

**Hearing on the Taxpayer Experience with the  
Internal Revenue Service**

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FIFTEENTH CONGRESS  
FIRST SESSION

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**Hearing on the Taxpayer Experience with the Internal Revenue Service**

U.S. House of Representatives,  
Subcommittee on Oversight,  
Committee on Ways and Means,  
Washington, D.C

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**WITNESSES**

**Jennifer MacMillan**

Enrolled Agent, Owner, Jennifer MacMillan, EA; Government Relations Chair, National Association of Enrolled Agents

**Tameka Lester**

Associate Director, Phillip C. Cook Low Income Tax Clinic, Georgia State University College of Law

**Karina Ron**

Director, Center for Financial Stability, United Way of Miami-Dade

**Lynnette Lee-Villanueva**

Vice President, Tax-Aide, AARP Foundation

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# WAYS AND MEANS

## CHAIRMAN KEVIN BRADY

### **Chairman Buchanan Announces Hearing on the Taxpayer Experience with the Internal Revenue Service**

House Ways and Means Oversight Subcommittee Chairman Vern Buchanan (R-FL) announced today that the Subcommittee will hold a hearing entitled “IRS Reform: The Taxpayer Experience.” The hearing will focus on understanding taxpayers’ interactions with the Internal Revenue Service and soliciting feedback on how to improve the relationship between the agency and taxpayers. **The hearing will take place on Wednesday, December 13, 2017 in 1100 Longworth House Office Building, beginning at 10:00 AM.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

#### **DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “Hearings.” Select the hearing for which you would like to make a submission, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, December 27, 2017.** For questions, or if you encounter technical problems, please call (202) 225-3625.

#### **FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written

comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

**Note:** All Committee advisories and news releases are available at <http://www.waysandmeans.house.gov/>

IRS REFORM: THE TAXPAYER EXPERIENCE  
Wednesday, December 13, 2017  
House of Representatives,  
Subcommittee on Oversight,  
Committee on Ways and Means,  
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:03 a.m., in Room 1100, Longworth House Office Building, Hon. Vern Buchanan [Chairman of the Subcommittee] presiding.

Chairman Buchanan. The Subcommittee will come to order.

Welcome to the Ways and Means Oversight Subcommittee hearing on "IRS Reform: The Taxpayer Experience." Today's hearing is an important part of our efforts to reform the Internal Revenue Service.

I have said before, this bipartisan effort is not an attempt to discredit the IRS or cast the agency in a bad light. I understand there are many public servants that are doing an outstanding job and work at the IRS.

I have also made it clear I believe there is always room for improvement -- continuous improvement. That was my model in business for 30 years before I got here. It should be a priority for the IRS. And I am committed to working with Ranking Member Lewis, my colleagues in Congress, and the agency to achieve that.

For some perspective, in fiscal year 2016 the IRS collected more than \$3.3 trillion in taxes. That is money generated by millions of hardworking Americans. In order to collect those funds, the agency processed more than 244 million tax returns and supplemental documents. That number includes individual and business tax returns.

Of the 150 million returns filed by individual taxpayers, more than half were filed by paid preparers. This means at least 50 percent of individual tax filers do not have direct contact with the IRS.

With more and more taxpayers seeking help to comply with the complex tax laws, it is critical we hear from those of you who directly interact with taxpayers on a regular basis. Without this critical input, it is difficult to get a full understanding of how taxpayers are being treated.

Improving the relationship between the IRS and taxpayers starts with ensuring that the taxpayer's rights are being respected. It is the duty of the IRS Commissioner to ensure that employees are familiar with that and act in accordance with the Taxpayer Bill of

Rights. Key taxpayer rights include the right to be informed, the right to quality service, and the right to a fair and just tax system.

The goal of our hearing today is to get a better understanding from you of how ordinary taxpayers interact with the IRS. Each of the witnesses represents an organization that helps thousands of taxpayers in their dealings with the IRS whether by routine tax filing or through resolving tax controversy cases. I look forward to your testimony and your unique perspective with each of you.

And now I yield to the distinguished Ranking Member from Georgia, Mr. Lewis, for his purpose of an opening statement.

Mr. Lewis. Good morning. Mr. Chairman, thank you very much for holding this hearing.

I would like to thank you, each one of you, for being here today. I would like to thank our witnesses for being here today.

Before we begin, I would like to take a moment to address the Republican tax cut bill. This bill would increase the national debt by \$2.3 trillion, and it will cause 13 million Americans to lose their healthcare coverage. That is not right. That is not fair. That is not just. That is wrong.

All taxpayers expect, demand, and deserve better, much better, than legislation which puts politics before the good of the people. For the sick, the elderly, and the disabled, this bill may mean life or death. For middle class, working, and immigrant families, this bill would mean an increase in taxes. For students, this bill would mean it is more difficult to realize their dream of a good education.

In particular, I am concerned about how this bill would impact the IRS and taxpayer services. We have not had a single hearing on the challenge of implementing this bill. We have not had a single hearing on the confusion this bill would create during the tax filing season which begins in a few short weeks.

Since 2010, Congress cut the agency's budget by almost \$1 billion. I have said time and time again that you cannot get blood from a turnip and you cannot justify robbing poor Peter to pay billionaire Paul. It is clear that the IRS does not have enough funding, staff resources, or time to handle these significant changes in tax law.

Throughout the year, this Subcommittee has done good work, and I appreciate all of the good work you have done, Mr. Chairman, necessary work, the people's work. Mr. Chairman, I hope that we can continue to find ways to work together and give this agency the tools, staff, and resources it needs to serve taxpayers.

This morning I look forward to learning more about the taxpayers' experience with the agency, the low-income taxpayer clinics, and the other IRS partners who provide free tax

services to low-income and elderly taxpayers. Their insight should guide our work to make sure that taxpayers have more access to good quality in-person, online, and telephone services.

In closing, I would like to thank each of the witnesses for being here today and for the good work you do to serve and support taxpayers. I look forward to your testimony.

Again, Mr. Chairman, thank you for holding this hearing. I yield back.

Chairman Buchanan. And thank you, Mr. Lewis.

Without objection, other Members' opening statements will be made part of the record.

Today's witness panel includes five experts. Jennifer MacMillan is an enrolled agent and owner of Jennifer MacMillan, EA, testifying on behalf of the National Association of Enrolled Agents.

At this time, I would like to recognize the gentleman from Georgia to introduce his witness, the next witness.

Mr. Lewis. Well, thank you, Mr. Chairman.

It is my honor to introduce Ms. Tameka Lester. Ms. Lester is the associate director of the Philip C. Cook Low-Income Taxpayer Clinic at Georgia State University College of Law located in my congressional district.

Thank you, and welcome.

Chairman Buchanan. Thank you, Mr. Lewis.

Next, I would like to recognize the gentleman from Florida, Mr. Curbelo, to introduce the next witness.

Mr. Curbelo. Thank you very much, Mr. Chairman.

And I am proud to introduce this morning Ms. Karina Ron, director of the United Way Center for Financial Stability with United Way of Miami-Dade, an organization that all throughout the country, but especially in our community, makes such a big difference for so many people in need.

So, Ms. Ron, I am very grateful that you are here today, and I look forward to hearing the entirety of your testimony. But, of course, you know I have a special interest in the VITA Program, which you all are so active in. So thank you.

And thank you, Mr. Chairman, for this opportunity.

Chairman Buchanan. And thank you.

Finally, we have with us Ms. Lee-Villanueva from the Tax-Aide program operated by the AARP Foundation.

The Subcommittee has received your written statements. They will all be made part of the formal hearing record. You have five minutes to deliver your oral remarks.

We will start with you, Ms. MacMillan.

**STATEMENT OF MS. JENNIFER MACMILLAN, ENROLLED AGENT,  
OWNER, JENNIFER MACMILLAN, EA; GOVERNMENT RELATIONS CHAIR,  
NATIONAL ASSOCIATION OF ENROLLED AGENTS**

Ms. MacMillan. Thank you, Chairman Buchanan and Ranking Member Lewis.

I speak on behalf of the National Association of Enrolled Agents, which represents over 55,000 enrolled agents. EAs are tax experts licensed by the Treasury. We must pass a rigorous Treasury-administered exam and are subject to background checks as well as meeting ongoing continuing education and ethics requirements.

The IRS, for better or worse, is the face of the Federal Government for most citizens. Increasingly, EAs who assist taxpayers at every level of administrative dealings with the IRS believe taxpayer service has in recent years deteriorated to an unacceptable level.

Our written statement details our concerns with IRS taxpayer service. This morning, however, I will focus on three issues: the IRS focus on providing assistance on a one-size-fits-all basis, concerns regarding post-filing assistance, and bolstering taxpayer rights.

IRS provides three taxpayer service channels -- face-to-face contacts, telephone, and self-help on the IRS.gov website. All can be helpful, but each has its limitations.

IRS serves over 5 million taxpayers annually at their Taxpayer Assistance Centers, or TACs. These face-to-face resources are vital, particularly for the most vulnerable members of our society. Yet, we note they are subject to limited availability, both in hours and training, and in location.

These centers are helpful for basic tax questions, but the IRS refers taxpayers with more complicated issues to other channels or to paid preparers. While the latter may be good for enrolled agents, it is not necessarily good for taxpayers, and it illustrates the need for Congress to make policy determinations about what level of service is acceptable from the IRS.

At the IRS call centers, levels of service have steadily declined since 2010, reaching 37 percent 2 years ago. At that time, wait times also increased dramatically.

Last year, with additional resources, IRS significantly improved the level of customer service at these call centers. Notwithstanding this concrete improvement, it appears that additional funding will not be available in the fiscal year 2018 budget. This will likely result in fewer taxpayers and practitioners receiving necessary services.

Finally, taxpayers are increasingly solving pre-filing basic issues by visiting IRS.gov. The IRS website has recently been revamped, and we encourage the IRS to continue to work with the practitioner community and the public to improve the website. While IRS.gov drives down agency costs, not every taxpayer is well-equipped to use a self-help version.

As daunting as filing can be for taxpayers, dealing with enforcement matters can quickly become overwhelming. Taxpayers have a limited number of choices when they disagree with a notice or have a valid explanation the IRS should consider. They can try to reach the IRS to resolve the issue, they can pay a tax professional to take the matter off of their hands, or they can pay an assessment that is more than they truly owe. We often see taxpayers give up after spending hours waiting on hold or having their calls dropped.

Campus audits are a prime example of this predicament. While correspondence exams increase IRS efficiency, they typically increase taxpayer burden as well. Churning out computer-generated exams demands that taxpayers have the right to contest the proposed actions of the IRS. Communicating with a human at the IRS could often resolve these cases quickly and efficiently, but the IRS lacks the ability to hire and train sufficient personnel for these necessary contacts.

To increase the quality of taxpayer service at the IRS, Congress should consider the following policy and legislative changes:

Provide IRS with additional targeted resources, as detailed in our written testimony.

Create and fund dedicated training.

Increase the authority and set higher standards for field personnel.

Provide collections personnel the authority and training to quickly resolve cases when they deviate slightly from the financial standards to facilitate payments from taxpayers.

And re-evaluate national standards for collection information statements.

We also recommend giving the Taxpayer Advocate Service authority to make adjustments and expand dispute resolution options to all taxpayers.

For most taxpayers, filing a return is a daunting undertaking, so it is no wonder over half of filers use paid preparers. The vast majority of paid preparers are not subject to any standards or even background checks.

While many unenrolled preparers are conscientious and knowledgeable, many are not. The IRS cannot require or enforce even minimal standards on these individuals, although taxpayers expect and deserve to be able to have confidence that the person preparing the return is competent to do so.

Thank you again for allowing me to testify today, and I look forward to answering any questions you may have.

**The State of Taxpayer Service at the Internal Revenue Service  
Written Statement of  
Jennifer MacMillan, EA on behalf of  
The National Association of Enrolled Agents  
December 13, 2017**

The National Association of Enrolled Agents (NAEA), represents the interests of over 55,000 enrolled agents nationwide. Enrolled agents are tax experts, licensed by the Department of Treasury. They must pass a thorough three-part Treasury-administered exam covering all elements of the Internal Revenue Code. Additionally, they are subject to background checks and must meet continuing education and ethics requirements to continue as enrolled agents in good standing.

The Internal Revenue Service, for better or worse, touches more U.S. citizens than any other federal department or agency. It is the face of the federal government for most citizens. Increasingly, enrolled agents, who are the frontline representatives of taxpayers at every level of the tax administrative system, are expressing the view that the quality of taxpayer service within the IRS has deteriorated to an unacceptable level over the last five years.

Twenty years ago, the National Commission on Restructuring the IRS provided a guiding principle for policymakers “that taxpayer satisfaction must become paramount at the new IRS and that the IRS should only initiate contact with a taxpayer if the agency is prepared to devote the resources necessary for a proper and timely resolution of the matter.” The report went on to ask:

- Was filing your tax return easier than the previous year?
- Did the IRS personnel treat you respectfully and professionally?
- Were your questions and problems handled as smoothly as account inquiries with your bank, credit card company, or utility?

Based on anecdotal evidence, enrolled agents believe these three questions still cannot be answered "yes" by all taxpayers. Today, I will attempt to paint a picture of the state of taxpayer service at the agency from the viewpoint of taxpayers.

NAEA takes an expansive view of customer service, encompassing the entire “pipeline” of the IRS tax administration workflow: pre-filing issues, tax ID numbers, withholding and estimated tax payments, access to returns and instructions, filing, post-filing inquiries and adjustments, I.D. theft, compliance notices, audits – both office and correspondence – and collections. Too often, policymakers and the IRS create a false dichotomy between taxpayer service and taxpayer compliance. From taxpayers’ perspective, all aspects of their interaction with the IRS are essentially compelled. “Voluntary compliance” is a misnomer; even “voluntary self-assessment” is a stretch. Taxpayers on a whole file tax returns and respond to IRS inquiries because it’s the

right thing to do, but also because they are fearful of the consequences of noncompliance. Because they are afraid, it is incumbent on the IRS and Congress to ensure that the IRS does its job fairly, accurately and timely at all points of the tax administration process.

## The “Pipeline”

**Pre-filing Stage** – Before a tax return is ever filed, taxpayers may find they must interact with the IRS. Many taxpayers require tax ID numbers other than a Social Security number. Some taxpayers have tax planning questions or questions about estimated taxes or withholding. Additionally, once taxpayers begin the process of preparing to file they face a myriad of complicated questions to be addressed. Taxpayers have three options to find answers: Face-to-face contact with the IRS; calling the agency; and self-help on IRS.gov. All three options can be helpful, but each has its limitations and drawbacks.

Typically, IRS experiences over five million annual visits to walk-in resources known as Taxpayer Assistance Centers (TAC). These face-to-face resources are extremely important for lower income taxpayers, the elderly, less educated, and English-as-a-second-language individuals. We see two problems involving this resource. First, its availability both in location and in hours. Frankly, with the budget cuts the IRS has absorbed over the last six years, it is amazing that more TAC resources have not been shuttered. The Taxpayer Advocate points out in her latest report to Congress that since 2010, the IRS budget has been reduced by nearly 20 percent on an inflation adjusted basis. In most rural areas, taxpayers are looking at a 100 to 200-mile round trip to have a face-to-face contact with an IRS employee. Additionally, because TACs are typically open from 9 AM to 5 PM, for working class citizens, a visit means taking time off from work. Because of the IRS’s new *appointment-only* system, taxpayers who show up without an appointment are routinely turned away. The TACs have completely stopped offering free tax preparation for low income, elderly, and disabled taxpayers and, as noted above, will not answer “out-of-scope” tax law questions during the filing season and will not answer *any* tax law questions outside the filing season. Considering the limited resources available to IRS, we do not see how they have any other choice. Obviously, this is a basic resource issue for congressional policymakers.

The second problem with TAC is training. These centers are helpful for basic tax questions, but for more complicated issues the IRS is blunt about steering taxpayers to hire paid preparers. While this is good for enrolled agents, it is once again a policy decision for Congress about what level of service is acceptable from the IRS. Better trained TAC assistors mean taxpayers, taking time off from work and/or driving long distances, will have better service. Imagine making the significant sacrifice of time and gas to attempt to be compliant with the tax laws only to be told you need to hire someone to help you because the assistors are not adequately trained.

Phone resources have similar problems. The percentage of calls answered has steadily declined since 2010, resulting in an abysmally low 37 percent two years ago. IRS showed last year that they can answer the phones faster and resolve problems more accurately if they are provided the resources. Unfortunately, it looks like that additional funding will not be available for the next budget. This lack of funding will mean longer waits, more dropped calls, and we are concerned it will result in a further reduction of the type of questions IRS personnel will be trained to answer. It is also important to keep in mind that passage of the Tax Reform legislation will significantly drive up calls into the agency, even if most changes are not effective until next year.

