutions, bringing what they know from the private sector I think is absolutely critical. And actually, I would propose taking some of the executives in the IRS which they can't afford to lose one of, but taking some of them out

and exposing them to a different world. That cross-pollination would actually help at the margins. And frankly, I believe at the margins is what we're talking about. Really, at the margins, slowly over time that adds up to significant change. We just have to continue to do that process.

MR. GALE: Thanks. Bill Gale, Tax Policy Center.

I'm wondering what we can learn from other countries in this discussion. It's been very focused on the IRS. The United Kingdom, for example, just announced they're going to a file free system. Everything will be online. Probably two dozen countries around the world do populated -- free populated returns. I'm wondering, do we know, do the tax administration systems in Europe use computer systems from the 1960s? If not, why can they do it and we can't?

MS. MARCUSS: I'll take a stab at that one. I mean, first of all, the IRS had many opportunities in the past to decide whether they were going to do an online account, and for one reason or another they did not. So we're behind the rest of the countries.

The thing about U.K. and many of the other countries that do have free populated returns is that they have a pay-as-you-earn or a pay-as-you-go system, so they are getting in real-time throughout the year all of the data about withholding and wages and even how many hours you're working because they administer some of their credits based on how many hours you're working, and they're dealing with it in that way. They have an amount of information that actually -- and they also have a lot of cross-government agency information.

And so one of the ways that the U.K. is going to this return, and Australia is looking at it, is just creating these huge multi-agency databases. Now, I don't know that the United States has an appetite to have the government have all that information in one repository. That's a little bit terrifying for folks, and I don't think that the employers of this country are willing to take on more responsibility other than the withholding that

they're already doing, so you would convert to a pay-as-you-go, which is essential to being able to do that kind of administration. Because otherwise, we don't know what the family makeup is. We either have to get it from another agency -- we actually did a little bit of research to see how many taxpayers you could actually do a plain vanilla return, that don't have a credit involved with it, where they have to tell us who is in their household, et cetera, and it's actually not a lot of taxpayers. So everybody is going to have to tell us something more.

What I have recommended is that you can get -- if you have accelerated information reporting, so you can get your wages, you can get it very early in the system, and you could maybe move back the return filing time, start of the season, people could download the information we have into their software, give it to their preparer, download it to free fillable forms, whatever, or be archaic like me and print it out and look at the plain tax returns and fill them in. But you could do that, and that would be a big advance.

MR. TODER: So just a couple things. I chaired the OECD Taxpayer Services Group for three and a half years, and I would tell you that the tax systems and the cultural systems in the countries that have either return free or versions of it are extraordinarily different from ours. And Nina touched on it. I'll tell you a story just because it still tickles me every time I think about it.

I was visited by members of the Korean Tax Administration, who were interested in setting up an earned income tax credit for Korea. And so I spent a lot of time extolling the virtues and talking about how it lifted millions out of poverty, and really how important it was. And I also said there's a downside, which is that, you know, about 25 percent of the money goes out the door erroneously in one form or another, or reclaimed. And they said, "Why?" And I said, "Well, there are two major elements of the credit that determine most of the value, and that is who you live with and where and for how long. It's three. The residency and relationship requirement. And how you are related to them." And the guy looked at me and he said, "It's not a problem for us." And

that was South Korea by the way, in case you were wondering.

But in all seriousness, we have a tension in our system that is borne out in every NRP that's done, which says, you know, the more third-party information reporting occurs, the more compliant the taxpayer, which is not a surprise. But when you build a system on which the critical elements of determining eligibility are unknown to the government and culturally maybe not -- there's not a high comfort level with it, then you set up opportunities for problems that mean that the citizen actually has to be more in control of his or her tax information. And I actually believe, and actually I work for industry, but I believe always that there is something very important about the tax time moment and citizen engagement, and that it should not be lost.

And I could talk about other concerns I have but I actually fundamentally believe it's one of the few times people actually even look at how much they're making, what's happening, what does that mean, and we've already kind of -- we've made it easier for them but I actually think we should be leveraging it, which is why we're looking at -- we partner with Treasury on something called the Refund to Savings program where we're trying to prompt folks to actually look at their refunds and save some of it. Can we get them to do it? And actually now the CFPB is working with the tax industry to try and do the same thing. So I think there may be opportunities there that we don't want to lose.

