

THE IRS IN THE PANDEMIC

HEARING

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

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

OCTOBER 7, 2020

Serial No. 116-125

Printed for the use of the Committee on Oversight and Reform



Available on: govinfo.gov,
oversight.house.gov or
docs.house.gov

U.S. GOVERNMENT PUBLISHING OFFICE
41-987 PDF WASHINGTON : 2020

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- * Center for Taxpayer Rights Written Statement; submitted by Chairman Connolly.
- * Statement by Joseph Hickey; submitted by Chairman Connolly.
- * *The New York Times*, “Trump’s Taxes Show Chronic Losses and Years of Income Tax Avoidance”, article ; submitted by Chairman Connolly.

IRS IN THE PANDEMIC

Wednesday, October 7, 2020

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

The subcommittee met, pursuant to notice, at 10:06 a.m., via Webex, Hon. Gerald E. Connolly (chairman of the subcommittee) presiding.

Present: Representatives Connolly, Norton, Sarbanes, Plaskett, Khanna, Lynch, Raskin, Maloney (ex officio), Hice, Grothman, Palmer, Steube, and Keller.

Also present: Representatives Porter and Pascrell.

Mr. CONNOLLY. OK. The committee will come to order.

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

Without objection, full committee member Katie Porter, the gentlewoman from California, and Representative Bill Pascrell, the gentleman from New Jersey on the Ways and Means Committee, shall be permitted to join this subcommittee and be recognized for questioning during the course of this hearing.

Without objection, it is so ordered.

I now recognize myself for an opening statement. The Internal Revenue Service collects more than \$3.5 trillion in taxes, roughly 95 percent of the Federal revenue. And it manages the distribution of more than \$370 billion every year in refunds. The revenue the IRS collects for the Federal Government funds critical programs and benefits like Social Security, Medicare, and veterans health services. The billions of dollars in refunds distributed to taxpayers each year is a lifeline for many Americans, especially those at or living below the poverty line.

The IRS is a critical agency that we turn to in the Nation's hour of dire need. Today's hearing will examine how that agency was ill-prepared to meet those needs. We'll look at how decades of deliberate starvation of the IRS prompted a dire financial situation and left an agency with what a former taxpayer advocate referred to as a prehistoric IT infrastructure.

We'll show how a decade of attrition hindered the IRS' ability to meet the complex needs of our Nation during the unprecedented pandemic and attendant economic collapse. According to the Congressional Budget Office, from 2010 through 2018, when Republicans were in control of the Congress, lawmakers cut the IRS budget 20 percent in inflation-adjusted dollars, resulting in a 22-percent staff reduction.

Thirty percent of these staff were in the IRS enforcement positions. After years of disinvestment in IRS enforcement capacity, unpaid annual taxes owed but not collected are estimated at \$450 billion a year. The starvation and chronic underfunding also prevented the IRS from investing in IT systems.

I ask unanimous consent to enter into the record the Treasury Inspector General for Tax Administration's report entitled "Legacy Systems Management Needs Improvement," which finds that nearly three-quarters of the 400 active IRS systems reviewed by the TIGTA are legacy systems, meaning very old.

Another disturbing finding is that was in that report was that the IRS does not have a handle on how many legacy systems it actually has or the cost associated with those systems. This does not sound like an agency ready to fully serve the American people during a pandemic.

This past year has highlighted just how many individuals rely on the IRS. In addition to administering the two—2020 tax filing system, the IRS was also tasked with distributing emergency economic impact payments or stimulus checks to Americans. The IRS had to manage the effects of the pandemic while it was simultaneously expected to mail 170 million additional stimulus checks to Americans in need.

Years of IT system neglect and the failure to modernize legacy systems that date back to the Kennedy administration, in some cases, prevented the IRS from effectively transitioning to virtual operations. Like many agencies, the IRS sought to find ways to keep its work force safe while trying to meet its expanded mission, but it didn't stand a chance.

Its gutted work force and anachronistic IT systems were simply not enough to keep up. The pandemic forced the IRS to shut down many of its core operations across the country, including taxpayer phone lines and walk-in centers. The agency largely abandoned taxpayers, many of whom—or all of whom are our constituents at a moment of great confusion and concern.

As I've noticed, the IRS' operational challenges did not happen overnight. As shown in the tables on the screen, since 2010, the previously controlled majority Congress ransacked the IRS' budget and the agency was forced to reduce its work force by 22 percent. That's 20,000 full-time employees.

These significant repeated budget cuts forced the IRS to make difficult resource allocation tradeoffs. Leaders had to choose among providing quality customer service to taxpayers, enforcing tax laws, and updating IT systems. The severe financial, technical, and staffing problems are a direct result of years of partisan hostility, reckless so-called investigations, and unwarranted budget cuts from the majorities then in control of Congress. And, today, when the American people are relying on the IRS the most, the agency is gasping for air.

While our witnesses will testify that the IRS did what it could with the available resources, it's what didn't get done that's troubling. It's the millions of taxpayers who are unable and still are unable to get their refunds because they filed a paper return. It's the millions of tax returns that hit a snag and the corresponding taxpayers couldn't get assistance because call centers were closed.

It's the 9 million Americans who have yet to receive that stimulus check from April, primarily because the IRS does not have their information or because their income is so low, they don't qualify to file a return.

These are our Nation's most vulnerable people. We have a duty to help them in the midst of this crisis. Millions of people who desperately rely on the IRS to receive much-needed financial assistance to pay for medical care, groceries, housing are still waiting for those refunds and stimulus checks.

These people are like my constituent Joseph, who did not receive his 2018 tax refund until February of this year because his wife passed away and the IRS held up his return to get more information. The same issue, which the IRS promised Joseph would not be a problem again, plagued his 2020 tax return, which still has not been processed.

I ask we insert into the hearing record a statement from Joseph about his continued concerns with the IRS.

Other constituents have followed the rules and filed and are being told to just wait. People can't afford to just wait. They need this financial assistance now. On September 16, I wrote the IRS asking about these types of delays and the inconsistent responses staff have provided our constituents, IRS staff. That was three weeks ago. I've yet to receive a response.

It's also important to point out that budget cuts to the IRS have burdened our Nation's poor in another important way. When the IRS collects taxes each year, it relies heavily on taxpayers to report their income and calculate the amount of tax they owe. Most people, in fact, 99 percent of them, do. Some taxpayers, however, often the most wealthy among us, including potentially the current President of the United States, fail to properly pay their taxes. They hide earnings, claim dubious deductions, such as \$70,000 for hairstyling. Not a deduction available to most of us, and they fail to properly pay their taxes as a result.

Since 2010, as a direct result of these budget cuts from the past, the IRS has done less to enforce tax laws because it can't. If you take a look at the chart on the screen, you'll see that, between 2011 and 2019, the percentage of individual income taxes it examined dropped by half. Half. That's catastrophic, and it directly impacts revenue for the Federal Government.

The weakening of these vital oversight efforts harms both taxpayers and public confidence in the tax system. It does, however, help the wealthy and encourages even more of them to skirt and cheat the tax system. I was pleased with reports on Monday indicating that the IRS is finally investigating allegations of criminal tax fraud at the National Rifle Association.

I've long led congressional efforts asking the IRS and the Department of Justice to investigate the NRA and its CEO Wayne LaPierre. According to studies out of the University of Pennsylvania, by simply beefing up the auditing capacity of the IRS to allow for more oversight of the super wealthy, those claiming more than \$10 million in adjusted gross income, our government would collect more than \$7.5 trillion over the next decade. More than paying all of the pandemic-related expenses by this Federal Government combined.

That's the size of the tax gap with the wealthy, who fear little consequence right now from a beleaguered IRS and have left in our Nation's coffers.

I look forward to hearing from our witnesses today on ways Congress can help support the IRS instead of politically targeting the agency and stripping it bear of the resources it desperately needs as we've done all too often in the past. We also hope to ensure that the IRS' Chief Information Officer and CIOs throughout the Federal Government play a pivotal role in developing and meeting agency performance goals.

I look forward to working with my colleagues on both sides of the aisle toward legislation that does just that. I hope this hearing will garner the evidence and justification needed for Congress to build back the agency that it has so unjustly ravished over the last decade and so it's prepared to help struggling Americans in dire need of assistance during the worse pandemic in a hundred years.

And, with that, I call upon the distinguished Ranking Member, Mr. Hice, for his opening statement.

Mr. HICE. Thank you, Chairman Connolly.

I appreciate the opportunity to have an opening statement, and like you, I also have constituents who are awaiting refunds, and they've been seeking—many of them as far back as February, and I certainly share that.

I would also just say, Mr. Chairman, that I believe it's improper for you to accuse the President or seemingly accuse him of not paying his taxes. In the first place, you don't know that. And I hope this hearing today will stay focused on issues that are germane to the topic at hand, specifically IT modernization. That is what this should be focused on, and I hope we do that.

And, with that, let me just say that this subcommittee has been tracking, as you all know, the legacy IT systems and the reality that those legacy systems pose a risk to Federal agent missions and the purpose that many of our agencies have.

You know, with many of these agencies, especially the IRS, some of these older IT systems, they are very complicated, and they are going to require modernization. It is inexcusable for us to be facing some of the issues that we're facing and for our constituents and the American taxpayers to be the ones who are taking it in the gut over this.

And without modern technology systems that can meet modern day challenges, our agency missions are at risk, and taxpayer resources will continue to be spent on archaic and inefficient technology systems of ages past. This committee understands how the Federal Government continues to spend a majority of the IT budget merely maintaining these legacy systems instead of investing in IT modernization reforms, which needs to occur.

With the majority of agency IT spending going to the operations and maintenance of these old systems, new investments are crowded out. I think that's where we need to get some answers today. We have talked a lot about different approaches that can be utilized and bring multi-year IT funding mechanism to be established.

I think we need to go beyond talk and start actually getting some answers and hearing what some of these agencies are doing to im-

plement modernization efforts. And it is up to each of these agencies to utilize some of the resources that have been made available.

With the IRS specifically, some modernization efforts, despite repeated large investments by Congress, which, let's keep in mind, is really investments from the American taxpayer.

In spite of these large investments, the IRS continues to drag on and seemingly never reach completion of modernization. We need answers for those type of problems. How in the world can Congress have faith that another \$1 or \$2 billion or whatever it may be at the end of the day that it will be proposed by the House and the Senate will actually get anything in return?

Again, I say we need answers to these questions. This committee wants to understand how these pervasive and continual challenges can be addressed. This is a bipartisan issue with potential bipartisan legislative solutions, but we have to understand the actual problems preventing agencies like the IRS from moving into modern, agile, and robust technology operation environments in the future.

To be fair, we all know that, in a rapid response to the global pandemic, there have been a number of emergency assistance programs that have been passed into law this year, and it has been unprecedented. We all understand that. There have been a lot of mandates that have been involved, and as a result, we have seen nearly every American taxpayer received checks and that occurred in an extraordinarily swift manner by the IRS, and for that, we're grateful.

And you look back at the Economic Stimulus Act of 2008, it took weeks and weeks for that to be doled out, but like every other large enterprise in the world, the IRS has had its operational challenges related to the pandemic. We get that.

There have been issues with the CARES Act stimulus payments reaching their intended destinations. There have been a number of issues, but not all the issues—and I get this as well—not all the issues and problems have been technologically related. There have been legal issues, procedural issues, work force issues, data access challenges, but we need to understand the actual calls of problems before we can recommend any policy solutions. I hope that the hearing today will provide some information in that regard.

And to that point, Commissioner Rettig, I hope that you and the other witnesses today can help me and my colleagues understand how we can address the underlying barriers preventing successful technology modernization so that we can ensure the success of the IRS' critical mission. Congress cannot afford to blindly continue throwing money at IT problems. We have got to find a new approach. We've got to have answers. We've got to have modernization.

So, with that, Mr. Chairman, I want to thank you, and I want to thank our witnesses for bearing with Congress and these proceedings. I thank them for participating in today's hybrid hearing, and I appreciate the opportunity to be able to have each of them here today.

With that, Mr. Chairman, I yield back.

Mr. CONNOLLY. I thank the gentleman, and I look forward to working with him, and I thank him for the spirit—the bipartisan

spirit he has laid out for us moving forward in terms of trying to address, especially the technology challenges the IRS is facing.