Finally, more and more taxpayers are solving their basic pre-filing issues by visiting IRS.gov. The IRS webpage is invaluable for taxpayers and practitioners alike. The IRS has heard several basic complaints about IRS.gov over the years: it was at times difficult to locate basic information quickly because of the cluttered nature of the entry page; search queries often resulted in hundreds of useless results; queries on commercial search engines rarely resulted in identifying IRS.gov resources; once the IRS posted something on their website, it stayed even after it was no longer relevant or even accurate; and the website was not compatible with mobile devices.

The IRS has only recently launched a revamped IRS.gov to address many of these basic problems. The entrance page is much better designed and less cluttered. While the response from our membership is mixed at best, it seems taxpayers are seeing some improvements. Search queries from both the website and from commercial search engines seem to be providing the most up-to-date information directly from IRS.gov. Outdated information seems to have been removed from the site. The site works better on mobile devices. We hope that the IRS will pledge to continue to work with the public and the practitioner community to vigorously manage and improve IRS.gov. Government agencies, and even the private sector, tend to “fix” problems and then allow websites to grow stale. Because of the importance of IRS.gov to taxpayers and practitioners, IRS cannot rest on its laurels. It must continue to improve and evolve the website if the agency is to provide services at a high level.

We would be remiss if we did not mention IRS Future State. We agree with the IRS’s assessment that Future State provides value for taxpayers and practitioners. We do not believe, however, that the IRS will see the utilization rates from the public that they seem to expect. Authenticating themselves is still proving to be difficult for most taxpayers. Also, since taxpayers will rarely actually access their accounts, they will forget passwords and usernames and will need customer service support, for which we fear the agency will not be prepared. The National Association of Enrolled Agents believes strongly that IRS needs to focus resources early on providing robust accounts for Circular 230 practitioners – enrolled agents, certified public accountants, and lawyers. IRS is quick to acknowledge that practitioners are valued partners in tax administration, however the Service has not placed a high priority on advancing practitioner services as rapidly as individual taxpayer accounts. Because solving problems quickly and efficiently is core to a practitioner’s business, as well as the significant role we play in tax administration, we urge a more rapid deployment of practitioners services.

**Filing Stage** – For most taxpayers, filing a tax return is a daunting undertaking. According to testimony by former Commissioner John Koskinen, about 80 million returns, or **56 percent** of the total individual tax returns filed each year, are done by paid preparers. Another **34 percent** of taxpayers use tax preparation software, making a total of **90 percent** of taxpayers who seek some form of assistance.<sup>1</sup> The current tax reform legislation could provide some relief from filing burden yet most areas in the Internal Revenue Code will continue to be overly complex. Individual taxpayers will continue to encounter convoluted rules and multiple complicated decision points; the earned income tax credit, child credit, rental property and schedule C income, to name a few. Even making the determination of which filing status to use can be a surprisingly difficult task.

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<sup>1</sup> Written testimony of John A. Koskinen, Commissioner Internal Revenue Service before the Senate Finance Committee, April 8, 2014

For low income taxpayers, finding competent and ethical tax return preparers is key to both the taxpayer experience and the integrity of the tax administration system. The Volunteer Income Tax Assistance program (VITA) and other non-profit groups are essential elements to the filing season, which is why many enrolled agents – retired and active – participate as volunteers. The VITA program does have significant limitations on the taxpayers they can assist, and volunteers are barred from preparing anything more than very simple tax returns. Circular 230 practitioners provide high quality tax services to taxpayers, having passed a rigorous test, maintaining competence through continuing education, and are held to high ethical standards. While many unenrolled and unlicensed preparers are conscientious and knowledgeable in the complex tax laws and regulations, many are not. This fact, along with a natural desire of most taxpayers to maximize refunds, results in a toxic situation that undermines tax compliance and usually results in taxpayers being stuck dealing with IRS enforcement once the noncompliance is discovered. Unfortunately, the IRS cannot require or enforce even minimal standards on these individuals, who make up the majority of the tax preparation industry.

The IRS's desire to stop tax fraud and stolen identity fraud refunds leads to one of the most difficult experiences for modern day taxpayers: a frozen tax return/refund. On the refund fraud side, the IRS has established electronic screens to stop fraudulent refunds from being sent out. While these screens are essential for combating fraud, they raise particularly difficult problems for people with legitimate returns caught in the screens because the IRS has not created a dedicated process for appealing these holds. This filing limbo causes a great deal of anxiety at the very least and economic hardship for many. As pointed out by the Taxpayer Advocate in her recent report to Congress, the IRS does not even know the magnitude of the problem because they do not keep track of the number of legitimate taxpayers caught in the agency's fraud screens.

For tax returns screened because of suspicions of ID theft, the IRS sends a letter to taxpayers asking them to call a dedicated phone line to authenticate their identity. If taxpayers fail the phone authentication test, they must travel to a Taxpayer Assistance Center to authenticate in person. Once a taxpayer's identity is stolen and a fraudulent tax return has been filed using their Social Security number, they can be assigned an Identity Protection Personal Identity Number (IP PIN) to protect future tax return filings. While the process is burdensome on both the IRS and the taxpayer, it has been effective. Unfortunately, taxpayers who have not already experienced identity theft cannot be assigned an IP PIN. IRS cites the cost of providing IP PINs to taxpayers who wish to opt in to the program as the reason for this limitation.

**Post-Filing Stage** – As daunting as tax filing can be for taxpayers, dealing with notices, audits, appeals and collection matters can quickly become overwhelming. So much so, that as a professional, enrolled agents cannot not legitimately recommend to anyone that they attempt to fight an enforcement action or endure an audit without the help of a highly-trained Circular 230 representative.

Enrolled agents are finding that compliance personnel increasingly lack a basic understanding of the statutes and regulations they are tasked to administer. More disturbingly, some do not know their own procedures as laid out in the Internal Revenue Manual (IRM).

Additionally, with few exceptions, dealing with the IRS has become a game of hurry-up-and-wait. Taxpayers and their representatives respond in a timely fashion to notices or requests for audit responses, but then find themselves waiting long periods of time for an acknowledgment or response, let alone a resolution of their case.

While correspondence exams increase efficiency for the IRS, they typically increase taxpayer burden and can be more expensive and take more time than an in-person audit. Because there is only one chance for resolution, taxpayers expend substantial time and effort to present a relatively simple case that could be taken care of with a single telephone call or even a face-to-face meeting.

When responses from taxpayers arrive at the correspondence examination unit, they can sit in a queue at the IRS processing center for weeks, or even months depending on the backlog, causing great anxiety on the part of taxpayers. These computer-generated cases are assigned to tax examiners only when a response is received from the taxpayer or their representative. If all goes well, the IRS issues a letter thanking them for their responses, informing them nothing more is needed. All too often though, taxpayers respond with a timely submission of documentation, but the case does not receive proper consideration of facts and circumstances, and the only subsequent communication from the IRS is an audit report with a balance due notice enclosed.

If a protest of this assessment is submitted to the IRS, the response is often inadequately handled as well. In many cases, it appears that the protest was hastily reviewed by an inexperienced or under-trained employee, resulting in the denial of a valid protest. If this denial is appealed, similarly trained employees evaluate the argument, adding another step in an exercise in futility. Any further requests for a referral to Appeals of these disputed items are all too often not considered or acknowledged, and a Statutory Notice of Deficiency is summarily sent to the taxpayer.

Once the computer has taken this action, filing a petition in Tax Court is the only way to get the case heard by a qualified Appeals Officer. Enrolled agents believe there must be greater accessibility to be heard by an independent Appeals Officer at multiple stages while the taxpayers' fate is being determined in these automated audit pipelines.

Enrolled agents have noticed that as mastery of the laws and regulations has declined, there has been a corresponding decline in resolving cases quickly and fairly. In some cases, we believe this change in culture means that rather than getting to the right answer and then moving on, IRS compliance personnel in the field and campuses are more inclined to "find something wrong" if they have invested substantial time on an examination. In other cases, we have seen, the Service's desire to close cases as quickly as possible with their limited resources spread thin has led to a hesitation on the part of IRS personnel to accept follow-up documentation or request an explanation when documentation is not understood.

The IRS Taxpayer Advocate Service provides a safety net for taxpayers who are unable to resolve their issues with the IRS through normal channels. The advocates working cases are generally well trained and knowledgeable, and can quickly identify and justify recommendations for resolution in many cases. In the past, the Taxpayer Advocate Service employees could adjust taxpayer accounts, but in recent years, Advocates' authority only extends to making recommendations, which must then be carried out by another IRS employee. In certain cases, the

process of recommending action and dependence on a second IRS employee to manually process an adjustment is inefficient and in many cases, unnecessary.

In the context of the IRS' Future State planning, we must emphasize an ongoing need for personal contact, either through a TAC or on the telephone. As mentioned earlier, the bold new direction the IRS has laid out, and continues to develop, must be realistic. The post-filing issues that arise are heavily dependent on computers and taxpayers are most vulnerable when additional tax is assessed or an action is taken against them. Interaction with a trained, knowledgeable human should be prompt and thorough. At a minimum, the IRS should carefully consider taxpayers' explanations, explain the law to them when they are under scrutiny, and make every attempt to determine the correct amount of tax. Lacking the resources to provide this level of service, these programs are terribly unfair.

**Appealing Post-Filing Issues** – Historically, Appeals Officers were experienced and knowledgeable and operated in a culture of resolving cases quickly and fairly. Over time, as resources have dwindled system-wide, more cost-effective alternatives have been developed by the IRS. In our experience, many of these cost-saving processes have led to severe reductions in service leading to taxpayer rights being compromised. The result has been reduced public confidence in the U.S. tax system as fair and equitable.

The issue at hand is that there are not enough Appeals personnel to provide taxpayers with in-person conferences across the 50 states and territories. For example, between fiscal years (FYs) 2013 and 2016, the number of Appeals Hearing Officers available to resolve cases dropped by 24 percent<sup>2</sup>. Consequently, the IRS created Campus Appeals units, which rely on telephone and now video conferences to handle their workload.

### **Root Causes of the Decline in Taxpayer Service**

***IRS Budget:*** In the last five years, the IRS budget has declined from \$12.146 billion in 2012 to \$11.235 billion in 2016. As a result, the number of revenue agents decreased 22 percent from 10,216 to 7,937, and the number of tax compliance officers decreased 28 percent from 1,154 to 832. Contact representatives within the Automated Collections System (ACS) has decreased 22 percent, from 2,426 in FY 2012 to 1,897 in FY 2016. Enforcement personnel are not typically seen as customer service. However, if a taxpayer receives a letter or notice about their account and then are not able to resolve the issue in a timely and accurate fashion, then the non-resolution does become a customer service issue.

***Retirements:*** The IRS is hemorrhaging experienced, well-trained personnel. Since 2010, approximately 17,000 employees have departed from the IRS and 40 percent more are or will be eligible to leave the IRS in the coming year. The loss of these experienced employees has necessitated the hiring, training and deployment of many inexperienced personnel in a short period of time. Exacerbating this problem is the fact that training at the IRS is done by taking experienced people out of the field to pass on their knowledge to the newly hired, creating an even larger vacuum.

***Lack of Quality Training:*** The IRS training budget has been slashed from \$172 million in FY 2010 to about \$22 million in 2013 (unable to obtain more updated data), a staggering 87 percent

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<sup>2</sup> Taxpayer Advocate Service 2017 Report, volume 2, page 112

reduction. Training is not only key to increasing knowledge and understanding of the tax code and regulations, but is also among the IRS's responsibilities under the Taxpayer Bill of Rights. On the collection side, revenue officers have been given very little discretion or training on resolving taxpayer cases. When a taxpayer's expenses exceed the financial standards for an Installment Agreement, the taxpayer must enter a payment plan that is unaffordable, which greatly increases the likelihood of default down the road. In addition, the National Standards for Collection Information Statement analyses are unrealistic for taxpayers living in high cost areas. More flexibility in making determinations of collection potential would improve the public's perception that the system is fair and equitable.

## **Recommendations**

To increase the quality taxpayer service at the IRS, Congress should consider the following policy and legislative changes:

**Increase IRS budget for hiring personnel.** With this increased budget, the IRS should increase staffing in every division, especially at the points of significant taxpayer contact (such as all call centers and TAC counters), increase training at all levels, and guarantee that taxpayers do not have to travel more than 100 miles (where feasible) to have a face-to-face meeting with Appeals personnel. At the same time, it is important for the IRS to continue exploring video-conferencing and other options for increasing communications. Additionally, once a taxpayer responds to an IRS notice or letter, the IRS should communicate a decision to the taxpayer within 30 days. Compliance, enforcement, and Appeals personnel should be given greater authority to settle cases early and the IRS should evaluate them based on a singular focus on early and fair resolution of disputes. Finally, we would also urge Congress to take into consideration the need for additional funding for implementation of the Tax Reform legislation. Taxpayers will need IRS guidance quickly and frontline employees will need to be retrained in all aspects of the legislation.

**Create and fund a dedicated training division within the IRS to increase competency and change the culture.** A dedicated training division will streamline the IRS education process, ensuring that tax law and administrative policies be taught consistently throughout the country while guaranteeing that experienced personnel will not have to be taken offline to train new employees. Instructors will be tasked to research state-of-the-art tax administration techniques at the state, local and international levels and will help incorporate these techniques into their education materials and the Internal Revenue Manual. Additionally, as was done immediately after passage of the IRS Restructuring and Reform Act of 1998, IRS training shall focus on early and fair resolution of tax disputes. Only clear and consistent training will move the IRS to a more taxpayer service-oriented organization.

**Increase the authority of and set higher standards for Appeals personnel.** While we welcome and applaud the IRS for the recent addition of video conferencing as a substitute for some in-person Appeals hearings, we suggest additional provisions be implemented. The knowledge, experience and authority of the Appeals personnel should meet a higher standard than the campus Appeals Technical Employees, who may have very little authority and may not grasp the intricacies of the cases assigned to them.

**Give Collections personnel wider discretion to reach early agreements on payment plans.** Congress and the IRS need to give collections personnel the authority and training to resolve cases quickly that might otherwise deviate slightly from the financial standards to facilitate payments by taxpayers. Additionally, the IRS should reevaluate the National Standards for Collection Information Statements by either adjusting the allowable living expenses for regional or local cost of living variations, or by returning to use of a dollar range, based on gross monthly income (as was the case prior to the IRS decision in 2007 to apply a single dollar amount for food, clothing and other items, based on family size alone).

**Give the Taxpayer Advocate Service authority to make adjustments, rather than merely making recommendations to IRS personnel.** IRS Taxpayer Advocate Service is at the forefront of problem resolution within the IRS. We recommend reinstating a Problem Resolution group with representation from examination, appeals and collection housed in the Taxpayer Advocate department with fixed authority to resolve issues up to \$10,000 and close cases.

**Collections personnel must refrain from bypassing representatives with active powers of attorney.** Congress should reemphasize and reaffirm the consequences of violations of 26 USC 7525, to ensure that IRS personnel and PCAs shall not ignore valid powers of attorney by directly contacting taxpayers by telephone or at their residences or places of business.

**Require IRS exam and collection personnel to offer alternative dispute resolution options.** We commend the IRS for the expansion of Fast Track Settlement earlier this year, bringing the opportunity for small business and individual taxpayers to resolve unique examination issues through Appeals, allowing for consistency with large and mid-sized businesses. We recommend that the IRS expand alternative dispute resolutions options to all taxpayers and that exam and collection personnel be required to offer these options at the appropriate time.

**Provide IRS with the authority to establish minimum standards for unenrolled tax preparers.** Congress should override *Loving* and all subsequent cases relying on its holdings and provide specific authority for the IRS to require all non-credentialed paid tax preparers to meet minimum standards. Such standards should include passing a one-time competency exam administered under the auspices of the Department of Treasury, requiring tax compliance background checks, setting continuing education requirements, and requiring compliance with strict ethical standards.

**To facilitate earlier resolutions to disputes, the IRS should debut online accounts for tax practitioners with a robust and secure means of communicating with IRS personnel.** Access to secure online communication is especially important as the agency becomes increasingly reliant on correspondence audits that currently require snail-mailing documents to anonymous IRS campus employees. Communicating through the practitioner's online account would go a long way to improving resolution times and hopefully mitigate, if not eliminate, the lost documents experience. Individual online accounts should display a Publication 1 equivalent when taxpayers utilize payment options in their accounts. The IRS should provide guidance on the use of private sector electronic signatures for Forms 2848 and 8821 for Circular 230 practitioners.

The National Association of Enrolled Agents commends the Committee on Ways and Means in its bipartisan approach to improving the Internal Revenue Service. Our membership believes

strongly that a well-funded, well-trained IRS, fully cognizant of taxpayer rights and the value of Circular 230 tax practitioners to the process, will improve the taxpayer experience at every level of the organization. We look forward to continuing our work with the Committee.

