

**COMMITTEE ON APPROPRIATIONS,  
SUBCOMMITTEE ON FINANCIAL SERVICES AND  
GENERAL GOVERNMENT  
U.S. HOUSE OF REPRESENTATIVES**

**“IRS Oversight: Treasury Inspector General  
for Tax Administration”**



**Testimony of  
The Honorable J. Russell George  
Treasury Inspector General for Tax Administration**

**September 24, 2019**

**Washington, D.C.**

TESTIMONY  
OF  
THE HONORABLE J. RUSSELL GEORGE  
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION  
*before the*  
COMMITTEE ON APPROPRIATIONS,  
SUBCOMMITTEE ON FINANCIAL SERVICES AND  
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Chairman Quigley, Ranking Member Graves, and Members of the Subcommittee, thank you for the opportunity to provide information on a variety of topics in which the subcommittee has expressed an interest as well as some challenges currently facing the Internal Revenue Service (IRS).

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress in 1998 with a statutory mandate of ensuring integrity in America’s tax system. It provides independent audit and investigative services to improve the economy, efficiency, and effectiveness of IRS operations. TIGTA’s oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA plays the key role of ensuring that the approximately 78,000 IRS employees<sup>1</sup> who collected more than \$3.5 trillion in tax revenue, processed more than 253 million tax returns, and issued more than \$464 billion in tax refunds during Fiscal Year (FY) 2018,<sup>2</sup> have done so in an effective and efficient manner while minimizing the risk of waste, fraud, and abuse.

In this section of my testimony, I will discuss a number of key management challenges facing the IRS and our work to address them.

## **IMPLEMENTATION OF NEW TAX LEGISLATION**

The Tax Cuts and Jobs Act of 2017,<sup>3</sup> enacted December 22, 2017, contained 119 tax provisions administered by the IRS that affect both domestic and international

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<sup>1</sup> Total IRS staffing as of August 17, 2019. Included in the total are approximately 13,827 seasonal and part-time employees.

<sup>2</sup> IRS, *Management’s Discussion and Analysis, Fiscal Year 2018*.

<sup>3</sup> Pub. L. No. 115-97, 131 Stat. 2054.

taxes and is the first major tax reform legislation in more than 30 years. The majority of these provisions became effective in Tax Year (TY) 2018 for returns filed and processed in the 2019 Filing Season. Implementation of the 119 tax provisions required the IRS to create 48 new tax products<sup>4</sup> and revise 494 existing tax products, and to perform extensive computer programming changes and updates. Programming changes and updates affected 128 information technology systems with 275 new e-file business rules created,<sup>5</sup> 36 existing e-file business rules updated, and 248 e-file business rules deleted. Programming was also needed to develop four new error resolution codes and update 22 codes.<sup>6</sup>

Along with the numerous challenges to implement provisions of the Tax Cuts and Jobs Act, the decision was also made to redesign Form 1040, *U.S. Individual Tax Return*. The Form 1040 was redesigned to fit a one-half-page front and back. This substantially added to the volume of tax forms, instructions, and publications that the IRS needed to update along with an additional demand on Information Technology (IT) resources to program necessary changes to IRS systems. For example, the redesign required the IRS to update 243 tax forms, instructions, and publications and create or modify 150 business rules.

The IRS's continued implementation of tax law changes and the redesign of the Form 1040 will once again present challenges for the IRS in the 2020 Filing Season. For example, the Form 1040 is being expanded and three of the six Form 1040 schedules that were new for TY 2018 are now obsolete. These changes will increase the scope of work the IRS will need to perform for the 2020 Filing Season.

Furthermore, in response to a provision in the Bipartisan Budget Act of 2018,<sup>7</sup> the IRS developed the Form 1040-SR, *U.S. Income Tax Return for Seniors*, for use by taxpayers age 65 or older. The development of the Form 1040-SR requires the IRS to update tax forms, instructions and publications as well as update and develop business rules and error codes. We will include an assessment of IRS actions to continue to implement tax legislation, the redesign of the Form 1040 and related Schedules, and the creation of the Form 1040-SR, as part of our 2020 Filing Season reviews.

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<sup>4</sup> These products included tax forms, instructions, and publications.

<sup>5</sup> Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns when the return does not meet a business rule.

<sup>6</sup> Error resolution codes validate the accuracy of paper and e-filed tax returns during processing. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to correct the error.

<sup>7</sup> Pub. L. No. 115-123, 132 Stat. 64.

Finally, on July 1, 2019, the Taxpayer First Act of 2019<sup>8</sup> was enacted which includes provisions to expand and strengthen taxpayer rights including a focus on cybersecurity and taxpayer protection from identity theft. TIGTA is currently developing a strategy to assess the IRS's implementation of provisions contained in this legislation.

## **2019 FILING SEASON**

We are currently drafting our report that outlines the results of our assessment of the 2019 Filing Season (we plan to issue our Final Report in November 2019). As we reported in our Interim Filing Season report,<sup>9</sup> along with the extensive tax law changes, this filing season was also impacted by the partial shutdown of the Federal Government from December 22, 2018, through January 25, 2019. During this timeframe, taxpayers were unable to obtain customer service assistance, a backlog of paper tax returns and taxpayer correspondence developed, and hiring of Submission Processing employees was delayed. For example:

- *The IRS reported canceling more than 16,500 scheduled appointments at Taxpayer Assistance Centers (TAC). As of May 3, 2019,<sup>10</sup> the IRS assisted 1.4 million individuals, which is an 18 percent decrease from the prior year. Although the IRS reports having 358 TACs for the 2019 Filing Season, 33 TACs were not open because they had not been staffed as of April 15, 2019. In addition, in May 2019, we reported that the IRS is not using its data-driven model to identify optimal locations for Virtual Service Delivery<sup>11</sup> sites and/or sites co-located with the Social Security Administration.<sup>12</sup> The model can segment taxpayer populations by characteristics such as income, limited-English proficiency, and disabilities, which, if used, can assist in identifying locations to expand face-to-face assistance.*
- *The IRS was not able to answer approximately 3.8 million calls from taxpayers between December 22, 2018, and January 21, 2019, because the phone lines were not staffed to assist callers. As of May 3, 2019, the IRS reports a Level of Service (LOS)<sup>13</sup> of 67 percent, which is down from 80 percent in the prior year. However, in*

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<sup>8</sup> Pub. L. No. 116-25.

<sup>9</sup> TIGTA, Ref. No. 2019-44-030, *Interim Results of the 2019 Filing Season* (Apr. 2019).