I would also ask unanimous consent that a series of articles talking about the President's tax situation, including the assertion that, in the last two years, he paid \$750 per year and no taxes for 10 of the previous 15 years. That's not just the chairman's opinion; that is a series of analyses based on documents not denied by the White House. Called fake news, but not a single item, including the deductions and the payments I cited, has been denied by the White House.

So, I enter that into the record, so that it's clear it's not just one Member's opinion, including this Member's.

With that, I see the chairwoman of our full committee is on, and I want to defer to her for any opening remarks she may have with respect to this hearing.

Welcome, Chairwoman Maloney.

Mrs. MALONEY. Thank you so much to my good friend and colleague Chairman Connolly for holding this important and timely hearing on the IRS in the pandemic.

First, I want to congratulate you on already convincing the IRS to move back the deadline for low-income individuals to register for an economic impact payment. Until Monday, the deadline to register for the EIP was next Wednesday, October 15. And now these individuals who earn so little they don't even qualify to pay taxes have until November 21 to claim this vital resource.

And without this hearing and the chairman's work, that extension was unlikely. So, congratulations on improving the lives of those who need this money the most. This is a huge victory for the subcommittee and for those struggling on the brink of poverty across this Nation.

For the past decade, there's been a concerted effort to gut the IRS and to starve it of the funding it needs to do its job on behalf of every taxpayer in this Nation. Sadly, after years of partisan attacks and neglect, it was no surprise that the IRS was not prepared to handle the unique circumstances that the corona crisis presents. After all, this agency is operating on information technology systems that date all the way back to the Kennedy administration.

We can now see the very real consequences of the past decade. We cannot simply decimate essential Federal agencies and then expect them to miraculously meet their missions in times of crisis. For example, in June, just a few months into the pandemic, we discovered that the IRS sent roughly 1.4 billion in EIPs to dead people. Some of my constituents told me that they received EIPs for their dead relatives and were still waiting for their own checks. While the IRS had access to the Social Security Administration's death file, the Treasury Department's Bureau of Fiscal Service, which distributes the payments, did not.

This fix seems simple. Let's share the file and reduce improper payments in the next round of stimulus checks. If it needs to be a legislative fix, let's make it happen. Today, we're going to hear from witnesses who claim that the IRS did the best it could with what it had. But that's not the real question.

We need to be asking what the IRS could have done to help our country if it had been properly funded and adequately staffed instead of being subjected to years of bitter Republican abuses.

In another example my constituents told me they threw away IRS-issued debit cards because they looked like a scam and the IRS failed to inform them that the cards were coming. Others said that the online, quote, “Get My Payment”, end quote, tool was confusing and made them think they were ineligible for an EIP when they were, in fact, eligible.

Today, we will hear that individuals across our Nation, including my constituents, are still waiting to receive money that their government owes them—money they need to buy medicines, pay rent, put food on their tables. Past Republican Congress’ prevented the IRS from investing in staff and technologies that would have allowed for a smooth transition and a continuity of service to all tax-payers throughout the pandemic.

Because of decades of partisan attacks, many individuals and small businesses might not see their tax returns any time soon. They may not see their economic impact payments or EIPs until September 2021. They need this money now, not in 11 months, but now. That’s how Congress designed these stimulus payments, and it seems clear that the IRS is not equipped to meet this moment.

The systemic decade-old gutting of the IRS forced the agency to shut down taxpayer services and assistance just when the rules were most confusing and taxpayer needs were greatest. The long-term starvation of the IRS means that victims of domestic abuse can have their stimulus payments seized by their abusers because the IRS doesn’t have the resources and staff it needs to help address this problem.

For many women who are domestic abuse victims, this lack of IRS resources means they can’t achieve economic independence and escape abusive relationships. This is a complicated problem, but the IRS shouldn’t simply shrug its shoulders and point them to the court system, which they can’t afford to participate in. Let’s find a solution here today and help these women.

The lack of resources at the IRS means that the wealthiest residents of our Nation, those reporting more than \$10 million a year, can avoid paying proper taxes because there are so few capable enforcement staff available to audit them. There’s little chance they’ll be audited, caught, and prosecuted. Instead, the IRS has been auditing the poor and the vulnerable because it’s easier.

Our government is leaving on the table trillions of dollars owed by the wealthy. Finally, I want to express my support of the legislation I know the chairman is working on. Legislation that would require agencies to think about how technology will improve service delivery and agency performance across the enterprise of the Federal Government. I support these types of critical measures that often take place under the legislative radar.

Thank you so much, Chairman Connolly, for all of your hard work that you have done in this area. I am here to support your work in every way. It is important that we’ve reached this point of reckoning, and we need to move forward.

Mr. Chairman, again, congratulations on your achievements in holding the IRS responsible and moving forward with ideas to

make them more up-to-date and IT savvy for the future. I thank you so much.

And I yield back.

Mr. CONNOLLY. I thank the distinguished chairwoman of the full committee, Mrs. Maloney, and I thank you for your leadership and for your support. I very much appreciate it.

Now, I'd like to introduce our witnesses.

Our first witness today is Charles Rettig, who's the Commissioner of the Internal Revenue Service. And we will hear from Erin Collins, the National Taxpayer Advocate at the Taxpayer Advocate Service. And, finally, we'll hear from Vijay D'Souza, who is the Director of Information Technology and Cybersecurity at the Government Accountability Office.

The witnesses will be—if you would all rise and raise your right hand, we swear in our witnesses as a matter of course here on the committee. Do you swear or affirm that the testimony you're about to give is the truth, the whole truth, and nothing but the truth so help you God?

Let the record show that all three of our witnesses answered in the affirmative. Thank you.

Without objection, your full written testimony will be entered into the record in full.

With that, Commissioner Rettig, you're now recognized for a five-minute summation of your testimony. Welcome.

STATEMENT OF CHARLES P. RETTIG, COMMISSIONER, INTERNAL REVENUE SERVICE, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. RETTIG. Thank you. Chairman Connolly, Ranking Member Hice, and members of the subcommittee, thank you for the opportunity to discuss IRS operations and our efforts to help taxpayers during the COVID-19 pandemic.

Nearly two years into my term as Commissioner, I remain extremely proud to be working with the IRS knowing that 96 percent of the gross receipts of our country flow through the IRS has strengthened my belief that a healthy, functional IRS is critical to the overall success and well-being of our country.

The importance of the IRS to every American has become especially apparent since the spring as our Nation has faced unprecedented challenges. The IRS has been at the forefront of successfully providing rapid economic relief to taxpayers during COVID-19. The IRS response serves to illustrate how critical it is for the agency to receive consistent, timely, and adequate multi-year funding such that we can succeed in providing the services that our country so rightly deserves.

This funding is critical as the Nation continues to weather COVID-19 and will also help the agency prepare for future emergencies. IRS employees have worked around the clock since mid-March to implement major provisions of the CARES Act, especially the economic impact payments to help millions of Americans during this challenging time.

So far, more than 160 million economic impact payments have been issued, totaling more than \$270 billion, with many of the payments recognizing more than two people, their payments for a

household as opposed to an individual. In delivering economic impact payments, we balanced the statutory requirement to deliver these payments as rapidly as possible with the need for accuracy and the concern about potential fraud.

I also want to call to your attention an important number. The Treasury Inspector General for Tax Administration confirmed that the IRS correctly computed the payment amount for approximately 98 percent of the payments as of May 21. The 98 percent figure is great, however, there is more to do. The strength of our agency is our employees. Our employees want to do more, and we will do more with the assistance of Congress.

We have remained concerned about getting payments out to people who don't normally file a return, including historically underserved communities of our Nation, such as the lower income taxpayers, homeless communities, and various others who do not normally interact with the government or certainly with the Internal Revenue Service.

We've worked with our partners to translate economic impact payment outreach materials into more than 35 languages and have distributed these materials throughout the country. From the beginning, we have been aggressively seeking the assistance of community-based organizations and many others in identifying eligible Americans.

We ask for your help and the help of every Member of Congress in sharing and disbursing this information widely and broadly. We realize how difficult this period has been for so many Americans. For that reason, the IRS also provided important administrative relief. We postponed the filing deadline from April 15 to July 15, the latest Tax Day ever in the history of our country.

We implemented the People First Initiative, under which we temporarily adjusted our processes to help people and businesses during these uncertain times. While pursuing our responsibilities with respect to the CARES Act and COVID relief, we had to adjust and redeploy resources, and our employees have remained dedicated to delivering the 2020 filing season as they continued to process electronic returns, issue direct deposit refunds, and accept electronic payments.

As of September 25, we have processed more than 153 million individual returns and issued nearly 122 million refunds for a total exceeding \$289 billion while we were also processing economic impact payments and preventing cyber-attacks in a host of other areas.

During this time, we've also focused on enhancing the experience of taxpayers who have limited English proficiency. For the first time ever, the Form 1040 filed next year will be available in Spanish. Basic tax information is available in more than 20 languages. People who call in can get interpreter services for more than 350 languages and for these actions, I am extremely proud of our employees.

On the enforcement side, we have redeployed resources to the best of our abilities to highlight and focus on certainly high-income individuals and certain types of transactions that such individuals participate in. Our phased-in reopening has been difficult, we understand, for Members of Congress, for taxpayers, and others. How-

ever, the health and safety of our employees had to remain paramount throughout.

Our employees shared the same health and safety concerns as shared by every other American for themselves, for their family, and for their neighbors and their community. And we had to focus on that while also trying our best to respect our responsibilities to this country, both with respect to filing season, as well as with respect to the issuance of these payments, maintaining a vigilant, robust enforcement atmosphere, protecting cybersecurity issues. And we receive more than 2.5 million attacks per day on our systems, 1.6 billion per year. And we understood that in this situation where we scaled back our activities, where we closed the majority of our physical facilities, where we moved almost 57,000 people to teleworking, we undertook all of that while also doing our best to maintain our responsibilities to this country from every perspective.

With that, I want to just reemphasize that we depend on consistent, multi-year funding to deliver top quality services to our taxpayers, to protect the health and safety of our employees, to conduct enforcement initiatives, to provide guidance, and to support badly needed long-term modernization efforts.

Chairman Connolly, Ranking Member Hice, and members of the subcommittee, this concludes my statement, and I would be happy to take questions.

Mr. CONNOLLY. Thank you, Commissioner Rettig.

Ms. Collins, you are recognized for your five-minute statement.

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

Ms. COLLINS. Chairman Connolly, Ranking Member Hice, and distinguished members of the subcommittee, thank you for inviting me to testify at today's hearing, "The IRS in the Pandemic."

I started my job as a National Taxpayer Advocate on March 30, just after the IRS and much of the country—

Mr. CONNOLLY. Let me interrupt without penalizing you. That's my birthday, so congratulations.

Ms. COLLINS. Oh. Well, thank you. It was a very important day for a lot of reasons.

So, at that point, most of the country was shutting down due to the pandemic and little did I know then how much the pandemic would impact both tax administration for the IRS, but also with respect to taxpayers.

As we continue to grapple with the pandemic, my best wishes go out to all those impacted by the virus. In my statement today, I will share three predominant points about the past six months.

First, despite its constraints, the IRS has done its best job to handle more work with reduced funding, but taxpayer service and revenue collection has both suffered over the years, as you have noted. In the height of this year's filing season, it was given the task of disbursing the economic impact payments to some 160 million eligible individuals and their families. Millions of homes ordinarily don't file a tax return with the IRS, and the IRS had to find them.

This filing season the overwhelming majority of taxpayers did not experience problems in filing their return or the receipt of their refunds. Over 90 percent of individual taxpayers file their returns electronically and efile capabilities were operational throughout the pandemic. About 70 percent of the taxpayers claimed refunds, most of those refunds were paid without delay, particularly 83 percent that were disbursed by a direct deposit.

But as has been noted, it's the people who did not receive the refunds that we're most concerned with. Second, despite the IRS' strong performance, many taxpayers experienced significant delays resulting in financial hardship. Many taxpayers still file their returns on paper, either by choice or by necessity.

In 2019, the IRS received about 18 million individual paper income tax returns. This year, for the protection of the health and safety of its employees, the IRS shut down its mail processing operations from March to early June. During that time, millions of tax returns, checks, and other correspondence piled up.

As of September 19, the IRS estimated that it had a backlog of about 5.8 million pieces, including an estimated 2.8 million unopened returns. For taxpayers counting on those refunds to meet their basic living needs, the delays have been particularly painful. In a typical year, the IRS receives about 100 million telephone calls and several million visits to its walk-in taxpayer assistance center.