Chairman Buchanan. Thank you.

Ms. Lester, you are recognized.

**STATEMENT OF TAMEKA LESTER, ASSOCIATE DIRECTOR, PHILIP C. COOK LOW INCOME TAX CLINIC, GEORGIA STATE UNIVERSITY COLLEGE OF LAW**

Ms. Lester. Chairman Buchanan, Ranking Member Lewis, and members of the Subcommittee, thank you for the opportunity to testify and discuss IRS reform and the taxpayer experience.

I want to spend the next few minutes talking about the low-income taxpayers we see at the Georgia State University Low-Income Taxpayer Clinic, how they interact with the Internal Revenue Service, and what low-income taxpayers need to effectively gain access to the Internal Revenue Service.

Our clients come from all walks of life. They are members of different political parties, socioeconomic groups, and have different cultural backgrounds. Some have always struggled to make ends meet, while others have fallen on hard times after losing their job or the result of an injury or sickness.

The theme, however, is that time and money are finite and limited resources. The VITA program provides low- to no-cost tax representation services, and refundable credits like the earned income tax credit make a tremendous difference for them in bridging the poverty gap.

But what happens when the IRS has questions about their return or determines a taxpayer has gotten a refund that they are not entitled to? When it is time to work with the IRS, what are their options for communicating with the service?

We must consider how we can better serve and provide greater accessibility to our taxpayers who are already struggling the most. Taxpayers can engage with the IRS via online and mail, by telephone, and at Taxpayer Assistance Centers.

Examining all these channels is important because each taxpayer's situation is different. Some of our clients have internet access and smartphones, but some of them don't. Some of our clients don't even have phones, and for those who do, they may have limited data plans. Taxpayer Assistance Centers are not in every city, and the ones that do exist are by appointment only.

I have three recommendations that I believe will provide low-income taxpayers with greater accessibility to the IRS and allow the IRS to provide greater service for all taxpayers.

First, our clients are often the subject of audits and collection activity. Both processes involve taxpayers sending in documentation, such as copies of their children's birth certificates, Social Security cards, school records, and their own personal information.

Taxpayers provide this information or documentation primarily through mail and fax, which presents several issues with security and financial issues. Taxpayers should have the ability to send information to the IRS electronically through secured portals and accounts.

Next, when low-income taxpayers get notices from the IRS, they need options of talking with a representative over the phone or in person, so funding must be increased to hire additional representatives. Wait times for phone reps should be decreased, each Taxpayer Assistance Center should have more than one person available to taxpayers to talk with them in person, and there needs to be more of these centers in underserved areas.

The Taxpayer Assistance Centers should begin accepting walk-in taxpayers again because taxpayers who do not have phones and who have an immediate need should not be turned away from these centers simply because they do not have an appointment.

In addition, LITCs are instrumental in helping taxpayers navigate the IRS and resolve their issues. While Congress has continued to increase the overall funding available to LITC programs, the statutory cap of \$100,000 for any one organization to receive has not been changed since the program began in 1998.

Many organizations, like Georgia State University, receive the statutory cap, but have the capacity and interest to serve more taxpayers. For the last 26 years our clinic has served the taxpayers of Georgia. At any given time, we are working with hundreds of taxpayers, but we can do more. Where an organization like Georgia State University has experienced helping taxpayers and successfully operating a clinic, additional funding can help to set additional locations to service more taxpayers.

No one wants to have an issue with the IRS. And, in my experience, our clients really do have a desire to resolve their issues properly. However, they need our help in order to do that.

By improving online technology, providing more representatives for taxpayers to speak with over the telephone and in person, and increasing the statutory cap for organizations who are operating LITCs, the service can increase accessibility of their agency and enhance the overall experience for all taxpayers.

Chairman Buchanan, Ranking Member Lewis, and members of the Subcommittee, this concludes my statement. Thank you for the opportunity to share my views, and I welcome your questions.

**HEARING BEFORE THE  
COMMITTEE ON WAYS AND MEANS  
SUBCOMMITTEE ON OVERSIGHT  
U.S. HOUSE OF REPRESENTATIVES**

**“IRS REFORM: THE TAXPAYER  
EXPERIENCE”**



**Testimony of Tameka E. Lester, Esq.  
Associate Director  
Philip C. Cook Low-Income Taxpayer Clinic  
Georgia State University College of Law**

**December 13, 2017**

**Washington, D.C.**

**WRITTEN  
TESTIMONY OF  
TAMEKA E. LESTER, ESQ.  
ASSOCIATE DIRECTOR  
PHILIP C. COOK LOW-INCOME TAXPAYER CLINIC  
GEORGIA STATE UNIVERSITY COLLEGE OF LAW  
BEFORE THE  
HOUSE WAYS AND MEANS COMMITTEE  
SUBCOMMITTEE ON OVERSIGHT**

**IRS REFORM: THE TAXPAYER EXPERIENCE  
DECEMBER 13, 2017**

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, thank you for the opportunity to testify and discuss Internal Revenue Service (IRS) reform and the taxpayer experience.

**I. Low Income Taxpayer Clinics**

**A. History**

Tax Clinics have been committed to working with the IRS and low income taxpayers for over 40 years. The first tax clinic began at Hofstra University School of Law in 1974<sup>1</sup>. Throughout the 1980s and 1990s, sixteen tax clinics began to surface at academic institutions and legal service organizations throughout the country<sup>2</sup>. Prior to the enactment of the Revenue Reform Act of 1998, Congress learned more about the importance of the work of these initial clinics through hearings like this one and the testimony of Janet Spragens<sup>3</sup> and Nina Olsen<sup>4</sup>. The clinics were providing representation to low income taxpayers who had a controversy with the IRS, in addition to advocating for the resolution of systemic issues affecting all taxpayers. In order to expand the work of this collective group, funding was needed and ultimately granted through the implementation of Internal Revenue Code Section 7526. This legislation

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<sup>1</sup> T. Keith Fogg, History of Low-Income Taxpayer Clinics, 5 (Villanova University Charles Widger School of Law, Working Paper Series, 2013).  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2142144](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2142144).

<sup>2</sup> *Id.*

<sup>3</sup> Janet Spragens was the founding director of the American University Federal Tax Clinic in Washington, DC. The clinic is now named the Janet R. Spragens Federal Tax Clinic in her memory.

<sup>4</sup> Nina Olsen was the founding director of The Community Tax Law Project in Richmond, Virginia. In 2001, she was appointed to the position of National Taxpayer Advocate.

provided for funding of up to \$100,000 per year for “qualified Low Income Taxpayer Clinics,”<sup>5</sup> birthing the Low Income Taxpayer Clinic (LITC) Program, which has grown to 134 clinics in 48 states and has changed the lives of millions of taxpayers.

The Philip C. Cook Low-Income Taxpayer Clinic at Georgia State University College of Law was founded by Ronald W. Blasi in 1992 and provides controversy representation and educational resources to low income taxpayers in the state of Georgia.

## **B. Mission**

The mission is three-fold: representation, education, and advocacy.

Representation is the cornerstone of the LITC program. LITCs provide direct controversy representation to low income taxpayers. They assist taxpayers with interpreting notices, as well as navigating audits, examinations, and matters before the United States Tax Court. In doing so, LITCs ensure taxpayers pay no more than the correct amount of tax, which is a guarantee promised to taxpayers under the IRS’s Taxpayer Bill of Rights<sup>6</sup>. These rights have also been codified in Internal Revenue Code Section 7803<sup>7</sup>. Where factual and legal issues have been resolved and a taxpayer is unable to pay the tax due, clinics work with the taxpayer and the IRS to arrive at terms that satisfy the interests of both parties under the IRS Fresh Start program<sup>8</sup>, while making sure low income taxpayers are not financially crippled by tax liabilities they cannot ever hope to repay. In addition, LITCs assist taxpayers with lien and levy issues that affect their wages,

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<sup>5</sup> 26 USC 7526(c)(2)

<sup>6</sup> The Taxpayer Bill of Rights outlines 10 fundamental rights taxpayers. Taxpayers should be aware of these rights when working with IRS functions. The rights are as followed: To be informed, to quality service, to pay no more than the correct amount of tax, to challenge the IRS’s position and be heard, to appeal an IRS decision in an independent forum, to finality, to privacy, to confidentiality, to retain representation, and to a fair and just tax system.

<sup>7</sup> See 26 USC 7803(a)(3).

<sup>8</sup> The IRS Fresh Start program, initiated in 2012, was designed to help taxpayers pay their liabilities and avoid getting federal tax liens. The program increased the amount of tax owed before the IRS would file a tax lien, extended the number of months a taxpayer could request an installment agreement (payment plan), and made the terms for accepting an offer in compromise more flexible. Specifically, the offer in compromise program allows taxpayers to settle their tax debt for less than they actually owe. Often times these liabilities cannot be repaid because the taxpayer has suffered negative events relating to their health or employment, and settling the tax liabilities for an amount that they can reasonably repay helps bring them back into compliance. This also makes it easier for them to find employment and gain access to credit, which hopefully makes them less reliant on government social programs in the future.

deposit accounts and Social Security benefits, obtain frozen refunds, and claim innocent spouse relief.<sup>9</sup> Many LITC clients receive the Earned Income Tax Credit (EITC), the most effective federal anti-poverty program in the United States, so clinics do a great deal of work with the IRS's Examination and Appeals divisions to ensure that taxpayers are able to receive it. Since 2007, our clients at the Philip C. Cook Low-Income Taxpayer Clinic at Georgia State University College of Law have had approximately \$20,272,000 at issue in controversies with the IRS. As a result of our clinic's efforts, those amounts were reduced to \$1,898,172. This saved low income taxpayers \$18,373,828. Since 2013, this has equated to \$229,768 in actual money refunded to taxpayers. Since 2002, our clinic has represented 422 taxpayers and consulted with an additional 120. Of the \$9,703,865 proposed in deficiencies by the IRS, our efforts helped to reduce this amount by \$7,829,322, or by 81 percent. Our clinic, like many others, participates in the United States Tax Court Calendar Call program where we help taxpayers with cases before the Court and consult with pro se litigants to provide legal advice before trial.

LITCs also have a vested interest in preventing future controversies from occurring. To that end, they spend time in the community educating taxpayers on their rights and responsibilities under the Internal Revenue Code. LITCs tailor their education and outreach plans to the specific needs of those they serve, and have conducted sessions on how to properly claim the EITC and other child related benefits. They also partner with other organizations, like the Volunteer Income Tax Assistance (VITA)<sup>10</sup> program, providing tax law training to ensure volunteers acquire the knowledge necessary to pass their certification exam. Once certified, volunteers prepare tax returns for low to moderate income taxpayers at no cost. During 2015, LITCs have conducted more than 3,000 educational sessions<sup>11</sup>.

When LITCs come across systemic issues that impede a taxpayer's ability to

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<sup>9</sup> Innocent spouse relief is a way for spouses and former spouses who filed joint income tax returns to seek relief from a tax liability. When spouses file joint tax returns, both become jointly and severally liable for the full tax due. Innocent spouse relief is granted in favor of a taxpayer who shows that only their spouse or former spouse should be held responsible for the tax. This typically happens where the taxpayer provides documentation to prove the spouse or former spouse failed to report income, reported income improperly or claimed improper deductions and credits without his knowledge.

<sup>10</sup> VITA and the LITC programs work together to provide low income taxpayers with a continuum of service. VITA completes current, and to a lesser extent, some past year returns. LITC assists taxpayers with controversies that arise from previous tax years. With the help of these programs, taxpayers can meet their filing requirements and work with a qualified representative to resolve any issues that may result from the return.

<sup>11</sup> Low Income Taxpayer Clinic Program Report (January 2017).

receive fair and just resolutions for their issues, they work with the IRS to improve processes for all taxpayers. These issues can be substantive in nature. One example occurred when an LITC noticed that when taxpayers won judgments from their state and their pro bono attorneys recovered attorney's fees, the state was treating the attorney's fees as income to the taxpayer even though the taxpayer had no obligation to pay fees<sup>12</sup>. The LITC applied for a Private Letter Ruling from the IRS, and the IRS gave the directive that the payment of attorney's fee were not taxable income to a client when he did not have an obligation to pay. The issues can also be more procedural in nature, such as how to correctly process a power of attorney. In these instances, the goal is to improve the system of tax administration for many taxpayers versus simply resolving an issue for one client.

The Philip C. Cook Low-Income Taxpayer Clinic and other LITCs accomplish this through the hard work of students, attorneys, accountants and volunteers who put in countless hours to ensure taxpayers receive quality representation, excellent service, and the best possible outcomes given the facts and circumstances of their cases. We also pride ourselves in providing an intimate training ground for future lawyers, which allows them to begin the process of developing effective lawyering skills essential for the profession. The American Bar Association (ABA) has approved the role LITCs provide in training law, business, and accounting students to provide more affordable tax controversy representation<sup>13</sup>. The representation's value is not simply to low income taxpayers, but to middle income taxpayers when the students graduate with the skills to provide this representation at a more affordable cost. This is particularly important in a time where legal employers are demanding more "practice-ready" law school graduates, the ABA is mandating more experiential education, and there are issues with access to justice.

## **II. LITC Clients And How They Interact With The IRS**

The charge to LITCs has been clear. The objective is to assist low income taxpayers primarily in the controversy process. The premise is that the system of tax administration works best when individuals have access to representation, and access to representation should not be predicated solely on one's ability to pay an attorney or accountant. Ninety percent of our clients have income that falls below 250 percent of the federal poverty guidelines set by the United States Department of Health and Human Services each year<sup>14</sup>. For the 2017 calendar

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<sup>12</sup> Low Income Taxpayer Clinic Program Report (January 2017).

<sup>13</sup> American Bar Association, Report on the Future of Legal Services in the United States

([www.americanbar.org/content/dam/aba/images/abanews/2016FLSReport\\_FNL\\_WEB.pdf](http://www.americanbar.org/content/dam/aba/images/abanews/2016FLSReport_FNL_WEB.pdf)).

<sup>14</sup> 26 USC 7526(b)(1)(B); LITCs are permitted to take up to 10% of their cases outside of the income eligibility limits. These cases typically are accepted where there is a strong case for providing pro bono representation and the case would

year, this equates to an individual earning less than \$30,150 and a family of four earning less than \$61,500. Many LITC clients are struggling to make ends meet and take care of their families with the income from low wage employment, Social Security benefits, unemployment, and the charity and generosity of family, friends, religious and sectarian non-profit organizations. In other cases, LITC clients are taxpayers who planned well and made fiscally sound financial decisions; however, they fell on hard times after losing a job or sustaining a life changing injury or sickness. LITC clients range from students, retirees, and disabled individuals, to veterans and other hard working taxpayers. Along with the challenges of poverty, lower literacy rates, physical and mental disabilities and little to no financial resources or tangible assets to leverage, everyday life can be extremely difficult. A great deal of their resources are spent on necessary living expenses like food and shelter; smart phones, Internet and the flexibility to leave work and wait on hold for hours to speak with a representative are luxuries they simply cannot afford. This makes it essential for the IRS to take an omni-channel approach<sup>15</sup> to continue providing avenues and opportunities for taxpayers to engage with the IRS online, over the phone, in person, and through the use of qualified representatives.

### **III. Progress**

The IRS has made strides in improving its online accessibility. The newly redesigned website has a much sleeker layout, is easier to navigate, and is mobile friendly. For those taxpayers with access to the Internet and smart phones, this provides an excellent vehicle for obtaining information about various tax related topics and accessing IRS forms. The IRS has also made efforts to create online accounts, which allow taxpayers to access their balance, transcripts for the most recent years, and make payments<sup>16,17</sup>. While these steps are helpful in allowing the IRS to provide service in light of its increasingly shrinking budget, it has some negative impacts on low-income taxpayers.

Improvements have also been made around the verification of income for purposes of claiming the Earned Income Tax Credit (EITC). This anti-poverty

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provide educational value for the students. We will not accept a case from a client who could afford private representation from the practicing bar.

<sup>15</sup> Omni-channel approach is a sales term. It refers to a situation where there are various channels or touch points that provide users with seamless experiences across platforms.

<sup>16</sup> View Your Account Information, <https://www.irs.gov/payments/view-your-tax-account> (last visited on December 6, 2017).

