

**WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT
ON THE 2015 TAX FILING SEASON
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Chairman Roskam, Ranking Member Lewis and Members of the Subcommittee, thank you for the opportunity to appear before you today to update you on the 2015 tax filing season, which ended last week.

The filing season opened on schedule on January 20 and went relatively smoothly in terms of processing tax returns and the operation of our information technology systems. But because of cuts to our budget, the agency was unable to provide adequate levels of taxpayer service, as I will explain in greater detail below. Thus, while I am pleased with the performance of IRS staff in very difficult circumstances, I am disappointed that because of budget cuts, taxpayers did not get the customer service experience they deserve.

DELIVERING THE 2015 FILING SEASON

Opening the 2015 filing season on schedule was a major accomplishment, given the challenges we faced. I attribute this achievement to the dedication, commitment, and expertise of the IRS workforce. Along with our normal work to get ready for the filing season, additional preparation was needed. This included preparation related to the Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA). Additionally, we had to update our systems to reflect the passage of the tax extender legislation in December.

As noted, return processing ran smoothly throughout the filing season. Thus far the IRS has received more than 120 million individual income tax returns and issued more than 83 million refunds for approximately \$230 billion.

Although initial indications are that return processing went smoothly, our level of customer service this filing season has been unacceptably low, both in person and on the phone, despite the best efforts of our employees.

Our low service levels were the result of the budget cuts we have had to absorb. Funding for the agency has been reduced by \$1.2 billion over the last five years, dropping to \$10.9 billion in Fiscal Year (FY) 2015. The IRS is now at its lowest level of funding since 2008. If adjusted for inflation, the agency's budget is now

comparable to where it was in 1998, except that this year we will process an estimated 27 million more returns than we did 17 years ago.

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

This year, the IRS was forced to substantially reduce hiring of extra seasonal help we usually have during the filing season. As a result, our phone level of service at the start of the filing season was 54 percent, and dipped below 40 percent toward the end of filing season. That means many callers were forced to call more than once to get through, and more than six out of every 10 people who called could not reach a live assistor. Further, we expect to end the fiscal year with an average phone level of service of only 40 percent. That is truly an unacceptable level of taxpayer service.

To further illustrate how serious our phone service difficulties have been, I would note that the number of taxpayers disconnected by our phone system when it becomes overloaded with calls is substantially higher this year. The number of these disconnects has reached 8.1 million so far this year, as compared with 360,000 by this time last year. Additionally, taxpayers who have gotten through to an assistor have faced extended wait times – in some cases 30 minutes or more -- that are unacceptable to all of us.

As for in-person assistance, during the filing season I was dismayed by the reports we received of taxpayers lining up outside our Taxpayer Assistance Centers (TACs) hours before they opened in order to get service. This is not a new problem this year, but it has gotten worse over time, and we are working to find a better approach for taxpayers.

To help cut down on the long lines, we recently began testing a system to allow people to make appointments in advance. We began doing this at 10 centers in February, and recently added 34 more. If the system can be successfully scaled, we will consider expanding it to all of our TACs.

Another, less visible, area of concern for us in regard to customer service involves taxpayer correspondence. Typically, taxpayers correspond with the IRS after receiving a notice from the agency about an issue with their return. Our goal is to answer taxpayer correspondence within 45 days after we receive the letter.

But this year, we are taking much longer to answer correspondence, and our backlog could grow to almost 50 percent higher than our end-of-year goal, because we were forced to shorten the period of employment for our seasonal employees who help answer taxpayer correspondence. It is now taking us an

average of about 70 days to answer taxpayer correspondence. We estimate this will be as high as 90 days by the end of the fiscal year.

We are working to try to find a way we could end the fiscal year in better shape regarding our correspondence inventory, but at this point we do not see a way to get the inventory back down to a more manageable level in the near future, absent adequate funding.

Specifically regarding the ACA, early indications are that most taxpayers affected by the tax-related ACA provisions have been able to fulfill their filing obligations. Two major provisions of the Act took effect last year: the premium tax credit and the individual shared responsibility provision. To make taxpayers' experiences navigating the ACA requirements as smooth as possible, we took early and intensive action in two key areas:

- First, the IRS made every effort to communicate with taxpayers and preparers about the tax changes, beginning last year and continuing through the 2015 filing season. During the filing season, in fact, there was steady demand for information and assistance on tax-related provisions of the Act. So far this year there have been more than 4.6 million visits to the section on IRS.gov devoted to the ACA, and more than 340,000 recordings played on our automated ACA telephone line. In addition, to ensure that taxpayers had the information they needed about the ACA tax changes, the IRS took a number of actions. For example, we issued 45 plain-language Health Care Tax Tips, which can be found on IRS.gov; we posted more than three dozen YouTube videos on the tax provisions; and we made use of Twitter, with 490 tweets promoting ACA-related topics. In addition, IRS officials provided outreach to key stakeholder groups, and presented information at numerous events, including last year's five IRS Nationwide Tax Forums for tax return preparers.
- Second, prior to this filing season, the IRS worked with its partners in the software and tax products industry on the necessary ACA-related updates to tax software products, to ensure that any taxpayers affected by the ACA tax changes would be able to prepare their returns as quickly and easily as possible. About 91 percent of all individual tax returns were prepared using preparation software this filing season – either by the taxpayers themselves or by their preparers.