Due to the pandemic, the IRS shut down its toll-free lines for about a month and slowly began resuming service. It also shut down its taxpayer assistance center for about three months. Some taxpayers also experienced delays in their receipt of their economic impact payment. And as the Commissioner noted, the inspector general found that the IRS correctly computed about 98 percent of the amount of the EIPs correctly. But based on 160 million payments, that leaves about 3 million payments of eligible individuals who are claiming additional amounts that they are now requesting from the IRS, and plus I believe we've identified several million cases where payments were not made at all.

At first, the IRS took the position that most taxpayers who wanted their increased payment amounts would have to wait until they filed their 2020 return, but my office and others urged the IRS to find ways to correct some of these underpayments immediately. The IRS has since developed processes and programs in its systems to fix many of these problems. However, the IRS simply does not have the resources necessary to make a manual case-by-case adjustment in potentially several million cases.

However, the individuals still have a right to file it on their upcoming tax return, but that brings me to my final point.

The IRS desperately needs more resources to do its job of helping taxpayers and collecting revenue. There's an old expression: you can't get blood from a turnip.

If the IRS continues to be starved its resources, it will continue to struggle. It needs more customer taxpayer representatives, agents, and to assist those taxpayers, and it needs more modernization of its IT systems.

The IRS' IT struggles are known, and as the chairman noted, to compound its challenges, the IRS budget has been reduced by about 20 percent since 2010 while the number of tax returns has

increased 13 percent. As a result, the IRS lacks the staffing it needs to serve taxpayers. Although, I'm new at this job, it is clear that the IRS is well behind private sector financial institutions in providing the much-needed services.

Americans are entitled to top quality service and a tax administration they can trust and work with.

Thank you for inviting me here today, and I welcome working with you and your staff in the future and happy to answer questions.

Mr. CONNOLLY. Thank you, Ms. Collins.

Mr. D'Souza, welcome.

You're recognized for your five-minute summation.

STATEMENT OF VIJAY A. D'SOUZA, DIRECTOR, INFORMATION TECHNOLOGY AND CYBERSECURITY, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. D'Souza. Thank you, Chairman Connolly, Ranking Member Hice, and members of the subcommittee, thank you for the opportunity to testify today on GAO's prior work relating to IRS' IT operations and modernization efforts.

My name is Vijay D'Souza. I'm a director in GAO's Information Technology and Cybersecurity team, but this statement draws on work conducted by our team, as well as our strategic issues and financial management teams.

Effective IT is essential to IRS' operations and was, as everyone's noted, important to the distribution of millions of economic impact payments disbursed as part of the CARES Act. GAO currently has work under way looking at IRS' efforts in this area.

For this most recent fiscal year, IRS spent over \$3 billion on IT, of which a little more than 80 percent was for ongoing operations and less than 20 percent was for modernization activities.

IRS' IT budget has been fairly flat over the last 10 years. One of IRS' goals specifically and the Federal Government's in general is to reduce the proportion of spending for ongoing IT operations. Although IRS does make effective use of IT in billions of transactions a year, our prior work has found numerous issues related to IT operations and modernization. I'll mention a few of these issues now.

First, GAO's responsible for auditing IRS' financial statements. As part of this process, we assess that IT controls related to IRS' financial systems, we identify cybersecurity issues, and we make recommendations. We also track IRS' progress in addressing prior year recommendations. Most recently in May, we identified 18 use cybersecurity recommendations, including these new recommendations that a total 132 cybersecurity recommendations remain outstanding.

Second, as part of our ongoing assessments of IRS operations, we identify IT issues that limit IRS' ability to conduct its mission. I'll highlight a couple of them for you here. In January 2020, we reported on computer problems IRS customer service representatives experienced that caused some taxpayer phone calls to disconnect mid-call. We recommended, and IRS agreed, that it should both identify the causes of this problem and track the resulting down time.

In February, we reported that IRS could only capture certain business tax information in PDF format, which is harder for it to use than other electronic open data formats. These other formats would better allow the agency to analyze information in these returns for enforcement and other analytic activities.

We recommended that IRS consider the cost and benefits of converting this information. Although IRS disagreed with our recommendation for one of its business units, we still think this is worth doing and would help IRS with compliance efforts.

Finally, we have conducted numerous examinations of IRS' IT management activities, including those related to its efforts to modernize its computer systems, which, as others have noted, some of which are based on programming languages more than 50 years old.

In May 2016, we reported on IRS' use of older programming languages for key computer systems, most notably its individual master file, which is the core individual tax processing system. We recommended IRS develop a plan with timelines to replace IMF. IRS does have an effort called CADE 2 under way, which will replace core parts of the IMF, but does not yet have a plan for replacing the overall system.

Recently, IRS' acting CIO told us that IRS is beginning to develop such a plan. In June 2016, we reported on IRS' process for prioritizing its IT investments, both for ongoing operations and modernization activities. For modernization activities specifically, we found that IRS had not fully developed and documented a prioritization process. IRS' acting CIO has told us the agency hopes to have this process fully implemented for Fiscal Year 2022.

In June 2018, we looked at IRS management of several operations and modernization investments. We found that IRS did not fully address a number of assessments and risk-management activities that were needed around those investments.

We also identified several weaknesses in IRS work force planning activities. From this report, we made 21 recommendations. As of today, IRS has addressed three of these recommendations and taken steps to address others. And we've recently started work where we're going to update this assessment.

Every aspect of IT, including cybersecurity operations and modernization efforts, is critical to IRS' mission and service to the American taxpayer. Going forward, continued attention to the issues we have identified is important to IRS' ability to meet the challenges it faces. Also important, as others have noted, is stable and consistent funding for IRS' efforts.

Mr. Chairman and Mr. Ranking Member, this concludes my statement. I'm happy to answer any questions you have.

Mr. CONNOLLY. Thank you very much, Mr. D'Souza.

Just a clarification: In your testimony, you referred to the fact that the IRS budget has been relatively flat. Do you consider a 20-percent cut in its budget relatively flat that resulted in a 22-percent reduction in its work force?

Mr. D'Souza. So, I was specifically talking about the IT budget, not the overall budget. There's definitely a difference.

Mr. CONNOLLY. Oh. Oh. Right. I just want to clarify. Thank you.

The chair now calls on the distinguished Congresswoman from the District of Columbia, Ms. Norton, for her five minutes of questions.

Ms. NORTON. I thank my good friend from Maryland particularly for this hearing. I think the average taxpayer——

Mr. CONNOLLY. Excuse me. I am from the great Commonwealth of Virginia, not from Maryland.

Ms. NORTON. What a terrible mistake. And I see my friend from Maryland is on the committee.

Mr. CONNOLLY. We love Maryland, but we love Virginia more.

Ms. NORTON. But I want you to know that the District was formed out of both Maryland and Virginia, so I thank you for that too.

Mr. Chairman, I think if people have been listening to this testimony that the average taxpayer and the statistics are that the American people are extraordinary compliant, but they are astonished by what they have learned about the state of the IRS.

I'm particularly interested in economic impact payments. They go to people who don't pay their income taxes because their earnings are not enough.

Now, according to the statistics I have, on September the 18, the IRS said it was going to start mailing letters to these 9 million Americans who don't pay income taxes but are due to get this economic impact payment. These are people who have very low incomes, but I do want to say how happy I am that the IRS has just extended the registration deadline for these nonfilers, these low-income people to claim this economic impact payment to November the 21, 2020.

I'm asking all members to email—consistently email your constituents to let them know these people, you know that they are Democrats and Republicans, that they can still get an economic impact payment up to November 21. I think that's our obligation.

Mr. Rettig, this is my question for you. How many of these roughly 9 million people were eligible to get these funds, this economic impact payment, have yet to register a claim for an economic impact payment, these low-income filers people?

That's for Mr. Rettig.

Mr. RETTIG. Yes. How many people have not received EIP, is that the question?

Ms. NORTON. Of the roughly 9 million have not yet registered to claim an economic impact payment, how many of these low-income people have not tried to claim?

Mr. RETTIG. That—our pool is not necessarily low income. That pool was put together through a variety of indirect methods by a variety of Federal agencies and then tried to match it to our system. So, I would not wrap that with—it's about 8.4 million. The letters have not gone out——

Ms. NORTON [continuing]. But how many—OK. Thank you.

It's 9 million people. I just want to know how many have yet to claim their economic impact payment.

Mr. RETTIG. I'm having difficulty hearing you. Is the question, how many people have not claimed the payment? We are not able to quantify the number of individuals who have not been identified.

Ms. NORTON. Mr. Chairman, Mr. Chairman, I ask that that number be required to be later given to the committee.

Mr. Rettig, is it possible that an eligible income individual not receive a payment? Is everybody going to receive it?

Mr. RETTIG. We intend for everyone to receive it. We're holding over seven outreach events this week, pretty much every week. We have provided tool kits to 535 Members of Congress to be distributed to all of their local offices. We have interacted with 137 different ethnic media outlets around the country, hundreds and hundreds of homeless shelters. I have participated in person at homeless shelters around the country and other similar events—

Ms. NORTON. Well, thank you very much. I'm sorry. My time is so limited. My time is so limited. I've got to go on to the next question, but that's very good to hear.

Mr. Rettig, the CARES Act says that provisions regarding the stimulus should be directed—that's \$1,200 to every eligible individual. There's no language in the statute that directly or even indirectly suggests that incarcerated people are not eligible.

Why were incarcerated people not receiving their \$1,200?

Mr. RETTIG. That's an issue to present to Treasury, and it's an issue that is actually in litigation, and it would be inappropriate for me to comment upon litigation.

Ms. NORTON. Mr. Chairman, I just want to say that many of these are joint filers. They have families. They have child support payments, and I ask the committee to followup on why incarcerated people do not receive these payments which says, according to the statute, every eligible—the CARES Act says every eligible person may receive.

And I thank you very much for the time given to me.

Mr. RETTIG. Thank you.

Mr. CONNOLLY. I thank the Congresswoman, and I assure her we will followup on that because there is no language prohibiting such payments.

The chair now calls on the distinguished ranking member, Mr. Hice, who looks very relaxed and very comfortable, for his five minutes of questioning.

Mr. HICE.

Mr. HICE. Thank you, Mr. Chairman. And I am very relaxed, but it's good to be part of this hearing. I do want to respond—Ms. Collins brought up some interesting issues during her opening statement, and one of which has been said by some others here today about the IRS starving in terms of fund.

I would just, for the record, bring back to reality that, in 2010, that was kind of a watermark year for IRS funding, and what did they do when they had that kind of funding? There were lavish conventions. There were ridiculous videos. There were targeting of conservative groups. And I think it's important for these types of things to not be repeated.

Commissioner Rettig, we're hopeful and trustful that you will be able to make sure that this type of wasteful spending does not happen again, but also as mentioned, I believe it was—and I think I've got these numbers correct. I was trying to write them down: 18 million paper filings of tax returns for this past year, 5.5 million in backlog, and I believe it was 2.8 million that were unopened.

As it relates to the paper filings, those that were mailed in, that is certainly nowhere near 90 plus percent of completions. 18 million filed and 5.5 million backlogged and nearly 3 million unopened is, frankly, an unacceptable amount. We are hearing from our constituents right and left why their tax returns have not come back. So, really, I just, on behalf of those constituents, not only in my district but across the country, when can they expect those mailed in returns to be opened, dealt with, and then to receive their refunds?

Mr. RETTIG. Sir, as of September 25, we've received 12.9 million paper returns. We had a current paper backlog of approximately 5.3 million of which we estimate that approximately 2.5 million is returns. We are processing our backlog at the rate of about 1.3 million per week, which I think is exceptional. In March/April time-frame, we were at about a 23 million backlog. So, we have about 1.3 million we're going through per week keeping in mind that we average somewhere between 3 to 500,000 pieces of mail each week, and so we need to open the mail to determine, is it a return, or is it some other type of correspondence?

So, we do prioritize the returns in terms of the processing of the paper mail, including correspondence that is received. We process the returns on a priority basis, and of that, we process refunds on a priority basis. And so I can certainly tell you, sir that our people are—

Mr. HICE. With those kinds of numbers, it sounds like—

Mr. RETTIG. working really hard. We're doing—

Mr. HICE [continuing]. Sounds like—

Mr. RETTIG. Two shifts and have offered overtime to all of our people to get through this.

Mr. HICE. OK. So, it sounds like to me from what you're saying is that most of those, the backlog, should be pretty much dealt with by the end of this month. Is that correct? Ballpark?

