

IRS: IS IT READY?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
OF THE
COMMITTEE ON OVERSIGHT AND
REFORM

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C O N T E N T S

Hearing held on April 21, 2022	Page 1
WITNESSES	
Charles P. Rettig, Commissioner, Internal Revenue Service Oral Statement	9
Erin M. Collins, National Taxpayer Advocate, Taxpayer Advocate Service Oral Statement	11

Written opening statements and statements for the witnesses are available on the U.S. House of Representatives Document Repository at: docs.house.gov.

INDEX OF DOCUMENTS

* GAO-22-104938, Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges; submitted by Chairman Connolly
The documents are available at: docs.house.gov.

IRS: IS IT READY?

Thursday, April 21, 2022

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND REFORM
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:01 a.m., via Zoom; Hon. Gerald E. Connolly (chairman of the subcommittee) presiding.

Present: Representatives Connolly, Norton, Lynch, Raskin, Khanna, Porter, Hice, Clyde, and Biggs.

Mr. CONNOLLY. The committee will come to order.

Without objection, the chair is authorized to declare a recess to the committee at any time.

I want to welcome everyone to the hearing which seeks to examine the operations and financial condition of the Internal Revenue Service with a focus on how the Agency will bear this tax season, which has now begun.

And I now will recognize myself for an opening statement.

Throughout the pandemic, we turned to the Internal Revenue Service to keep our country from economic collapse. After decades of partisan attacks and the intentional starvation of the Agency, we asked the Agency to accomplish the impossible, to process nearly 150 million tax returns worth \$365 billion, issue 479 million pandemic stimulus payments totaling \$812 billion, and send Child Tax Credit payments to 36 million families, totaling \$93 billion, thereby lifting one-fourth of children in the United States out of poverty. These evolving responsibilities and requirements did not always go smoothly. More than 195 million people called the IRS for help during the 2020 filing season, which is nearly four-and-a-half times more calls than it received in 2019. Unfortunately, about 82 percent of those callers received busy signals or disconnections, and the taxpayers simply hung up out of frustration.

The IRS is entering the tax season with a massive backlog of about 23.5 million tax returns and pieces of correspondence related to last year's tax season. We are asking the IRS to boil the ocean. Congress, at a minimum, must resource the IRS appropriately, and then hold IRS leadership accountable for making sure those resources are properly deployed to provide the American people the level of service they deserve from this vitally important agency.

Today's hearing will examine how the IRS can make it through this tax season. We know constituents in every district across the Nation struggle to get the help they need to receive the money they are owed by their government. We will hear what steps the IRS,

Congress and the American people can take to avoid busy signals, missing refund checks, and unnecessary billion-dollar interest payments on delayed returns. We will look at how decades of deliberate starvation of the IRS by the Congress can be countered with robust appropriations and new hiring flexibilities.

[Chart.]

Mr. CONNOLLY. If you look at the figure on your screen, you will see IRS appropriation levels for the past 20 years. The blue line represents appropriations adjusted for inflation. From 2010 to 2019, nine years, you will see a steady decline in appropriations with a nadir in 2019. In the past two years, the years that coincide with Democratic control of Congress, you will see a reinvestment in the IRS. This chart does not include a billion dollars appropriated to the IRS in the American Rescue Plan that is targeted for long overdue IT modernization.

Years of IT system neglect and a failure to modernize have left the IRS saddled with an operation highly dependent on obsolete programming languages like COBOL, Visual Basic, and assembler language code. Most of these languages are not even taught in schools anymore. More than 23 percent of the IRS applications, 287 out of 1,242, are considered legacy systems because they are 25 years or older and they lack broad vendor support. As of October 2021, about 14 percent of all IRS hardware and 15 percent of its software is considered legacy. It is unacceptable that so many software programs are two or more versions behind the most recent vendor-released updates. While the IRS knows these legacy systems hamstringing its potential, the Agency can't say what it will cost to modernize those systems because of the way the Agency is required to report costs to the Office of Management and Budget. This year, those reporting requirements have changed. Let's hope that the commissioner might soon have a clearer answer for us about the IRS' IT modernization needs and plans for proceeding.

The IRS staffing trends tell a similar dismal story. If you look at the screen again, you will see that the size of the IRS work force shrunk from Fiscal Year 2010 through Fiscal Year 2018. In recent testimony before the Ways and Means Subcommittee on Oversight, Commissioner Rettig stated that staffing levels at IRS, currently hovering around 79,000, are close to those of 1974, almost 40 years ago. Oh, actually, almost 50 years ago. IRS enforcement staffing levels have decreased by 30 percent while real gross domestic product increased by 29 percent and filing population increased by 14 percent. Over the next six years, Commissioner Rettig, you stated that you estimate you will need to hire 52,000 employees just to maintain current understaffed levels. The severe financial, technical, and staffing problems at the IRS were predictable and a direct result of years of partisan hostility here in Congress, reckless investigations, and unwarranted budget cuts. And today, as we head into this year's tax season, the IRS often finds itself gasping for air.

I hear from constituents every day who are battling the IRS online, telephone, and in-person systems to get their refund money they need to buy medication, groceries, or their children's school supplies during a pandemic. I have assisted an increasing number of constituents during the pandemic who are struggling to file

taxes on behalf of recently deceased loved one, for example, a process the IRS sometimes does not get right. I have a family in my district who filed their taxes out correctly, but nonetheless have been threatened with hundreds of dollars in fines because someone within IRS keyed their return inaccurately. This family has been working since 2019 to find anyone within IRS to listen, to let them show the IRS they did everything right.

Every member attending this virtual hearing has heard from constituents who cannot reach a customer service representative, people who spend countless hours on hold, on the phone, or could only reach a busy signal. And they are frustrated that the online Where's My Refund tool fails to give them information that could help avoid having to make the call in the first place. I have continuously engaged in oversight of the IRS, including a hearing on the IRS in the pandemic on October 2020. We have written oversight letters with my vice chair, Ms. Porter, asking the IRS to prioritize processing the tax returns of individuals on the brink of poverty who need their refund to thwart eviction. I have asked about ways to help address and prevent backlogs. Most recently, we have joined again in encouraging our appropriators to give the IRS the funding they have requested in order to make the investments they need to staff and to provide modern IT to better serve taxpayers.

We are here today to find ways to help IRS succeed. One no-brainer is to support the \$80 billion investment in the IRS within President Biden's Made in America tax plan. The independent Congressional Budget Office estimated, in response to a request of information from Senator Lindsey Graham of South Carolina, that the \$80 billion investment requested by President Biden would increase revenues by \$207 billion, thereby reducing the Federal deficit by \$127 billion through 2031.

The other no-brainer is requiring the IRS to invest in 2D bar coding technology. Again, partnering with our vice chair, Ms. Porter, we introduced Streamlining IRS Operations Act, which would require the IRS to use scanning technology on any paper return generated using tax prep software. And I congratulate Ms. Porter for her leadership in that legislation and in bringing this issue to the forefront. When enacted, this legislation would help eliminate the IRS backlog and increase accuracy because it removes the need for IRS employees to transcribe every digit and letter from a paper return, which, of course, has a high error rate. The Taxpayer Advocate Service has recommended the implementation of this technology for 18 years. And GAO also noted that the scanner technology benefits outweigh any perceived cost. That is actually a pretty strong stance for GAO.

I look forward to hearing from the commissioner and the national taxpayer advocate today. We want to know how we are going to make it through this tax season as efficiently as possible. We need to know how we will build the IRS we need for the future. We need to hear your vision, Commissioner Rettig, for how to put the IRS on terra firma with hopefully strong congressional support, and how we right the course, an essential agency attempting to rebuild itself from years of underfunding and disinvestment.

With that, I now recognize the distinguished ranking member, Mr. Hice, for his opening statement, and after that, we will recognize the vice chair of the subcommittee, Ms. Porter, for her opening statement. Mr. Hice, welcome.

Mr. HICE. Thank you very much, Chairman Connolly. I appreciate you holding this hearing, the title of which is "IRS: Is it Ready?" I think there is a very clear answer to that, and the answer is, no, it is not ready. In fact, as we speak, the IRS is seeking to hire an additional 10,000 people just to get through this tax season to put to bed so much that is out hanging for so many of the American people. And as *The Wall Street Journal* and *The New York Times* both report, the IRS is having a hard time competing with other employers. And, quite frankly, that is not surprising when the job description for these 10,000 or so people is to enter millions of numbers and letters into a computer.