It should be noted that during this filing season, the number of ACA-related calls handled by customer service representatives was lower than expected. We believe this may be a result of both the amount of information taxpayers received prior to the filing season and the availability of ACA information online during the filing season.

BUILDING FOR THE FUTURE OF TAXPAYER SERVICE

In requesting adequate resources to allow the IRS to improve taxpayer service, it is important to point out that our goal is not merely to obtain enough funding to go backwards in time and perform the way we used to. We need to be, and are, looking forward to a new, improved way of doing business.

This involves looking at the future in a more comprehensive way, and considering how we can take advantage of the latest technology to move the entire taxpayer experience to a new level – and do it in a way that would be cost-effective for the government.

This approach centers on improving the online services we provide to taxpayers, for which demand continues to increase. So far this year, there have been more than 279 million visits to IRS.gov, compared with about 250 million for all of 2014. This includes visits by those who took advantage of our special ACA section mentioned above. One of the most popular features on IRS.gov is the “Where’s My Refund?” electronic tracking tool. Taxpayers have used it more than 193 million times this year, which already surpasses the total of 187 million for all of 2014.

Another good example of a popular online offering is Get Transcript, which was launched last year. This is a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of minutes. So far this year, taxpayers have used this application to obtain more than 17 million copies of previously filed tax information. It is reasonable to assume that, had “Where’s My Refund?” and Get Transcript not existed this filing season, the taxpayers who used those online applications would have tried to get through on the phone, resulting in even higher phone demand and a lower level of service than what occurred.

I would note, in fact, that overall call volume at the IRS – the number of callers attempting to reach a live assistor – dropped from 54.2 million calls in FY 2013 to 39.9 million in FY 2014. We expect call volume to drop again for FY 2015. We believe that the reduction in call volume is likely a direct result of more taxpayers going online to get tax help from us, and that they want and need more in terms of digital services. Therefore, our goal is for taxpayers to have a more complete online experience for all their transactions with the IRS.

The online experience should give everyone confidence in knowing they can take care of their tax obligations in a fast, secure, and consistent manner. Taxpayers should expect the same level of service when dealing with the IRS in the future as they have now from their financial institution, whether it’s a bank, brokerage, or mortgage company.

The idea is that taxpayers would have an account at the IRS where they, or their preparers, could log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually, and there would be much less need for in-person help, either by waiting in line at an IRS assistance center or calling the IRS.

Improving service to taxpayers in this way can also help us on the compliance side of the equation. With a more modern system, the IRS could identify problems in tax returns when a return is filed – rather than coming back to taxpayers years after the fact while the meter is running on potential interest and penalties. We want to interact with taxpayers as soon as possible so that those issues can be corrected without costly follow-up contact or labor-intensive audits. An additional benefit of this approach would be to reduce the need for taxpayer correspondence with the IRS.

MAKING PROGRESS AGAINST IDENTITY THEFT

Aside from customer service, another important filing season issue is refund fraud, especially fraud caused by identity theft. Fighting this fraud is an ongoing battle for the IRS, and we must remain vigilant, given the propensity of identity thieves to develop new and more complicated schemes.

For that reason, and in spite of our budget constraints, we have continued to focus as much of our resources as possible on improving our efforts against identity theft. As a result, we have been able to continue to improve the filters we use to detect suspicious returns as they come in, which helps us stop fraudulent refunds before they are issued. This year we have already stopped at the door more than two million suspicious returns, which is over 500,000 more than were stopped last year at this time.

While this is important progress, we need to do still more. For that reason, last month we held an unprecedented sit-down meeting with the leaders of the tax software and payroll industries and state tax administrators. We agreed to build on our cooperative efforts of the past and find new ways to leverage this public-private partnership to help battle identity theft.

We formed three working groups that are continuing to meet, and over the next couple of months we expect to come to agreement on short-term solutions to help taxpayers in the next tax season, and work on longer-term efforts to protect the integrity of the nation's tax system.