Mr. RETTIG. I can't say that because it depends upon what they open. Sometimes they open something that's complex and it takes a particular period of time. If the straight averages work, we are going through 1.3 million per week. We have 5.2-, 5.3 million pieces total, but keeping in mind 3-to 500,000 come in on top of that. So, it's a process.

I can vouch for the effort, and I can certainly vouch for the desire and the sensitivity, and remember that our work force is reflective of the communities that they live in and the communities that they're processing these returns for—

Mr. HICE. I get that.

Mr. RETTIG [continuing]. So, we get it.

Mr. HICE. I thank you for your effort, but effort does not resolve the issue for those who are waiting. I do appreciate the effort, but we have a lot of people who are struggling.

Let me hit on the IT question here. Congress has provided billions, as you well know, of funding for IT modernization and there's mixed results.

We still are a long ways behind. If more funding is given for IT modernization, how can you ensure the fact that those funds are going to be effectively used and managed so that we actually have

the end result of IT modernization rather than continually trying to maintain and support legacy systems?

Mr. RETTIG. Well, the appropriation earmarks what the funding would be for. And, within the separate appropriations and allocations, I think that we could cover that.

Also, in terms of efficiency and IT efficiency, it should be noted that, filing season 2019, we set records for processing per second, per hour, and per minute. And we broke those records in filing season 20 during the COVID pandemic, with most of our facilities shut down, and we came to 2.275 million returns processed per hour, 632 per second, without any technological errors.

And the same group of IT folks who handle our filing season were also responsible for implementing the EIP payments, which was not only for individuals that we had information, but individuals we did not have information. And then we inherited the programming for the Veterans Administration as well as for Social Security Administration. And we created portals that more than 14 million people came in through a nonfilers portal. Our same IT folks took care of all of that at the same time.

We did not have the luxury of onboarding hundreds or thousands of folks to help us in that situation. We had people who had to multitask. And these particular folks worked 15-to 17-hour days, seven days a week from March through July. And I would say that our folks performed. I would suggest and request on an IT appropriation, oversight—specific appropriations for where we are.

The Taxpayer First Act was passed—strong bipartisan support—has tremendous provisions in it for modernizing the systems of the Internal Revenue Service, but it does not yet have any funding associated with it. So, you know, in my mind set, these things come together.

We take our responsibilities to Congress, to the American people, and to our employees and the neighborhoods that our employees live very seriously. We want to perform, and we want people to be proud of the Internal Revenue Service.

Mr. CONNOLLY. The gentleman's time has expired.

Mr. HICE. Mr. Chair, that's a great answer, but I don't believe it fully answered my question. But I know my time has expired, so I yield back.

Mr. RETTIG. I'm available for all of you on a one on one.

Mr. CONNOLLY. Let me just say, Mr. Hice, I—I think it may be implicit in your line of questioning is, despite the accomplishments of the IRS under very adverse circumstances, remember that we also represent the community.

Mr. HICE. Uh-huh.

Mr. CONNOLLY. And I think Mr. Hice is pointing out—and I'm certainly joining him. I gave some examples in my opening remarks. We're hearing from constituents who aren't being well served, who are panicking in some cases about their refunds or their direct payments still. And we need a better response, frankly, in terms of a liaison with Members of Congress to be able to serve those taxpayers, our constituents.

And I hope you're hearing that because generally we hear from people when things aren't working. So, that may be a small percentage, but it's, you know, real human beings and real needs.

So, I echo what my friend, Mr. Hice, has said. We need to really work on that, and I think, frankly, having a stepped-up liaison for us to be able to go to some kind of ombudsman who can help solve problems for taxpayers would be very welcome under these—

Mr. RETTIG. May I provide a brief comment?

Mr. CONNOLLY. Yes, of course.

Mr. RETTIG. In conjunction with that, you know, we had a phone line for Congress that got essentially overrun with the volume. So, we're sensitive and understanding. And then it was my bright idea to create an email box such that our folks could work it around the clock on emails received.

We received, I think, over 100,000 emails from *house.gov* or *senate.gov*, and so my bright idea really overran us as well, but it was an effort to try to get there.

I very—sir, I spent 36 years on the outside representing individuals with respect to the Internal Revenue Service and tax-related matters. I very much understand the concepts that each of you are there. I take these concepts to heart.

And there have been some comments with respect to lower income individuals as well as different ethnic communities, and I have not been in front of many of you before, but I want to add into this two points that I'm very proud—and I'm closing here, but two points that I'm very proud.

I am the first Commissioner in the history of the Internal Revenue Service whose spouse came into the United States as a refugee from a refugee camp and whose parents do not speak English but happen to now live in the United States.

I'm also the first Commissioner to come to the Internal Revenue Service who has a son or daughter who is Active Duty United States military who has deployed twice, who has the privilege of wearing the flag on his shoulder, and I take that to heart. Those are the issues as to why I came on board.

Mr. CONNOLLY. Thank you, Mr. Rettig, and we certainly honor your personal history and commitment. Remember, Members of Congress are also patriots and committed to their constituents and trying to make—

Mr. RETTIG. I believe we are all serving.

Mr. CONNOLLY. Trying to make things work under very adverse circumstances.

And thank you, Mr. Hice, for allowing me to piggyback on that.

The chair now calls on the gentleman from Maryland, Mr. Sarbanes, for his five minutes.

Mr. SARBANES. Thank you, Mr. Chairman. Can you hear me?

Mr. CONNOLLY. Yes. We can hear you loud and clear.

Mr. SARBANES. OK. Terrific. Thanks for the hearing.

Mr. Rettig—Commissioner Rettig, I want to give you credit, because you're certainly putting a brave face on in view of these dramatic cuts that the IRS has experienced over a period of years now. I mean, the numbers are breathtaking. The work force having been reduced by 22 percent since 2010 has obviously undercut the IRS' daily operations in a significant way.

And I want to salute the frontline workers at the IRS, the rank and file, who are really engaged in acts of heroism every day trying to lift up a caseload that I think is drowning them.

So, we have to get more resources to the IRS, and that has to be a number-one priority for Congress, and I think it ought to be a priority of any administration. Unfortunately, we have not seen that from the Trump administration.

When the IRS doesn't have enough resources, the fact of the matter is that the rich get richer, high-end tax cheats get away with not paying their taxes, fraudsters are able to get away with their schemes, and those who ought to be on the receiving end of severe and significant enforcement by the IRS are not.

Meanwhile, those average Americans out there who play by the rules and look to the IRS to engage with them in a straightforward way and get them their refunds, make sure the earned income tax credit is processed, make sure that these economic payments that come from these stimulus measures we've put in place are getting to them, they're the ones that are getting short shrift here.

So, I think that's what's so offensive to many of us, is, when the IRS doesn't have the resources that it should, it can't do what's necessary to enforce against those who are trying to evade their tax obligations on the one hand, and it can't provide the kind of service to everyday Americans who are playing by the rules on the other hand.

Ms. Collins, can you talk a little bit more with us about how adequate funding around enforcement can actually pay huge dividends for the IRS and clamp down on the kinds of schemes and efforts to avoid a tax payment that we know are going on out there every single day? Put some numbers behind that for us.

Ms. COLLINS. Well, sure. As we all know, that our U.S. tax system is a voluntary tax system, and we depend on people willing every year to sit down, fill out that form, and pay their appropriate amount of taxes. So, I really think enforcement is a reward to those who voluntarily comply. And I think, if the public does not see that the IRS is enforcing the laws, we're going to be at risk of losing people continuing to voluntarily comply.

Mr. SARBANES. Well, I appreciate that because, you know, sometimes those who want to attack the IRS on ideological grounds, they sort of say, you know, "Be afraid; the tax man cometh." But, when the IRS is coming for those who aren't paying their taxes, aren't playing by the rules, that's the appropriate kind of enforcement.

And the resources that you can garner if you do that enforcement well can then be redeployed again to help serve those taxpayers out there that are playing by the rules, are looking for that refund, are looking for the benefits that can come when we use the IRS to distribute important stimulus payments in the midst of a pandemic like we're doing right now.

So, that's the tradeoff we see. And we have an obligation to make sure that the IRS is funded in a way that it can do its job and do its job on behalf of that broad set of Americans that rely on this agency to make sure resources get distributed in a fair fashion.

So, Mr. Chairman, thank you for this hearing. It, I think, emphasizes once again why we as a committee, why Congress needs to work hard to get the resources to this agency, but also why we need leadership from the top—and I'm not talking about Commissioner Rettig right now; I'm talking about the President of the

United States—who understands the valuable service that the IRS can provide.

And, with that, I yield back.

Mr. CONNOLLY. I thank the gentleman.

Mr. Grothman, the gentleman from Wisconsin, is now recognized for his five minutes.

Mr. Grothman, I see you.

Mr. GROTHMAN. Yep. There we are.

Mr. CONNOLLY. I hear you now.

Mr. GROTHMAN. Can you hear me? OK. Good.

Mr. CONNOLLY. We can hear you.

Mr. GROTHMAN. OK. First of all, I thank—I'd like to thank Mr. Rettig for being here. I think his agency is professional, and I think any implication that they are intentionally avoiding segments of the population, as it so frequently is, is misplaced and is insulting.

That being as it's said, it's not a perfect agency. So, we have some questions for you.

In Wisconsin, we had a lot of people who couldn't get their tax refunds, and at least we were informed part of the problem was that they had shut down the Fresno office. Now, that's unrelated as far as I can see to the quality of IT. It's, you know, just as deficient to apparently have a lot of tax returns sitting there unopened, and, as the result, people waiting, you know, months for their tax refunds. Maybe some still don't have it.

I'm wondering if you could comment on the decision to shut down the Fresno center, and what was or is being done to make sure that people were getting their tax refunds? After all, here we have money that people here have already worked for and are waiting to have it come. And is it your belief that right now, all or almost all of the refunds that will end up in the Fresno center are paid off?

Mr. RETTIG. Well, the Fresno service center is scheduled for a closing. We've closed two other centers, and I think there is two others beyond that. That's actually part of a consolidation that's going on for the Internal Revenue Service for years as paper filings were reduced and electronic filings increased.

And our current statistic on electronic filings is almost 92 percent. So, it used to be 92 percent, let's say, in paper filings, and so we had campuses around the country, some dedicated to individual returns, some dedicated to business returns.

So, the concept that Fresno would be in the process of closing—and it's about a year project from now—and we are working, you should know, very hard to get placement of our employees elsewhere within the Internal Revenue Service, and we are also working with the—

Mr. GROTHMAN. I don't mean to cut you off.

Mr. RETTIG [continuing]. Private sector doing career days to—

Mr. GROTHMAN. Yes.

Mr. RETTIG [continuing]. Place our folks on the outside. We are one family.—

Mr. GROTHMAN. I don't mean to—I don't mean to cut you off. I don't—

Mr. RETTIG. In terms of the—

Mr. GROTHMAN. Can you hear me?

Mr. RETTIG. I'm sorry. Yes.

Mr. GROTHMAN. Yes. I don't think you get the gist of the question. The problem is we are told that returns were sent to the Fresno office. And, whether it was your decision or the Governor of California, I don't know, but, after returns were sent to the Fresno office, they were never opened and sat there.

It's not a matter of the long-term decision to shut down the Fresno office. I was told that the Fresno office was, as a practical matter, not working at all due to the coronavirus, and, therefore, people who sent tax returns there were not getting their refunds, and they just remained there unopened.

Is that accurate? And, if so, is the office now up and running, or what has become of the refunds for people whose paper returns were sent to Fresno?

Mr. RETTIG. So, it was my decision to close almost 90 percent of our 511 facilities around the country based on health and safety concerns for our employees. We did it procedurally with respect to local guidance, although we were exempt from guidance. But during March, April, May, our physical facilities were shut down. So, mail did create a backlog during that period of time.

We have been working on that backlog, and I indicated earlier a belief that we're within a couple of million paper returns inside of a backlog, which is also why we would stress for people who have yet to file a return to file that return electronically because we are able to process it.

We did—as we opened versus campuses around the country, we did shift physical mail from one campus to another when the—it was more of an ability to open based on health and safety in certain environments compared to others. So, we were moving physical mail around the country to where we had the customer service representatives and others to process the mail.