<sup>17</sup> Due to the Equifax breach, the online account capabilities have been limited. "At this time, new user registration is only available for Online Payment Agreement, e-Postcard, and FATCA Qualified Intermediary System. New users cannot register to access Get Transcript, View Your Account, Identity Protection PIN (IP PIN), or Secure Messaging. Returning users may still log in to all applications. We apologize for the inconvenience."

initiative rewards low to moderate income individuals and families who are able to work and earn income in the form of a refundable tax credit. Where a taxpayer can satisfy the requirements for the credit, it can yield sizable refunds useful in bridging the income gap throughout the year. Due to the high potential for refunds, there is a great deal of abuse involving this credit. To curtail some of this abuse and ensure taxpayers are properly claiming the credit, Congress mandated in the PATH Act that the IRS must delay the release of refunds that involve the credit so they can verify the taxpayer's income. While delaying refunds can have adverse financial implications on low income taxpayers, verifying income upfront has provided benefits in the areas of identity theft and refund fraud.

#### **IV. Issues Encountered By Low Income Taxpayers When Engaging With The IRS**

The primary ways for engaging with the IRS are online, by phone, and in person at Taxpayer Assistance Centers. Each of these touch points has advantages and disadvantages. Low income taxpayers also have access to representation services from LITCs; however, the program has limitations, too.

The online services are available anytime, so taxpayers are not restricted by their work schedules or the IRS's hours of operation. As long as the taxpayer has access to the Internet, he can utilize the website and online account at a time and in a place that is most convenient for him. The disadvantage to this medium is that the taxpayer must have access to Internet or a smart phone, and many of our clients simply do not.

Taxpayers have the option of contacting the IRS via phone. This allows them to speak directly to a representative about their tax account, and in some cases discuss how issues arise, make payment arrangements, and request transcripts be mailed to their home. This option works well once taxpayers are on the phone with the representative. The issue, however, is actually getting a representative on the phone. During the 2017 filing season, an IRS representative answered only 40 percent of the phone calls made into the "Installment Agreement/Balance Due" line. Wait times averaged 47 minutes, and in our experience in the LITCs, it has been longer<sup>18</sup>. For taxpayers who may rely on being able to take care of personal calls during their lunch breaks or who have other restrictions that will not allow them to sit on the phone for hours to talk to a representative, this poses a serious issue.

Face-to-face service is available for taxpayers at Taxpayer Assistance Centers (TACs)<sup>19</sup>. The IRS has 376 TACs, and there is at least one located in each state.

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<sup>18</sup> National Taxpayer Advocate Objectives Report To Congress, Fiscal Year 2018, Volume 1.

<sup>19</sup> Contact Your Local IRS Office, <https://www.irs.gov/help/contact-your-local-irs-office> (last visited December 7, 2017).

This provides taxpayers with an opportunity to meet with a representative in person to discuss their tax related issues. Taxpayers can also make payments or payment arrangements, request the assistance of the Taxpayer Advocate Service, pick up IRS forms and publications, and receive multilingual assistance in over 150 languages. Prior to 2016, the TACs were walk-in sites. Taxpayers could simply visit a center at their convenience and wait to speak with a representative; however, TACs now operate by appointment. Taxpayer must call the site to make an appointment in advance. The phone lines are open during certain hours. If a taxpayer misses that appointment or needs to reschedule, he must call back and make another appointment. In addition, those taxpayers who go to the TACs and are willing to wait are turned away without being assisted. While some taxpayers can get their questions answered and accomplish the same results over the phone, others may need immediate assistance for urgent matters where they are unable to make an appointment. Other taxpayers may be in such financial difficulty that they may not even have access to a phone. The inability to visit a site without an appointment to discuss tax related matters could adversely affect taxpayers who may otherwise be able to resolve their issues.

LITCs provide a vehicle for obtaining low to no cost representation. This representation equalizes the playing field for low income taxpayers by allowing them to seek the representation of attorneys, accountants, and enrolled agents regardless of their ability to pay. Qualified organizations are able to apply for the LITC grant, receive up to \$100,000 annually, and can use those funds to hire staff, rent space, and buy supplies essential in providing this service. While the number of LITC sites has increased significantly since 1998, so has the need for their assistance. The National Taxpayer Advocate has identified several underserved areas, one of which is Georgia. While existing LITCs in these underserved areas may have the capacity to take on more clients or set up other satellite locations, additional funding is needed to assist in those efforts. Because of the statutory cap of \$100,000, the needs of many other taxpayers are going unmet.

## **V. Opportunities For Reform**

Accessibility is key for low income taxpayers. They need the ability to contact and engage with the IRS online, over the phone, in person, and through the use of qualified representatives. When considering reform, it is important to make improvements to each of the customer facing channels as well as the availability for representation.

Online services are helpful for taxpayers. Additional funding should be made available to improve online technology and the ability for taxpayers to communicate and transmit documents to the Service. Currently, taxpayers primarily provide documentation in response to IRS requests via mail or fax. Documentation sent by mail is sometimes lost in transit, potentially allowing sensitive information such as social security numbers to be compromised.

Faxing information can become expensive, as most companies charge a per page fee to send faxes and to scan. As technology improves, taxpayers should be permitted to transmit the requested information to the IRS electronically. This will be helpful for some taxpayers, but cannot be the primary touch point because the Internet, scanners and smart phones are not available to everyone.

Funding should also be increased to hire additional representatives to answer phone calls and staff new and existing TACs. These two mediums provide taxpayers with direct ways to contact IRS representatives. Both allow them to ask questions about tax issues, receive information about their specific tax account, and make payment arrangements. Since 2011, the IRS has reduced the number of TACs from 401 to 376. Twenty-two of those sites do not have actual staff at the location, and 95 TACs have only one person staffing the center<sup>20</sup>. For taxpayers not in a city with a TAC, the phone is their lifeline to the Service. Since there are only 376 TACs, this leaves quite a few areas underserved and groups of taxpayers who have no choice but to call the IRS. For those cities with TACs, additional representatives would ensure more taxpayers are serviced. In addition, the TACs should begin accepting walk-in taxpayers again.

LITCs are instrumental in helping taxpayers navigate these avenues and the tax administration system. While Congress has continued to increase the overall funding available to the LTC program, it has not revisited the statutory cap, which dictates how much funding any one organization can receive. Many organizations, such as Georgia State University, have the capacity and interest in serving more taxpayers in other parts of the state. For 26 years the Philip C. Cook Low Income Taxpayer Clinic at Georgia State University has serviced the state of Georgia. The majority of our clients are in the Atlanta metropolitan area; however, we could provide satellite campuses in other parts of the state. We simply need additional funding to equip those locations with attorneys, accountants, or enrolled agents. We currently receive the statutory cap of \$100,000; however, if this amount were increased, this funding could be possible not only for Georgia but other underserved areas in the country.

## **VI. Conclusion**

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee that concludes my statement. It is important to recognize the needs of low income taxpayers when considering IRS reform. Thank you for the opportunity to share my views. I would be happy to answer any questions.

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<sup>20</sup> National Taxpayer Advocate 2016 Annual Report To Congress, Special Focus (IRS Future State: The National Taxpayer Advocate's Vision For a Taxpayer-Centric 21<sup>st</sup> Century Tax Administration).

Chairman Buchanan. Thank you.

Ms. Ron, you are recognized.

**STATEMENT OF MS. KARINA RON, DIRECTOR, CENTER FOR FINANCIAL STABILITY, UNITED WAY OF MIAMI-DADE**

Ms. Ron. Good morning, Chairman Buchanan, Ranking Member Lewis, and members of the committee. Thank you so much for the opportunity to be here and testify today. I will be mainly focusing on experiences through the VITA program.

The United Way focuses on lasting solutions that go beyond charity because financially stable people are more likely to access quality healthcare, provide a good education for their children, and contribute to their local economies.

A key component of success in building financial stability is ensuring that hard-working families secure and keep the tax credits they are eligible for through free high-quality tax preparation and filing services, particularly via the Volunteer Income Tax Assistance Program, or VITA, as we know it.

Volunteer preparers are certified by the IRS and are required to maintain the highest standards of ethical conduct and service. This certification and a very, very disciplined approach in service delivery have resulted in accuracy ratings among the highest of all tax returns filed. According to a 2016 report, for example, the VITA program experienced a 94 percent accuracy rating for prepared returns, including returns with earned-income tax credits.

VITA is a very successful public-private partnership generating a strong return on investment. With a modest Federal investment, matched in local communities, VITA sites prepared millions of returns, bringing back \$1.9 billion to VITA clients in communities across the country.

VITA helps hard-working Americans meet their tax obligations while claiming the full amount of any refunds for which they are eligible. Often clients qualify for the EITC and child tax credit, which are some of our Nation's most effective anti-poverty tools. Only those who work are eligible, and in 2015 these critical pro-work tax credits lifted 9.8 million Americans out of poverty, including 5 million children.

Fundamentally, VITA supports those who cannot afford professional tax services and need assistance to accurately complete their taxes. Even beyond tax filing, many programs leverage the touch point that VITA provides to offer integrated service

delivery, like counseling and education, and to connect clients with programs that foster proper financial stewardship and even grow savings.

The Miami-Dade VITA Coalition, for example, provides access to financial capability services that range from financial education and one-on-one financial coaching to incentivized savings programs and even onsite bank account openings in partnership with its local banking access coalition, known as *Bank On Miami*.

Since its creation, the VITA program has been an incredibly successful public-private partnership throughout the country. The resources that the IRS provides through this matching grant are only a portion of what organizations use to operate VITA sites.

While the tax returns are prepared by volunteers, sponsoring community organizations contribute significant resources to recruit and train the volunteers to IRS standards, supervise the volunteers to ensure accuracy, provide office space and computers for electronic filing, and conduct outreach to community members.

Currently, 380 United Ways fund, operate, or support VITA programs, contributing financial resources, personnel, and in-kind donations. As a network, the United Way invests \$17.4 million in VITA and other filing assistance programs. Millions more are invested across the country from other nonprofits and community service agencies, though these resources are stretched very tight and the reality is that communities often lack the resources to meet demand.

And demand for VITA services only continues to grow. Given the significant return on investment and the successful partnership, we recommend a boost in funding for this program and for the program to be permanently authorized as called for in the bipartisan VITA Permanence Act, sponsored by Representatives Curbelo and Davis.

Thank you once again for the opportunity. It is a pleasure to be here.

Committee on Ways and Means, Oversight Subcommittee  
Witness Written Testimony  
Perspective-Director Center for Financial Stability  
United Way of Miami-Dade

The whole community benefits when working people can turn their financial tightrope into a stable pathway to success. That's why United Way focuses on lasting solutions that go beyond charity, because financially stable people are more likely to have access to quality healthcare, provide a good education for their children, and contribute to their local economies. A key component of success in building financial stability is ensuring hardworking families secure and keep the tax credits they are eligible for through free, high-quality tax preparation and filing services.

Through the Community Volunteer Income Tax Assistance Program (VITA), volunteers become certified tax preparers and provide qualifying individuals and families with free, reliable assistance in filing federal tax returns. Most taxpayers utilizing VITA earn an annual household income of less than \$54,000 and come from traditionally hard-to-reach and underserved communities, including people with disabilities, the elderly, and Native Americans. Additionally, many programs offer services for taxpayers with English as a second language.

Volunteer preparers undergo training well before tax season begins, and are certified by the Internal Revenue Service (IRS). In an effort to establish and maintain trust from the public, VITA volunteers are required to maintain the highest standards of ethical conduct and service. Volunteers have access to national and local resources that help them complete IRS-required certifications, including an online e-learning system and oftentimes in-person community trainings. All volunteers must agree to adhere to IRS Volunteer Standards of Conduct, and proceed to additional training according to their specific role within VITA. Those preparing tax returns or overseeing sites for example, typically proceed to Basic or Advanced tax law certification as well as specialty courses including one that addresses the tax needs of military service members. Site operations are also managed according to detailed IRS Quality Site Requirements, including such practices as peer-to-peer quality reviews of every prepared return before filing. This certification and disciplined approach has resulted in accuracy ratings among the highest of all tax returns filed.

VITA is a successful public-private partnership, generating a strong return on investment. With a modest federal investment of \$15 million in FY2017, matched in local communities, close to 4,000 VITA sites prepared about 1.3 million returns for taxpayers with an average adjusted gross income of \$25,000 in 2017. Volunteers helped returned \$1.9 billion to VITA clients and communities in all 50 states and Washington, D.C. In Florida, 268 sites prepared 75,000 returns, bringing back \$108 million to Main Street economies throughout the state. In Miami Dade

County specifically, there were \$13 million in returns--\$5 million of which was realized through the Earned Income Tax Credit (EITC).

VITA helps hardworking Americans meet their tax obligations while claiming the full amount of any refunds for which they are eligible. Often clients qualify for the EITC and Child Tax Credit--some of our nation's most effective anti-poverty tools. Only those who work are eligible, and in 2015 these critical pro-work tax credits lifted 9.8 million Americans out of poverty, including 5 million children. 600,000 Floridians were lifted out of poverty by the EITC and CTC, including 311,000 children, each year, on average, during 2011 to 2013. Further, research shows that EITC and CTC recipients use their returns for asset building expenditures like reliable transportation to work, groceries, and quality childcare.

One in five EITC eligible workers don't claim the credit however, and the complex nature of the EITC -- wisely structured to incentivize and reward work - can make it challenging to navigate, resulting in some unintentional error in claims. However, according to a 2016 Treasury Inspector General Report for Tax Administration (TIGTA) report- the VITA program experienced a 94% accuracy rating<sup>1</sup> for prepared returns—including returns with EITC claims. To put that in perspective, in 2014 the IRS National Taxpayer Advocate stated that unenrolled tax preparers were found to have errors in 49% of the EITC returns they filed<sup>2</sup>. We cannot emphasize enough - tax returns filed by VITA volunteers have the highest accuracy rate for EITC filing. VITA is a solution for addressing error rates on EITC, ensuring government resources are accurately delivered to those working and eligible.

Fundamentally, VITA supports those who cannot afford professional tax services and need assistance to accurately complete their taxes. One VITA client may be a 20 year-old single parent working as a full-time cashier at the local fish market, completely new to tax responsibilities and possible credits, and worried about whether or not they will owe taxes on top of tax preparation fees. Another VITA client may be a recently divorced mother of 3, struggling to make sense of her household finances with her 40-year old marriage ending, and anxious because someone told her she would owe the IRS taxes on her alimony this year. Yet another VITA client may be a 50-year old father juggling 3 jobs to provide for his family, using credit cards to help with rising housing, transportation, and health care costs, and no longer able to afford his local tax preparer. These clients frequently leave their VITA sites with tremendous appreciation for the guidance and support they received, often surprised at the level of professionalism and transparency demonstrated by their tax preparers, having a better understanding of their tax returns, and expressing a new level of confidence in their financial next steps -- whether it involves a tax refund or a tax payment.

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<sup>1</sup>Page 8, Quality Statistical Sample Return Review Accuracy Rate  
<https://www.treasury.gov/tigta/auditreports/2016reports/201640045fr.pdf>

<sup>2</sup> Financial Services and General Government Appropriations Hearing, 2014  
<https://archive.org/details/gov.gpo.fdsys.CHRG-113hhr88602>

In diverse communities like Miami-Dade, tax time offers a particularly powerful opportunity to help those with a limited understanding of formal financial structures and systems in the United States, including tax law. Of the more than 10,000 taxpayers served by the Miami-Dade VITA Coalition for example, more than 90% are low income filers and over 70% have limited English proficiency. In addition, there is a high concentration of new citizens and recent immigrants who need support with Individual Taxpayer Identification Numbers, and other matters in order to file their taxes. Given their linguistic, cultural, educational, and financial barriers, these populations are especially vulnerable to predatory services that too often result in significant financial loss, IRS rejections and audits, and fraud or identify theft.

For those who make up Miami's vibrant entrepreneurial economy, there is even an additional layer of complexity and need for VITA services. Starting and growing a microbusiness is the most promising path to financial stability for many low-income households, and they dedicate themselves to their start-up or mom-and-pop business despite an often limited grasp of financial management tools and systems. Each tax season then, many self-employed taxpayers find themselves needing guidance but unable to afford hundreds of dollars in tax preparation fees in order to complete a Schedule C. VITA sites like those in the Miami-Dade VITA Coalition recognize this need and help self-employed taxpayers get organized, file accurately, and even connect to other free small business services in the community.

Beyond tax filing, many programs leverage the touch point with low and moderate-income workers that VITA provides to offer integrated service delivery. When VITA clients have completed the filing process, volunteers and financial stability specialists are on hand to provide counseling and education, and to connect clients with programs that foster proper financial stewardship and grow savings. The Miami-Dade VITA Coalition for example, provides access to financial capability services ranging from financial education and one-on-one financial coaching, to incentivized savings programs and onsite bank account openings in partnership with its local banking access coalition, *Bank On Miami*.

Each year, VITA clients recognize the value and impact of VITA, and they help spread the word in their communities. At some Miami-Dade VITA sites for example, well over 40% of clients have come to VITA through a family or friend referral.