<sup>10</sup> Fiscal Year October 1, 2018, through May 3, 2019.

<sup>11</sup> Virtual Service Delivery integrates video and audio technology to allow taxpayers to see and hear an IRS assistor located at a remote TAC, giving taxpayers "virtual face-to-face interactions" with assistors.

<sup>12</sup> TIGTA, Ref. No. 2019-40-029, *The Internal Revenue Service Did Not Follow Congressional Directives Before Closing Taxpayer Assistance Centers; a Data-Driven Model Should Be Used to Optimize Locations* (May 2019).

<sup>13</sup> The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.

June 2019, we reported that IRS's telephone performance measures do not reflect overall call demand or performance for IRS telephone assistance.<sup>14</sup> The LOS does not account for the total number of taxpayer calls to all IRS telephone lines. For example, in FY 2018 the IRS had 110 toll-free telephone lines but calculated the LOS using only 30 (27 percent) of these lines.<sup>15</sup> The IRS agreed with TIGTA's recommendation and plans to evaluate the performance measures using a Level of Access<sup>16</sup> measurement to supplement its traditional LOS measure. As of May 3, 2019, the Level of Access is 59.5 percent, which is well below the reported LOS.

- *Delays occurred in the hiring of personnel to transcribe paper tax returns and resolve errors on tax returns.* As of June 13, 2019, the IRS was able to hire only 4,099 (50 percent) of the 8,208 employees it planned to hire for the 2019 Filing Season. To compensate for the hiring shortfall, the IRS used various mitigation strategies. These strategies included transferring tax returns to other processing centers, rotating employees from other departments, and allowing overtime for employees. As of May 13, 2019, the IRS had transferred 409,038 Forms 1040 between processing centers on four separate occasions in an effort to timely process paper-filed tax returns.
- *A backlog of taxpayer correspondence occurred.* The IRS reported receiving more than 5 million pieces of taxpayer correspondence during the shutdown. As of May 4, 2019, the IRS reported that the correspondence inventory decreased to 2.3 million cases. However, the over-aged inventory increased by 23 percent to more than 905,000 cases.

Despite the partial government shutdown, the IRS began accepting and processing individual tax returns on January 28, 2019, as planned, which was three days after the government reopened. As of May 3, 2019, the IRS received more than 141 million individual income tax returns. Refunds totaling more than \$274.3 billion were issued to more than 100 million taxpayers with an average refund amount of \$2,732.

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<sup>14</sup> TIGTA, Ref. No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019).

<sup>15</sup> The 30 toll-free telephone lines are the lines managed by the Wage and Investment Division's Accounts Management function, which is in the Customer Account Services function.

<sup>16</sup> Level of Access reflects the total of all callers seeking assistance that ultimately receives the assistance from IRS.

### **Estimated Tax Penalty Relief**

The Tax Cuts and Jobs Act includes provisions that made significant changes to income tax rates, tax deductions and credits, and Federal income tax withholding. Even though the IRS took a number of actions in an attempt to educate taxpayers, it recognized that some taxpayers may not have checked their withholding and may unexpectedly owe taxes. To assist taxpayers, the IRS announced on January 16, 2019, that it was waiving the estimated tax penalty for any taxpayer who paid at least 85 percent of their total tax liability during the year through withholding, quarterly estimated tax payments, or a combination. On March 22, 2019, the IRS provided additional penalty relief by further lowering the threshold to 80 percent. As of April 10, 2019, the IRS estimated it had received 1.4 million e-filed returns with a waiver for the estimated tax penalty.

On March 29, 2019, we recommended that the IRS implement a systemic process to automatically allow the waiver of the underpayment penalty during processing if the taxpayer met IRS criteria. IRS management informed us that they did not have sufficient lead-time to program IRS systems. However, a process was implemented to abate the penalty for all taxpayers who met the 80 percent threshold and had a penalty assessed. As of July 25, 2019, the IRS identified 443,146 taxpayers who were assessed a penalty and met the IRS's waiver threshold. TIGTA's analysis as of May 23, 2019 identified an additional 18,556 taxpayers who met the IRS's waiver threshold. The IRS is sending notifications to all these taxpayers and refunding the penalty amount.

Additionally, to better address changes from the Tax Cuts and Jobs Act that significantly impact taxpayer withholding, on May 31, 2019, the IRS and Department of the Treasury released a draft of the new Form W-4, *Employees Withholding Allowance Certificate*. The IRS notes that the revised form reduces complexity and increases the transparency and accuracy of the withholding system. To further help taxpayers, the IRS also released a new online tax withholding estimator. The estimator assists taxpayers in determining the amount of Federal tax they should have withheld from their paycheck.

### **Evaluation of Business Rules and Error Codes**

In March 2019, we reported that the IRS had not established processes to identify taxpayers who are not eligible to claim the Qualified Business Income

Deduction<sup>17</sup> at the time tax returns are processed.<sup>18</sup> The deduction is for owners of domestic businesses operated as a sole proprietorship or through a partnership, S corporation, trust, or estate. We recommended that the IRS ensure computer programming is implemented to identify tax returns in which the amount claimed exceeds statutory limitations. In response, the IRS developed two business rules and one error resolution code to identify Qualified Business Income Deduction claims that exceed the 20 percent deduction limitation. As of May 2, 2019, the IRS rejected 13,226 tax returns based on these criteria.

We also reported that IRS management was unable to develop a Qualified Business Income Deduction tax form. As such, the IRS did not have the ability to capture data to assist in evaluating compliance with deduction requirements or to improve its systemic identification of erroneous deductions claimed on TY 2018 tax returns. For the 2020 Filing Season, the IRS is developing Form 8995, *Qualified Business Income Deduction Simplified Computation*, and Form 8995-A, *Qualified Business Income Deduction*. We are planning to conduct an audit to assess the IRS's actions to develop these forms as well as use of data from these forms to develop business rules and error codes to identify erroneous deductions.

### **Detecting and Preventing Tax Refund Fraud**

Because of the redesign of the Form 1040 and provisions of the Tax Cuts and Jobs Act, the IRS's fraud detection systems (Return Review Program and Dependent Database) required updates. As we reported in April 2019,<sup>19</sup> the IRS identified 197 fields on the redesigned Form 1040 that were not included in the fraud detection models for Processing Year 2019.<sup>20</sup> IRS management noted that the Return Review Program requires one year of data to learn and develop detection models. During the 2019 Filing Season, the Return Review Program is collecting data that will be used in the development of future modeling. As of June 29, 2019, the IRS reported that it identified 112,633 fraudulent non-identity theft tax returns with approximately \$671.9 million claimed in fraudulent refunds and prevented the issuance of \$634.8 million (94.5 percent) in refunds. As of this same date, the IRS informed us that it had

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<sup>17</sup> The Tax Cuts and Jobs Act of 2017 includes Internal Revenue Code Section (§) 199A, which provides a deduction of up to 20 percent for an individual's domestic qualified business income from their taxable income.