Similarly, we did the same thing electronically, but electronically, we could actually do it within 30 minutes, shift entirely from one campus to another. Physical mail—

Mr. GROTHMAN. Yes. I just want to—

Mr. RETTIG [continuing]. Requires trucks.—

Mr. GROTHMAN. Yes. I don't mean to cut you off.

Mr. RETTIG. Right.

Mr. GROTHMAN. Have all of the returns, say, filed by April 15 that went to Fresno, because, if you're in Wisconsin, I think, you know, you are supposed to mail to Fresno. Have they been processed all, as far as you know?

Mr. RETTIG. I will get back to you with specifics, but my understanding is we're already into July. So, if somebody filed a—

Mr. GROTHMAN. OK.

Mr. RETTIG [continuing]. Paper return in March or April—

Mr. GROTHMAN. I'll give you one more question because I'm running out of time.

A lot has been said about people not being able to get these \$1,200 checks. As I understand it, they were not supposed to go to people who were here illegally. Are you doing anything to make sure that those refunds are not going to people who are here illegally?

Mr. RETTIG. We have a series of filters and checks and markers that go into our system, which are based on the information that we have. We don't have complete information, as you can imagine, to every person, whether they're domestic or foreign. But, based on the information we have, our systems are in line with the information that we have as to who should or shouldn't get payments.

Mr. CONNOLLY. The gentleman's time has expired. I thank the gentleman.

Mr. GROTHMAN. Thank you.

Mr. CONNOLLY. The Congresswoman from the United States Virgin Islands, Ms. Plaskett, is recognized for her five minutes.

Ms. PLASKETT. Thank you very much for the time, Mr. Chair, and thank you to the witnesses for being here.

Mr. Rettig, just before I go into my line of questioning, I don't want to leave that hanging out there as if there is a perception on the part of IRS that you have given checks to illegal aliens, as they are being called.

There is no reason to believe that the IRS are giving checks to individuals who have not filed income taxes and are therefore permanent residents and should be here lawfully. Is that correct?

Mr. RETTIG. To my knowledge, we've followed the law as the law is written.

Ms. PLASKETT. OK.

Mr. RETTIG. That's correct.

Ms. PLASKETT. Thank you. Thank you. Thank you for that. Let's not begin thinking that these stimulus checks are being given out willy nilly and are not serving the purpose for which Congress intended them, that being to assist Americans and those who are qualified to receive them from receiving them.

I wanted to ask you some questions with regard to how this funding is being—the COVID pandemic is panning out and your tremendous support to the people of the territories and to the Virgin Islands.

In September, I wrote a letter to you, Mr. Rettig, Commissioner, and to Secretary Mnuchin requesting temporary waiver of requirement that bona fide residents of the Virgin Islands be hospitalized in order to maintain physical presence in the territory, for tax purposes, on days that are spent on the mainland for medical reasons.

As you know, due to our tax structure and for some individuals who utilize our economic development program and receive tax benefits for being in the Virgin Islands, they have a certain number of days that they have to reside in the territory. However, due to COVID pandemic, many of those are still on the mainland or have medical purposes.

Do you have a response, or do you have any status request—status to give me on the update of my request to you?

Mr. RETTIG. It's my understanding that Treasury is responding and that that response will be coming. You know, I'd hate to use the term "soon," but my understanding is soon, and let me say that, if it is—we have followed up, we will followup, and, if soon is not in the space of less than 10 days, you'll hear from me or somebody on my behalf giving you a better timeline, but it's—Treasury is handling the response to you.

Ms. PLASKETT. OK. Thank you. And, you know, in Washington, you hate to hear the word "soon."

Mr. RETTIG. Yes, I know.

Ms. PLASKETT. But, you know, that's the kind of word that—
Mr. RETTIG. Right. I know.

Ms. PLASKETT [continuing]. I give my kids when I say maybe you can go somewhere. It usually means no.

Mr. RETTIG. You'll note my apprehension to it, I'm sure.

Ms. PLASKETT. Thank you.

I also wanted to find out, you know, we had a terrible situation. IRS—you and Treasury were so good to support us in terms of when our Governors gave you the number of individuals that were going to be receiving stimulus checks. Rather than seeking reimbursement for the money under the Mirror Code, you gave money upfront, and that has been really helpful to us based on those numbers.

However, you may be aware that there was a snafu that occurred in that primarily those individuals who received Social Security checks were given two checks, one from Puerto Rico, in form of a direct deposit, and the Virgin Islands.

Many of these are elderly people. Some of them rely solely on Social Security. And they're really concerned because they have been told to write a check to the government of the Virgin Islands for the money that may have come from Puerto Rico, and the government of the Virgin Islands will then send that money to Puerto Rico for the double payments. The people are concerned that Puerto Rico will still, in turn, come after them, that that money hasn't been sent.

Are you aware of this issue, and is there any clarification on what the correct procedure is for those individuals who receive those checks to take care of that?

Mr. RETTIG. Specific as to the Virgin Islands, that came to my attention this week, and I also am understanding of a situation where essentially there is a concern that a person might issue a check but also have the same amount removed from their account—

Ms. PLASKETT. Yes.

Mr. RETTIG [continuing]. In which case they essentially received zero.

Our intention is that every eligible American receive their payment and receive their payment in the correct amount. So, I will actually personally look into that deeper, and, as far as the advice, we do have advice for people who have received duplicate checks. And some of those issues are because we received information from multiple sources.

Ms. PLASKETT. Multiple sources, uh-huh.

Mr. RETTIG. We are trying to do it as rapidly as possible. We did it to the best of our ability, but obviously there were situations where things happened, you know, because of certain programs who couldn't work together maybe and things like that.

But, as far as that, there is a payment provision on our site where people can send checks. As far as sending them to the Puerto Rico—the Virgin Islands folks sending it to Puerto Rico, I need

to look into that because I'm not sure if—personally of that connection. We do have people there.

But our intention, desire, and support is as strong for the people in the territories around the world as it is for people in downtown Washington, DC, New York, or wherever. We understand the need and purpose of these payments, and we are trying our best.

You will hear back from me, and—

Ms. PLASKETT. Thank you.

Mr. RETTIG [continuing]. If not, I encourage you to again reach out to me. Something you sent or forwarded yesterday did get on my desk, so—

Mr. CONNOLLY. OK.

Mr. RETTIG [continuing]. You have the right channel.

Mr. CONNOLLY. The gentlelady's time has expired.

Ms. PLASKETT. OK. Thank you very much, Mr. Chair.

Mr. CONNOLLY. We'll take you at your word that you will get back to the gentlelady in terms of that inquiry. I thank the gentlelady.

The gentleman from Alabama, Mr. Palmer, is recognized for five minutes.

Mr. PALMER. Mr. Rettig, we had a hearing before the Oversight Committee—I don't know—a few years ago, and I asked then Commissioner Koskinen about a problem that Chairman Connolly brought up, and that is the tax gap. And his—I asked him why it is that we're failing to collect about \$450 billion a year, and his response was the complexity of the Tax Code.

I know our whole focus has been on the IT issue, and certainly that's a major issue, but isn't that part of the problem?

Mr. RETTIG. Complexity is always a problem. The tax gap is sort of multifaceted. It runs from guidance to a strong visible enforcement presence. It runs to information reporting, information reporting with withholding. It runs to the ability to—for the IRS to require electronic filing of returns, which are obviously quicker for us to process, and paper returns, a lot of issues with respect to tiered partnerships.

We have ramped up over the course of the last year our Office of Fraud Enforcement, which is extremely visible. We ramped—

Mr. PALMER [continuing]. Just to—

Mr. RETTIG [continuing]. Up an office of promoter investigations with respect to individuals who participate in certain abusive transactions.

Mr. PALMER. Mr. Rettig?

Mr. RETTIG [continuing]. So, trying to maintain a visible presence on that side—

Mr. PALMER. Mr. Rettig?

Mr. RETTIG. Our criminal investigation force has been—

Mr. PALMER. Mr. Rettig, I'm—

Mr. RETTIG [continuing]. Extremely visible.

Mr. PALMER. Mr. Chairman, I need to move on.

Mr. RETTIG. Sorry.

Mr. PALMER. I would like for you to respond to that in writing if you don't mind because I do think that's an issue.

There is another issue that I would like to discuss, and it's something that I think the chairman has been supportive of, and that's

our work on dealing with improper payments, and a lot of that has to do with technology issues in other agencies, including the IRS.

One of the suggestions that I've made and we're trying to get into a legislative format to introduce is to allow agencies, as they reduce their improper payments, to take part of the funds that they save for use to modernize their IT systems.

Is that something, Mr. Rettig, that you think would be helpful to the IRS?

Mr. RETTIG. The IRS is all in on issues that lead to funding for the Internal Revenue Service, assuming they're approved by Congress and appropriately appropriated.

Mr. PALMER. Well, then, my next question would be: With the realization that you've got these major IT issues, does the IRS have a modernization plan that has clearly defined objectives, an achievable schedule, because there are issues that have been raised about the achievability of a schedule, and a realistic budget for replacing the IT systems?

Because I've heard that some of these legacy systems still operate on the old COBOL system. Is that true? And do you have clearly defined objectives for modernizing your IT systems?

Mr. RETTIG. We do. We don't have hardware that goes back to the 1960's, but we do have language that goes back to the 1960's. And we have a modernization plan that was launched April 2019. We also have modernization coming forth under the Taxpayer First Act. Both of those are running together but independent so that there is not overlap between those.

And we'd be pleased to have our folks come up and do a briefing for you or for your staff, however it is appropriate, to show you exactly where we are and where we're headed.

Mr. PALMER. Well, I want to get back to the funding for this. So, I would propose that Congress amend the Payment Integrity Information Act to allow agencies to direct a portion of recovered improper payments into a fund for modernizing their IT systems. And this is not just an IRS problem, as I said earlier. It is throughout the Federal Government. And it includes some of the states as well.

So, I would like to, Mr. Chairman, work with the committee if we can in the time that's left in this Congress on an initiative like that.

In the last few seconds that I have left, I'm going to go off topic here, but I do want to congratulate the Department of Justice, the FBI, and our intelligence services in the arrest today of Alexander Kotey and Elsheikh. These are the alleged kidnappers of James Foley, Peter Kassig, Steven Sotloff, and Kayla Mueller. They are alleged to have kidnapped, tortured, and murdered these people. And, while we have been in this hearing, it was announced that they've been arrested.

I hope this brings some peace and closure for those families who have been involved in that.

And, with that, Mr. Chairman, I yield back.

Mr. CONNOLLY. I thank my friend from Alabama, and I welcome his comments on the need to systematically develop a plan for modernizing the IRS and bringing it into 21st century technology, and

I pledge to work with my good friend on developing such plans here on the subcommittee.

Mr. PALMER. I know you mean that, and I thank the chairman.
Mr. CONNOLLY. I thank my friend.

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

Mr. RASKIN. Thank you, Mr. Chairman.

Mr. Rettig, greetings. Last week, I sent you a bipartisan letter from more than a hundred different Members asking you to ensure that victims of domestic violence, rather than their abusers, get their stimulus checks. As you know, domestic violence has soared during the pandemic. But the IRS response has often been to tell abused spouses to get their money through a divorce settlement, which is callous and irresponsible.

Will you establish a process for domestic abuse survivors to notify the IRS that their payment has been stolen away by their abuser, and will you issue catchup payments to those who have had their payments stolen?

Mr. RETTIG. As tax administrator, we do not have the discretion to issue payments other than as provided in the CARES Act. The CARES Act requires the IRS to use tax return information to the extent we have it.

So, in a situation involving a domestic violence, if a joint return was filed, the IRS is required to issue, in that context, \$2,400 plus \$500 for if there're dependents to the joint filers. And, if there is banking information, it's required to be deposited into that account.

The CARES Act does not provide the Internal Revenue Service with discretion to add an additional, say, in this context, \$1,200 to the victim of domestic violence.

Mr. RASKIN. Excuse me, Mr. Rettig. Didn't the IRS chief counsel conclude—

Mr. RETTIG. We, as people, are very sympathetic.

Mr. RASKIN. Excuse me. Didn't the IRS chief counsel conclude in 2009 that, if a stimulus payment is stolen or not received, the IRS can issue a replacement payment? Why wouldn't that apply in this circumstance?

Mr. RETTIG. That's completely unrelated. If you'd like to get into specifics, we can do it, but there were a lot—some people are relying on the wrong issue there.

When we make a payment into a joint account the way that the statute requires us to make that payment, it goes into that joint account.

Mr. RASKIN. OK.