Since its creation, the VITA program has been an incredibly successful public-private partnership throughout the country. The resources the IRS provides through this matching grant program – \$15 million in FY2017 – are only a portion of what organizations use to operate VITA sites. While the tax returns are prepared by volunteers, sponsoring community organizations contribute significant resources to recruit and train the volunteers to IRS standards, supervise the volunteers to ensure accuracy, provide office space and computers for electronic filing, and conduct outreach to community members. Currently, 380 United Ways fund, operate, or support VITA programs—contributing financial resources, personnel, and in-kind donations. As a network, United Way invests \$17.4 million in VITA and other filing assistance programs. Millions more are invested across the country from other nonprofits and

community service agencies, though resources are stretched tight and the reality is that communities often lack the resources to meet demand.

And demand for VITA services only continues to grow. The IRS has determined that while 1.3 million presently access free tax assistance, approximately 19 million would do so if it were readily available. Given the significant return on investment in this successful partnership, we recommend a boost in funding for this program, and for the program to be permanently authorized—as called for in the bipartisan VITA Permanence Act, sponsored by Representatives Curbelo and Davis.

Chairman Buchanan. Thank you.

Ms. Lee-Villanueva, you are recognized.

**STATEMENT OF MS. LYNNETTE LEE-VILLANUEVA, VICE PRESIDENT,  
TAX-AIDE, AARP FOUNDATION**

Ms. Lee-Villanueva. Thank you, Chairman Buchanan and Ranking Member Lewis and members of the Oversight Subcommittee, for the invitation to testify today on "The Taxpayer Experience with the Internal Revenue Service." I am Lynnette Lee-Villanueva, vice president for AARP Foundation Tax-Aide. We appreciate the opportunity to share with you information about the program and our service to the American taxpayer.

AARP Foundation is the Nation's largest volunteer-run tax assistance and preparation program administered in conjunction with the Internal Revenue Service. It started in 1968 with just four volunteers at one site. Tax-Aide relies on volunteers who make a difference in their communities by assisting many older, lower-income taxpayers who might otherwise miss out on important credits and deductions.

Today, as we approach our 50th anniversary, nearly 35,000 volunteers in all 50 States and the District of Columbia serve in approximately 5,000 Tax-Aide sites from February 1 to mid-April.

In 2017, the AARP Foundation volunteers helped 2.5 million people file their Federal and State tax returns, including 1.5 million Federal returns. In 2017, Tax-Aide clients, who have an average adjusted gross income of around \$27,000, received \$1.3 billion in income tax refunds and another \$222 million in earned-income tax credits.

Not only is Tax-Aide the producer of about one-half of all volunteer prepared returns, but our research also indicates that the full Tax-Aide effort ranks fourth on the list of all tax-preparing entities, behind only the top three national paid preparer firms.

AARP Foundation Tax-Aide is consistently well-regarded by taxpayers. According to the 2017 AARP Foundation Tax-Aide Satisfaction Survey, 96 percent of respondents stated that they were very satisfied with our service. Among those who used Tax-Aide in previous years, 92 percent said they returned to the program because they are satisfied with the quality of service.

AARP Foundation provides traditional face-to-face assistance service in neighborhood locations, such as libraries, malls, banks, community centers, and senior centers. Local partners donate their space rent-free and sometimes help with administrative activities and program promotion. We work hard to reach out to those who are 50 or older, are homebound or disabled, or live in diverse communities in underserved and rural and urban areas.

Tax-Aide sites are staffed by volunteers who serve as counselors who are trained to prepare and quality review tax returns and client facilitators who greet taxpayers and help them with their paperwork. Other volunteers include translators, technologists, administrators, and site leaders who provide equally important services.

Volunteers, on average, spend about 6 years in the same volunteer position, and many of our volunteers have stayed with the program for more than 20 years. AARP Foundation Tax-Aide volunteers must train and pass an IRS certification test every year in order to serve taxpayers. The program's training commitment is about 3 to 5 days of in-person instruction every year.

Tax-Aide seeks to assist taxpayers in ways that go beyond in-person assistance. A site locator tool helps taxpayers find locations of open Tax-Aide sites, and a call center allows individuals to contact us with questions.

In addition, Tax-Aide provides online tax assistance, a web-based tool available year-round where taxpayers can find answers to frequently asked questions, as well as submit their own questions to receive answers about tax preparation.

Tax-Aide also provides access to My Free Taxes, an option for taxpayers interested in filing their own returns electronically. In the off-season, taxpayers can contact Tax-Aide if they need help with an amended return or have questions about letters from the IRS.

AARP Foundation Tax-Aide continues to strive to provide accurate returns and compassionate service to those who need it most by helping them preserve as much of their existing income as possible.

We appreciate the committee's efforts today to better understand the taxpayer's filing experience. We stand ready to assist and serve as a resource and partner for the committee to improve the tax filing experience for everyone.

Thank you for the time to testify.



**STATEMENT FOR THE RECORD**

**SUBMITTED TO THE**

**HOUSE WAYS AND MEANS  
OVERSIGHT SUBCOMMITTEE**

**Hearing on the Taxpayer Experience with the Internal Revenue Service**

**December 13, 2017**

**AARP Foundation  
601 E Street, N.W.  
WASHINGTON, D. C. 20049**

**Submitted By**

**Lynnette Lee Villanueva**

**Vice President**

**AARP Foundation**

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AARP Foundation thanks Chairman Buchanan, Ranking Member Lewis and members of the Oversight Subcommittee for the invitation to testify today on the “Taxpayer Experience with the Internal Revenue Service.” We appreciate the opportunity to share with you information about AARP Foundation Tax-Aide and our service to the American taxpayer. I am Lynnette Lee-Villanueva, Vice President and National Director for the program.

AARP Foundation works to end senior poverty by helping vulnerable older adults build economic opportunity and social connections. As AARP’s charitable affiliate, we serve AARP members and nonmembers alike. Bolstered by vigorous legal advocacy, we spark bold, innovations solutions that foster resilience, strengthen communities and restore hope.

Helping older adults preserve as much of their existing income as possible is an important part of our mission to increase economic opportunity. AARP Foundation Tax-Aide is one of the ways we accomplish that. It’s the nation’s largest free, volunteer-run tax assistance and preparation program, administered in conjunction with the Internal Revenue Service. Started in 1968 with just four volunteers at one site, Tax-Aide relies on volunteers, who make a difference in their communities by assisting many older, lower-income taxpayers who might otherwise miss out on important credits and deductions.

Today, as we approach our 50<sup>th</sup> anniversary, nearly 35,000 volunteers in all 50 states and the District of Columbia serve in approximately 5,000 Tax-Aide sites from February 1 to mid-April. AARP Foundation Tax-Aide volunteers are trained and IRS-certified each year to ensure they know about and understand the latest changes and additions to the U.S. Tax Code.

In 2017, AARP Foundation Tax-Aide volunteers helped 2.5 million people navigate complicated tax codes, ensure proper credits and deductions, and file their federal and state tax returns. Taxpayers who used AARP Foundation Tax-Aide received \$1.37 billion in income tax refunds and more than \$222 million in Earned Income Tax Credits (EITCs). This year, individuals served by Tax-Aide had an average Adjusted Gross Income (AGI) of about \$27,000.

The number of federal returns prepared by AARP Foundation Tax-Aide sites in tax season 2017 in all 50 states and Washington DC exceeded 1.5 million, with a 98% e-file rate. Not only is Tax-Aide the producer of about one-half of all volunteer prepared returns, but our research also indicates that the full Tax-Aide effort ranks fourth on the list of all tax preparing entities, behind only the top three national paid preparer firms.

### **Taxpayer Program Feedback**

AARP Foundation Tax-Aide is consistently well regarded by taxpayers. According to the 2017 AARP Foundation Taxpayer Satisfaction Survey, the vast majority of respondents — 96 percent — stated that they were very satisfied with the service. Nearly all Tax-Aide respondents reported that the overall quality of service they received was excellent (87 percent) or good (10 percent). In fact, among those who used AARP Foundation Tax-Aide in previous years, 92 percent say that they returned to AARP Foundation Tax - Aide because they are satisfied with the quality of service.

### **Program Funding**

With funding support from the Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) grants, as well as from AARP Foundation, AARP Foundation Tax-Aide has assisted more than 50 million people since the program began.

The Tax Counseling for the Elderly program offers free tax help to individuals who are age 60 or older. The IRS and eligible organizations enter into cooperative grant agreements to provide tax assistance to elderly taxpayers. The funds provided by the IRS are used by organizations to reimburse volunteers for their out-of-pocket expenses — including transportation other expenses incurred by them in providing tax counseling assistance at locations convenient to the taxpayers.

The Volunteer Income Tax Assistance program offers free tax help to people who generally make \$54,000 or less, people with disabilities and taxpayers who speak limited English who need assistance in preparing their own tax returns.

### **Program Structure and Scope**

AARP Foundation Tax- Aide provides traditional face-to-face tax assistance service in neighborhood locations such as libraries, malls, banks, community centers, and senior centers. Space for tax preparation is provided rent-free thanks to local partners that donate their space, and, in some cases, they also help with administrative activities and program promotion. Taxpayers have access to Tax-Aide locations that are open by appointment only, as walk-in sites, or a combination of both.

Tax-Aide sites are staffed by volunteers mainly consisting of Counselors and Client Facilitators. Counselors are trained to prepare and quality-review tax returns, and Client Facilitators greet taxpayers and help them with their paperwork. Other volunteers provide equally important activities; they include translators, technologists, administrators, and site leaders, among others. Volunteers on average spend about six years in the same volunteer position and many of our volunteers have stayed with the program for more than 20 years.

Administrative support and policy guidance are provided by 15 professional program staff based in Washington, DC. A network of AARP state offices around the country assists volunteers with local recruitment and promotion support to reach target audiences, including those age 50 and older, multicultural populations, homebound and disabled, to name a few. We also have initiatives in place to serve diverse communities in underserved rural and urban areas.

In addition, AARP Foundation Tax-Aide staff and volunteers work closely with the IRS, specifically with the Stakeholder Partnerships, Education & Communication (SPEC) team, which is the outreach and education arm of the Wage and Investment Division of the IRS. We work with SPEC's national relationship manager, and have built strong local relationships with SPEC Territory Managers nationwide.

### **Training and Scope**

AARP Foundation Tax-Aide volunteers must train and test every year in order to serve taxpayers. Volunteers assisting taxpayers take Standards of Conduct training provided by the IRS, and must

achieve IRS certification at the advanced level. The program's training commitment is 3 to 5 days of in-person instruction, depending on the experience of the Counselor. State tax law training is also provided by local volunteers.

Volunteers are trained within a nationally determined scope of work. Tax-Aide and the IRS review what will be in scope for tax preparation each year. Examples of areas in scope include typical items such as wages, interest, retirement income, Social Security benefits, and IRA contributions, and many other items. Examples of areas out of scope include self-employment expenses that exceed \$25,000, and rental income. (See the addendum for the 2018 tax season AARP Foundation Tax-Aide scope document.)

Training for specific areas of scope provides volunteers with a clear understanding of what they can and cannot prepare; adhering to scope also protects our volunteers via the Volunteer Protection Act of 1997, which aims to promote volunteerism by limiting, and in many cases completely eliminating, a volunteer's liability when acting for nonprofit organizations.

### **Taxpayer Resources**

In addition to in-person assistance, AARP Foundation Tax-Aide seeks to be responsive to taxpayers through various resources. Each season in mid-January we open the Tax-Aide Site Locator Tool ([aarp.org/FindTaxHelp](http://aarp.org/FindTaxHelp)) providing an easy and efficient way for taxpayers to find information and locations of open Tax-Aide sites. AARP Foundation Tax-Aide also employs a call center so taxpayers and other interested parties can contact us with questions. In addition, Tax-Aide provides Online Tax Assistance, a web-based tool available year-round, where taxpayers can find answers to frequently asked questions, as well as submit their own questions and receive prompt answers about tax preparation. Tax-Aide also provides access to "My Free Taxes," an option for taxpayers interested in filing their own returns electronically.

In the off-season, taxpayers can contact Tax-Aide if they need help with an amended return or have questions about letters from the IRS. AARP Foundation Tax-Aide has a limited number of sites open after the tax season has ended to help taxpayers; volunteers also make themselves available to help on a one-to-one basis, as needed; and, we may recommend that taxpayers get help from the IRS Taxpayer Advocate Service (an independent organization within the IRS to protect taxpayer rights and assist with problems taxpayers can't resolve on their own).

### **Closing**

AARP Foundation Tax-Aide continues to strive to provide accurate returns and compassionate service to those who need it most by helping them preserve as much of their existing income as possible. We appreciate the Committee's efforts today to better understand the taxpayers' tax filing experience. We stand ready to serve as a resource and partner for the Committee to improve the tax filing experience for everyone.

Chairman Buchanan. Thank you for your excellent testimony.

We will now proceed to the questions-and-answers session. In keeping with my past precedent, I will hold my questions until the end.

I will now recognize the gentlelady from Indiana, Mrs. Walorski.

Mrs. Walorski. Thank you, Mr. Chairman.

Thank you, ladies, for being here and sharing your expertise. I am hoping you have an answer to my question. So stay tuned.

The hearing is called The Taxpayer Experience, so I am going to let some of my constituents do the talking on their experience with the IRS.

An 80-year-old farmer in my district received a letter saying that even though the IRS had found nothing wrong with their taxes, he and his wife had been selected for a random statistical audit. Even though the audit only took a few days, they had to spend \$1,900 defending themselves and waste countless hours pulling together documents, traveling to the CPA's office to meet with the auditor. All the while, they felt the burden was on them to prove their innocence rather than the auditor proving guilt.

Or take another family farm in my district that received an audit notification in September of 2012. The auditor sent by the IRS had no background in agriculture, didn't know the difference between a combine and a tractor. Things only got worse when their CPA offended the auditor. After that, they were at her mercy.

She initially said they owed over \$600,000. After spending over \$120,000 and four years fighting that determination, the bill was reduced to \$100,000. They could have kept on fighting but didn't want to keep spending more time and more money.

These are only two stories of countless in my district, and I am assuming probably countless in your experience as well. I know there is plenty more where that came from.

It is easy to add up the time and the money spent, but it is harder to quantify stress.

Consider this. That 80-year-old farmer I just told you about had a heart condition and was told by doctors to avoid stress. How exactly can he do that while sitting across from an IRS auditor when he did nothing wrong.

His family farm? The husband died during the audit, and the wife pleaded for a little extra time. She didn't even get a response.

My first question for all of you is if any of you are familiar with this kind of statistical audit encountered in the first story. If so, what sort of costs are imposed on taxpayers subject to one?

I see, Ms. MacMillan, you are shaking your head. I am guessing you have an answer.

Ms. MacMillan. Yes, I have had a few clients go through these audits. And I know it is a matter of trying to balance fairness with getting the information the IRS needs.

The National Research Project audits that were started maybe 12 years ago are these extremely extensive audits, and they use that information to develop better audit technique selection, or selection technique, for future audits.

So I have been through a few of them and they are grueling. I don't know that the IRS can get that data from elsewhere. But, yes, it is extremely expensive to go through one of those, and they often result in no change. But they do go through horrendous amounts of documentation, asking everything from, what about that piece of property you owned in Colorado? And they are like, we sold that 24 years ago.

So they have gone to their third party or their outside sources to figure out what they should be looking at, but then the data is all over the place. It could be refined.

Mrs. Walorski. I appreciate it.

Ms. Lester, do you have some input?

Ms. Lester. Absolutely. We see this a lot even with low-income taxpayers having to go through audits. The way we like to describe it to taxpayers is, when you fill out a tax return, you are on the honor system, unfortunately. And so when the IRS comes back, they want documentation to support the things that you have claimed on the return.

And so that is why it is so important to encourage taxpayers to collect documentation as they go along and to retain that documentation for an extended period of time just in case they are subject to an audit in later years.

We think that is why the work we do in the Low-Income Taxpayer Clinic is important because we are a training ground for students, law students, business students, accountants. So not only are we providing a valuable service to low-income taxpayers, but we are training students who will later be able to use their skills to provide affordable services for taxpayers who can actually afford to pay but don't want to pay astronomical fees in order to gain representation.

Mrs. Walorski. I appreciate it.

Do any of you have suggestions or recommendations based upon everything that you have seen on how to speed up this process other than just educating the taxpayer to keep their documents? Is there anything else that you see in troubleshooting this that would actually speed up the process?

Ms. Lester. Yeah, I can add to that. One of the recommendations that we have made is to improve the ability for taxpayers to correspond with the IRS in an online fashion.

Because right now what happens is taxpayers are pulling together all this documentation. Then they are having to mail it to the IRS. Then it has to be routed to the correct area. And so that leaves a lot of chance for things to happen with documentation, for it to be misrouted, for it to be lost.

And so we think that with improved online capabilities, taxpayers can send the information directly to the Service and that can help speed up the process.