<sup>18</sup> TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).

<sup>19</sup> TIGTA, Ref. No. 2019-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts* (Apr. 2019).

<sup>20</sup> A processing year is the Calendar Year in which the tax return or document is processed by the IRS.



confirmed 26,815 fraudulent tax returns and prevented the issuance of approximately \$331 million in fraudulent tax refunds because of the identity theft filters.

### **Customer Service**

Taxpayers have multiple options to choose from when they need assistance from the IRS. The IRS notes that its website is the best source for taxpayers to receive answers to their tax questions. The IRS reported more than 444 million visits to IRS.gov this filing season as of May 3, 2019. Taxpayers can also interact with the IRS using its mobile application IRS2Go that as of April 30, 2019 had approximately 8.8 million active users. In addition, the IRS uses various forms of social media, including YouTube, Twitter, Tumblr, and Facebook. As of May 3, 2019, there are a total of 106,973 Twitter followers and 119,239 Facebook followers. In addition, as of May 7, 2019, there are 7,650 Instagram followers.

However, TIGTA continues to report that the risk of unauthorized access to taxpayer information increases as the IRS expands its online tools. In April 2019, TIGTA reported that the IRS is making progress at improving electronic authentication controls on its public-facing applications.<sup>21</sup> However, the IRS's 52 public-facing applications are not yet compliant with Federal guidelines<sup>22</sup> issued in June 2017. The Office of Management and Budget requires compliance with these guidelines within one year of publication. The IRS initiated efforts to develop processes to meet the new guidelines and started piloting its new processes with one of its high-risk public-facing applications. Without full compliance, the IRS increases the risk of using inappropriate authentication controls, which could allow unauthorized access and activities, compromise of taxpayer records, and lost revenue due to identity-theft refund fraud. TIGTA is currently completing another audit of the IRS's electronic authentication processes, specifically focusing on identity proofing. The final report should be issued by December 2019.

Finally, TIGTA has audit work focused on IRS programs that provide return preparation and e-filing to underserved segments of taxpayers. For example, we initiated a review of the IRS's administration and oversight of the Free File Program<sup>23</sup> in

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<sup>21</sup> TIGTA, Ref. No. 2019-20-017, *Electronic Authentication Security Controls Have Improved, but Continued Progress Is Needed to Ensure the Protection of Public-Facing Applications* (Apr. 2019).

<sup>22</sup> National Institute of Standards and Technology Special Publication 800-63-3, *Digital Identity Guidelines*.

<sup>23</sup> The Free File Program is a private-public partnership between the IRS and Free File Inc. to provide benefits of online Federal tax preparation and e-filing to economically disadvantaged and underserved populations at no cost to the individual or the government.



response to concerns raised by the Congress and other stakeholders. The concerns relate to whether the Free File Program is operating as intended and whether taxpayers eligible for the program were being charged for returns or being diverted to preparation services that are not free. We plan to issue our report in November 2019.

We are also completing a review assessing the Volunteer Program<sup>24</sup> site requirements to safeguard and protect sensitive taxpayer information. Taxpayers who use return preparation services at volunteer sites are required to disclose sensitive Personally Identifiable Information, which is highly coveted by identity thieves. As such, the IRS must implement effective procedures to ensure that the volunteer sites adequately safeguard taxpayer information. Our review identified improvements that are needed to strengthen data security processes at the Volunteer Program sites. We plan to issue our report in October 2019.

## **IMPROVING TAX COMPLIANCE**

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. If the IRS can increase the rates of voluntary compliance, it can reduce the Tax Gap. The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The gross Tax Gap, which is the amount that is owed by taxpayers before collections from IRS enforcement actions and other late taxpayer payments taken into account, is estimated to be \$458 billion annually.<sup>25</sup> The underreporting of income taxes comprises the largest component of the Tax Gap at \$387 billion annually,<sup>26</sup> with amounts attributable to nonfiling and nonpayment of taxes at \$32 billion and \$39 billion respectively.

There are a number of different factors that drive voluntary tax compliance. The IRS estimates that information reporting and withholding requirements are significant drivers of tax compliance. For instance, when there is information reporting and withholding at the source, tax compliance is approximately 99 percent. When there is information reporting, tax compliance is approximately 93 percent. When there is neither withholding nor information reporting, the IRS believes tax compliance is as low as 37 percent.<sup>27</sup>

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<sup>24</sup> The Volunteer Program includes the Volunteer Income Tax Assistance and the Tax Counseling for the Elderly programs and sites operated in partnership with the U.S. military and community-based organizations.

<sup>25</sup> Hereafter in this testimony, the Tax Gap refers to the gross Tax Gap.

<sup>26</sup> Improper payments for the Earned Income Tax Credit and other refundable credits are considered a component of this amount.

<sup>27</sup> Federal Tax Compliance Research: Tax Gap Estimates Tax Years 2008-2010.

The IRS also believes that the use of certain tax enforcement tools are more effective than other enforcement tools in driving tax compliance. For example, the use of tax audits has a significant positive indirect effect on tax compliance of 11.7 times the direct effect of the proposed adjustment.<sup>28</sup> However, the IRS's audit rate has been decreasing, from .86 percent of all individual returns filed in 2014 (approximately 1.2 million returns audited) to .59 percent of all individual returns filed in 2018 (approximately 890,000 returns audited).

### ***Diminished Resources Impact Traditional Enforcement Tools While Automated Functions Collect More Revenue***

Despite resource challenges, the IRS achieved an all-time high level of enforcement revenue in FY 2018 of \$59.4 billion. Over half of the enforcement revenue is attributable to automated collection processes that issue balance due notices when taxpayers fail to pay what they owe. As a percentage of overall enforcement revenue collected, the amount attributable to automated collection processes is increasing. However, this positive trend is somewhat misleading. Other types of enforcement actions and the associated revenue are decreasing.