So, how is it that an organization which spends billions of dollars every year on information technology end up in this kind of position? In our recent hearing on program integrity, we heard how COVID, as you mentioned, Mr. Chairman, we saw how COVID exposed inherent weaknesses in Federal fraud prevention capabilities, and this situation now, quite frankly, is no different. The IRS may have gotten by with their paper-based system before, but the challenges and complexities that are associated with the pandemic brought all of that to a crumbling halt. I, for example, and I am sure many of my colleagues have heard from constituents who are absolutely at their wit's end, they have not gotten their tax refunds, and they need that money. They depend upon those funds. They cannot apply for COVID relief because they are unable to get the required documentation from the IRS. They cannot even get someone from the IRS to answer the phones, for crying out loud. If they use the Where's My Refund or Where's My Amended Return tools, they get what, in essence, technologically, would be a shrugged shoulder.

The IRS says all of this is because they did not receive the type of funding that they need, and, unfortunately, in my opinion, my Democratic colleagues are all too willing to go along with this mindset. And they point to 2020—during the Obama Administration when the Democrats had both sides of Congress, they hold 2020 as the benchmark for IRS funding. Well, of course they do. The IRS is a soulmate with the Democratic Party, as evidenced by what has already been referred to moments ago as a \$80 billion request that was in Build Back Better. But look, more funding alone is far, far, far too simplistic of an answer, and it assumes that all that money would be spent properly from the IRS, and that just throwing more money at the IRS somehow is going to solve all the problems.

But how can anyone possibly come to that kind of conclusion? Just for example, the IRS is a home of the Individual Master File, IMF. This is the backbone of what the IRS uses, and the IMF has the distinction of being the oldest system in the Federal Government. In the effort to replace IMF, the Customer Account Data Engine started in 1999 to replace this. The IMF goes back to the 1960's. 1999, the attempt to replace it got under way, and that attempt failed. So, now we are in CADE 2, transition State No. 2. A

key milestone for CADE 2 was delayed for nine years, and, by the way, it is running four times the cost that was estimated. And now the IRS is saying that the best that we can expect is that they will have a transition, a new system by 2030, eight years away, and even then it is not going to be a full replacement of IMF.

Look, this is high profile, but this is yet another example of the IRS' absolutely poor and unacceptable management of IT projects. This has been going on far, far, far too long, costing far, far too much money. And the IRS also has a reputation of hiding the ball, of not providing information until asked for, just as what is happening today, quite frankly. So no, absolutely no, Republicans are not willing to simply give the IRS more money on a long-term basis without any accountability.

Proper oversight is what this committee is all about, and proper oversight is what is needed, is what is required for the IRS at this time. And how else can we possibly enable Congress to get to the answers that are needed with the poor management on multiple fronts that are taking place in the IRS? And most of the funding, by the way, in the Build Back Better plan, the \$80 billion that my colleagues on the other side of the aisle are requesting, is mandatory funding, which in itself reduces oversight.

And so, it seems that my Democratic friends just simply want to continue throwing money in a black hole that in itself has no oversight, and we will never see how that money is going to be spent to address the problems that are multiple at the IRS. And to the point Democrats like to raise about staffing levels at the 1974 levels, this, frankly, only further illustrates my point.

The purpose of IT projects is to increase efficiency, is it not? I mean, that is why we are trying to develop new technology. It is to increase efficiency. And so are we saying and are we somehow content to believe that after 50 years' worth of technological advancements and untold billions and billions of dollars spent, that the IRS has gained absolutely no capacity to do more with fewer people? And so here we are again with the IRS asking for another 10,000 people to be hired. Where is the technology to help the entire Agency become more efficient?

Look, the IRS has one main mission—one main mission—and that is the completion of tax filing season successfully. And can you really tell me that there was no risk assessment that flagged a system that is based on manual keystroking as a potential serious risk to the core mission? But that is what they are asking for now, 10,000 people to come in and manually type in numbers and letters so forth. And it just seems like we have had a total waste of 50 years of trying to boost up and increase technological advances. Some of the funding that you received should have been spent on scanning capabilities to address an obvious weakness. So, it seems that there was no real risk assessment about stroking in numbers. Why don't we use some of the money to scan some of the information?

And let me end by raising a second core responsibility of the IRS, and this is a major, major problem as well, and that is maintaining the trust of the American people. There is no agency, I believe, in the Federal Government that has the ability to impact lives for Americans as does the IRS. So, let me remind everyone that since

2010, the Democrats' benchmark for IRS funding, since 2010, we have seen the Lois Lerner scandal in which many, many conservative groups that were seeking tax exempt status were targeted. I would add that this is a perfect example of the Federal employee that should be covered by Schedule F which, quite frankly, I am personally trying to seek some legislation.

But from 2010 to 2012, the IRS also spent \$49 million on lavish conferences, and then there was the famous Star Trek-themed training videos. This past June, we saw leak of massive amounts of taxpayer information to the press, making possible a serious series of stories from ProPublica. And these stories focus on the tax filings of high-profile individuals focusing on the ultra-wealthy, like Elon Musk and Warren Buffet. And the series of stories make the argument that these people are not paying enough to the Federal Government, even though much of their wealth is tied up in unrealized capital gain. It is very interesting, oddly enough, that the Biden administration now proposed taxing unrealized capital gains. So, it seems as though the ProPublica stories and the leak from the IRS now serve as a political agenda. Interesting the timing of all of that.

But we are also interested in who is not paying their fair share. If that is really an interest to all of us, then why don't we start that type of investigation with the person who says the buck stops with him, and that would be President Biden himself. An IRS whistleblower, not a leaker, a whistleblower alleges that the President and First Lady owe \$127,000 in back taxes. So, I am sure that my Democratic colleagues will join me in calling for a public investigation of their tax filings, just as they did with President Trump. And then there is Hunter Biden, who, as *The New York Times* reported, took out a loan to pay off more than a million dollars in back taxes. How about Stacey Abrams here in my home state of Georgia? She wore her \$50,000 tax debt like a badge of honor.

And as for the *ProPublica* leak, this information should be, is supposed to be held in the strictest of confidence. And while committee Republicans have written seeking information about all of this, we still have no idea whatsoever as to how this happened. We actually wrote Chairwoman Maloney asking for a hearing on this issue, but nothing has happened. We wrote to Commissioner Rettig asking for detailed information, but to this day, we still don't have the answers that we sought. All of the examples I have raised highlighted the need for close oversight over the IRS, Mr. Chairman. That is what is needed. And yet Democrats continue to think that the only solution is throw more money at the IRS with no accountability. I strongly reject that notion.

And with that, and with the overall bird's eye view, I am grateful for this hearing. I am looking forward to asking questions, and hopefully we will get answers that, to this point, have been refused to be provided.

With that, Mr. Chairman, I yield back.

Mr. CONNOLLY. I thank the ranking member. I will remind all members that that is why we are having a hearing today. This is called an oversight hearing, and there are plenty of other proposals on the table. Ms. Porter, I know, has come forward with the barcoding proposal that has been advocated for 18 years by various

incendiary parties. So, we will be exploring lots of ways to try to help the IRS do its job. But we also, as Members of Congress, need to take responsibility for our own behavior. And I showed charts going from 2010 to 2019 that shows clearly the downward trend by Congress in the appropriations provided the IRS. So, for nine years, we not only didn't throw money at the IRS, we didn't give it money, and yet we expanded the role we expected it to undertake with an expanding population, expanding demands, more complexities in the Tax Code, and with antiquated IT. You can't ask IRS to do all of that if you are not going to have trained personnel and IT, that is contemporary, that isn't legacy.

And so, our subcommittee has a long history of looking at those issues. Today's hearing is part of that long history of providing oversight for IRS, and obviously we can do more, and we will.

Mr. HICE. Mr. Chairman, if you are going to provide commentary to my opening remarks, you certainly have the right to do so, but as I mentioned, there are multiple problems. The IRS has not been trusted with the money they have been provided. There have been multiple scandals involved over the years. There has been an enormous lack of oversight from this committee, and yet Democrats continue, want to throw more money with less oversight. These are not the appropriate ways to go. And I do appreciate the chairman providing commentary, but if we want to have a dialog back and forth, I would appreciate us having the honesty and the openness to do so.

Mr. CONNOLLY. I think we just did. Thank you.

The chair now recognizes distinguished vice chair of the subcommittee, Ms. Porter, for her opening remarks. Ms. Porter?