Mr. RETTIG. What happens to it once that payment gets there—

Mr. RASKIN. I'll followup with you later. Thank you. I'm just running out of time.

Mr. RETTIG. We can work with you specifically.

Mr. RASKIN. But I wrote to Senator—I wrote to Secretary Mnuchin on September 9 expressing concern about the President's plan to require Federal employees to accept a payroll tax deferral. This move is a political ploy to make it seem as if Federal employees are earning more money than they're actually earning, only to

reach the end of the deferral period next year, when suddenly they'll have a significant back tax payment.

During a recent Senate hearing, I was encouraged to hear Secretary Mnuchin agree with my Senator, Chris Van Hollen, that it would be reasonable to give Federal employees a choice in this matter.

Mr. Rettig, do you agree with Secretary Mnuchin, and will the Federal Government indeed allow employees to opt out of this tax deferral? If not, why not?

Mr. RETTIG. The Internal Revenue Service is a bureau of the Department of Treasury, and Secretary—I report to Secretary Mnuchin, so the way that he indicates for us to go on policy and other issues is the way that the Internal Revenue Service will go.

Mr. RASKIN. All right. My constituents have been calling to voice opposition to this plan. Federal employee groups are up in arms about it, and we should not be using Federal workers as pawns.

Ms. Collins, I'd like to turn to you. In April, you told me that your office could not help the public with certain EIP payment issues. You updated that guidance in August and announced you could help with some, but identified four categories where the office couldn't help. This includes if the EIP was determined based on the wrong tax year. Your response has been that those taxpayers will have to wait till sometime in 2021 to receive the money they're owed. That is baffling to me for funds that were intended to provide immediate relief in an emergency.

Ms. Collins, why isn't your office advocating for people in that position?

Ms. COLLINS. We are advocating for those people, but the challenge we have is, at the time the payments were issued, the IRS relied on the CARES Act, which said that they had an option to rely on the 2018 return if the 1919 return wasn't filed.

So, the challenge these taxpayers have is the amount when it was issued was correct based on 1918, but the 1919 return—for example, someone had a child, so now they have a qualifying child. They're entitled to another \$500.

That would have to be manually processed by someone within the IRS. That's our challenge, is that the IRS does not have enough staff to potentially do 3 million individual entries for those individuals.

So, we are continuing to advocate for those people, but I do understand the problems that the IRS has in working these cases. It's not something that they can automate.

Mr. RASKIN. OK.

Ms. COLLINS. They would have to go through—

Mr. RASKIN. Well—

Ms. COLLINS [continuing]. Potentially 160 million returns to see what changed between the two years.

Mr. RASKIN. Mr. Rettig, let me ask you, then. When will the IRS set up necessary procedures and processes to allow Ms. Collins to assist all taxpayers who have not yet received their EIP funds?

Mr. CONNOLLY. The gentleman's time has expired, but the—Mr. Rettig may respond.

Mr. RETTIG. We currently have 11,300 customer service representatives available on phone. Obviously, we get more calls than

that, so we don't—we aren't—we don't have the ability and the staffing to answer all the calls, but we are doing our best. And I can vouch for the fact that the taxpayer advocate has advocated for the issues presented.

The Internal Revenue Service is in the scenario of needing to prioritize quite a few issues that, when looked at individually, clearly come across as an extreme high priority, and then, when you look at it and you look at the volume of individuals in this country and provisions in the CARES Act, we have to prioritize those based on our resource availability.

We are doing our best, but we—certainly the CARES Act itself provided for a true-up of amounts based on a 2020 filing, and that's where the language comes to, to filing the return in 2020.

And, on the comments about extending the portal date to November 21 from October 15, I would hope that folks would take to heart the fact of our announcement on that called into the fact that any further extension of that would jeopardize our ability to handle the 2021 filing season. We are really trying to be cognizant of many, many issues.

So, I thank you for the additional time, sir.

Mr. CONNOLLY. Thank you.

The gentleman from Florida, Mr. Steube, is recognized for five minutes.

Mr. STEUBE. Thank you, Mr. Chairman.

My questions are for Mr. Rettig.

First, I want to thank you for your service to our country and for being here today, and also for your son's service to our Nation in the armed services.

It's been reported in the media and GAO has provided information that the IRS sent more than 1.4 billion in payments to deceased or incarcerated individuals. I got a lot of people in my district who received checks whose family members were deceased, and a lot of people want to know how this could possibly happen.

So, that would be my first question, is, how did that amount of money go to people who are deceased?

Mr. RETTIG. If you look at the stimulus payments that went out in 2008, you'll see that the process for payments to deceased individuals, and then Treasury looked at the specific issues on dece-dents about the third week in May and determined that deceased individuals were not eligible to receive payments, and so, from the third week of May forward, those payments did not occur. But those were calls made outside of the Internal Revenue Service.

Mr. STEUBE. Well, is there efforts being—

Mr. RETTIG. The vast majority of those funds have been sent back or payments not sent out, actually.

Mr. STEUBE. OK. So, that was my followup question, was how much of that, and what are you guys doing to recoup those funds?

Mr. RETTIG. I have the statistics. It would take me a moment to get to it, but I believe something on the order of one—and I'll get specifics. This is off the top of my head, but I think that something on the order of the 1.1 billion of the 1.4 billion or 800 million of the 1.1 billion, something along those orders have been either re-turned or not sent out. And so the net figure, I believe, is approxi-mately 300 million.

Mr. STEUBE. OK. Yes. If you can get me those exact numbers, I'd appreciate it, at your convenience.

What other changes has the IRS made to prevent improper payments of existing funds or if there is future stimulus payments? Is there parameters in place to prevent that from going out?

Mr. RETTIG. Well, certainly there's lessons learned anytime an agency undertakes a massive responsibility like we did through the CARES Act and the issuance of these payments. And keep in mind there were business provisions incorporated within the CARES Act as well that—and our folks were there.

So, we constantly monitor for lessons learned in terms of our ability. And if there was to be another round—I know there has been discussions, but, if there was to be another round, we are confident that we are able to do so, and it shouldn't go unnoticed that we issued about 81 million payments for \$147 billion within less than two weeks when the CARES Act was enacted, and that required substantial programming by us, so we are as prepared as we can be, but we are better prepared than we were the last time, and I think we did admirably the last time.

Mr. STEUBE. What—in your expertise and in your position, what specific legislative reforms do you think that Congress and this committee should be looking at?

Mr. RETTIG. Well, since 2011, every administration has proposed the program integrity cap, which is funds directed to enforcement. There is a pending—this year, it's about \$400 million for enforcement. And the last program integrity cap actually approved by Congress was in 2010. I think that's significant.

In a lot of the areas—you know, in terms of like EITC payments, giving the Internal Revenue Service—and this is congressional—correctable error authority would be substantial, would lessen the burdens on individuals. Giving the Internal Revenue Service the ability to regulate return preparers would be substantial. Enhancing the requirements for electronic filing of forms would be substantial. Accelerating the electronic filing of W-2 forms to the Internal Revenue Service would be substantial.

There is a lot of issues that would come together to assist us both from a guidance perspective as well as an enforcement perspective, and, in my mind, those two go hand-in-hand. The person who is up late at night trying their best needs to understand what it is their requirements are, which is why we've gone wholesale into assisting people who either are not comfortable in the English language or do not speak English.

We've also tried to simplify the languages. We've got Q codes on things that lead them directly to points on our website and such. But, similarly, we've got to go out on the enforcement side and maintain a visible presence.

Mr. STEUBE. Yes, and I agree with that. And, if there is—if you can send those specifics that you just referenced, if you have more specifics and information on that, to my office, I would love to look at those issues.

Thank you for your time today, and my time has expired. Thanks for being here.

Mr. CONNOLLY. Thank the gentleman.

The gentleman from California, Mr. Khanna, is recognized for his five minutes.

Mr. KHANNA. Thank you, Mr. Chairman.

The IRS is responsible for collecting about \$3.5 trillion in revenue. One of the things that I kept hearing from my constituents is, why are people not getting the checks in time? Why is it taking so much time for the IRS to deliver stimulus checks or to process the payments or collections?

It turns out that the IRS is still reliant on legacy systems, some dating back all the way from the Kennedy administration. And, you know, in Silicon Valley, they just don't understand this. How is it that we haven't had software updates since then?

So, as you know, in 2019, the IRS paid almost \$3 billion to operate its current information technology, and yet 2.3 billion of that was on legacy IT systems.

Mr. D'Souza, could you describe the impact that the legacy IT systems have on the IRS' ability to deliver services to its taxpayers and fulfill its overall mission?

Mr. D'Souza. Sure. Thank you. I'd be glad to.

So, I do want to make sure folks know that, although the systems rely on older technology, the underlying hardware, much of it has been updated. But what the limitations are of using these older technologies is—one most notably, it's hard to find staff that know these skills. Programmers today aren't coming out of school learning how to program in languages that are 50 years old.

Second, it makes it harder for IRS to implement more online services because, to the extent it can use contemporary technologies, it's easier for it to implement those.

Relating to your point about the time it takes to do things, you know, one of the biggest things that makes it easier for the IRS to do things more quickly is for people to do things electronically versus on paper. So, we have issued—where—for example, where we've identified recommendations for IRS to look at implementing more online services, and those kinds of things will help speed things along.

Mr. KHANNA. And why did it take so long for the economic impact payments, the stimulus payments, to go out, and how is that connected to the IT systems?

Mr. D'Souza. So, the vast majority of the payments did go out, I think, fairly quickly. I think—you know, I think any of the issues that we've talked about related to the payments had more to do with sort of policy and procedural issues versus the underlying technology actually.

I think the one outstanding issue is sort of identifying the remaining people who haven't been able to claim their payments and getting them access to the online portal that we talked about.

Mr. KHANNA. How have the technology systems limited the ability to operate during the pandemic, and what are one or two main things you would recommend needs to be changed?

Mr. D'Souza. Well, a lot of IRS' operations—sorry. Let me back up a second.

Many of IRS' employees do have the ability to work remotely already, but some of them didn't. So, for example, those in customer service positions, those obviously opening mail, you can't do that

work remotely. To the extent that we can change work processes to allow more of those IRS folks to do work remotely, I think that would have longer term benefits beyond the pandemic.

So, that's a primary area for them to focus on.

Mr. KHANNA. Mr. Rettig, two questions for you.

First, the CIO of the IRS does not report to you directly. Is that correct?

Mr. RETTIG. Not—the CIO does not report directly, but I talk to the CIO at least once a week, and many times seven days a week.

Mr. KHANNA. That—

Mr. RETTIG. But that's a provision that is in the Taxpayer First Act, and the IRS is being reorganized going forward. So, I think you'll see that addressed.

Mr. KHANNA. That's good.

And what do you think we need to do to modernize the IRS and to help deal with these legacy IT systems, and what is the plan to do that?

Mr. RETTIG. We actually have a plan independent of the Taxpayer First Act, and I think, given the interest—I'm very familiar—you know, I'm from California—very familiar with the valley, and I have three brothers-in-law who are in IT in the valley. So, I'm understanding of, you know, where IT is, let's say, in the valley compared to where IT might be in terms of the Internal Revenue Service, and I have—had visits up there.

The Internal Revenue Service needs to come of age, and it needs to come of age to be able to serve the people of this country in a manner that the people of this country deserve to be served. I think that, you know, universally, we all support that. And, you know, we want the best for our people. We don't want a tax administrator that is behind the times, and so we have to earn that trust and respect through providing that information to them.

I would welcome the opportunity for myself and others to meet with you or your staff to give you the details of two separate plans. They're independent. There is no overlap, but because tax—one came on the scene first, but we are looking at them somewhat jointly.

But we have a modernization business plan that was launched April 2019. We have yet to receive the funding requested on an annual basis, but it's a six-year plan for that.

And then the Taxpayer First Act has modernization in it as well, but I think, as you're all familiar with, there are no funding appropriations associated with the Taxpayer First Act.

We need both of those.

Mr. CONNOLLY. I thank the gentleman. I thank the gentleman.

Mr. Pascrell, the gentleman from New Jersey, is recognized for five minutes. Welcome.

Mr. Pascrell, you need to unmute yourself.

Mr. PASCRELL. Are we OK now?

Mr. CONNOLLY. There you go.

Mr. PASCRELL. Thank you.

I want to thank you for this opportunity. As chair of the Oversight Subcommittee of Ways and Means Committee, I am very interested in the IRS' operations.