#### **Reductions in Most Types of Examinations**

Examinations are important to tax compliance, as they address underreporting which is the most significant component of the Tax Gap and because of the significant positive compliance effect multiplier from audits. As such, it is important that the IRS has the resources to maintain or increase its audit coverage. The IRS ended FY 2018 with approximately 74,904 full-time equivalents (FTE), a 4 percent decline from the approximately 77,685 FTEs in FY 2017. In addition, the IRS's compliance programs continue to see reductions in their available resources, as well as reductions in the effectiveness of examination performance. For example, the number of audits have decreased by approximately 28 percent from 1.4 million in FY 2014 to less than 1 million in FY 2018. In addition, proposed assessments have declined over the last five years, from \$33 billion in FY 2014 to \$27 billion in FY 2018. In each of the years from FY 2007 through FY 2011, proposed adjustments by the Examination function exceeded \$40 billion, but have not returned to that level since then.

Several different employee position types are involved in conducting IRS

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<sup>28</sup> *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results*, 95<sup>th</sup> Annual Conference on Taxation (Nov. 14-16, 2002).

examinations. Revenue agents conduct complex examinations in the field, whereas tax examiners generally conduct audits by correspondence. Due to diminished resources, the IRS had 627 fewer revenue agents in FY 2018 (7,649 revenue agents) than in FY 2017 (8,276 revenue agents), an almost 8 percent decline. Over a five-year period from FY 2014 to FY 2018, there was a 23 percent decline in revenue agents from 9,870 to 7,649. Additionally, out of 196 million returns filed in FY 2018, the IRS examined approximately 991,000 returns, including 741,000 (75 percent) conducted via correspondence and approximately 250,000 (25 percent) conducted in the field.

Tax examiners conduct less complex examinations through correspondence, such as Earned Income Tax Credit (EITC)<sup>29</sup> examinations. This was the only examination position type that the IRS increased in FY 2018, with 290 additional examiners. In addition, these were the only type of examinations conducted that the IRS increased, with 4,000 additional examinations in 2018. However, the increased examiners and examinations did not yield increased proposed adjustments. In fact, even with the additional audit resources, there were \$100 million less in adjustments in FY 2018 compared to FY 2017. On the other hand, audits of business taxpayers decreased overall from FY 2017 to FY 2018 by approximately 50,000 audits, although the IRS Large Business & International Division managed to close 880 more audits in FY 2018 with 214 fewer revenue agents.

### Nonpayment

The component of the Tax Gap related to nonpayment of taxes owed is estimated to be \$39 billion annually. However, reductions in resources have also impacted payment compliance. From FY 2014 to FY 2018, field revenue officers have decreased by approximately 23 percent (from 2,809 to 2,168). There were 196 fewer revenue officers in FY 2018 (2,168) than in FY 2017 (2,364). On average, revenue officers collected over \$2.6 million each during FY 2018. As such, for FY 2018, we estimate that the loss of 196 revenue officers could have resulted in a reduction of revenue collected of approximately \$510 million.

As required by the 2015 Fixing America's Surface Transportation Act,<sup>30</sup> the IRS began using private collection agencies (PCA) and implemented the Private Debt Collection (PDC) program. In two prior attempts, PDC programs did not generate

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<sup>29</sup> The EITC is a benefit for working people with low to moderate income. To qualify, you must meet certain requirements and file a tax return, even if you do not owe any tax or are not required to file. The EITC reduces the amount of tax you owe and may give you a refund.

<sup>30</sup> Pub. L. No. 114-94, 129 Stat. 1312 (2015).

sufficient revenue to cover costs and the IRS terminated the programs early with net losses to the Government. As a result, in this latest PDC effort, the IRS attempted to minimize costs to the program by minimizing any involvement with the taxpayers whose accounts were assigned to PCAs, such that:

- Taxpayers whose accounts were assigned to PCAs were not permitted to call the IRS's regular toll-free number to either confirm that calls from the PCA were not part of an IRS impersonation scam or to complain about PCAs;
- The IRS did not assign staff to the program to ensure that only authorized cases were sent to PCAs and to ensure inappropriate cases were returned to the IRS, e.g., taxpayers residing in disaster zones.

The Joint Committee on Taxation estimated that the current PDC program would yield approximately \$2.4 billion in additional revenue through FY 2025. As of July 2019, three years into the program, 2.1 million taxpayer accounts have been assigned to PCAs with total balances owed of approximately \$19 billion and PCAs have collected \$253 million with costs of approximately \$117 million. PCAs have collected approximately one percent of the dollars assigned, whereas the average national debt collection rate is nine percent. We identified certain characteristics of the accounts as a possible reason the collection rate is not higher. For example, approximately 55 percent of the accounts that were assigned to PCAs were low-income taxpayers who may not have the ability to pay, and the average age of the accounts was 4.75 years (debts older than three years are believed to be statistically uncollectible). Congress addressed these two issues in the Taxpayer First Act by reducing the age of the accounts that must be sent to PCAs from three years to two years and prohibiting the assignment of accounts of taxpayers whose incomes are less than 200 percent of the poverty level.<sup>31</sup>

### Lapses in Nonfiler Enforcement

The nonfiler component of the Tax Gap is estimated to be \$32 billion. In 2002, the IRS determined that the nonfiler program is the most cost-effective of all its compliance programs. In two recent audits, TIGTA has determined that the IRS's nonfiler program has been significantly diminished, in part due to resource constraints and in part due to the manner in which the IRS prioritizes cases.<sup>32</sup> From FY 2011 to

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<sup>31</sup> Taxpayer First Act, *supra* note 8, at § 1205(a) – (b).

<sup>32</sup> TIGTA, Ref. No. 2017-30-078, *A Significantly Reduced Automated Substitute for Return Program Negatively Affected Collection and Filing Compliance* (Sept. 2017); TIGTA, Ref. No. 2016-30-085,

FY 2014, the IRS collected \$11 billion from the Automated Substitute for Return Program (a component of the IRS's overall nonfiler strategy). However, during TIGTA's 2017 audit, TIGTA learned that, due to diminished resources the IRS decided not to pursue high-income taxpayers who had filed extension requests to file tax returns for TY 2012 but did not file a tax return. In addition, the IRS had not pursued any taxpayers in TY 2013 who had requested extensions to file but had never filed tax returns. While diminished resources were a significant contributor to the lapses in nonfiler enforcement, the IRS also was not prioritizing nonfiler cases by the extent of noncompliance. For example, the IRS was setting the highest nonfiler prioritization to taxpayers who were owed a refund for the current year but had a previous unfiled return. In other words, a taxpayer earning \$20,000 who had a previous unfiled return but was owed a small refund in the current year was a higher priority case than a taxpayer earning \$1,000,000 a year who had not filed in five years. TIGTA recommended that the IRS resume the Automated Substitute for Return Program, and revise the manner in which it selects cases. Although the IRS developed a more strategic nonfiler strategy, this strategy has yet to be implemented.