Ms. PORTER. Thank you, Chairman Connolly, for holding this hearing on oversight of the IRS. The subcommittee has focused on the IRS under the leadership of both parties for many years, and I am glad we are continuing that undone work. The IRS is failing to serve many Americans. Nearly 7 million taxpayers are still waiting for the IRS to process their tax returns from last year. Many taxpayers waited 10 months or more for their refunds, and this is not an abstract issue. Families need their tax refund to pay their rent. Small business owners need their refunds to keep their doors open. It is their money and the government should promptly return it to them.

Taxpayers are desperately seeking answers from the IRS. The vast majority were met with silence when they called for help last year. The IRS received 282 million phone calls from taxpayers. Over 250 million of those waited on hold, never getting connected. The IRS clearly needs more staff and better technology to provide the service taxpayers deserve. The Agency is serving more people than ever before, but its technology systems are the same as in the 1960's. Congress has failed to provide the sustained multi-year investment necessary to improve the IRS' technology.

See here, this is what has happened to the IRS' funding, and it is down 20 percent since 2010. The severe cuts have undermined the IRS' ability to provide the quality customer service to taxpayers and to prevent tax cheats from evading the law. At the current funding levels, the IRS can't maintain its work force at the levels the country needs. Today, the IRS has as few employees, shown

here in orange, as it did in the 1970's, despite a 60-percent increase in the United States' population.

With staff stretched so thin, the IRS has predictably cut back on enforcement. Since 2010, the IRS has reduced enforcement staff by the equivalent of 15,000 full-time employees, nearly one-third of the Agency's work force. This is penny wise and pound foolish. Every dollar invested in enforcement would return \$5 in additional revenue collected. Experts say our government could collect over \$1 trillion in the next decade by simply enforce existing tax law. This would be more than enough money to pay for the staff needed to conduct audits.

It should be an urgent priority for this Congress to rebuild the IRS. Last month, Congress approved a spending increase of \$675 million for the IRS, the largest increase in the IRS' budget since 2001. That is a big step forward, but it is still going to fall short of what taxpayers need. House Democrats have also advanced legislation to provide \$80 billion to the IRS over the next 10 years. And that long-overdue investment would allow the Agency to rebuild its staff and finally upgrade its outdated computer systems, which would get families timely refunds of their money. According to the Congressional Budget Office, this investment in the IRS would decrease the deficit by \$127 billion. But our legislation to fully fund the IRS is stalled in the Senate. Americans can't afford to wait another budget season for Congress to act. If we fail to make this investment, the unprecedented delays that taxpayers experienced in 2021 could be even worse this year.

In addition to funding the IRS properly, Congress has to support reforms to make the IRS more efficient and effective. Chairman Connolly and I have introduced the Streamlining IRS Operations Act that would require paper returns to include a scannable barcode. This legislation would speed up the IRS processing of millions of paper returns. I am eager to work with colleagues on both sides of the aisle to support this reform, and to reduce the backlog of returns.

The people who work at the IRS are government servants, and they are working hard. The service—I know that Commissioner Rettig is working to improve the services. I recently tested the IRS' phone number myself and was able to get connected to an agent in under three minutes. I tested Where's my Tax Refund, and it is on its way. So, I know you are working to make improvements, Commissioner, but we have to provide you with those resources, with the legislative directives to do it. And then we have to hold you accountable to get the job done. That is the spirit in which we are holding this hearing. Congress has a job to do today, and it is not going to get done by casting aspersions on the men and women of the IRS. It is going to be done by providing them with the tools and resources that they need. Today's hearing is an opportunity for us to hear directly from the IRS on how it can serve taxpayers. I am looking forward to working together to finally get the IRS the funding and resources it needs and hold them accountable to deliver on what taxpayers need.

Thank you very much, Mr. Chairman, for holding this hearing, and I yield back.

Mr. CONNOLLY. Thank you very much, Vice Chair Porter, and thank you for your leadership for that legislation.

I now would like to introduce our witnesses. We have two distinguished witnesses. First, we are very glad to welcome back the United States commissioner for the Internal Revenue Services, Mr. Charles “Chuck” Rettig. And our second witness is the national taxpayer advocate for the IRS, Ms. Erin Collins.

I would ask each of you to be unmuted and raise your right hand. It is the custom of this committee and subcommittee to swear in all witnesses. Erin, if you would raise your—yes, thank you very much.

Do you swear to affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

[A chorus of ayes.]

Mr. CONNOLLY. Let the record show that both witnesses answered in the affirmative. I want to thank you.

And without objection, your written, your full written statements will be made part of the permanent record.

And with that, Commissioner Rettig, you are now recognized for your testimony. Welcome.

**STATEMENT OF CHARLES P. RETTIG, COMMISSIONER,
INTERNAL REVENUE SERVICE**

Mr. RETTIG. Thank you very much, Chairman Connolly, Ranking Member Hice, and members of the subcommittee. Thank you for the opportunity to be able to provide you with information that you request.

I would like to address a couple of points. I came on board in 2018 as a proud American, not as a member of a political party. But I came on board after 36 years in private practice to hopefully work with both sides of Congress to absolutely make a difference, to also work with taxpayers, to work with tax practitioners, and everybody who has an interest in tax administration, to improve the tax administration of the United States, to improve services, to improve enforcement efforts, to improve compliance and to improve technology not only for, but significantly for taxpayers, and tax practitioners, and Members of Congress, but also for the employees who are the backbone of the Internal Revenue Service. Our people give a lot, and as we have seen during the pandemic, those efforts have really come home.

The Fiscal Year 2021 gross receipts of the Internal Revenue Service were \$4.1 trillion. That translates into approximately 96 percent of the gross receipts of the United States of America. A successful, fully functioning Internal Revenue Service is important to the continued success of this country. We have been at the forefront of providing rapid economic relief to taxpayers, distributing more than \$1.5 trillion during the pandemic in historic economic relief and individual refunds.

From the date of my confirmation hearing in 2018 through today, I have welcomed oversight by all Members of Congress. We have been proactive. I believe that probably more Members of Congress had my cellphone than probably all prior commissioners combined. We have made many overtures to come up, not only myself, but our

subject matter experts, to come up and brief Congress on what is transpiring. We hold briefings with staff committee, staff for Ways and Means, for Appropriations, Senate Finance Committee, every Friday at 2 p.m. during filing season, where we provide information. And they are free to ask questions, which are either answered at that point by the IRS employees who are there, or they take it back, and we come back and answer those questions the next week.

As far as funding and technology, the Federal Government, and obviously the IRS as part of that, has endured more than 100 continuing resolutions since 2001. It is virtually impossible for any agency, any organization, any private sector organization to build out a robust, meaningful technology infrastructure with the start/stop going on like that, 101 CRs. Including—we got our omnibus budget last year on March 11. We got our budget this year on March 15. So, we essentially have a little more than six months to do our technology plans with the funding that we received.

We're very grateful to Congress and to the administration for our Fiscal Year '22 budget. We are hopeful for a Fiscal Year '23 budget. But know that the buckets that Representative Porter referred to in terms of allocations, we might get additional funding in some buckets. But, importantly, for fiscal '22, we are \$100 million short on our operations support budget. So, without the ability to move funds from one of the other budgets, which the ones that are out there—taxpayer service, modernization, and enforcement into operations support—we need to make other cuts. And this is the Agency long before I got on board, and it has certainly been my experience with the Agency since I have been here.

The employees are the strength of the Agency. The issue with respect to phone calls and the issue with respect to inventories has nothing to do with the employee's dedication or desire. I think we have tremendous, spectacular employees who want to give it all, and I am more than prepared to walk through either today, and obviously we have limited time, but to come up and meet with each of you individually and to bring up our people to give you the details so you can appreciate where we are.

I appreciate the comments from Ranking Member Hice, and I invite the oversight. I invite the interaction. None of you are wrong in your comments, and the taxpayer advocate's comments today, she is not wrong. We are in a very difficult situation, but as you will see today, and if we come up later in a one-on-one, currently we are trending in a good direction, that our inventories are trending in a good direction. Our hiring, with direct hiring authority, Congress rescued us by giving us, on March 15, direct hire authority to deal with the inventories. We could not hire before that.

So, with that, I will yield back, and I am pleased to take questions, you know, after. Thank you.

Mr. CONNOLLY. Thank you so much, Commissioner Rettig, and thank you for your commitment to this mission.