This pandemic and economic crisis has been brutally hard on a lot of our communities and constituents. We've heard some very, very good questions from both sides of the aisle today. There's still neighbors in our cities and towns without economic impact payments or the IRS refunds that could help make ends meet.

So, I'm pleased the Commissioner is here to answer questions.

It must be said that he's utterly ignored the Ways and Means Committee in the 116th Congress.

Mr. Commissioner, how can a Congress and the American people be assured that the audits of the President's tax returns are being conducted in a fair and scrupulous way and without political interference? How can we be assured of that?

Mr. RETTIG. Sir, as you know, I cannot speak to specific matters as to any taxpayer as to whether or not issues prospective to a return, to an examination of a return, to what might be in the return, to what might be in the examination—earlier, there was a reference with respect to a criminal investigation of an organization. That reference did not come from the Internal Revenue Service and the information in any way associated with that did not come from the Internal Revenue Service. I cannot confirm or deny that information.

Every taxpayer in this country is assured a confidentiality and privacy with respect to their tax matters.

Mr. PASCRELL. I don't want you to—I don't want to—

Mr. RETTIG. So, as you know sir, I cannot—6103 and otherwise—I cannot speak to that.

Mr. PASCRELL. I don't want to get into a debate about privacy. That was part of 6103 in the Code. I understand that. Privacy is very critical to me. My record is my record.

But the point of the matter is it would seem that we've put that aside when, under the investigation of Commissioner Lerner—I believe it was 10 taxpayers who belonged to certain organizations were made public without any apology because they found nothing wrong. So, that answer is unacceptable.

The recent revelations of the President's lifetime of tax abuse and malfeasance threatens public confidence in the IRS. I'm talking about the very legitimacy of our Federal tax system. I'm not sure you understand or appreciate that, sir.

To begin to restore this trust, you must fulfill the Ways and Means Committee's legally binding request for the President's tax returns—his business and personal tax returns under 6103(f).

You have been illegally withholding them for the last 500—and today, 407 days—547 days. Will you lawfully fulfill Chairman Neal's request?

Mr. RETTIG. Sir, as you know, that issue is pending litigation, and it's not appropriate for me to discuss pending litigation, and we have made—the committee is aware of that.

Mr. PASCRELL. Mr. Rettig, you admitted in a recent report that the IRS audits low-income taxpayers disproportionately over wealthy tax cheats because it's easy to pick on regular Americans.

This is, in part, a funding issue. But this is also a leadership issue. Do you have an immediate plan to end this shameful disparity? I call it shameful. How on Earth can any American—

Mr. RETTIG [continuing]. That report is absolutely false. Let me repeat it for people who didn't hear it the first time—absolutely false. For taxpayers who have more than \$10 million in total positive income per year, we audit at the rate of 8.16 percent. For the EITC community, we audit at the rate of 1.129 percent. Those facts are in our data book that was issued for Fiscal Year 2019.

Mr. PASCRELL. Well, this is—

Mr. RETTIG. So, the earned income rate is 1.1 percent. Taxpayers over \$10 million, it is—

Mr. PASCRELL. Mr. Chairman—

Mr. RETTIG [continuing]. Eight-point-sixteen percent, and taxpayers over \$5 million—

Mr. PASCRELL [continuing]. This is exactly why we wanted you to come before the Ways and Means Committee.

Mr. RETTIG [continuing]. About four-point-something percent and taxpayers between \$1 and \$5 million, it's something on the order of about three percent.

So, those numbers are disparate. The issue with respect to the earned income tax is there is a \$17 billion improper payment associated with that per year that the IRS does all it can do to get those payments out to the individuals as rapidly as possible. 98 percent of the EITC payments are issued within 21 days. Two percent get pulled for issues with respect to the fraud filters and ID theft and other issues that require a manual look by a person, and we process those in a priority fashion.

So, anybody who is going to be assert that the Internal Revenue Service is in any way insensitive to any lower income, ethnic community, geographically diverse community, rural community, is absolutely wrong, and that should never come up. Those comments taint the hardworking, dedicated, career employees of the Internal Revenue Service who create our audit plans, and that is not what the Internal Revenue Service is about.

And I take obviously extreme discomfort in anybody asserting the contrary—

Mr. PASCRELL. Well—

Mr. RETTIG [continuing]. And we would meet with any and every of you to go through that in detail to back it up.

Mr. CONNOLLY. The gentleman's time has expired.

Mr. PASCRELL. Mr. Chairman, thank you for allowing me—

Mr. CONNOLLY. Let me say, on behalf of Mr. Pascrell, I think the question was not to disparage the IRS; it was to ascertain whether reports about a discrepancy between the percentage of audits of people receiving the EITC was on par with the percentage of audits of people making more than or reporting more than \$10 million of disposable income. You have vigorously denied that report.

Mr. RETTIG. I respect Congressman Pascrell. There is chatter outside of our buildings that implicate what I'm there for or implicate where I went with respect to that, and it's unacceptable to the IRS—

Mr. CONNOLLY. I understand that, but it's not unacceptable for a distinguished Member of Congress on the Ways and Means Committee waived onto this subcommittee to ask that question.

Mr. PASCRELL. Thank you.

Mr. RETTIG. No, sir, and I agree. And I said I respect Congressman Pascrell considerably, and I appreciate his question.

Mr. CONNOLLY. Well, good. Then we are in agreement on that. We both respect Mr. Pascrell.

Thank you, Mr. Pascrell, for joining us.

The chair now recognizes the gentlewoman from California, Ms. Porter, for her five minutes.

Ms. PORTER. Commissioner Rettig, we are going to start with a couple yes-or-no questions just [inaudible] this go smoothly.

You have a responsibility to remain impartial and unbiased in your role as IRS Commissioner, correct?

Mr. RETTIG. Correct.

Ms. PORTER. And, as IRS Commissioner, do you believe that it's important to hold criminals accountable for tax fraud, evasion, or other violations of the Tax Code?

Mr. RETTIG. If this is—the Internal Revenue Service has a very aggressive—

Ms. PORTER. Reclaiming my time. Mr. Rettig, let me make sure you can hear me because I don't think you want to waffle on this part.

Mr. RETTIG. I am having difficulty hearing you, ma'am.

Ms. PORTER. OK. As IRS Commissioner, do you believe it is important to hold criminals accountable for tax fraud, evasion, and other violations of the Tax Code?

Mr. RETTIG. The enforcement efforts—

Ms. PORTER. Yes or no?

Mr. RETTIG. The enforcement efforts of the Internal Revenue Service are there to pursue those who do not comply with the tax laws.

Ms. PORTER. Reclaiming my time.

Commissioner Rettig, I'm not trying to be difficult here. Do you believe in holding criminals accountable? Yes or no?

Mr. RETTIG. That's what criminal investigation in the Internal Revenue Service does.

Ms. Porter. All right. And holding those criminals accountable—

Mr. RETTIG. Actually, we investigate—they investigate. We do not prosecute.

Ms. PORTER. And holding those criminals accountable through investigation stems from your sworn commitment to upholding the Constitution, correct?

Mr. RETTIG. That's correct.

Ms. PORTER. I ask that because, in addition to the salary you receive as an IRS Commissioner, you also earn between \$100,000 and \$200,000 per year from your ownership of two units at Trump International-Waikiki. You have continued to earn this additional income while in office, correct? Yes or no?

Mr. RETTIG. Correct. And all of that was approved before I came on board, and each year—

Ms. Porter. Great. Reclaiming my time.

Mr. Rettig—and that was approved

Mr. RETTIG [continuing]. By the ethics officials in the Internal Revenue Service and other agencies, ma'am.

Ms. PORTER. Mr. Rettig, did you disclose that information to the Senate Finance Committee when you were nominated for the position?

Mr. RETTIG. Absolutely. And anybody who asserts in any way, shape, or form that there was a concealment is absolutely wrong. During my confirmation process, the Senate committee received over 80 pages of invoices that specifically identified that property.

The instructions for that property specifically say to put the city and state where all properties are located. That is exactly what transpired with respect to those properties and other properties that I own, and anybody who asserts to the contrary—

Ms. PORTER. Reclaiming my time.

Mr. RETTIG [continuing]. Really does not know what they're talking about or the process.

Ms. PORTER. OK. Commissioner Rettig, there is no need to get upset or to disparage me—

Mr. RETTIG. Ma'am, I've been dealing with that since I came on board, and I do not take lightly anybody—

Ms. PORTER. Reclaiming my time.

Mr. RETTIG [continuing]. Trying to disparage my reputation or my family's reputation.

Ms. PORTER. Reclaiming my time.

Commissioner Rettig, I do not take lightly people attacking the members of this committee who are simply trying to get—

Mr. RETTIG. I do not intend to attack you. And, if so—if it seemed that way—

Ms. PORTER. Reclaiming my time.

Mr. RETTIG [continuing]. I apologize to you and others.

Ms. PORTER. Mr. Chair, would you please remind the witness the time belongs to the gentlelady.

Mr. CONNOLLY. The gentlelady commands and controls the time.

Ms. PORTER. Mr. Chairman—

Mr. CONNOLLY. Ms. Porter?

Ms. PORTER [continuing]. The time belongs to me.

Mr. Rettig, since you're getting upset about that line of questioning, I'd like to try another one.

How many economic impact payments—how many people are still waiting on their economic impact payments?

Mr. RETTIG. First, let me apologize to you. If you took that as an attack, ma'am, I have to indicate that that issue has been out there, and, if it came across as hostile or aggressive toward you, I do apologize. That is not who I am, and I certainly would not imply that to you or other members of the committee. So, I would hope that you would accept my apology with respect to that.

With respect to individuals and payments that we are struggling to issue, it's very difficult for us to identify people who do not interact with the government, with the Internal Revenue Service, with the homeless shelters, and whatnot. We don't have a figure for you. I have been asked earlier today to provide a figure.

Ms. PORTER. OK. Mr. Rettig—

Mr. RETTIG. I can tell you we're currently—

Ms. PORTER [continuing]. Let me—let me reclaim my time here. It's about 9 million, and, since you said that some of these people haven't reached out to the government, I just want to share our ex-

perience in our office where we have had 114 people reach out—114 constituents in my district alone, and we have worked tirelessly, our casework team, to get answers for those people for months and months and months.

At this point, we have answers for 13 of them. That is, as you know, 11 percent. So, these other people, we have no information. Fifty cases of these 114, we have not been able to get any response at all from the IRS.

So, I would respectfully ask you to please communicate with your team about responding in a timely way to congressional inquiries because, for every American who is reaching out to our office and is asking for help, one, we're not able to get them help because the IRS doesn't respond to us in almost half the cases, and, two, for every American who does reach out to us, there are literally hundreds of thousands of more who are just waiting and don't have that information.

So, I would really appreciate your going back to your team and getting the committee a clear answer of the estimated number of people who have not received economic impact payments who are waiting and how many outstanding and unresponded-to congressional inquiries you have on both sides of the aisle.

Thank you very much.
With that, I yield back.

Mr. CONNOLLY. Thank you. And let me just say to Ms. Porter, before she joined the hearing, I made the same point that there are a number of constituents in all of our respective offices who have not heard, who have confused instructions, have not received payments, and we represent those constituents. And the numbers you've shown are probably reflective of so many of us. And I might add it's a bipartisan issue.

Mr. Hice, the ranking member, made the same point about his constituents in Georgia, and what the chair asked Mr. Rettig to do was to go back and look at the liaison functions with Members of Congress because when somebody contacts our office, it means everything else has failed, and so we've got to have more responsive reactions from the IRS and Mr. Rettig, I would say, Ms. Porter, I believe committed to doing just that. And we will followup on that, but Ms. Porter raises a very good issue and it is, I think, universally shared by Members of Congress.

Thank you, Ms. Porter, for bringing that up and using that handy dandy white board you're so adept at. Thank you.

Mr. RETTIG. And, once again, Congresswoman, I do apologize if it was received as hostile, but it's obviously a personal issue, so thank you.

Mr. CONNOLLY. Thank you.

The chair now recognizes himself for five minutes.

Ms. COLLINS. Chairman, can I interrupt for one sec?

Mr. CONNOLLY. Yes, of course, Ms. Collins.