Mrs. Walorski. Great. I appreciate it. Thank you, all of you, for your expertise.

Mr. Chairman, I yield back.

Chairman Buchanan. Thank you.

I now recognize the gentleman from Georgia, Ranking Member Lewis.

Mr. Lewis. Thank you, very much, Mr. Chairman.

Mr. Chairman, you know, it is quite unusual. I have been on this Committee and the Subcommittee for some time. But I think this is my first time seeing an all-women panel. And I guess you can say that is major progress.

Chairman Buchanan. It is the future.

Mr. Lewis. It is the future. I think you are right. I agree with you, Mr. Chairman.

I have been saying to some that I think women are coming into your own, and I think the days and years to come will be the days and years of women. So thank you.

Ms. Lester, thank you again for being here. You know, writing tax laws too fast and sometimes trying to implement laws you make mistakes and there is confusion for taxpayers and the IRS.

We have this new unbelievable tax legislation. Do you have anything, or any of you have anything to say, of what could happen, or might not happen, or what time should you get the information to inform? Any of you could respond.

Ms. Lester, you want to go first?

Ms. Lester. Can you repeat your question?

Ms. MacMillan. Could you repeat the question? I am sorry.

Mr. Lewis. You know we have a big tax bill?

Ms. MacMillan. Yes, I am aware of that.

Mr. Lewis. Right? You have been reading about it?

Ms. MacMillan. Right. Yes.

Ms. Lester. Yes.

Mr. Lewis. Tax reform is coming down the pipe. So are you concerned that there will be some confusion on the part of the IRS or the taxpayers that you serve?

Ms. MacMillan. I don't know that I am confused about the IRS. There will be costs of the IRS to implement major changes to the Tax Code. That is clear. I don't know if I can address anything else about it.

I can tell you that middle class taxpayers on the West Coast are at a different income level than middle class taxpayers in the Midwest. So there is going to be a discrepancy.

Mr. Lewis. There are certain things that affect the taxpayers on the West Coast that may not affect those in the Southeast?

Ms. MacMillan. Well, obviously, on both coasts, the higher income -- someone in the middle class on the West Coast would look like they were a wealthy person if they lived in the Midwest. So I am unsure of how it is going to shake out. But the explanation that this helps middle class taxpayers may not help many of my clients.

Mr. Lewis. Ms. Lester, you want to respond?

Ms. Lester. Sure. I have looked at some of the details of the tax bill, and one of the things that I know that will probably concern low-income taxpayers is just understanding the differences and understanding the changes.

It is already very difficult for taxpayers to understand their rights and responsibilities under the Internal Revenue Code, and it seems like, once they kind of begin to understand that, the laws change.

And so some of the things that we are looking at that we think will affect them are the exemption amount going away for low-income taxpayers that have multiple children. This actually decreases their taxable income. And so with that going away, their taxable income could possibly increase. Although the standard deduction is increasing. That could still have an effect on them.

But there are some things that could be helpful, such as the child tax credit being increased. So we see there being some benefits and also some disadvantages that would affect our taxpayers.

Mr. Lewis. Thank you.

Ms. Ron. If I could add, this is definitely not my area of expertise, but I would say that from the perspective of the population that we serve, there are definitely concerns with the tax reform coming up. Definitely, the United Way, I think, would be happy to follow up with more specifics on that. But I think in general there are concerns, particularly perhaps around impact on charitable giving.

Mr. Lewis. Thank you.

Yes, ma'am.

Ms. Lee-Villanueva. I would just like to add that for the AARP Tax-Aide Program, our commitment would be to make sure that our volunteers are up to speed on the current tax law and make sure that they are properly trained in order to serve our clients.

Our clients that we see, the taxpayers with the lower income, and many of them in the older population, would still need assistance to be able to prepare their returns, and we would be there committed to provide that assistance.

Mr. Lewis. My time is running out, but if you could make it quick, and I will make it quick.

What is your number one recommendation for Congress in terms of improving taxpayer service in your community?

Ms. MacMillan. I think overall the lack of funding has been the biggest problem, and we encourage Congress to look to funding them better.

Mr. Lewis. Thank you.

Ms. Lester. I would have to agree. I think just making sure that taxpayers -- I know there has been a big push to improve the online capabilities, and we think that is great. But just making sure that taxpayers have the ability to talk with actual representatives via phone and also at Taxpayer Assistance Centers is critical.

Mr. Lewis. Thank you.

Ms. Ron. I would also say that funding for programs that are so comprehensive, such as VITA, would be very important, especially in diverse communities. And to add to that, I would say also perhaps some assistance with data collection and reporting that might inform best practices on the ground.

Mr. Lewis. Thank you.

Ms. Lee-Villanueva. I would just say that for the taxpayers that we see, we turn away taxpayers every year. So even though we serve 2.5 million, we still could serve many more. So expanding the services of the volunteer programs I think would be ideal in providing service, especially to the lower-income population.

Mr. Lewis. Thank you very much.

Thank you, Mr. Chairman.

Chairman Buchanan. Thank you, Mr. Lewis.

I now recognize the gentleman from Florida, Mr. Curbelo.

Mr. Curbelo. Mr. Chairman, thank you for holding this hearing on such an important subject and allowing us to learn directly from those who interact the most with the IRS.

One topic being discussed this morning that I am particularly proud to support is the Volunteer Income Tax Assistance Program. VITA, or VITA as it is called in Miami sometimes, partners with the Federal Government and local community to provide tax preparation services for individuals with annual incomes below \$54,000 and for those with limited proficiency in English.

The VITA preparation services are of the highest quality, with an accuracy rating of 94 percent, even including returns claiming the complicated earned income tax credit. The certified preparers in the VITA Program help traditionally underserved populations navigate the obstacles associated with filing a tax return and protect them from fraudulent preparers.

These are some of the most vulnerable people in our communities, Mr. Chairman. And these are people who want to comply, who want to follow the law, who want to do the right thing, which is why I have become such a strong advocate for this program.

I want to thank your Committee staff, Mr. Chairman, for the great work they are doing on this issue and others. And I am so pleased that H.R. 2901, the VITA Permanency Act I introduced with Representative Davis, has garnered the support of 38 bipartisan cosponsors, including 13 Members of this Committee.

It is great that the Senate has included this language in their tax reform package. And I will continue to lead the charge to maintain full funding with the Appropriations Committee as we work towards a spending resolution for fiscal year 2018.

I want to ask Ms. Ron, as the IRS's Taxpayer Assistance Centers offer less and less face-to-face help to people, are you seeing an increase in demand for VITA services?

Ms. Ron. Definitely. And I would say in Miami-Dade County, for example, we estimate that we are only serving 1 percent of the folks that are eligible for this service. So there is definitely a lot of opportunity and a lot of demand there.

We work very closely with our local SPEC offices and IRS partners and there is a great trust there. And we definitely see a lot of increase out of need, but also, I think, recognition of the quality of services that we provide, particularly around amendments and other kinds of difficult situations.

Mr. Curbelo. How is your interaction with the IRS? Are you getting referrals from the agency?

Ms. Ron. Yes, definitely, and there is an increase, I would say, at least for the past 3 years.

Mr. Curbelo. Okay. I also want to ask you, in your testimony you mentioned the vibrant entrepreneurial economy in Miami-Dade County, which I am so familiar with and makes me so proud to come from such a diverse, dynamic, and special part of the world.

Can you elaborate on any microbusiness trends that you are seeing? Are you seeing an increase in individuals with 1099s or miscellaneous income from things like Uber driving, Thumbtack, or other tech-related commerce?

Ms. Ron. Yes, we definitely are. I think, also, in part in response to the economy and especially in a place where you have experiences like natural disasters, Irma recently, a lot of people take up self-employment opportunities in order to meet their financial needs that they are already struggling with.

So there is definitely an increased need for that. And because it is such a diverse community, a lot of people are not perhaps as well-versed with our formal financial structures and systems. And so they need that one-on-one support that programs like VITA provide.

Mr. Curbelo. Thank you.

Thank you, Mr. Chairman.

And I am grateful to you, Ms. Ron, and to all of the individuals who have joined us this morning.

Thank you very much. I yield back.

Chairman Buchanan. Thank you.

I now recognize the gentlelady from Washington, Ms. DelBene.

Ms. DelBene. Thank you, Mr. Chairman.

And I just want to say thank you to all of you for being here with us today.

I represent a big district in Washington State, and we have many areas, rural areas, where access to reliable internet access is challenging, and sometimes there is no internet access whatsoever.

So when we look at rural communities and rural communities that may not have assistance nearby, I wondered -- and you mentioned this, Ms. MacMillan -- I wondered if you could talk a bit about what the experience is like for folks who don't have electronic access, reliable electronic access, and who live in rural areas where there may not be assistance close by. What is their experience like?

Ms. MacMillan. Yeah. That is one of those major limitations of IRS.gov, they may not have internet access, or it just may not be suitable for what they need to do or what their needs are.

Taxpayer Assistance Centers have been closed more and more recently, and the level of information that they can give and the different circumstances for which they can help are being further and further limited. The staff there has been told they may only answer basic tax questions during tax season, and outside of tax season they can't answer basic tax law questions at all.

So these people, basically their only option is to either get on the telephone or seek out professional help. And like the VITA sites, there is just not enough of the Taxpayer Assistance Centers to go around anyway.

So these people are ending up on the phones. And the phones, the level of service is pretty much a disaster. And the level of calls they can answer and the wait times just are unconscionable, and they just don't have the staff to --

Ms. DelBene. And if they wanted to go to a Taxpayer Assistance Center?

Ms. MacMillan. Taxpayer Assistance Center might be really far away from them, and they need to make an appointment. And I think that is probably the biggest issue now, because taxpayers are used to being able to drive to their local IRS office, which could be 200, 300 miles away, and they get there and they are told, "Oh, we do this by appointment only. You will need to get on the internet and make your appointment."

Ms. DelBene. And if they can't get on the internet and make an appointment?

Ms. MacMillan. I guess there is a call-in number. But appointments are being scheduled out way in the future too. There are very few exceptions to the walk-in policy of you turn them away when they come into the center.

Ms. DelBene. So for --

Ms. MacMillan. They are out of luck. They are out of luck.

Ms. DelBene. You talked about providing resources. What else do you think we can do to make sure that --

Ms. MacMillan. Training. A dedicated training unit within the IRS would be a big help. The training has gone way downhill because of budgetary constraints. So they are not able to hire new employees, and they are not able to train employees. So they basically are keeping more employees at lower-level positions, so they don't have the authority or the education to know how to handle more taxpayer problems.

Ms. DelBene. Have others had the experience with rural communities and have feedback?

Ms. Lester.

Ms. Lester. Yeah, absolutely. We service the entire State of Georgia. And so the majority of our clients are in the metro Atlanta area, but we do offer our services to everyone throughout the State. And there are a lot of rural communities there where taxpayers want to work with us but they have to work with us through snail mail and fax and things like that, which can be very challenging.

As Jennifer said, the Taxpayer Assistance Centers only accepting appointments poses a real issue because taxpayers have to have access to a phone, have to have access to the internet. And even for taxpayers who have that, some taxpayers have immediate needs that could likely be resolved, but because they have to make an appointment they aren't able to get the assistance they need right then.

Ms. DelBene. And they would have to take time off of work to actually go.

Ms. Lester. Absolutely. And some taxpayers just don't have that flexibility.

Ms. DelBene. Any other feedback?

Ms. Ron.

Ms. Ron. I would add that also in Miami-Dade County transportation is a huge problem, and even some of our neighboring communities, like Monroe County, where there are a lot of farm workers. So we definitely encounter this.

And for us, I would just offer up that there have been some strategies that we have used that have been helpful. For example, public-private partnerships with banks or other partners that actually have mobile units. And so we are able to kind of maximize that by going out on specific dates to serve the populations on-site.

And another one I would say is perhaps being more creative around virtual tax preparation. That has also been something that we have used.

Ms. DelBene. Thanks.

Ms. Lee-Villanueva. Yes. Volunteers serve in the community where they live. And in many of our communities they know the surrounding areas that are around them. We do require that we have at least two volunteers in any community to be able to open a site.

But we are beginning to look at what options are available virtually. And there are many volunteer programs around the country that have created virtual offerings to those locations that have the more rural areas. So we look at those as well.

Ms. DelBene. Thank you.

Mr. Chairman, I yield back.

Chairman Buchanan. Thank you.

I will now recognize the gentleman from Pennsylvania, Mr. Meehan.

Mr. Meehan. Thank you, Mr. Chairman.

And I thank this very distinguished panel for not only your presence here today, but for all the work you do out in the community on behalf of many of the taxpayers who are confused by the process.

I will say, I mean, there was a point being made, and I think the gentleman from Georgia raised some issues, but one of the real objectives of the tax reform bill is simplification. We had testimony here just a short while ago that 94 percent of the people are expected to be able to file their tax returns on that simple card. I think that is going to improve a lot of issues to some extent.

Now, where there are questions, I guess, that is where we are going to have to come in and follow up with some of the issues that exist. So we need to be able to work in that space for sure.

But we have all had experiences in our own area with the frustrations of dealing with the IRS in terms of getting responses. I can tell stories much like the rest. I had a gentleman who had a \$75,000 refund due in tax year 2014. The problem was, he calls up the IRS, he talks with a person, because it was suggested to him that he was a victim of identity theft. And I don't know how frequently you see these problems. But he mentioned that he was a victim of identity theft.

They resolved it over the phone. And he said, "Okay, now I have got it, I see where you are in the system." And he told him he would receive his return in the coming weeks. He

waited a couple of months, still nothing. Contacted the IRS, they said, "Well, you never sent anything to us."

How frequently do you run into circumstances in which there is either a lack of accountability or at least a lack of some kind of confirmation of meetings?

And what is the impediment? I understand there are issues of identity theft. But what is the impediment, in this age of computer-generated documents and things of that nature, to have an acceptable use of a PDF or something else that goes in, in terms of dealing with them?

Ms. MacMillan, can you start me on some of that process?

Ms. MacMillan. Well, I can tell you from my experience and what I have heard from colleagues is that that is another area that is not being fully -- tax refund holds are one of the big issues for identity theft issues when they come up.

And the other issue is IP PINs, the security PINs that IRS can assign to taxpayers who are victims of identity theft. One issue that we see is that these are not available to anyone who hasn't had their identity stolen except for in a few circumstances. There are three states where they can.

Mr. Meehan. How do you know if you have had your identity --

Ms. MacMillan. Pardon me?

Mr. Meehan. How do you know if you have had your identity stolen?

Ms. MacMillan. Oh, you find out when you file a tax return and the IRS sends you a letter and says, "But you already filed," and you didn't.

Mr. Meehan. Okay.

Ms. MacMillan. The scammers have -- they go by the client information, the taxpayer information off the dark web, and then they file fraudulent returns in order to claim, you know, just fraudulent, made-up refunds. And they are getting more and more sophisticated. So the IRS has to have sophisticated filters for trying to catch these people.

So the first issue is a lot of bona fide taxpayers are having their issues frozen. And the other issue is, if you are a victim of ID theft, the IRS process for getting an IP PIN is kind of burdensome. But also the fact that it is not available to all taxpayers, even those that have not had their identity stolen, is a problem.

Mr. Meehan. So could we amend that in some way by being able to require that? Or what is the reason for not allowing that PIN?

Ms. MacMillan. The reason the IRS has stated that they are not making that available to all taxpayers is that it is a very expensive program because it is done through third-party providers.

And then the identity theft, I think the filters that the IRS runs all tax returns through to try to gauge whether or not this might be a rogue return, those are getting better, but there is still need for improvement, and there needs to be a dedicated function at the IRS to help these taxpayers. When their refund is frozen they need to have an army of assisters on the phone that can help these people get through that process of getting their return -- their refund to them.

Mr. Meehan. Yeah. We have looked at this issue before, and I know the IRS is working very hard in this space. But we are seeing that there are still some impediments.

Ms. MacMillan. Right.

Mr. Meehan. Does anybody else have an observation with respect to this issue of identity theft and timely response?

Ms. MacMillan. It is getting better. They have recently improved their filters. But, unfortunately, I think to some extent that is going to continue to be an issue.

I think they just need to be able to handle these problems or handle the resolution more quickly. Right now they send a letter to the taxpayer saying, "This might not be your return. Please send us some documentation." And it is just a long process for these people to get their refunds.

Mr. Meehan. More work needs to be done.

Thank you, Mr. Chairman. I yield back.

Chairman Buchanan. Thank you.

I now recognize the gentleman and good friend from Oregon, Mr. Blumenauer.

Mr. Blumenauer. Thank you, Mr. Chairman.

I appreciate having our friends come in and talk about some of the important roles that you play trying to complete the network of assistance for taxpayers. It is certainly daunting for them.