It gives me a great pleasure now to recognize Ms. Collins, our national taxpayer advocate, for her opening statement. Ms. Collins, you are recognized.

**STATEMENT OF ERIN M. COLLINS, NATIONAL TAXPAYER
ADVOCATE, TAXPAYER ADVOCATE SERVICE**

Ms. COLLINS. Thank you. Chairman Connolly, Ranking Member Hice, and distinguished members of the subcommittee, thank you for inviting me to testify at today's hearing: "IRS: Is it Ready?"

As I wrote in the national taxpayer advocate's annual report to Congress, 2021 was the most challenging year taxpayers and tax professionals have ever experienced. Millions of taxpayers are confused, frustrated, and still waiting for their refunds. Taxpayers who called the IRS' toll-free line for their refunds, only 11 percent of the time were the calls answered, and this year, the ability to speak with an IRS employee, unfortunately, is not much better. And thousands of businesses are still waiting to receive the employee retention credit and other benefits.

Although the IRS' Where's My Refund? tool received more than 632 million hits last year and over 300 million hits so far this year, the tool unfortunately was unable to answer or provide useful information for those returns with processing delays. Yet taxpayers continue to check, hoping to see a change in status, and for millions of those taxpayers, they are still waiting. So, a toxic combination of office closures early in the pandemic, inadequate staffing, antiquated IT, and the need to divert resources from our core work to administer three rounds of the stimulus payments, the monthly Child Tax Credit payments, and several financial relief programs has created an unprecedented imbalance between the IRS' workload and the resources it has available to do the work.

During the past two years, the inventory backlog has snowballed. The IRS needs to get current on the inventory and get out of the hole it finds itself in. The IRS needs to be in a stable and healthy condition so it can perform its core mission, which is the annual filing season. When I raised my report last year, I said that paper is the IRS' kryptonite, and the Agency is buried in it. I want to elaborate on that point because paper remains at the heart of the Agency's challenges in processing both tax returns and correspondence.

For context, the IRS received almost 170 million individual income tax returns last year, and about 90 percent were filed electronically. And if there were no problems, it was quickly processed, and any refund that was due was paid under 21 days. This filing season, electronic returns are also being processed quickly, but paper is different. IRS still transcribes paper returns line-by-line, number-by-number. Last year, the IRS received about 17 million original paper individual returns, and those processing delays are now running up to 12 months. So, currently the IRS has about 3 million individual business returns and about 3.6 million amended returns awaiting processing from last year. So, the good news, it is down from December, but we still have about 6 million to get through.

On top of that, the IRS also has about 5 million in returns in suspense, waiting for taxpayers to resolve particular issues. And currently, we have another 9 million-plus paper returns which were filed in 2022. And we still have six months left in the filing season for people to file on extension, so I suspect that number will increase. So, the IRS processes returns first in, first out, so any

2022 paper-filed return will not be processed until the IRS gets caught up with prior filings. And when the IRS requires additional information or proposes a change to a taxpayer's return, it sends a written notice. Taxpayers generally respond in writing, adding to the paper correspondence backlog. All of these delays unfortunately contribute to the taxpayers' frustration and confusion.

One question you and millions of taxpayers have been asking is, when will the IRS be current with its paper inventory? And as the commissioner has stated publicly many times, that they are hopeful to have everything done by year end, and I applaud that the IRS will get that done. But for those millions of taxpayers, that is an unacceptable answer. Those refunds are going to continue to be delayed for many months to come. So, rather than the standard 21 days for processing those paper returns, I anticipate it will take at least six or months longer from the filing date for them to receive those refunds. For years, my office has been recommending automating the paper process through scanning technology so that the returns can be machine read to avoid the need for employees to manually key in every number. Today, that's not happening.

In closing, taxpayer service must improve. And for that to happen, the IRS needs to eliminate the albatross around its neck, pay out those delayed refunds, get current on its work, and then return to improving taxpayer service and protecting taxpayer rights. Thank you, and I look forward to answering any of your questions.

Mr. CONNOLLY. Thank you, Advocate Collins, and thank you for your work on behalf of the American taxpayer.

We will now go into our round of questioning, and the chair recognizes the distinguished Congresswoman from my neighboring jurisdiction, the District of Columbia, for her five minutes of questioning, Eleanor Holmes Norton. Welcome.

Ms. NORTON. Thank you very much, Mr. Chairman. Let me begin by taking a moment to introduce to you my constituent, Mike Solomon, a taxpayer and dad to three children. Please play the video. [Video shown.]

Ms. NORTON. I want to thank Mike for his willingness to share his story with us, and everyone in this committee knows that Mike's story is not an outlier. Please take a look at the figure on the screen from a GAO report released earlier this morning. [Chart.]

Ms. NORTON. In the 2021 tax filing season, the IRS received 195 million calls, more than four times more calls than the Agency received in 2019, two years ago. At the end of the 2021 tax filing season, the IRS had 5.9 million pieces of unanswered correspondence, nearly three times more than the 2 million pieces in 2019. And as Mike described, GAO also found that the Where's My Refund? tool is not actually helpful in explaining why a refund is delayed.

Let me put up another figure.

[Chart.]

Ms. NORTON. This figure shows the large increase in telephone call volume over time at the IRS. The large gray bar in 2021 represents nearly 160 million calls that were abandoned by frustrated taxpayers, disconnected by the IRS, or who received a busy signal. Mr. Rettig, what happened? Can you describe what happened?

Mr. RETTIG. Yes, it is a confluence of issues, as we have testified, and also it is in my written testimony. We had unprecedented demand in every lane. We have limited technology to be able to serve that ARC. We have 15,000, but with COVID funds we are able to bring on another 1,000 customer service representatives. But at one point, we were receiving phone calls at the rate of 1,500 per second. And if you go through the entire system, we had legislative changes both in December and during filing season, and the legislative changes could not be put into an automated processing, which required between 25 and 30 million returns to be manually processed. We used our ARC funding to bring in technology to the manual process and the, really, success part of that. No part of this is success if somebody can't get a refund, can't get through.

You know, we are all in that every American deserves to have their telephones answered. We do have in-person taxpayer assistance centers that, during COVID, went to an appointment basis. But we also have online accounts. We have chatbots. We have voice bots. We have live assistants online. And we have now, this year, VITA is back, but VITA was not really operating during the pandemic because of in-person interactions.

So, what I can say is, at the end of the day, what really hit us was COVID-related demand, what also really hit us was changes in legislation. As we have already done, our technology for filing season 2021 and then during filing season 2021, additional changes, and all of that required manual processing. And, you know, the history of everything that we have been talking about and, you know, what you all have said today, the history of the Agency, we have not been able to upgrade, create, and bring on board technology.

And we welcome oversight. We welcome oversight from this committee. We welcome oversight from our taxpayer advocate. We welcome oversight from Treasury inspector general for tax administration. We welcome oversight from GAO. We welcome oversight from the media. I mean, the media is as impactful on an oversight basis as, quite frankly, the rest, and the Agency and employees here are doing their best. I am confident that if you were sitting in my chair, that you would look at it and you would see the difficulties that we have. This Agency, and I am not the first commissioner, I believe, to say this, has constantly had to move resources from less visible options into more visible options, and the pandemic caught up with that processing. And maybe I should have said in the beginning, the folks who handle phone calls in one of our lanes, the folks who handle the phone calls also handle paper inventory and I am the commissioner who shut down the Internal Revenue Service in July 2020. We had over 23 million pieces of unopened mail. We are currently opening mail, current, presently opening mail, current. We get one to 1-and-a-half million pieces of mail a week. We process 1-to 1-and-a-half million pieces of mail a week. Our current inventory on mail is about 380,000 opened, and then it is pushed out to the various lanes. But when we reopen, so there has been some talk about when are IRS employees going to come back to work, on the onsite. In our processing campuses, our people came back in June 2020, socially distanced, working split shifts. We have had mandatory overtime for more than 6,000 employees.

For an extended period of time we have authorized overtime. And I see my time is up, so that is why I stuttered. Sorry, I will close. But we have authorized overtime for more than 10,000 employees in those lanes.

Mr. CONNOLLY. Thank you, Commissioner Rettig. The gentlelady's time has expired.

The chair now recognizes the distinguished ranking member, Mr. Hice, for his five minutes of questioning.