We have an ongoing audit that is evaluating the extent to which the IRS is pursuing high-income nonfilers.<sup>33</sup> For TYs 2014-2016, there were almost 880,000 high-income nonfilers owing more than \$45 billion. Of these nonfilers, 369,176 (42 percent), owing more than \$16 billion, have not been pursued. The remaining 510,239 (58 percent), owing more than \$29 billion, are in Collection inventory, but generally will not be pursued due to decreased Collection resources. It is a crime not to file a tax return when one is due.<sup>34</sup> High-income nonfilers who do not file tax returns are engaged in noncompliance and should be a priority for the IRS's enforcement. Given that there is no one IRS official or office in the IRS with clear overall accountability for nonfiler compliance, we will be recommending that the IRS establish a senior management official with requisite resources to be responsible for pursuing high-income nonfilers.

Additionally, in a recent audit, we uncovered lapses in the IRS's automated employment tax nonfiler enforcement efforts.<sup>35</sup> The IRS uses its authority under Internal Revenue Code (I.R.C.) § 6020(b) to file tax returns for taxpayers who have not timely filed when it has sufficient information on file to compute the liability. For

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*Improvements to the Nonfiler Program Could More Effectively Help the IRS Address Additional Nonfilers Owing Billions of Dollars in Taxes* (Sept. 2016).

<sup>33</sup> TIGTA, Audit No. 201830036, *High-Income Nonfilers Owing Billions of Dollars are Not Being Worked*.

<sup>34</sup> 26 U.S.C. § 7203.

<sup>35</sup> TIGTA, Ref. No. 2019-30-069, *Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations* (Sept. 2019).

employment tax returns, the IRS established an “Automated 6020(b) Program” (A6020(b)) to file employment tax returns for businesses that stopped filing. Because of diminishing resources, the IRS allocated fewer employees to staff the A6020(b) Program resulting in declines in proposed adjustments from approximately \$916 million in FY 2013 to approximately \$139 million in FY 2017. The resources allocated to the program for FY 2019 was approximately one FTE, which was down from approximately 12 FTEs in 2013. The A6020(b) Program also prioritizes low dollar cases, and we estimated that if the IRS allowed this program to work higher dollar cases the program could collect an additional \$16.7 billion over five years.

### Criminal Investigation

The IRS Criminal Investigation (CI) Division contributes to increased tax compliance by pursuing tax and nontax-related crimes. However, resource constraints have caused CI to reduce its investigations by 46 percent. The number of investigations started by CI diminished by 2,428 per year, from 5,314 in FY 2013 to 2,886 in FY 2018. In FY 2018, CI had 720 fewer special agents than it had in FY 2012, a reduction of 26 percent. CI leadership recently described the resource challenges as a “perfect storm” given the significant criminal enforcement challenges before them.<sup>36</sup>

Additionally, a reallocation of priorities has caused CI to work significantly fewer identity theft investigations. In August 2019, we reported that CI started 75 percent fewer identity theft investigations in FY 2017, with a total of 374 that year as compared to FY 2013 when there were 1,492 investigations.<sup>37</sup> Because of the substantial progress that the IRS has made in reducing identity theft, CI reallocated resources away from identity theft investigations. However, there were still over 950,000 incidents of identity theft in FY 2017 (a 65 percent drop from FY 2013 when identity theft incidents were at their highest) affecting 856,739 taxpayers. Identity theft also continues to impact other parts of tax administration and perpetrators are becoming more sophisticated. As CI leadership noted recently: “*In just a couple of years we have seen identity theft morph from an unsophisticated street level crime to a sophisticated international organized crime operation.*”<sup>38</sup> Yet, the IRS has made a conscious effort to reduce identity theft investigations and the time spent on investigating them.

In addition, we also identified that CI does not incorporate thousands of identity

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<sup>36</sup> IRS: Criminal Investigation Annual Report 2018.

<sup>37</sup> TIGTA, Ref. No. 2019-30-047, *Criminal Investigation Should Increase its Role in Efforts Against Identity Theft* (Aug. 2019).

<sup>38</sup> IRS: Criminal Investigation Annual Report 2018.

theft cases that are worked by the Identity Theft Victim Assistance function and the Taxpayer Advocate Service into its scheme investigation assessment process. There also is not an effective referral process for employees at either of those functions to refer actionable information to CI about identity theft perpetrators. While CI agreed to study the feasibility of incorporating these cases into its investigation process, it disagreed with the recommendation to develop a better referral process.

### ***Improving the Efficiency and Effectiveness of Tax Compliance Programs***

While additional resources will assist the IRS in its efforts to improve tax compliance, TIGTA reviews also have identified important improvements that should be made to these programs that will not necessitate additional resources.

#### **Impact of the Gig Economy on Tax Compliance**

Tax Gap studies have found that self-employed individuals underreported their net income by 64 percent (based on the average for TYs 2008 through 2010), which is up from 57 percent in the TY 2001 estimate. With the growth of online platform companies in recent years, which allow people easy and convenient ways to obtain needed services and others to work as self-employed individuals providing those services (also known as the “gig economy”), it is likely that self-employment tax underreporting will continue to be a growing problem.

TIGTA recently issued a report on the gig economy’s impact on tax compliance and the lack of an IRS strategy to address this challenge.<sup>39</sup> The gig economy includes online platform companies, such as ride-share companies, which act as facilitators that bring together people offering goods or services with others that need such goods or services. TIGTA reported that the IRS is not working cases with billions of dollars in potential tax discrepancies involving taxpayers who earn income in the gig economy. Many cases were not selected to be worked by the IRS due to resource constraints and the large volume of discrepancies that were identified. Further, Treasury Regulations do not require certain gig economy businesses to issue Form 1099-K, *Payment Card and Third Party Network Transactions*, unless workers earn at least \$20,000 and engage in at least 200 transactions annually. Consequently, many taxpayers who earn income in the gig economy do not receive a Form 1099-K; therefore, their income is not reported to the IRS. When income information is not reported to the IRS, taxpayers are more likely to be noncompliant. The IRS agreed with our recommendation to work with

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<sup>39</sup> TIGTA, Ref. No.: 2019-30-0116, *Expansion of the Gig Economy Warrants Focus on Improving Self-Employment Tax Compliance* (Feb. 2019).



the Department of the Treasury Office of Tax Policy to pursue a legislative change to close the information gap with respect to gig economy businesses.