MS. OLSON: You know, in Sweden, the tax agency is the most respected government agency that they have, and there's a direct connection, but it's a completely different culture, you know, and there's a sense that what you're getting back from the government, the government is giving you incredible benefits, and the way that you get those benefits is by complying with the tax system. And that's a sign of being a good citizen. And that's why I started with my conversation about trust and legitimate power and things like that. I think that really relates to how much a tax system can do really

SPEAKER: But wait a minute. The tax system we have is so opaque,

how can anybody trust something they completely can't understand?

MS. OLSON: Well, that maybe is another reason why you do want tax reform. It may not make a difference with the IRS's burden, but I think trust, transparency is a big role in terms of increasing trust, and trust is linked to compliance. In my mind it is. I'm still trying to get the actual hard data to show that, but I just think it just stands to reason.

MR. TODER: I think if we had systems like universal healthcare that they had in other countries instead of the kind of healthcare credits that we have, which are incredibly complicated to administer, and the IRS is doing a great job, but they're very complicated. It's a lot of work for the taxpayers. If we had individual filing instead of family filing, a big determinant of making it predictable and how much an individual owes on their tax returns, for constitutional reasons and state reasons. We got into this in 1948 with the community property stuff, we had to move away from individual filing, but that was one reason in New Zealand why the system was so simple. You had two rates and you had individual filing. So withholding really got you to the right answer. You didn't have to worry about what your spouse was making. If you didn't have all of these benefits going for the tax code, yes. But I don't see us having that kind of reform because we're not going to eliminate these benefits and move all these things to the spending side of the budget. We're just not going to. We can make it simpler but it's just not going to get to that level.

MS. MARCUSS: And all those points are well taken. But short of the veil of tears here, I do want to come back and make some basic points about what the IRS is really proposing to do. It is to have e-authentication, allow taxpayers to do secure transactions with the IRS, change their address, do things that are really not, as the commissioner said, going to Mars. And there is something that I think has been behind what people are saying here that's quite powerful. Ten years ago, even if you invested in these abilities, these communication abilities, the service did not handle its incoming

information and its tax return information rapidly enough to do it, and I think something that is dramatically different -- I think both David and Nina alluded to this, is that the service is now really handling its data in a very impressive way. So-called behind the button the data is there and now we're dealing with, I mean, a flip phone would be a step up with some of the things that we're dealing with. And so we can make that kind of a step, but I think as everyone has pointed out, and then the point Len made, it is a long series of investments and the service must be very explicit about what they're for. They have to be broken down. No more of these -- and I think both Nina and David know those -- the thing that's going to come online in February 2017 never comes online. You never know what it is. And so we've learned that. We've stepped back. We have a lot of small moving parts, but we can do this basic transformation but it will take investment. We're really not -- what was it -- close followers?

MR. WILLIAMS: Fast followers is a term. Yeah.

MS. MARCUSS: What was it?

MR. WILLIAMS: It's called fast followers.

MS. MARCUSS: Fast followers.

MR. WILLIAMS: Yeah.

MS. MARCUSS: That will be a step up.

MR. WILLIAMS: You know, I just wanted, on the point about the opaque system, I actually think that's really very true, and when I was talking about engagement at the tax time moment, part of the way you get engagement is it isn't opaque. You can actually kind of understand the connection between the things that are on your return and what's causing the outcome. So I believe that tax implication needn't be as broad and as wide scale as some -- it wouldn't be the '86 Act even if we could do that. But I do think there are places where we've got multiple policy objectives, multiple credits that basically are aimed at education. You've got 15 of those, and there may be places where you could still sort of preserve the policy objective but simplify some of the complexities that

taxpayers face. Again, we administer whatever is there, but I actually believe there are opportunities to look at places where there are multiple credits or deductions or breaks.

MR. TODER: I agree with you totally. You're absolutely right. There are lots of things that can be done to eliminate unnecessary complexity without compromising policy objectives, and that should be a priority of reform. All I was trying to say was you're not going to get to the return-free filing or any of that kind of -- with any foreseeable changes I can imagine.

MR. WILLIAMS: It's not going to happen, unless you're in Korea.

MR. GLECKMAN: And we're not, and Eric just had the last word.

So let me thank David Williams and Nina Olson and Rosemary Marcuss and Eric Toder for coming, and especially Rosemary for all those years of service. And good luck.

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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