Mr. HICE. Thank you, Mr. Chairman. Commissioner Rettig, on June 29, 2021, Ranking Member Comer wrote a letter to you seeking information regarding the leak of taxpayer information that led to the story that I mentioned in my opening statement in ProPublica. Basically, the letter from Mr. Comer draws attention to the lack of an adequate audit trail system that would record events occurring on the IRS' system, such as people accessing sensitive files. And although I appreciate your comments that you welcome oversight, the fact is, from our experience, although you did answer some of the questions, there were much in the letter from Mr. Comer that you never answered.

So, let me ask. Has the IRS taken steps to improve its audit trail capabilities in order to ensure that it knows who is accessing sensitive taxpayer information?

Mr. RETTIG. We have that in process, and we are trying to do all we can. Taxpayers' security, taxpayer protection of their data is really one of the highest priorities for the Internal Revenue Service. The comments that were not answered in that letter deal with specific instances. And I believe that we referred Congress to Treasury Inspector General for Tax Administration. They have sole jurisdiction over that particular issue. And so detailed questions, I would refer to TIGTA.

Mr. HICE. Well, let me ask you this. Does the IRS identify, do you have any way to identify returns of and other type of information on individuals who may be at higher risk for leaked information? Do you red flag those? Is there any way of identifying who might be high risk?

Mr. RETTIG. There are certain systems for individuals in certain categories. You know, when you are talking about high-income folks and high net worth, whether they would fall into that, but the protections for everyone are significant. And I don't believe that there has been a public statement that it actually was a leak or a breach from the Internal Revenue Service where that data came from. So, you know, I put that on pause. And, you know, Ranking Member, like you, I share the concern here. The delay in getting answers for the public certainly impacts the ability of the public to have trust and respect for the Internal Revenue Service.

Mr. HICE. Yes, it sure does. And regardless where it came from, there was a lot of sensitive information that was leaked or that was made available, and we have got to have answers to that, Mr. Commissioner. We have got to have answers. Are there steps to limit access from IRS agents to certain individuals or high-risk individuals?

Mr. RETTIG. We have tracking. You know, the unauthorized access is one of the highest reasons I believe that most IRS folks might be terminated, other things on their own tax returns, et

cetera, et cetera. But we do have a tracking, and actually TIGTA has the ability to see that as well in a fairly timely manner. So, if somebody must—

Mr. HICE. Do you have any idea how frequently IRS employees or contractors attempt to access information in an unauthorized manner?

Mr. RETTIG. I don't, but I believe TIGTA would have all of that information.

Mr. HICE. I sure would like to get that information. Then let me just—

Mr. RETTIG [continuing]. Give a question for the record and maybe see what we can find for you.

Mr. HICE. OK. I would do that, or let me ask you this, are Biden administration political appointees, are any of them under investigation in connection with the ProPublica leaks?

Mr. RETTIG. You know, 6103 Internal Revenue Code, I am not really able to speak to specifics as to any taxpayer, and I think I have testified to that before this committee one time. So, I can't really answer that.

Mr. HICE. Well, that answer really doesn't surprise me, I suppose. But to be honest, considering the massive amounts of leaks that took place in sensitive taxpayer information, and the seemingly inability from the IRS to track who is accessing that kind of information, and your unwillingness or lack of ability, whatever the case might be, to answer to some of these questions, no wonder there is a trust problem. And so I would ask you, in light of all of this, why should the American people continue to trust you with their tax information?

Mr. RETTIG. The Internal Revenue Service protects the rights of every taxpayer, and taxpayer privacy, taxpayer information is the highest order for the Internal Revenue Service. And if you look at the history of the organization, and, you know, you are referring to a situation, you understand that we receive about 1.8 billion cyberattacks each year. You also understand that we have, you know, millions and millions of interactions with taxpayers in an online situation. So, I think if you actually look at the volume of information we have, and I am not saying that one potential situation is acceptable, no situations are acceptable, nobody having their information made public is acceptable. But I am confident, and I interacted with the IRS on the outside for 36 years, being on the inside, I am confident if people became aware—we will come and meet with you and all the rest to walk you through what these programs are. We have done that with other committees as well. But I am confident if you saw what we have, you would be confident in the abilities of the system.

And I appreciate where you are coming from. I appreciate the concern not only from the folks who might have been referenced in the article or articles, but of every American. And, you know, we take this to heart. It is a very serious situation. It is a crime for somebody to breach the system, if that is how this occurred, and take that information outside. And, you know, like everyone else, we would hope that that would be appropriately prosecuted against people if they committed that crime. I—

Mr. CONNOLLY. Thank you, Commissioner, and the gentleman's time has expired. But let me say, Mr. Hice, if you are interested in that briefing, the commissioner just offered, would be glad to help, work with your staff to organize that.

Mr. HICE. I would be interested in that, Mr. Chair.

Mr. CONNOLLY. OK. We will proceed. Thank you, Mr. Hice.

The gentleman from Massachusetts, who also represents my family in Boston, the Honorable Mr. Lynch is recognized for his five minutes.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank both of our witnesses. Commissioner, thank you, and the national taxpayer advocate, Ms. Collins, thanks for your willingness to help the committee with this work.

Commissioner, I actually chair the Subcommittee on National Security within the Oversight Committee. And, you know, I am sure you are well aware that President Biden has, through executive order, instituted a number of severe and crippling sanctions against Vladimir Putin and a number of individuals very close to him. As part of our responsibility, we are trying to gauge the effectiveness of that. And the Criminal Investigations Unit at IRS is a key partner in making sure that those sanctions are as effective as possible.

Now, we actually have a request from the President, and which is supported by the majority in Congress, to give \$30 million to the Criminal Investigations Unit so that we can get after some of these oligarchs and some of these people who are assisting Vladimir Putin, by going after their planes, their real estate, other assets they may have, to shut those people off and make sure that they feel the consequences of these sanctions. Unfortunately, my colleagues on the other side of the aisle, many of them have opposed the \$30 million that we would give to the Criminal Investigations Unit to go after Putin's gang.

Can you just expand on—now this is not just throwing money at the IRS. This is targeted to go after these oligarchs. This is going after Putin's gang. And I know that in some corners of the other side of the aisle, their party, there are Putin apologists, which is shameful, but I think we should be going after these people. You know, I just came back from Poland, Romania, and Moldova, and I have seen what these people are doing to the people of Ukraine, and I think we ought to stand with them and go after these oligarchs and go after Putin's gang.

And I don't know why my Republican colleagues are against that, I can't figure that out. But could you tell us what problems you are having and what benefit that additional \$30 million would mean to the IRS Criminal Investigations Unit in going after these oligarchs and Putin supporters?

Mr. RETTIG. Of the \$30 million, \$22 million was for, essentially, special agents, which are the IRS criminal investigators, who I will flat out say, based on private and public experience, are the absolute finest financial investigators on the planet. Four million dollars was for technology and the other \$4 million was for support. We did not get the \$30 million. We are pursuing that. We moved funds from other parts of the Agency where we could. This goes back to my moving funds from less visible to more visible.

I would like you and the country to know that the IRS and the people of the IRS, IRS Criminal Investigation and IRS Criminal Investigations Cyber Crimes Unit, will do all we can do to make sure that we, you know, look everywhere, we go everywhere. It is our duty to locate financial assets, to go through beneficial owner entities, track those, and IRS Criminal Investigation does that better than anyone else. We also operate in the dark net, if you will, and virtual currencies, where I think, you know, the media has indicated that there is a lot of activity in the space that you are referring to, and, I will say, in those arenas to get some degree of trust and confidence in the Internal Revenue Service.

I believe you may have seen about three months ago the takedown of the largest virtual currency seizure in the history of the United States. That was an IRS Criminal Investigation Cyber Crimes matter from the beginning to the end, from 2016. We also recently took down terrorism financing sites for Hamas, al-Qaeda, and ISIS, same group. And what we were looking for was to be able to supplement that group so that they could stay in the other arenas. That same group took down the largest child exploitation site in history, was operating in the dark net. So, taking our people offline there to move them where we also need to be with respect to sanctions and our role in that, you know, it has a negative impact on our operations in that space. I should probably leave it there. But we will do all we can do. I want people to know that this Agency and the people are there for you.

Mr. CONNOLLY [continuing]. Time has expired. I thank the gentleman, and I thank my friend from Massachusetts, whose time has now expired.

The gentleman from Arizona, Mr. Biggs, who seems to rival Mr. Lynch for best library on this Zoom in the background. Looks good. Mr. Biggs, you are recognized for your five minutes of questioning.

Mr. BIGGS. All right. Thank you, Mr. Chairman, and Commissioner, thanks for being here today.