And having volunteers at AARP actually more extensively trained than some people who are doing it for hire raises troubling issues in terms of perhaps we shouldn't have a system -- require certain minimum competence for people who are going to charge for it, at least as high as what you do with your volunteers. I think that is very important.

But what I am hearing underlying your testimony is that a fundamental problem is that there just are not enough resources at the IRS. I am not hearing from you that you find lots of people who are lazy and who are malicious.

Although I will say, from my visits to my local IRS employees, they are stressed, they are burdened, they have to take shortcuts to try and keep up. I have shared with people on this panel, I have watched them burst into tears because they can't give the service that they want to give, that they want to give.

And I think what we need to be doing is a deeper dive on what Congress has done, engaged in political malpractice because of the antipathy that some people have to the IRS and taxation, punishing the taxpayers.

What we have seen, deliberately starving the budget of the IRS that has dropped a billion dollars since my friends in the Republican Party got control of the House of Representatives and clamped down, a billion dollars less at a time when the number of taxpayers increases. It went, what, from 230 million to 244 million returns. And those returns are increasingly complex because of all the things that Congress passes.

And while they were doing that, there were more burdens placed on the agency. They have to implement a number of legislative mandates, the Affordable Care Act, the Foreign Account Tax Compliance Act, Achieving a Better Life Experience, the ABLE Act, the reauthorization of the health coverage tax credit, the Protecting Americans from Tax Hike.

All of these were unfunded, layered on top of an agency that has been losing staff. We have, I think, a third less than we had 20 years ago.

But one of the things we have still got is the computer system. In fact, we have had testimony before this committee that the systems go -- Fortran. I mean, we are talking about people in the 1970s. They have difficulty in some instances getting people knowledgeable to fix and operate the computers because they are so out of date.

That is the real challenge we are going to watch, we are going to unleash, if my Republican friends pass this tax bill, which everybody is still finding out what is in.

I loved finding out this weekend that people who make between \$550,000 and \$650,000 might be facing an effective marginal tax rate of 107 percent. I didn't hear about that in our march through the fact that people who earn their income from wages and salaries are going to be paying a higher rate than people who can recharacterize their income for the first time in our history.

So we are about to give a beleaguered IRS, outmoded, ill-equipped, with few new people that are there, and these artificial constraints, we are about to give them more mandates in terms of how you are going to have guardrails to deal with pass-through income.

Mr. Chairman, at some point we have got to acknowledge what we have done to the agency. And I hope everybody spends time meeting with the people who work there who want to do a good job.

Cutting back on enforcement that gives us \$6 for each dollar that comes in, no business that you had would operate that way, and we shouldn't operate our accounts receivable this way.

Thank you for your patience.

Chairman Buchanan. Let me just say to the gentleman that that is why we want to do IRS reform on a bipartisan basis. I am committed to that because I agree with you: there are a lot of issues that have got to be dealt with. Technology is at the top of the list.

With that, I recognize the gentleman from Michigan, Mr. Bishop.

Mr. Bishop. Thank you, Mr. Chair.

And thank you to the panel today for your time and for all your dedication to the demographic that you represent. All of us here represent a good number of families and individuals. On a daily basis, we are deluged by issues, concerns. And I have to say that IRS issues are high on the list of issues that come to my office and that our dedicated staff works on and that I work on a daily basis. And each of us has a story to tell, many of them horror stories, and they are not few and far between. Unfortunately, there are several of them out there, and they come to us almost daily.

Mrs. Walorski mentioned some in her district, and Mr. Meehan did the same. I won't do that because there are too many to talk about. But I will say that one of the things that I am very proud of with this Committee is the fact that we have taken on tax reform. And the issues that have really vexed my constituents, as Mr. Meehan said, one of the biggest issues is how complicated this IRS Code is and the 70,000 pages of convoluted rules and regulations that have made life miserable for folks. That period of time between January 1 and April 15 is a horror story for many families and many businesses, and even worse if they get audited thereafter. So anything we can do to simplify I would support and have supported. I think this will be a great bit of a relief to families and to businesses.

I also have to say that the amount of relief that we are giving in the form of tax rate is substantial as well. And many of the folks in your demographic will feel that relief in many ways. In fact, many of them may not have tax liability at all under the plan that we have put forward, which I think is probably the best-case scenario for everybody.

One thing that I am concerned about is, in your demographic, for those of lower income are folks that are able to respond to IRS audits. Can you tell me -- in your organizations and all of your very worthy, noble organizations, can you tell me if you provide audit services for your clientele? And if so, to what extent? I guess let me start here with the

AARP because that is one area that I know that I hear the most from, the older population.

Ms. Lee-Villanueva. The low-income population, yes. Tax-Aide itself does not provide audit services. Under the volunteer programs within the IRS, it is the taxpayer's responsibility so we ensure that we make sure that the taxpayers understand that this is their return and that they are responsible for it and for the information that is on the return. So we might talk to them when they get the letter; they usually do contact us. But we do not go with them to actually intervene with the audit.

Mr. Bishop. Okay. So you don't represent them in the audit?

Ms. Lee-Villanueva. No, we do not.

Ms. Ron. I would say we provide a program similarly. We do not -- what we aim to do is partner up with LITC and other partners to help with those things.

Ms. Lester. Yes, we actually do work with taxpayers who are going through an audit or an examination with the IRS. The vast majority of our clients are dealing with correspondence audits. So, again, the IRS is sending them a letter saying that they are questioning or looking into particular credits or deductions they have taken on their return. And so, once they contact us, we like to step in and walk through that process with them. The earlier they come to us, the better, obviously, because we have more remedies that we can explore. The problem is that a lot of times just because of our population, they are kind of transient in nature. They may not open notices. And so a lot of times, when they come to us, they are much further along in the process. But for those taxpayers who do come to us while they are still in the audit phase or examination phase, we are able to work with them to pull documentation together. We might write a memorandum in support of their position. If it goes to appeals, we request face-to-face hearings with appeals with the Atlanta field office, or we work over the telephone to work through those issues with them.

Mr. Bishop. Thank you.

Ms. MacMillan. As I think you know, Enrolled Agent, our license is for representing taxpayers so that is one the bread-and-butter areas, is postfiling correspondence. I personally do an awful lot of individual audits.

Mr. Bishop. Can you give me an idea of the demographic that you represent? How many of them percentagewise would face an audit as a result of their tax return?

Ms. MacMillan. In my practice, about half, maybe more than half are field audits, and that is just because I advertise or I put myself out there as enjoying doing field audits for taxpayers and office audits. The majority of what I see are these correspondence audits or, more often, the matching program, the CP-2000s, and those are -- those have their

own set of issues because they are computer-generated audits that are not being handled by a human being in any way, shape, or form.

Mr. Bishop. Thank you very much.

Mr. Chairman, I yield back.

Chairman Buchanan. Thank you.

I now recognize the gentleman from Arizona, Mr. Schweikert.

Mr. Schweikert. Thank you, Mr. Chairman.

This is one of those moments where I am going to throw a number of things at you, and I am begging for even also Minority staff and others to sort of participate.

First, to our witness from AARP, we love you in Arizona. As a congressional office, we have had terrific experiences coordinating and working with some of your staff.

I am probably a very ill man. For years I used to help people, even in my neighborhood, do their taxes. So they would come, they would bring me things to eat, and I would sit and do their taxes for them, which is sort of absurd that I ended up on this Committee because I still do my own. And even this week, I got letters from the IRS I owed -- they sent me a letter saying, "You owe \$10.47 cents," and then they sent my wife one, which we filed jointly. And that is absurd why they would duplicate those.

So let me throw a series of things at you. Ms. Ron, a lot of your population is getting the earned income tax credit. And in today's world, there is a delay on that as a fraud prevention. I could come to you right now and say: If we could get the IRS to actually use outside databases -- so someone comes in, boom, bounce it off the outside database; we know the data says this is the range of income -- we could actually get rid of that delay, send them their resources immediately.

Ms. Lester, when you actually sit someone down -- and, look, they are asking for documentation. The fact of the matter is we all have these. There is a simple technology where you take a picture of the 1099 -- and instantly that could have been how you file the document that was asked for instead of having to find a photocopier, put it in an envelope, mail it. Boom, you could have done it instantly.

In today's world, the ability to have a biometric login to actually see your tax filing. You could run it on a distributive ledger so you know it is absolutely safe and secure and not subject to fraud.

There are technological solutions that the rest of the world is using, even some of the new -- and I know I am rambling -- but if any of you have ever had to call Amazon or others and the person you are talking to is actually a computer that is using the voice

recognition and walking you through, they are saying, "No, you need to do this, do that, do that, do this," instead of this chaos of thinking we are going to have phone banks of people who are ready to deal with issues-- please help me: Where am I wrong that we have missed a generation because the IRS is still -- its base database predates President Kennedy. And this is the world we are dealing with.

Ms. MacMillan. Yes. Definitely many of the systems and even the thought process at the IRS is really antiquated. We are encouraging e-services -- not e-services -- E-Signature legislation that I think Congressman Rice has authored.

Mr. Schweikert. And I mean this with as much love to the congressman: E-Signature needs to be a thumbprint.

Ms. MacMillan. That would work too. There are third-party providers who can provide that.

Mr. Schweikert. I understand that, but even those are coding from 10 years ago.

Ms. MacMillan. Yeah, that would be -- anything they could do to improve the technology. We have also suggested having us be able to upload PDFs and have them actually see them, and they can't do that yet. So there is a definite lag in the electronic advancement of services with the IRS that -- and I assume it is a funding issue.

Mr. Schweikert. But, Ms. Lester, when you are actually sitting with someone of modest income and you are helping them do their taxes, what is the software you are using?

Ms. MacMillan. I use Lacerte.

Ms. Lester. In terms of --

Mr. Schweikert. I mean, are you actually using the IRS's? What you are filling out on your computer screen? What is the software? Because I know, at AARP, you use --

Ms. Lee-Villanueva. We use the IRS-provided software, which is TaxSlayer.

Ms. Ron. Correct. Provided -- it is also TaxSlayer.

Ms. Lester. For us, we are dealing with controversies, so a lot of times we are having to draft letters and memorandum.

Mr. Schweikert. So you are doing more triage.

Ms. Lester. Exactly.

Mr. Schweikert. Don't you love the idea of being able to take a picture of the document?

Ms. Lester. That would make our lives so much easier.

Mr. Schweikert. Having actually looked at some of this and I have actually tried to reach out to some of the providers, why it is just not more graphical, where you could sit someone down, and they can do this, say, and put in the number. It is archaic where we are at. Maybe I am living in a techno-utopian world, but I am hoping if we are actually really close to doing something, it is simpler. That is our generational inflection to actually now fix the way we do our data systems where we interact with the public that we are asking to pay these taxes.

With that, I yield back, Mr. Chairman.

Chairman Buchanan. Thank you. I now recognize the gentleman from South Carolina, Mr. Rice.

Mr. Rice. I want to thank you for what you do in helping people comply with the tax law. It certainly -- it is a burden to the average person, and it is an awful shame that it is that way that we have to have such an army of folks to help them comply with this law. And I know you two on the end there do it for free. So thank you for what you do. Thank you for keeping people out of trouble. Thank you for keeping our government ruining more smoothly.

I have to ask you, Ms. Ron, and Ms. Lee-Villanueva, what percentage -- have you all looked at what percentage of your clients are itemizing? I would assume it was pretty low if they are pretty low-income folks, right? Have you looked at that and if this doubling of the standard deduction is in fact going to eliminate a lot of that and make it simpler it for folks?

Ms. Lee-Villanueva. I don't have the actual percentage with me right now. I could get that for you and get back to you, if you would like. But we do see a lower number of people who itemize just because of the clientele we serve.

Mr. Rice. Would you say less than 10 percent?

Ms. Lee-Villanueva. Probably about 15 percent would be my guess. But I would need to double-check that.

Mr. Rice. What would you expect? Have you all run any numbers? What would you expect the effect of doubling the standard deduction would be on the number?

Ms. Lee-Villanueva. I expect it to decrease the number of people who need to itemize.

Mr. Rice. And isn't that -- the itemization, isn't that one of the more complicated areas in term of preparing somebody's tax return?

Ms. Lee-Villanueva. Well, the clientele we see, it is really just the stress of filing their tax return. And the reason they come to us, they might have a very simple, straightforward concern, but they are just more comfortable being able to have somebody sit down and for them to make sure that it is done correctly. We do see also a large population, of course, of the 60-plus. It might be a lot of people who have never had to file their own return, but because of their current situation, the loss of the partner, the spousal partner, that might have been filing it, they are in a situation now that they have never been in, so they just --

Mr. Rice. On the income side you usually get a 1099 or a W-2 or something like that that you can fill that out. But the deductions and keeping track of all that and making sure it gets to the right -- it seems to me like that would be the most complicated area generally for filling out tax returns for lower income. And it seems to me like doubling the standard deduction will make it a lot simpler for folks.

Ms. Lee-Villanueva. It should make it simpler, yes.

Mr. Rice. Ms. Ron, would you agree with that?

Ms. Ron. Not necessarily. I would say for the VITA population, if I could take a guess, I would say less than 10 percent itemize their deductions right now and with potential --

Mr. Rice. Would you think this doubling of the standard deduction, do you think it would make it more or less people that would itemize?

Ms. Ron. Would you say that one more time?

Mr. Rice. Okay. The doubling of the standard deduction, wouldn't you think that would diminish the number of people who itemize?

Ms. Ron. It might. But since it is less than 10 percent of ours that itemize now, I don't know how much of an impact that would have.

Mr. Rice. So what is the most complicated area that you have?

Ms. Ron. The most complicated -- well, for us, it is dealing with amendments, and it has more to do with people having their taxes prepared by folks who make errors, for example. The other one I would say is for --

Mr. Rice. You don't do direct tax preparation.

Ms. Ron. We do, we do. But a lot of people come referred because they need amendments.

Mr. Rice. -- preparation, what would be the more complicated area that you deal with when you are preparing -- people on the low-income side, right?

Ms. Ron. Yes.

Mr. Rice. \$50,000 or less. What generally complicates their tax returns?

Ms. Ron. I would say it is probably the self-employed folks. And for them, they would still need to be able to track their expenses and deductions and all that just on the financial management side. So I don't know how much of an impact it would have on them.

Mr. Rice. You say you do a lot of earned income tax credit and child tax credit.

Ms. Ron. Yes.

Mr. Rice. We had the State attorneys general or State Innovation Group in here last week talking about those credits. And they were telling us that about 30 percent of those are fraud. What do you all do to ensure that, when you file the return, that they are accurate, and they are not fraudulent?

Ms. Ron. Sure. We do a lot to prevent that. For us remember for VITA sites, we are looking for 90 percent accuracy, so it is a different world in a way. So, for us, I would begin with --

Mr. Rice. You ride down the road and you see these signs on the side of the road "taxes prepared here, earned income tax credit," and I wonder about that. So what do you all do to ensure that it is not fraudulent?

Ms. Ron. I had a little trouble hearing over the coughing. So, for us, the major thing is the training of the volunteers. Training of the volunteers, and at sites, there is a lot of operational detail that goes on. People, for example, have to have -- have to bring physical Social Security cards. If you are a married couple, you both have to be there to sign documents. There are a lot of requirements on our end to make sure that we prevent those kinds of issues.

Chairman Buchanan. Thank you. Let me first thank all of you for coming today. I want to especially thank all of our volunteers. I know in my community, in Sarasota, Florida, we have a lot of volunteers with a lot of great organizations. Without them, you wouldn't have the organizations. So I just want to applaud what you are doing.

I want to do kind of a quick -- we are trying to do IRS reform on a bipartisan basis, but I would like to do -- you might have heard -- like a lightning round, so I want you to be kind of concise, and then also I would like to have you give me whatever input to our Committee on three things I want to bring up to you today because I need your help on it.

First on, assuming we get tax reform done, which it looks like it might happen before the end of the year, I am interested, what are your two or three biggest concerns in terms of

implementation that we need to address quickly? I mean, they have already talked about 500 -- I think it was \$500 million in terms of dollars available, but I would like to get your thoughts and your concern.

If you got a quick comment you want to make that you think would be at the top of the list in terms of this because it is happening at the end of the year. I am expecting it is going to get done, but any thoughts that you might have we will start quickly with you and just be concise on this point.

Ms. MacMillan. I think one of the big issues is going to be that the IRS does need to implement this, and there is going to be a lot of time bringing it up. I think it did create simplification for lower income or less complicated taxpayers, and there is just way more to be done.

Chairman Buchanan. Ms. Lester, I just want everybody to be fairly quick because I want you to get back to me because I have a couple more questions. Go ahead.

Ms. Lester. I think the key thing will be training to make sure that the IRS personnel understand what the changes are, understanding that different tax years will have different requirements. And so, when looking at past controversies or past years, they may have one set of requirements or one set of laws whereas the current year you will have different ones so that could complicate matters.