Congress can help us in the fight against refund fraud and identity theft, by passing several important legislative proposals in the President's FY 2016 Budget proposal, including the following:

- **Acceleration of information return filing due dates.** Under current law, most information returns, including Forms 1099 and 1098, must be filed with the IRS by February 28 of the year following the year for which the information is being reported, while Form W-2 must be filed with the Social Security Administration (SSA) by the last day of February. The due date for filing information returns with the IRS or SSA is generally extended until March 31 if the returns are filed electronically. The Budget proposal would require these information returns to be filed earlier, which would assist the IRS in identifying fraudulent returns and reduce refund fraud, including refund fraud related to identity theft.
- **Correctible error authority.** The IRS has authority in limited circumstances to identify certain computation or other irregularities on returns and automatically adjust the return for a taxpayer, colloquially known as “math error authority.” At various times, Congress has expanded this limited authority on a case-by-case basis to cover specific, newly enacted tax code amendments. The IRS would be able to significantly improve tax administration – including reducing improper payments and cutting down on the need for costly audits – if Congress were to enact the Budget proposal to replace the existing specific grants of this authority with more general authority covering computation errors and incorrect use of IRS tables. Congress could also help in this regard by creating a new category of “correctible errors,” allowing the IRS to fix errors in several specific situations, such as when a taxpayer’s information does not match the data in certain government databases.
- **Authority to regulate return preparers.** In the wake of court decisions striking down the IRS’ authority to regulate unenrolled and unlicensed paid tax return preparers, Congress should enact the Budget proposal to provide the agency with explicit authority to regulate all paid preparers. The regulation of all paid preparers, in conjunction with diligent enforcement, would help promote high quality services from tax return preparers, improve voluntary compliance, and foster taxpayer confidence in the fairness of the tax system.
- **Expanded access to Directory of New Hires.** Under current law, the IRS is permitted to access the Department of Health and Human Services’ National Directory of New Hires only for purposes of enforcing the Earned Income Tax Credit and verifying employment reported on a tax return. The proposal would allow IRS access to the directory for individual income tax administration purposes that include data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources.

There are a number of other legislative proposals in the Administration’s FY 2016 Budget request that would also assist the IRS in its efforts to combat identity

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

It is important to note that these legislative proposals, while they would be very helpful, would only be partially effective in achieving their intended goals without adequate resources for the agency.

The President's FY 2016 Budget provides \$12.93 billion for the IRS. This amount includes \$12.3 billion in base discretionary resources, an increase of \$1.3 billion from FY 2015, allowing us to make strategic investments to continue modernizing our systems, improving service to taxpayers, and reduce the deficit through more effective enforcement and administration of tax laws. The Budget also proposes a \$667 million program integrity cap adjustment to support program integrity efforts aimed at restoring enforcement of current tax laws to acceptable levels and to help reduce the tax gap. This multi-year effort is expected to generate \$60 billion in additional revenue over the next ten years at a cost of \$19 billion over that 10 year period, thereby reducing the deficit by \$41 billion. Additional funding will allow the IRS to meet the expected increase in demand for taxpayer services in FY 2016, through the hiring of approximately 3,000 additional staff to increase the telephone level of service to an acceptable level of 80 percent.

The funding for new programs will provide the foundation for the IRS to develop, over several years, an IT-based strategy that will help improve the online filing experience for taxpayers as discussed above. The strategy will focus on enhancing the filing experience by understanding taxpayers' service channel preferences. By creating new digital capabilities and reducing the burden on taxpayers, the strategy will allow for earlier and more efficient engagement between the IRS and taxpayers. This initiative will improve the speed and convenience of interacting with the IRS. The President's Budget will also improve the IRS' ability to detect and prevent improper refunds, and allow the IRS to implement legislative mandates.

LOOKING AHEAD TO THE 2016 FILING SEASON

Looking ahead to next year, I am concerned that the 2016 filing season will be another challenging one.

As we begin preparations for the next filing season, one complicating factor is the need for the IRS to design and implement new programs enacted by Congress.

For example, the IRS has been asked, as part of the Achieving a Better Life Experience (ABLE) Act, to build a certification process for professional employer organizations – on a tight time frame and without any accompanying funding. Additionally, more work needs to be done in regard to implementing FATCA and the tax-related provisions of the ACA.

Another possible complication to the 2016 filing season involves the group of tax extender provisions that expired at the end of 2014. I am concerned about the possibility that Congress may not act on the extenders until very late in 2015. The IRS will need to adjust its forms and systems for any tax provisions that Congress decides to extend, so I hope that any extender package will be passed as soon as possible, to give us and the tax community needed lead time to prepare for these changes. Enacting this legislation earlier in the year would minimize the potential negative impact on taxpayers during the 2016 filing season.

Chairman Roskam, Ranking Member Lewis and Members of the Subcommittee, thank you again for the opportunity to update you on the 2015 filing season. I know I speak for the thousands of professional, experienced, and dedicated employees of the agency when I say that we are committed to working with you and the other members of Congress to lead the agency effectively and appropriately into the future. But we need your help and support if we are to be successful. This concludes my statement, and I would be happy to take your questions.