I consistently hear from my constituents about issues they are having with the IRS. In fact, the caseload on IRS issues has increased over the last few years, tenfold in my office—tenfold. I am told by my staff that due to the broad impact of COVID-19, the IRS has faced challenges in all return processing operations, and that number would be even higher if the IRS and the Taxpayer Advocate Service had not suspended or limited the acceptance of individual and business taxpayer cases. So, I want to share one example with you now of the case that my office handled.

I have a constituent who is simply attempting to request a repayment plan. It took her four years to get a resolution. Even though she has been cooperative with the IRS requests, she was locked out of the IRS portal, unable to verify her identity, and unable to make electronic payments to her balance. Long story short, this constituent has been getting the runaround from the IRS. People do not return her calls, and when she calls, she gets a series of automated options that all eventually lead to her being disconnected. That is simply unacceptable. That is just one case of many that my office has worked on to resolve.

So Commissioner Rettig, in 2020, the IRS closed most of its offices. Is that correct?

Mr. RETTIG. In March 2020, we, as the rest of the country, private and public sector, we shut down the Internal Revenue Service, but we came back in June 2020.

Mr. BIGGS. Or have you reopened all of your offices?

Mr. RETTIG. We are fully reopened. The folks who are——

Mr. BIGGS. Are all the offices reopened?

Mr. RETTIG [continuing]. Spaces that people are supposed to be in——

Mr. BIGGS. Sir?

Mr. RETTIG. Yes.

Mr. BIGGS. Are all the offices reopened fully? So, let me rephrase it for you, and I want to make this easier for you. Are all the IRS employees working in their office, or are they still rotating staggered schedules?

Mr. RETTIG. The people who have non-telework eligibility have been in the offices since June 2020. But like the private sector and like many other offices, we have a virtual operation, and we have agents who are frontline who are out in the field conducting audits.

Mr. BIGGS. So, you are still rotating staggered schedules then. Is that correct?

Mr. RETTIG. The staggered schedules, to the extent we have split shifts that was socially distanced, but the same number of people would be there on the split shifts for each turn.

Mr. BIGGS. So, prior to the pandemic, how long did it take for a taxpayer to receive the refund if they filed a paper return or an amended return?

Mr. RETTIG. I don't have those statistics. It is possible that the taxpayer advocate, Erin Collins, has those statistics, you know. And a lot of this——

Mr. BIGGS. You don't know how long it is taking now? You are the Commissioner. I would assume that you would know these things. How long is it taking now?

Mr. RETTIG. From prior to the pandemic, sir?

Mr. BIGGS. Yes. So, I was asking, give us now what was it taking. I mean, this was not a hard question. Prior to the pandemic, how long, on average, did it take for a taxpayer to receive the refund if they filed a paper return or an amended return?

Mr. RETTIG. Erin, I don't know if you have statistics. I would say that for accurately filed returns that don't have errors, don't have eligibility questions, it would be typically maybe a 3-to 4-month process. But most of the backlog that we have in processing is returns that have eligibility issues, reconciliation issues, legislative issues——

Mr. BIGGS. So, here is the thing, Commissioner. Here is the problem that my constituents have, and I hear from my constituents consistently. It is that they are not getting the service that they need. They don't get these things quickly. If there is an issue, they are not able to resolve that issue. I just gave you the example of just one of many dozens and dozens, dozens of cases that come to my office. So, what measures have you implemented to ensure timely processing of these returns and the release of a taxpayer's refund?

Mr. RETTIG. First, let me say that if you can get a list of those taxpayers, we will work with your people in your office. We will ar-

range a call. Get us the information in advance, we will arrange a call. We will advise you the status of those. We are able to hit probably 80 or 90 percent of those when we work with Congress on individuals to explain when we sent a letter, what the issue is, where it is held up. We can also enlist the services of the taxpayer advocate to assist with that. We also have taxpayer assistance centers that are open. The last Saturday for them will be May 9, but those offices are open. They are staffed. We have 30—

Mr. BIGGS. Commissioner, I have just a short time. I appreciate those offers, and we have tried to use the taxpayer advocate, and we will continue to do that, and we will reach out to you. I will be trying to reach out to you. Thank you. What is the current backlog?

Mr. RETTIG. I will give you my cell phone number—

Mr. BIGGS. Thank you.

Mr. RETTIG [continuing]. And so on any of those, you should contact me directly and we will bring that back in. Current—

Mr. BIGGS. What is your current backlog?

Mr. CONNOLLY. Excuse me. Excuse me. The gentleman's time has expired, but the commissioner may respond.

Mr. BIGGS. Thank you.

Mr. RETTIG. The current backlog, we split it between returns received in calendar year 2021 and returns received in calendar year 2022. I am talking about paper returns. And so in the paper lanes, we have about 2.4 million, give or take, from the received in calendar year 2021, and we have about 2.6-ish million. Remember it changes every week because we are still in filing season. The filing deadline was April 18, but there is a bubble that will continue to come through for at least the next 30 days. In the aggregate, it is right around 5 million paper returns, and we have gone to an all hands on deck area there. I think you have heard about surge teams, which are experienced people coming back into process those returns or hiring contractors. We are doing literally everything we can. And in the interest of time, and I appreciate that, but if you either contact me directly, and I will go through more detail or a question for the record, we will get you more detail. And we would certainly appreciate the opportunity to meet with you and any others one-on-one at your convenience.

Mr. CONNOLLY. Thank you.

Mr. BIGGS. Thank you, Commissioner. Thank you, Chairman.

Mr. CONNOLLY. Thank you, Mr. Biggs.

The gentleman from Maryland, Mr. Raskin, is recognized for his five minutes.

Mr. RASKIN. Thank you, Mr. Chairman. Please meet my constituents, Megan Stone, from Maryland's beautiful 8th District. If the clerks can play this video.

[Video shown.]

Mr. RASKIN. Mr. Chairman, Megan called the IRS more than 50 times and never reached a real human being, and this experience is not unique, but it is illustrative. As Ms. Collins testified, only 11 percent of the 282 million total calls made to the IRS were answered last year. That means that 8 out of 9 phone calls were not answered. Only 1 of 9 people ended up connecting with a human being. So, why is this happening? Well, the testimony tells us it is

chronic understaffing. Let us put a graph on the screen that shows IRS staffing levels from 2010 through 2020.

[Chart.]

Mr. RASKIN. The IRS has lost more than 20,000 employees in this time period due to funding cuts and ceaseless partisan attacks, and now the IRS has as many full-time equivalent employees as it did in 1974. The number of taxpayers has increased by 14 percent since 2010, but the number of full-time enforcement staff has decreased by 30 percent. Mr. Rettig, how have these chronic staffing shortfalls affected your workers? Specifically, if you could tell me quickly how much money does the IRS fail to collect each year because of these chronic understaffing situations?

Mr. RETTING. I can go to the official in that arena. I will give you the official tax gap numbers, which I believe are significantly understated, but that is between 3 and \$400 billion a year. And, you know, as far as staffing, it hit every part of the Agency. And the inability—you know, I said earlier in my opening, I will just close with this, but the inability to have direct hiring authority to actually bring somebody on quickly in this environment was really just death to the Agency. And Congress rescued us on March 15 by giving us direct hiring authority for tax examiners and clerks. We started virtual and in-person job fairs in March, and we were looking for 5,000 people this fiscal year. We have brought on a little over 2,500 now, and we are going out with another round. And we have been able to make job offers to 90 percent of the people who show up to these job fairs. So, staffing is a real issue here.

Mr. RASKIN. So, Mr. Chairman, here is the point. Nobody loves paying taxes, but what hardworking taxpayers hate the most is rich corporations and people like Donald Trump getting away with paying little or no taxes. It is only billionaire tax cheats and scoff-laws who profit from understaffing and under-financing of the IRS, while constituents like Megan are stuck on the phone calling 50 different times and never get a call back. Let's invest in the IRS so we have a fair tax system for everybody and people can stop getting away with ripping the government off. I yield back.

Mr. BIGGS. Mr. Chairman. Mr. Chairman, I have a point of order. I am sorry. I couldn't hear. You are muted. Mr. Chairman, a point of order.

Mr. CONNOLLY. Sorry. The gentleman will state his point of order.

Mr. BIGGS. Yes. The point of order is this. You cannot attack the President and former President, as Mr. Raskin just did, and imply that he is some kind of a fraud and a tax cheat, et cetera, and I ask that he reconsider his words and be admonished.