Ms. COLLINS. I just wanted to point out you had talked about a liaison and an ombudsman. That is what we do. That is what our function is that Congress created the National Taxpayer Advocate solely for that purpose. So, if our local offices do have contacts with various staff members, and we're happy to help in all these cases that we can help—

Mr. CONNOLLY. And we appreciate that, but when a Member of Congress calls a Federal agency that falls under our purview, I expect an answer—not through a third party. Directly. When I write a letter, I expect that letter to be answered. I think, for the record, I presented a letter I sent three weeks ago that has not yet been responded to. And, again, there's a certain urgency here. These aren't just idle thoughts coming from Members of Congress; we're trying in real time to help constituents for whom for whatever reason the system has not worked.

So, you're quite right to remind us you're a resource and you're an asset that we should not overlook, but I think we were talking directly about communication with the agency and trying to get a better line of communication that works for everybody.

Mr. RETTIG.

Mr. RETTIG. Sir, we accept that the taxpayer advocate is housed within the Internal Revenue Service, and we have a shared responsibility that when things come in through legislative affairs, certain items are automatically routed, certain items obviously are not. We accept and appreciate that we could do a better job. We will not give you excuses for staffing and funding and whatnot. I will only vouch for the dedication and desire of, I think, one of the most hardworking dedicated work forces in the entire Federal Government.

Mr. CONNOLLY. We will stipulate that, but, again, remember—

Mr. RETTIG. Appreciate it. I'll take that back, sir.

Mr. CONNOLLY. Yes. We operate in real time, too, and—

Mr. RETTIG. Sir, if you're not happy, we're not doing our job.

Mr. CONNOLLY. All right.

Mr. RASKIN. Mr. Chairman, point of order.

Mr. CONNOLLY. Now my line of questioning.

Mr. D'Souza, I'm going to give Mr. Rettig a little bit of a break. What do we know about the scope of the IT challenge at IRS? I mean, we talk in generalization about legacy systems, do we know how many legacy systems there are?

Mr. D'Souza. I think we actually had a finding that IRS didn't have a complete inventory of its legacy systems, but I think, you know, generally we do. I think that as—

Mr. CONNOLLY. Can you give a number to that, generally?

Mr. D'Souza. I would have to get back to you.

Mr. CONNOLLY. Are we talking about hundreds of systems, dozens of systems, what?

Mr. D'Souza. I think on the order of hundreds.

Mr. CONNOLLY. Hundreds?

Mr. D'Souza. But part of the thing I guess to keep in mind is it depends a little bit on how the agency defines a system. So, that's why I have to—I'll get back to you with a more exact number.

Mr. CONNOLLY. I would appreciate that. In fact, this subcommittee is going to formerly request GAO for a comprehensive inventory of the scope of the problem and challenge.

And, by the way, what's wrong with a legacy system?

Mr. D'Souza. Well, as we discussed, they rely on older technology—

Mr. CONNOLLY. Yes.

Mr. D'Souza.—and it would be harder to find people to employ to keep it up to date. You have a limited range of vendors that support that technology. Over time—

Mr. CONNOLLY. But I'm more interested—that's all interesting.

Mr. D'Souza. OK.

Mr. CONNOLLY. But I'm interested in how it affects capability. So, a system that's 40 years old does not have the same capability of handling the mass volume Mr. Rettig has to handle than a contemporary system.

Is that correct?

Mr. D'Souza. So, I would say that actually the IRS' systems do handle a very large volume—

Mr. CONNOLLY. That wasn't my question. My question was, when you compare a legacy systems capability to a system we would deploy today, the former is inadequate compared to the latter.

Mr. D'Souza. It is, but it's not in terms of volume. It's probably in terms of capabilities it provides. We talked about the ability to provide services online, provide information more quickly to taxpayers.

Mr. CONNOLLY. Well, is it more costly to maintain?

Mr. D'Souza. Yes.

Mr. CONNOLLY. Yes. Any idea what percentage of the IT budget Mr. Rettig oversees is devoted simply to maintaining legacy systems?

Mr. D'Souza. So, 80 percent of the budget goes for ongoing operations. The exact percentage of that, that's for legacy systems. Again, I would need to get back to you on that.

Mr. CONNOLLY. So, what is your estimate of what it would cost to update completely the IT systems, both hardware and software, and retire these legacy systems at the IRS?

Mr. D'Souza. I don't have an exact number, but what I can say is that the modernization plans that we've talked about are good first steps, but they actually don't fully address what it would take to retire these legacy systems. One of the things we ask the acting CIO is whether or not they had a full plan to retire IMF, which is one of the biggest legacy systems. And they said they were working on that. I think over time they've taken various attempts at it, and they haven't been successful, so, you know, we'll have to see—

Mr. CONNOLLY. Wait. Wait. Mr. D'Souza, that's not an adequate answer. They haven't been successful. Why have they not been successful? To what extent—this hearing's about resources to the IRS to make sure it is responsive as it can be to the American people, and we've documented how they were starved of resources and, in fact, vilified by this very committee, I might add, for 10 years at the cost of reinvestment. So, how has this affected capability?

Mr. D'Souza. Sure. So, as the budget for these modernization activities has been cut or as we've had situations like a lapse in appropriations or continuing resolutions, IRS has continually had to replan and reprioritize its efforts. That takes time. It slows things down. They have to move staff around. If they don't have enough staff, then they have to triage and focus on high priority activities. They're not able to do certain things.

One of the things we reported on indirectly answers your question, though, is with this most recent—the Tax Cut and Jobs Act, IRS had to shift its IT resources to implement those changes versus some ongoing activities that it planned to do to enhance its systems. So, those are all some examples of tradeoffs the IRS has to make when it doesn't have resources.

Mr. CONNOLLY. You say tradeoffs. Somebody might use a different image, cannibalization.

By the way, it's not just legacy systems, is it? I remember a few years ago when this committee was vilifying your predecessor, Mr. Koskinen, whom I considered an exemplary public servant, but nonetheless, members of this committee vilified Mr. Koskinen because of crashes with hard drives throughout the agency. And one of the things not discussed, of course, because that would have been inconvenient, was the age of the hardware we're talking about. I mean, PCs.

So, in the private sector, when I was in the private sector for 20 years, we kind of replaced our PCs about every three years. What is the replacement rate, what is the age and replacement rate of PCs for IRS employees currently?

Mr. D'Souza. So, I don't have a current rate. What I can say is when we did look at this issue a few years ago we found that the majority of IRS IT equipment was outdated. Since that time, we do know—

Mr. CONNOLLY. Mr. D'Souza, outdated. How many years? How old?

Mr. D'Souza. Again, I'd have to get back to you with the specifics on that.

Mr. CONNOLLY. Mr. Rettig, do you know?

Mr. RETTIG. We're making—to the extent we get funding, we're making real inroads into updating our systems. Most of our systems are far beyond their useful life, and we have—for most of those systems, we have extended the useful life on things—like laptops and such. So, we extend the useful life with warranties and whatnot. And then we end up having to go beyond that because we don't have the ability to replace. One comment just quickly in terms of efficiency as we were to update our systems, something that has always stayed in my head and it's pretty simple is, as we modernize and bring in chat bots for people who call in, one employee can handle one telephone call, but one employee can handle four chat box at the same time.

So, that's a 4-to-1 leverage. We have 11,500 customer service representatives. In theory, if it was direct math, it would put us up to 40,000 by getting us there. Our ability to leverage resources through a modernized system, which includes both language—it includes software, it includes hardware—would be greatly received by every employee at the Internal Revenue Service, as well as I think by every American.

Mr. CONNOLLY. Let me just say, Mr. D'Souza, we need more from GAO than what we got here. We need a comprehensive inventory of the nature of the IT systems, legacy systems, hardware, software, Zoom capabilities, whatever, so that we understand the scope of the problem, and we need dollar figures assigned to that so we understand the investments that are going to be required.

The other thing we need is an assessment from you and with co-operation with the IRS, what's the return on investment? I mean, we talk about GAO, the agency for which you work, that roughly every dollar we invest in GAO, we get at least an \$8 or \$11 return. Well, what's the comparable figure for the IRS? If the IRS can do double the audits it does currently, presumably the return on that is quite considerable especially when we know at least \$450 billion is left on the table, taxes owed but not paid because of capability, capability of auditing, tracing, collecting, enforcing.

And so those are important considerations, in addition to we're in a pandemic, and while I think Mr. Rettig and Ms. Collins have both indicated that they've done a very credible job in trying to respond under the most adverse circumstances with a history of dis-investment for 10 years. Nonetheless, we know things are on the table.

With all of that, we know that millions of Americans still haven't gotten their direct payment. Millions of Americans are still complaining about a responsiveness from IRS in terms of refunds or filing or processing a claim or making an appeal or dealing with an audit.

So, these—the relationship between the investment in IT and the capability of the IRS to do its job on behalf of the American people—and, by the way, part of its job because of voluntary compliance, which is so high in America compared to other places, is based on the fact that I perceive the system to be fair, that it's going to treat me the same way it treats anybody else, rich or poor. They're going to hold that person and me accountable.

And if that trust is damaged, compliance will fall and that will hurt the ability of the U.S. Government to fund itself and the services it provides people, especially during this period of time, which is so challenging.

So, we need the GAO to really look more closely and provide us with more comprehensive data in terms of the scope of the problem and what it will take to address that problem.

Mr. D'Souza. We do have work under way that's looking at some of these issues, and we'll be glad to update your staff.

Mr. CONNOLLY. Well, we want you to expand that so that it's not some of these issues; it's everything we've just described. That's why we're having this hearing. And we need GAO as a resource to help us understand the analytics and the boundaries of those analytics.

Yes, Mr. Rettig.

Mr. RETTIG. We obviously will cooperate with GAO in that regard. I just wanted to add on one thing about the compliance side of the house. We look at service and compliance together. We look at the desire of the IRS to earn the trust and respect of every American. I made the comments about getting into different languages, lower income communities, expanding vital resources, expanding resources to low-income taxpayer clinics. When you consider that fiscal 1919 our gross receipts were \$3.56 trillion, which is 96 percent of the gross receipts of the United States of America, and that part of a tax gap, the voluntary compliance rate hovers around 83 percent and that's for Americans who timely file and pay essentially and maintain compliance; if we can help the folks who

are trying to get it on their own by in language, simple language, understandable things, open up those avenues, answer the phones when they place those calls and we're only to bump the voluntary compliance rate one percent, sir, that's \$35 billion a year from Americans who want to get it right, who are proud to be Americans, who are proud to file tax returns. And there's a lot of people there.

This is the first time, to my knowledge, in the history of the Internal Revenue Service that we've done such an expansion into languages. I'm very proud to be the son of an immigrant and the husband of an immigrant. Very respectful for the challenges people have who come here and its incumbent upon us collectively, sir, to make sure they have the ability to get it right.

Modernization helps us significantly in that regard. It also helps our enforcement component. So, we welcome the assistance of Congress.

Mr. CONNOLLY. Well, thank you, and the fact that you are the son of immigrants, I'm a grandson of an immigrant, and you married a refugee, I think just gives living proof to the fact that immigration rewards and enriches America; it doesn't detract from it.

And, by the way, with respect to refugees, I will just say editorially, curbing the number of refugees, people fleeing violence, is a very un-American thing from this Member's point of view and we ought to be doing exactly the opposite, opening our welcoming arms to people who are suffering violence and persecution abroad. That's what refugee means, and that's what the refugee program is designed to provide.

Mr. RETTIG. Sir, to help you with perspective, my wife was born and raised in Vietnam. After the fall of Vietnam, April 30, 1975, her father was taken away to a reeducation camp for three years, nine months. She, in 1982, fled by boat. She's a boat person for the term—I don't mean it in a derogatory sense. I'm hugely proud of her.

Mr. CONNOLLY. Sure. As you should be. And that's the story of America. I know we're digressing, but the idea that we would cap the number of refugees who are—who perhaps worldwide are now at a record number, at 15,000, is disgraceful and, from my point of view, un-American.

At any rate, on to IRS. We need more progress. We need more help from GAO in broadening the scope, Mr. D'Souza. We'll be glad to work with you and Mr. Dodero on that.

And, Mr. Rettig, hopefully you and Ms. Collins, who's new on the job, will be creating mechanisms to be more responsive to congressional inquiries because, remember, we're also representing taxpayers, but taxpayers who have found for whatever reason the system doesn't work.

With that, we have five days for additional questions that may be submitted to our witnesses, and we would ask for a speedy and expeditious response in writing should you get those questions through the chair.

And, with that, this hearing is concluded. Thank you.

[Whereupon, at 12:24 p.m., the subcommittee was adjourned.]