TIGTA has identified other emerging economies whose principal participants are also internet platform companies who may be considered to be Third Party Settlement Organizations under I.R.C. § 6050W's<sup>40</sup> high reporting thresholds, including virtual currency exchanges and peer-to-peer payment systems. These emerging economies also are expanding into an area of tax law where tax reporting requirements (as well as other regulatory requirements) are limited, and TIGTA will continue to audit in this area to ensure that the IRS accounts for these developments in its enforcement plans.

### Lapses in Enforcement of Withholding Obligations

TIGTA has issued a number of reports that assessed the IRS's efforts to ensure compliance with withholding tax reporting and payment provisions. These reviews found that the IRS's lack of enforcement in this area leaves substantial amounts of tax uncollected, which contributes to the Tax Gap. TIGTA reviews have identified billions of dollars in losses to the Federal Government. For example, in September 2016, we reported that due to the lack of enforcement, taxpayers were avoiding the payment of billions of dollars in backup withholding.<sup>41</sup> Our review identified nearly \$9 billion in backup withholding tax that was not withheld, as required, by payers submitting TY 2013 information returns with missing<sup>42</sup> or incorrect<sup>43</sup> Taxpayer Identification Numbers.<sup>44</sup> Payers were required to backup withhold 28 percent on payments associated with missing or incorrect Taxpayer Identification Numbers.<sup>45</sup> The IRS acknowledged there were significant gaps in enforcement of backup withholding and agreed with our recommendation to establish a Service-wide information returns backup withholding enforcement strategy.

In July 2017, we reported that case selection processes resulted in billions of

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<sup>40</sup> I.R.C. (§) 6050W requires reporting of certain payments made in settlement of payment card and third-party network transactions.

<sup>41</sup> TIGTA, Ref. No. 2016-40-078, *Due to the Lack of Enforcement, Taxpayers Are Avoiding Billions of Dollars in Backup Withholding* (Sept. 2016).

<sup>42</sup> The IRS defines a missing Taxpayer Identification Number (TIN) as one that is not provided, has more or less than nine numbers, or has an alpha character as one of the nine positions.

<sup>43</sup> The IRS defines a TIN as incorrect if it is in the proper format but the name/TIN combination does not match or cannot be found on the IRS's or Social Security Administration's records.

<sup>44</sup> A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the Taxpayer Identification Number is an Employer Identification Number, a Social Security Number or an Individual Taxpayer Identification Number.

<sup>45</sup> The Tax Cuts and Jobs Act of 2017 reduced the rate to 24 percent.

dollars in potential employer underreported tax not being addressed.<sup>46</sup> Our analysis of 137,272 IRS-identified TY 2013 discrepancy cases found that the IRS worked only 23,184 (17 percent). The remaining 114,088 (83 percent) discrepancy cases that were not worked had a potential underreported tax difference of more than \$7 billion. Discrepancy cases involve employers who, based on the IRS's comparison of what they reported to the Social Security Administration (SSA) on Forms W-2, *Wage and Tax Statements*, and Forms W-3, *Transmittal of Wage and Tax Statements* and what they reported on their filed employment tax returns, showed that they withheld tax from employees but did not fully report those withholdings to the Federal Government as required.

The continual reduction in resources allocated to working discrepancy cases directly contributes to the IRS's inability to reduce the billions of dollars it reports each year as being lost as a result of the Tax Gap. Our review of resources allocated to address these discrepancy cases identified a 61 percent reduction in full-time equivalents (from 57 to 22) from FYs 2013 to 2015. Yet for each of the unworked discrepancy cases, the IRS has information reporting documents from the SSA (Forms W-2 and Forms W-3), as well as information the employer reported on its employment tax return. The IRS agreed with our recommendation to revise its case selection criteria to include cases with the highest potential tax assessment.

In May 2019, we also reported that billions of dollars in non-payroll tax withholding discrepancies are not being addressed.<sup>47</sup> Specifically, we identified 11,201 payers that did not report taxes withheld or reported less taxes withheld on Form 945, *Annual Return of Withheld Federal Income Tax*, than the withholding amounts reported to the IRS on Form 1099, Form W-2G, *Certain Gambling Winnings*, or Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*. The potential non-reporting or underreporting by these payers totals more than \$1.9 billion. The \$1.9 billion discrepancy represents the amount payers reported as being withheld but not paid to the Federal Government.

In March 2019, the IRS announced plans to introduce a new program that will analyze information reporting inconsistencies and mismatches and will seek out employers or payers who filed a Form 1099, reporting withholding tax to payees, but may not have sent the related Form 945, reporting withholding tax to the IRS.

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<sup>46</sup> TIGTA, Ref. No. 2017-40-038, *Case Selection Processes Result in Billions of Dollars in Potential Employer Underreported Tax Not Being Addressed* (July 2017).

<sup>47</sup> TIGTA, Ref. No. 2019-40-028, *Billions of Dollars in Non-Payroll Tax Withholding Discrepancies Are Not Being Addressed* (May 2019).

According to IRS management, this new program will be staffed with 10-12 full-time equivalents, most of whom were affected by the recent consolidation of the Cincinnati Tax Processing Center.

To provide information on the overall potential loss to the Government resulting from reported Federal tax withheld and not remitted, as required, by either employers or payers, we are developing a summary report. This report will provide an assessment of the IRS's progress to make improvements to its Federal tax withholding processes and procedures. In addition, we will address the IRS's resources allocated to enforcing compliance with Federal tax withholding and identify opportunities where management could maximize existing resources.<sup>48</sup>

## **INFORMATION TECHNOLOGY CHALLENGES**

Successful modernization of IRS systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs, as well as to enhancing services provided to taxpayers. The IRS's reliance on older legacy systems and aged hardware, as well as its use of outdated programming languages, pose significant risks to the IRS's ability to accomplish its mission. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.