Mr. RASKIN. I didn't say anything about the President of the United States.

Mr. CONNOLLY. Chair—

Mr. HICE. You certainly did, Mr. Raskin.

Mr. CONNOLLY. I would ask, I think it is Mr. Clyde. Was it Mr. Clyde or Mr. Biggs that—

Mr. BIGGS. Biggs.

Mr. CONNOLLY. Biggs. Mr. Biggs, what exactly are you objecting to in your point of order?

Mr. BIGGS. I am objecting to his referral to former President Donald Trump as a billionaire, a tax cheat, and the things that he said in that vein. I think the House rules proscribes, and I would ask him to be admonished to reconsider his words.

Mr. RASKIN. Well, Mr. Chairman, we shouldn't waste time on this. I never called Donald Trump a billionaire tax cheat.

Mr. BIGGS. It sure sounded like it, Mr. Raskin.

Mr. RASKIN. Well, if you—

Mr. CONNOLLY. All right. All right. Gentlemen. Gentlemen.

Mr. HICE. Mr. Raskin, you did make that implication very clear.

Mr. CONNOLLY. Mr. Hice, you are not recognized. Mr. Raskin, neither are you. The chair rules that the gentleman's remarks did not refer to, specifically or explicitly, to the previous President. I would also point out, Mr. Biggs, you need to be on camera to be recognized.

Mr. BIGGS. I apologize, Mr. Chairman.

Mr. CONNOLLY. No problem. No problem. The gentleman from Georgia, Mr. Clyde, is now recognized for his five minutes of questioning.

[No response.]

Mr. CONNOLLY. Mr. Clyde, are you there? You were there. There you are. Mr. Clyde, and then, Ms. Porter, I know you have been waiting. Mr. Clyde?

[No response.]

Mr. CONNOLLY. Mr. Clyde, we need to see you on camera. You were just on. There you are. Mr. Clyde, you are recognized for your five minutes.

Mr. CLYDE. All right. OK. Thank you very much, Chairman Connolly and Ranking Member Hice, for holding this hearing.

From unnecessarily long wait times for receiving tax refunds, to overtly targeting conservatives, to inexcusably conducting illegal civil asset forfeiture, it is no secret that the IRS is woefully unpopular with the American people. Unfortunately, I know IRS schemes and abuse all too well. In 2013, I was personally targeted by the IRS for improperly depositing my legally earned and fully reported business income in the bank. They seized \$940,000 from my gun store. I took the IRS to court and I got my money back, but it cost me \$150,000 to do it, and I did not get that back. The IRS abuse was so egregious that I was asked to testify in February 2015 before the Oversight Subcommittee of House Ways and Means. And Commissioner Koskinen at the time personally apologized to me and the two other witnesses for the IRS abuse that we suffered. In fact, in 2019, the Clyde-Hirsch-Sowers RESPECT Act, named after the three of us who testified against the IRS, was passed unanimously by both houses of Congress and signed into law by President Trump July 1, 2019, as part of the Taxpayer First Act.

While my story serves as a stark example of IRS abuse for a law-abiding citizen, many Americans suffer from IRS negligence. At the start of the COVID-19 pandemic, many agencies sent employees home where no work was accomplished, dreadfully expanding backlogs. In fact, as of April 8, 2022, it was terrible. There were over 26 million items from tax years in 2020 and 2021 that still needed to be processed. This backlog fiasco has only exacerbated wait

times for individuals expecting tax refunds, and that is just inexcusable. This disadvantages many Americans that lack reliable internet access and financial resources to e-file. Keep in mind, this comes at a time when Joe Biden's inflation crisis has hit a 40-year high when people truly need these refunds.

During the Obama Administration, the IRS shamefully targeted conservative groups, particularly the most conservative organizations that fearlessly opposed President Obama's agenda. The Republicans on this very committee investigated IRS abuse, and Democrats had called on the IRS to scrutinize Republicans' organizations. The IRS was being used as a political weapon, and that should never be allowed to happen. Yet these glaring examples serve only part of the various reasons the public has lost trust in the IRS. In June 2021, ProPublica published an article that contained large swaths of illegally obtained private tax returns of wealthy Americans. The tax information covered more than 15 years of information. While it is a felony for a Federal officer or employee to release this information, we are still waiting on a full investigation on the cause of the disclosures.

And if it was an IRS employee that leaked this information, then these employees need to be prosecuted to the fullest extent of the law. If it can happen to the most wealthy of Americans, then it can also happen to small businesses and hardworking families. We know our Tax Code is riddled with credits, deductions, and loopholes, and carve-outs for special interest groups, all at the expense of taxpayers across the income brackets. The American people deserve a sensible system of taxation, a fair system of taxation. Individual tax returns are an antiquated system filled with errors and vulnerability of identity theft. And I think we have heard a lot of that this morning already. Every Member of Congress has examples from their constituents of IRS abuse or negligence and we have heard plenty of them today already from both Democrats and Republicans on this committee.

So, I have the solution, and many of my colleagues agree, we need to completely eliminate the Internal Revenue Service as we know it and go to a completely fair tax. H.R. 25, the Fair Tax Act, is the solution. In fact, in 2023, when the Republicans take over the majority of the House, I believe it should be made H.R. top five—one of the top five priorities of the House. This legislation would abolish the Internal Revenue Service and establish a fair tax system that places a one-time inclusive Federal sales tax on the new goods and services at the point of sale. I wholly believe that our current tax system is extremely outdated, complicated, and fully unsustainable, and we have heard issue after issue after issue today to back that statement up. Simply put, it is time we reform the system and eliminate the IRS once and for all.

But in the meantime, Commissioner, I will certainly take you up on your offer of your cellphone number so we can deal with the IRS issues that Georgia's 9th congressional District have, and there are a lot of them. So sir, I would welcome that from you, and I yield back.

Mr. CONNOLLY. I thank the gentleman. And, Commissioner Rettig, I hope you take up that challenge before you are abolished.

Mr. HICE. Mr. Chairman?

Mr. CONNOLLY. Yes. Mr. Hice.

Mr. HICE. Thank you, Mr. Chairman. I would just like to ask Commissioner Rettig politely, who kindly offered his cellphone to Mr. Biggs, I would just like to ask for that as well, if I may.

Mr. RETTIG. I will get it to you through our legislative affairs person. And I would say that of the 535 Members of Congress, probably more than 300 have my personal cellphone number, and I would encourage you as well as your staff. It doesn't need to be you to call if there is a need, and that is why I am here.

Mr. HICE. Thank you.

Mr. CONNOLLY. To your point, Mr. Hice, if the commissioner would provide that to the chair's office, we will make sure all members of the subcommittee can avail themselves of that number.

Mr. HICE. Thank you, Mr. Chairman.

Mr. CONNOLLY. Thank you, Mr. Hice. Ms. Porter, the ever-patient Ms. Porter, you are recognized for your five minutes of questioning.

Ms. PORTER. Thank you very much. I want to start by asking the committee to play the story of my taxpayer constituent in Laguna Woods, California.

[Video shown.]

Ms. PORTER. Thank you very much. And Jim is right. We need to fund the IRS, and the IRS needs to focus its resources on auditing the rich, not average taxpayers. From 2013 to 2018, the 15 taxpayers with the highest incomes in our country average at least \$832 million in annual taxable income. And with income that high, you would expect that these billionaires will be paying close to the top marginal tax rate. But instead, the tax return showed that these super-rich taxpayers paid a total Federal tax rate of just 20 percent.

Commissioner Rettig, do you know the total Federal tax rate for a married couple with one child earning \$200,000?

Mr. RETTIG. The current tax rates for 2022 started about 37 percent. And then as you come down, they go to 32 to 20—

Ms. PORTER. Do you have a ballpark for me, Commissioner Rettig, on a married couple, one child, earning \$200,000 a year?

Mr. RETTIG. Yes, I actually have it somewhere, but I—

Ms. PORTER. I love that. I love that you have answers.

Mr. RETTIG. Yes, unfortunately, I don't have that page in front of me.

Ms. PORTER. That is OK. It is about 26 percent.

Mr. RETTIG. I was going to say 28 based on knowledge.

Ms. PORTER. Excellent, 26 percent.

Mr. RETTIG. But I do have that.

Ms. PORTER. What that means is that the average family in Irvine, California, is paying taxes at a higher rate than Bill Gates or Jeff Bezos. Commissioner Rettig, how much more revenue would the IRS collect if these 15 billionaires just paid the same rate as the average family in Irvine?

Mr. RETTIG. I can't speak to any particular taxpayer, whether it is 15, 50, or 500, and also the complexities of the Code as to whether they do or don't, are or are not paying, you know, what the statutes require. The issue on our side would be the ability to examine the taxpayers and make those determinations, and that is where

we really have our highest rates of attrition. Every experienced technical revenue agent is on the higher-income taxpayers. And as an example, we have 6,500, experienced frontline revenue agents. And just to give you one lane, in partnership returns we received 4.1 million returns last year. So, even if I was to take all of these folks and put them in that one lane, it would leave the bigs, and the super-bigs, and corporate and the rest. So, our ability to look, I don't believe—give me one more moment, Ms. Porter. I don't believe we can be jeopardized for conducting examinations. We can be criticized for staying in examinations we should not be in, and that is where technology would assist us greatly in this world.

Ms. PORTER. So, my point is actually more about the tax gap and the net collecting. We know that the super-rich are legally paying lower tax rates. Just 15 taxpayers, if they were paying the same rate would be \$1.1 billion. And your point about, you know, this is tax policy and Congress should do something about it, but tax evasion is another problem. So, let's get the facts out really quickly about tax enforcement against the super-rich. Since 2012, IRS has lost thousands of revenue agents, and you have had to cut back on audits, especially of the richest folks. Commissioner Rettig, compared to a decade ago, what is the percentage decline in audits of millionaire taxpayers?

Mr. RETTIG. We are down at least two-thirds, and in some of the lanes, between some of the categories, it is much more significant than that.

Ms. PORTER. Excellent. You are the rare witness who got the answer correct, and I appreciate your honesty. Tax audits of millionaires declined by 66 percent. The super-rich are taking advantage of the lack of enforcement to evade their taxes at the expense of ordinary Americans. The Treasury Department says the top 1 percent of taxpayers failed to pay \$163 billion in taxes due in 2019. That is enough money to give every American taxpayer a tax cut of \$1,000. That is real money for a mom like me. I could get a dishwasher that actually cleans my dishes and still have money left over. It is just not right that the super-rich are evading their taxes while the average American pays their fair share. I strongly support giving the IRS the resources they need.

Thank you, Mr. Chairman, and I yield back.

Mr. CONNOLLY. I thank the gentlelady. Her time is precisely on, so thank you so much.

The chair now recognizes himself. And I think I have a video as well. Is that video ready? My constituent.

[Video shown.]

Mr. CONNOLLY. I thank my constituent for her testimony, and I will avail myself, Mr. Rettig, of your offer to help on individual cases, and we really appreciate that. Ms. Collins, you have been lonely, and I want to make up for that.

Mr. RETTIG. I was going to say I think I am the only one that asked her any questions—

Mr. CONNOLLY. Exactly. So, I am going to try to make up for that. Ms. Collins, in your blog post you recommended that the IRS, "work with the tax software industry to implement 2D barcoding." Could you expand on that? Why would that help? Why should we do that, and why haven't we done it?

Ms. COLLINS. Yes, in my opinion, and, again, I am not an IT expert, so I personally don't have a particular interest whether they do 2D barcoding, versus OCR, versus whatever technology there is. But what we really want is to have the process automated so that we don't need human—we don't need the employees to actually enter the information. My understanding of 2D barcoding, the big advantage to it is it is very accurate, and that would reduce any challenges or problems entering the data in, OCR. But the challenge with 2D barcoding, it is only for those returns prepared using software that either private or the IRS would provide. So, it is about 50, 60 percent of those paper returns in our current estimate.

Mr. CONNOLLY. And let me just ask the commissioner, Commissioner, where are we on this? I mean, do you support that? Do you agree that it would reduce human error which sometimes is—

Mr. RETTIG. I do, and we requested funding in our congressional budget justification in 2013, 2014, 2015, 2016, and 2017. And we were never funded for 2D barcoding or scanning. So, the IRS as an agency pivoted into the electronic filing, which certainly as you think people are aware, at least currently is running at the rate of about 96 percent. And the President's fiscal '23 budget also provides for funding to get us into this space.

And yes, I come back again to what I mentioned earlier, and I am trying to race through this. But with the current budget, you know, although the Agency got significant funding for Fiscal Year '22, when you look at how it plays out and the cost of living adjustments, our operations support is down \$100 million. That is real money. And so, why a lane may be X dollars to create, we also have to have funding to keep that operational going forward and we have to put in CR.

Mr. CONNOLLY. Let me just say, I couldn't agree with you more. And while some people may talk about throwing money at the IRS, and that is not the solution, for a decade Congress did the opposite. We took away money, and as I showed in that opening chart, the gap grew and grew. And the IRS was not able to perform, in some cases, some basic functions because of the antiquated IT and because your staffing continued to go down as the population went up, and inquiries to IRS for information went up, and, of course, actually, so did the roles we in Congress assigned to the IRS. So, at some point, disinvestment means doing less with less, and we need to turn that around, and we, Congress needed to take responsibility.

Mr. Rettig, one thing you've talked about my time is going to run out, so I just wish you would address this. We used to use the figure of \$450 billion left on the table owed in taxes but not collected every year, and then I remember distinctly a year or two ago you saying that number actually is close to a trillion? Could you elaborate?

Mr. RETTIG. Yes, we are going to issue our tax gap estimate this summer for the next three years. It goes in three-years' cycles. The last cycle that we released was 2011 to 2013. The next one is 2012, 2013, and 2014, but you are going to see us do a projection for 2019. What is not in those estimates is virtual currencies, and there is over a \$2 trillion market cap for virtual currencies. Last

year, there was over \$14 trillion in transactions in virtual currencies. And the United States, if you do relative GDP, the United States is somewhere between 35 and 43 percent of that \$14 trillion. We know from our John Doe summons activity in this space with respect to these public actions Coinbase and others, but the compliance issues in the virtual currency space are significantly low. And I am enhancing the word “significantly.”

What also is not in our tax gap estimates is foreign-source income. The tax gap estimates that the IRS prepares are based on information that the IRS is able to determine, not information that we know is out there, but we are not able to determine. You have seen in 2019 we added a virtual currency question to the form 1040 on Schedule L. We moved it up to page one last year to try to enhance compliance, and obviously we are looking to get into that area significantly.

Mr. CONNOLLY. Thank you, Mr. Rettig. And I know we are going to want to talk to a lot about that because, if I can paraphrase the late Senator Everett Dirksen, a trillion here, a trillion there, pretty soon we are talking about real money.

Mr. RETTIG. And our employees want this. We want to earn the trust and respect. To Ranking Member Hice’s comment, the employees here are here for the right reasons. And, you know, we live and work in these communities where you have people who are, you know, making these comments, and we are very sensitive and sympathetic. We want to get this right. People are here for the right reasons, and we would like to interact with all of you and try to address your concerns, comments. And where we need to change, we will change.

Mr. CONNOLLY. Thank you very much. And I think as we are closing the hearing, I have a picture from 1977 of the IRS computer center in Martinsburg, West Virginia, and what is sad about that picture is here we are in 2021, and that picture could be replicated today in many places. We have got to upgrade our IT.

I would like to ask unanimous consent to insert in the record at this time the GAO report to the congressional committees called “Tax Filing April 2022” on 2021 performance.

Without objection, it is so ordered.

Mr. CONNOLLY. Mr. Hice, have you got anything you want added for the record?

Mr. HICE. No, thank you, Mr. Chairman.

Mr. CONNOLLY. OK. If there are additional items, or if there are additional questions for our two witnesses, I would ask members, send them through the chair and through the next five days. And I would ask our witnesses to try to get back to us with answers as expeditiously as possible.

I want to thank Commissioner Rettig for his openness and his availability to us, and I think you have gone a long way in helping to illuminate where we are in this tax season. I want to thank Erin Collins for her advocacy on behalf of all of us as taxpayers, and keep on doing it, because as all of us kind of have stories today. Republicans and Democrats, we have got constituents who still have trouble in terms of getting access, and that creates enormous stress when you owe taxes, or think you might owe taxes, or when you deserve a refund, or just want to know the status of something.

So, we need to improve. We need to make investments, and we will continue to provide oversight, as Mr. Hice has requested, of the IRS.

With that, this hearing is adjourned. Thank you, everybody.
[Whereupon, at 11:39 a.m., the subcommittee was adjourned.]