In April 2019, the IRS released its *Integrated Modernization Business Plan*, which is a six-year strategy to enhance ongoing efforts to modernize IRS systems and taxpayer services with overall cost estimates between \$2.3 and \$2.7 billion. The Plan calls for bolstering resources to be spread across two three-year phases organized by four pillars: (1) Taxpayer Experience; (2) Core Taxpayer Services and Enforcement; (3) Modernized IRS Operations; and (4) Cybersecurity and Data Protection. The IRS has budgeted \$300 million for the modernization effort in FY 2019 and an equal amount in FY 2020. Modernization efforts will not be complete at the end of the six years, but the IRS believes it will be better positioned for future successes. According to the IRS, the Plan's success is dependent on a number of legislative proposals and regulatory authorities, which include the Direct Hire Authority for IT modernization positions (granted to Federal agencies in April 2019), Streamlined Critical Pay, and funding for multiple fiscal years at somewhat predictable intervals. The Taxpayer First Act authorized Streamlined Critical Pay for IRS IT positions. The IRS is currently assessing the provision and developing a plan for its implementation.

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<sup>48</sup> TIGTA, Audit No., 201940028, *Efforts to Address Withholding Reporting and Payment Requirements*.

The IRS faces an enormous challenge of modernizing its architecture of interdependent systems and a complex legacy environment dating back to the 1960s. We reviewed the Plan and discussed it with IRS officials. Overall, we have no concerns with the direction or goals set in the Plan. We believe the Plan is ambitious and provides a strategic vision for the organization; however, it is unclear whether the IRS has effectively prioritized actionable near-term goals and is realistic about what is attainable in the immediate future. Over the course of the next fiscal year, we will be able to better assess the feasibility of the Plan. Several audits in our FY 2020 Annual Audit Plan directly address some of the major modernization projects and systems the IRS intends to overhaul or add to its cadre of services for taxpayers.

Staffing to implement the Plan is paramount to its success. IRS IT staffing levels are beginning to stabilize, thanks in part to hiring flexibilities like the Direct Hire Authority. As of August 2019, the IT organization staffing level was 7,117, which is approximately 7 percent higher than the 6,659 staffing level at the beginning of Calendar Year 2019. However, this follows several years of staffing shortages that resulted in some difficult decisions on various IT projects. For example, the IRS had to delay the start of several releases on Customer Account Data Engine 2 (CADE 2) because of insufficient staffing and access to key subject matter experts with institutional knowledge of historical IRS processes. The IRS began development of CADE 2 in 2009 to address the issues regarding tax processing and to eventually replace the Individual Master File. CADE 2 is the data-driven foundation for future state-of-the-art individual taxpayer account processing and data-centric technologies designed to improve service to taxpayers, enhance IRS tax administration, and ensure fiscal responsibility. TIGTA will be initiating an audit to assess whether the IRS is effectively and efficiently managing the CADE 2 program's Individual Tax Processing Engine project to ensure timely completion and plans to issue a report in FY 2020.

While the IRS has increased its effort on recruiting and hiring this year, it takes time to onboard new staff and bring them up to speed in the complex environment of interdependent systems. Furthermore, experienced staff with institutional knowledge are frequently pulled from modernization programs to address more immediate needs, such as new legislative requirements that impact the Filing Season. This has a cascading effect on IT major projects, such as the Web Applications project. The Web Applications investment is designed to create online applications to improve interactions and communications with taxpayers. Due to tax reform priorities from the Tax Cuts and Jobs Act, enhancements to two applications had to be temporarily delayed.

In addition to modernization efforts to replace legacy systems, the IRS is developing and implementing new information technology to modernize its operations and applications. The IT organization provides and maintains the information technology products and services needed by the IRS to meet its mission to deliver tax administration. In a July 2019 report, TIGTA found that the IT organization, not IRS leadership, has primary responsibility for allocating IT resources.<sup>49</sup> The allocations are made with only minimal involvement from the IRS's business operating divisions. The operating divisions are concerned that their lack of participation limits their input when establishing agency priorities for determining how to allocate IT organization resources.

In addition, due to insufficient IT resources, the IRS has not started numerous projects that would reduce taxpayer burden, protect revenue, and save significant IRS resources. For example, there were 82 requests for IT enhancements denied in Calendar Year 2016. IRS executives informed us that this had negative impacts on tax administration, such as the potential for billions of dollars in lost revenue, taxpayers not receiving proper credits, and the IRS having to pay a large amount of interest due to withholding that was not credited to taxpayer accounts.

Lastly, TIGTA performed several audits where we identified and reported on opportunities for the IRS to make system enhancements that would reduce taxpayer burden, result in annual cost savings to the IRS, and protect taxpayer data. For example:

- **E-filing of amended tax returns** - In July 2019, we reported on the impact on tax administration resulting from the IRS's delay of implementing e-filing of amended returns.<sup>50</sup> E-filing would reduce taxpayer burden, result in significant cost savings and reduce the TIGTA estimated \$359 million in potentially erroneous tax refunds issued during Processing Year 2017. Management stated that the ability to e-file amended tax returns has been a long-term goal but developing a process is costly. IRS management stated that they submitted funding requests for an additional \$4.1 million in both FYs 2016 and 2017. The IRS's estimated \$4.1 million is a small fraction of the \$63 million in additional processing costs we estimate that the IRS expended in FYs 2013-2016 by not implementing e-filing.

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<sup>49</sup> TIGTA, Ref. No. 2019-40-043, *Unmet Needs for Information Technology Support Result in Inefficiencies and Higher Tax Administration Costs* (July 2019).

<sup>50</sup> TIGTA, Ref. No. 2019-40-042, *Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds* (July 2019).

- **Online referral application** - In September 2012, we recommended that the IRS implement an online referral application to reduce both taxpayer burden and referral processing costs. The estimated cost was \$1 million to develop an application that would include guiding a user through a series of screens and questions for reporting suspected tax fraud and the ability to filter referrals to identify ones that are likely to yield a tax assessment. The application would also reduce the more than \$400,000 annual cost the IRS spends to manually process referrals. As we reported in May 2019,<sup>51</sup> in FYs 2016 through 2018, the IRS assessed more than \$246 million in additional tax based on information referrals. When compared to other types of examinations, the information referrals yielded a higher average tax assessment.
- **Third-party authorization tool** – In August 2018, we reported that tax examiner reviews of authorization forms do not include steps to verify that the taxpayer submitted or signed the form to authorize access to his or her tax information.<sup>52</sup> Management stated that they submitted a work request for the Third-Party Authorization Tool in January 2017, which would strengthen security over this process. The new security features would include multifactor authentication that requires the individual submitting the authorization to pass authentication before submitting an authorization form. However, an IRS Executive Steering Committee did not approve funding for this feature and the request was cancelled. Management’s inaction is contrary to their own identification and confirmation that fraudulent authorizations are being submitted and processed.

The IRS faces continuing challenges with resource limitations, in particular its IT resources. However, some of the unfunded IT requests would actually result in the IRS achieving overall cost savings by replacing alternative inefficient manual workarounds. The system enhancements identified will assist the Business Operating Divisions to work more efficiently and the cost savings could help offset the funds needed for modernization activities.

## **IRS PROCESS TO REHIRE FORMER EMPLOYEES**

Given the magnitude of sensitive information that the IRS holds, hiring employees of high integrity is essential to maintaining public trust in tax administration

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<sup>51</sup> TIGTA, Ref. No. 2019-40-040, *Improvements Are Needed to Correct Continued Deficiencies in the Processing of Taxpayer Referrals of Suspected Tax Fraud* (May 2019).

<sup>52</sup> TIGTA, Ref. No. 2018-40-062, *Improved Procedures Are Needed to Prevent the Fraudulent Use of Third-Party Authorization Forms to Obtain Taxpayer Information* (Aug. 2018).

and safeguarding taxpayer information. In December 2014, TIGTA reported that, although the IRS appropriately applied Office of Personnel Management suitability standards, 824 (11.5 percent) of 7,168 former IRS employees rehired between January 1, 2010, and September 30, 2013, had prior substantiated conduct or performance issues.<sup>53</sup> TIGTA found nothing in the IRS hiring process beyond the suitability standards where prior conduct and performance issues were being considered. As a result, we recommended that the IRS Human Capital Officer work with General Legal Services and the Office of Personnel Management to determine whether, and during what part of the hiring process, the IRS could fully consider prior conduct and performance issues. The IRS agreed with this recommendation.

Subsequent to our 2014 report, Congress enacted the Consolidated Appropriations Act of 2016,<sup>54</sup> which prohibited the IRS from rehiring former employees without taking their prior conduct into account. However, TIGTA conducted a follow-up audit in 2017 and found that the IRS had not effectively updated or implemented hiring policies to fully consider past IRS conduct and performance issues prior to making a tentative decision to hire former employees, including those who were terminated or separated during an investigation of a substantiated conduct or performance issue.<sup>55</sup>

We also reported that more than 200 (10 percent) of nearly 2,000 former IRS employees rehired between January 1, 2015, and March 31, 2016, were previously terminated from the IRS or separated while under investigation for a substantiated conduct or performance issue. TIGTA recommended that the IRS Human Capital Officer provide the selecting official with access to records of former employee conduct and performance issues, and require that the basis for rehiring employees with prior employment issues be clearly documented. IRS management planned to update current practices and policies to ensure that data reflecting prior performance and misconduct are utilized in the hiring process.

TIGTA is finalizing an additional follow-up review that will be issued in the near future. This review found that from October 2017 to June 2018 the IRS rehired 1,510 employees and 36 (2 percent) had prior substantiated conduct or performance issues.<sup>56</sup>

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<sup>53</sup> TIGTA, Ref. No. 2015-10-006, *Additional Consideration of Prior Conduct and Performance Issues Is Needed When Hiring Former Employees* (Dec. 2014).

<sup>54</sup> Pub. L. No. 114-113, 129 Stat. 2242.

<sup>55</sup> TIGTA, Ref. No. 2017-10-035, *The Internal Revenue Service Continues to Rehire Former Employees With Conduct and Performance Issues* (July 2017).

<sup>56</sup> TIGTA, Audit No. 201810026, *Processes and Procedures for Rehiring Employees With Prior Conduct or Performance Issues Were Implemented but Not Always Followed*, report scheduled for September 2019.



Although the IRS updated its procedures, IRS management did not always clearly document the basis for rehiring employees with known conduct or performance issues. In addition, IRS officials incorrectly applied guidelines developed to standardize consideration of prior performance and misconduct in hiring decisions. During the course of our audit, the President signed into law the Taxpayer First Act in July 2019. The Act mandates that the IRS not hire individuals previously employed by the IRS who were involuntarily removed for misconduct.

We at TIGTA take seriously our mandate to provide independent oversight of the IRS in its administration of our Nation's tax system. Accordingly, we plan to provide continuing audit, investigative, and inspections and evaluations coverage of the IRS's efforts to operate efficiently and effectively.

Chairman Quigley, Ranking Member Graves, and Members of the Subcommittee, thank you for the opportunity to share my views.



## **J. Russell George**

### **Treasury Inspector General for Tax Administration**

Following his nomination by President George W. Bush, the United States Senate confirmed J. Russell George in November 2004 as the Treasury Inspector General for Tax Administration. Prior to assuming this role, Mr. George served as the Inspector General of the Corporation for National and Community Service, having been nominated to that position by President Bush and confirmed by the Senate in 2002.

A native of New York City, where he attended public schools, including Brooklyn Technical High School, Mr. George received his Bachelor of Arts degree from Howard University in Washington, D.C., and his Doctorate of Jurisprudence from Harvard University's School of Law in Cambridge, MA. After receiving his law degree, he returned to New York and served as a prosecutor in the Queens County District Attorney's Office.

Following his work as a prosecutor, Mr. George joined the Counsel's Office in the White House Office of Management and Budget, where he was Assistant General Counsel. In that capacity, he provided legal guidance on issues concerning presidential and Executive Branch authority. He was next invited to join the White House Staff as the Associate Director for Policy in the Office of National Service. It was there that he implemented the legislation establishing the Commission for National and Community Service, the precursor to the Corporation for National and Community Service. He then returned to New York and practiced law at Kramer, Levin, Naftalis, Nessen, Kamin & Frankel.

In 1995, Mr. George returned to Washington and joined the staff of the Committee on Government Reform and Oversight and served as the Staff Director and Chief Counsel of the Government Management, Information and Technology Subcommittee (later renamed the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations), chaired by Representative Stephen Horn. There he directed a staff that conducted over 200 hearings on legislative and oversight issues pertaining to Federal Government management practices, including procurement policies, the disposition of Government-controlled information, the performance of chief financial officers and inspectors general, and the Government's use of technology. He continued in that position until his appointment by President Bush in 2002.

Mr. George also served as a member of the Integrity Committee of the Council of Inspectors General for Integrity and Efficiency (CIGIE). CIGIE is an independent entity within the executive branch, statutorily established by the Inspector General Act of 1978, as amended, to address integrity, economy, and effectiveness issues that transcend individual Government agencies and to increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General. The CIGIE Integrity Committee serves as an independent review and investigative mechanism for allegations of wrongdoing brought against Inspectors General.