Chairman Buchanan. Ms. Ron, do you have anything?

Ms. Ron. I would say, from our perspective, potentially it is more the impact on charitable giving, which we are estimating could be a reduction in 5 or 10 percent.

Chairman Buchanan. Ms. Lee-Villanueva.

Ms. Lee-Villanueva. The IRS readiness is the top concern that we would have, making sure that they are ready to implement the change, have the time in place to be able to educate and let taxpayers know what the changes are.

Chairman Buchanan. The second question I have got is on dispute resolution. I am concerned when I read in the paper, USA Today, 62 percent of Americans don't have \$1,000 in the bank. They are probably a lot of folks that you work with. So when someone gets something where they might be self-employed and, all of a sudden, they owe \$3,000 to \$5,000, what is your sense of how quickly that can get addressed because it is very easy to go to a CPA or somebody else and run up a \$4,000 bill on a \$4,000 to \$5,000 issue? Is that commonplace? And is our dispute resolution, does that work at all, or is that a disaster?

Ms. MacMillan. It is quite common when assessments are incorrect and the fact that the taxpayer can't reach someone to quickly resolve it. Also, there is no opportunity for a

taxpayer to go to appeals until the very end of the process. And we believe that appeals should be available earlier in the process.

Chairman Buchanan. What happens when someone in the real world gets a bill for \$3,000 to \$5,000, pick a number, \$2,000 to \$6,000 or something, you know, they have got to go through a process. You are usually talking some professional. Now you are talking a couple grand. It seems like that has to be an area that we have got to find a way that we can work on.

Ms. MacMillan. I completely agree. And I did want to say at some point today that I am constantly amazed every time I have a successful resolution on one of these things from my taxpayers, I think to myself: What would somebody do if they didn't have me, if they didn't have the resources to hire someone or they couldn't even find someone?

Chairman Buchanan. I am just worried about them being able to pay the bill.

Anybody else on that quickly? Ms. Ron or Ms. Lester?

Ms. Ron. I would say, from the population that VITA serves, we are looking at people who literally sometimes leave the VITA site because they saved \$150.00 on tax prep fees. So, if they do that for \$150, things that are very common in the thousands are detrimental to their entire family.

Chairman Buchanan. If they get a letter from the IRS, are you able to help them, walk them through that, maybe get it resolved fairly quickly, inexpensively? Is that the idea? I am just trying to understand it.

Ms. Ron. So, for us, we work with our partners who will help them navigate that system because, for most of them, they have no idea where to even start.

Chairman Buchanan. My last question just quickly is on taxpayer bill of rights. Is that something that I am sure you're familiar with it, but is it something where the volunteers are being trained or educated on taxpayer bill of rights because I am sure a lot of taxpayers are not looking at that every day -- are the volunteers on behalf of the IRS, is there proper training and education so people understand their rights of a taxpayer's bill of rights? Anybody?

Ms. Lester. Absolutely. From our perspective, our volunteers are really students and so we do a great deal of training explaining to students what the taxpayer bill of rights means and what the rights are. We also do education and outreach, which is part of our mission in the LITC community, doing education and outreach to try to explain to a taxpayer what those rights and responsibilities mean.

Chairman Buchanan. Anybody else, quickly?

Ms. Lee-Villanueva. I would say that from -- we do not actually educate on the bill of rights, but a lot of what the program and how the program is implemented is directly related to the bill of rights and that we do the quality of service. So a lot of it is written into the way the volunteer programs are administered and created.

Chairman Buchanan. It would be helpful to me on any of those three issues if you have got some follow-up, if you could get it to the Subcommittee, I would be interested in taking a look at your experience because you are in the field and dealing with this every day. It would be very helpful on these three issues.

I would like to thank our witnesses for appearing before us today. It has been very productive, thank you. Please be advised that Members have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

With that, the Subcommittee stands adjourned.

[Whereupon, at 11:25 a.m., the Subcommittee was adjourned.]

**PUBLIC SUBMISSION FOR THE RECORD**



December 12, 2017

The Honorable Vern Buchanan  
Chairman  
House Ways & Means Committee  
Subcommittee on Oversight  
United States House of Representatives  
1102 Longworth House Office Building  
Washington, DC 20515

The Honorable John Lewis  
Ranking Member  
House Ways & Means Committee  
Subcommittee on Oversight  
United States House of Representatives  
1102 Longworth House Office Building  
Washington, DC 20515

RE: December 13, 2017 Hearing on “IRS Reform: The Taxpayer Experience”

Dear Chairman Buchanan and Ranking Member Lewis:

The American Institute of CPAs (AICPA) respectfully submits the enclosed written statement for the record. We applaud the leadership taken by the Subcommittee to address how the IRS can improve the taxpayer experience and adequately implement new tax reform measures.

The AICPA is the world’s largest member association representing the accounting profession with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. Our members advise clients on federal, state, local and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

If you have any questions, please feel free to contact me at (408) 924-3508, or [annette.nellen@sjsu.edu](mailto:annette.nellen@sjsu.edu); or Melanie Lauridsen, AICPA Senior Manager of Tax Policy & Advocacy, at (202) 434-9235, or [melanie.lauridsen@aicpa-cima.com](mailto:melanie.lauridsen@aicpa-cima.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Annette Nellen".

Annette Nellen, CPA, CGMA, Esq.  
Chair, AICPA Tax Executive Committee



**WRITTEN STATEMENT**

**OF**

**THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**SUBMITTED FOR THE RECORD OF THE**

**DECEMBER 13, 2017**

**HEARING OF**

**THE UNITED STATES HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON WAYS AND MEANS**  
**SUBCOMMITTEE ON OVERSIGHT**

**ON**

**IRS REFORM: THE TAXPAYER EXPERIENCE**

## INTRODUCTION

The American Institute of CPAs (AICPA) applauds the leadership taken by the House Ways and Means Subcommittee on Oversight to address how the Internal Revenue Service (IRS or "Service") can improve the taxpayer experience and adequately implement new tax reform measures.

While changes in tax laws always cause some level of confusion for taxpayers, the magnitude of the current tax reform efforts will further emphasize the growing frustration taxpayers have with the IRS's antiquated technology infrastructure, the lack of guidance on technical issues and taxpayer's inability to communicate with the IRS in a timely manner.

In the interest of good tax policy and effective tax administration,<sup>1</sup> we offer recommendations<sup>2</sup> in this statement regarding IRS governance and oversight, IRS taxpayer service and an IRS practitioner services unit, which can collectively improve the taxpayer experience while streamlining the tax administration system. Furthermore, any effort to modernize the IRS and its technology infrastructure should build on the foundation established by the Report of the National Commission on Restructuring the IRS ("Restructuring Commission" or "commission"). The similarities between the condition of the IRS today and the circumstances that motivated the creation of the Restructuring Commission are striking.

## AICPA PROPOSALS

### 1. IRS Governance & Oversight

As practitioners with vast experience working with the IRS, we have incorporated the lessons learned from the Restructuring Commission and outline below governance and oversight recommendations to shape the agency of the future that everyone desires.

Governance Objectives. Successful governance of the IRS will include strong leadership, accountability, and transparent policies working collectively towards needed change. In order to hold the IRS accountable, the agency's governance, management and oversight structure must:<sup>3</sup>

- Develop and maintain a shared vision among all personnel and stakeholders with continuity;
- Set and maintain consistent priorities and strategic direction;
- Impose accountability on senior management;

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<sup>1</sup> AICPA, [Guiding Principles for Good Tax Policy: A Framework for Evaluating Tax Proposals](#), 2017.

<sup>2</sup> For additional information see AICPA letter, "[Ensuring a Modern-Functioning IRS for the 21st Century](#)," April 3, 2017. The recommendations offered are in collaboration with other professional organizations and former Service executives.

<sup>3</sup> The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25 1997, page 8.

- Develop appropriate measures of success;
- Ensure that the budget and technology support priorities and strategic direction; and
- Coordinate oversight and identify problems at an early stage.

Congressional Oversight. Congressional oversight is a critical process in ensuring executive branch compliance with laws, evaluating performance, and providing the transparency necessary to maintain the public's trust. We recommend **re-establishing the annual joint hearing review**<sup>4</sup> to focus on the following priorities: (1) strategic and business plans; (2) taxpayer service and compliance; (3) technology and modernization; and (4) filing season.

As once required by statute,<sup>5</sup> the Joint Committee on Taxation should provide a **bi-annual report on the overall state of the Federal tax system**.<sup>6</sup> However, the statute stipulates that the report is *only required if the necessary resources are appropriated* to carry out the requirement. We believe that such a report would contribute to stability at the IRS and assist the agency in achieving its mission. Therefore, we urge Congress to **appropriate the necessary funds for the report**.

IRS Oversight Board. The IRS Oversight Board was intended to provide experience, independence and stability to assist the IRS in moving forward in a focused direction. However, the board received criticism for being "ineffective" and "missing in action" in achieving its stated mission,<sup>7</sup> and suspended operations due to an insufficient number of members to constitute a quorum.

We recommend that Congress require a Government Accountability Office (GAO) **review of the private sector board** and determine if it is an essential component to providing the trust and continuity that will allow the IRS to become a respected, service-oriented organization. The GAO could provide recommendations to ensure the board has sufficient authority to (1) hold the IRS accountable for successfully fulfilling its mission; (2) oversee the implementation of key recommendations from advisory groups; and (3) ensure the IRS remains independent and non-partisan.

Human Resources. Congress should enable and encourage the IRS to utilize the full range of available authorities to **hire and compensate qualified and experienced professionals** from the private sector, as needed, to improve the Service's ability to meet its mission. It is also crucial for the IRS to designate a senior-level executive dedicated to overseeing and collaborating with the practitioner community in creating a practitioner services unit (see discussion below).

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<sup>4</sup> P.L. 105-206, sec. 4002, expanded IRC section 8022(c) regarding reporting by the Joint Committee on Taxation. P.L. 108-311 (10/4/04) modified this provision by removing the specifics required for the annual report and eliminating the joint review after 2004 (also see IRC section 8021(f)). A statutory change is needed to reinstate the required joint review.

<sup>5</sup> *Id.*

<sup>6</sup> IRC section 8022(3).

<sup>7</sup> Morningstar, Inc., [The IRS Has No Independent Oversight This Tax Season](#), April 18, 2016.

## 2. IRS Taxpayer Service

Congress and the Administration should determine the appropriate level of service desired and needed by taxpayers. Agreed upon measures of success are necessary to improve both customer service and voluntary compliance.

To instill trust in the tax administration system, we recommend taxpayer service goals based on the following two guiding principles:

- The IRS should only initiate contact with a taxpayer if the IRS is prepared to devote the resources necessary for a proper and timely resolution of the matter.
- Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions.<sup>8</sup>

Resources necessary. Appropriate hiring, adequate training, skillful management, and the necessary technological tools are essential for the IRS to meet its responsibilities. The leaders of the IRS must have the experience and skills to motivate their workforce and lead them to the realization of the desired vision. Organizational alignment from Congress, the President, the Commissioner, and through the ranks of the IRS, is necessary to delivering the promised goals. Congress should **determine the appropriate level of service and compliance** they want the IRS accountable to provide and then **dedicate appropriate resources for the agency to meet those goals.**

Furthermore, to enable the IRS to achieve the improvements required for a 21<sup>st</sup> century tax administration system, the IRS needs a modern technological infrastructure. Currently, the IRS has two of the oldest information systems in the federal government making the information technology functions one of the biggest constraints overall for the IRS.<sup>9</sup> Without modern infrastructure, the IRS is unable to timely and efficiently meet the needs of taxpayers and practitioners.

Customer satisfaction. Measurement tools are required to achieve customer satisfaction goals, including fairness in enforcement. The IRS made significant progress in measuring taxpayers' opinions in the years following the issuance of the Restructuring Commission. However, in recent years, the Service has stopped reporting on customer satisfaction surveys and analysis. We recommend that **customer satisfaction surveys**, gauging performance at all levels within the IRS, continue as an appropriate success measure. Congress should utilize the survey results

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<sup>8</sup> Verbatim quote of the two guiding principles, The National Commission of Restructuring the Internal Revenue Service, [A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service](#), June 25, 1997, page 23.

<sup>9</sup> National Taxpayer Advocate, [Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights](#), 2016, page 31-32. The report references a 2016 GAO report (GAO-16-468) which found that some of technology the IRS still relies on was first placed in use 56 years ago.

during the oversight and appropriations processes to ensure the agency is continually meeting the needs of taxpayers.

A service-focused approach, with taxpayer education in mind, will require the IRS to take into consideration the needs of both tax practitioners and un-represented taxpayers, and the varying methods needed to interact with them.

### **3. IRS Practitioner Services Unit**

The IRS should create a new **dedicated “executive-level” practitioner services unit** that would centralize and modernize its approach to all practitioners. Over time, the IRS has established a number of functional departments. These individuals are dispersed across the IRS and are not coordinated in a manner that enables practitioners to timely access critical information (such as, their clients' account status or the availability of dispute resolution opportunities). Nor do the current teams or processes systematically solicit, gather or evaluate practitioner feedback. Enhancing the relationship between the IRS and practitioners would benefit both the IRS and the millions of taxpayers served by the practitioner community.

A dedicated practitioner services unit would allow the IRS to rationalize, enhance, and place under common management the many current, disparate practitioner-impacting programs, processes, and tools. Moreover, by centralizing these programs, IRS employees would have a **consolidated approach to timely resolving issues**. This coordination and improved access of information would prevent unnecessary delays and inefficiencies (such as, requiring practitioners to submit the same information multiple times to multiple IRS employees). Finally, to ensure success of the practitioner services unit, it is essential for these services to **approximate comparable private sector services** and allow practitioners to resolve account issues for their clients in a timely and efficient manner.

Online tax professional account. The IRS should provide tax practitioners with a tax professional account as part of the IRS's **online portal with account access to all of their clients' information** (both individual and business accounts) where the practitioner has a valid power of attorney (POA) on file. Additionally, the secure tax professional account should allow the IRS to communicate directly to practitioners the information necessary to improve taxpayer awareness and allow **practitioner correspondence** with timely acknowledgement of receipt.

Furthermore, a **centralized login system** allowing for single sign-on authentication of the practitioner and immediate access to all client data, as opposed to practitioner authentication before accessing each client's account, is an indispensable efficiency for the IRS and practitioners alike.

Secure platform. The development of the online portal should include a comprehensive, agile platform that protects users' identities and their data, detects threats and immediately responds to potential security breaches. In order to enhance taxpayer protection, practitioners who want

access to taxpayer accounts should consent to guidelines such as Circular 230 or other similarly approved requirements. Professional tax practitioners can become particularly active and safe users of online services if the IRS invests early in providing a **digital mechanism for POA and disclosure authorization** and creates practitioner accounts *contemporaneously* with individual online accounts.

To continue to improve efficiency, the IRS should also focus its attention on replacing the Centralized Authorization File with a **consolidated online solution utilizing electronic signatures and an algorithmic-driven approval process** that is as close to real time as possible.

Robust practitioner hotlines. IRS should provide practitioners with a **robust practitioner priority hotline** (or hotlines) with higher-skilled employees. These employees should have the experience and training to understand and address more complex technical and procedural issues. This expertise would allow the IRS to focus its training on a particular technical area allowing designated employees to resemble its counterparts in the private sector. The IRS should also consider hiring experienced people, such as, graduate students or retired practitioners seeking part-time or seasonal employment.

Designated customer service representatives. Under the practitioner services unit, the IRS should assign **customer service representatives** (also known as a single point of contact) to each geographic area to address unusual or complex issues that practitioners were unable to resolve through the priority hotlines. We recommend allocating the number of representatives based on the number of practitioners in a specific geographic area.

## **CONCLUDING REMARKS**

The AICPA appreciates this opportunity to submit a statement for the record. We look forward to working with the Subcommittee as you continue to improve the taxpayer experience with the IRS.

The AICPA is the world's largest member association representing the accounting profession with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. Our members advise clients on federal, state, local and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.



**STATEMENT OF**  
**THE COALITION FOR EFFECTIVE AND EFFICIENT TAX ADMINISTRATION**  
**TO**  
**OVERSIGHT SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS UNITED STATES**  
**HOUSE OF REPRESENTATIVES**  
**HEARING ON**  
**IRS REFORM: THE TAXPAYER EXPERIENCE**  
**December 13, 2017**

The Coalition for Effective & Efficient Tax Administration (“CEETA” or the “Coalition”), respectfully submits this statement providing its perspective and recommendations with respect to Treasury regulations and Internal Revenue Service (the “IRS” or “Service”) guidance and procedures for the resolution of disputes with taxpayers. We provide a list of particular regulations and guidance the Coalition believes require immediate attention by Congress, the Department of the Treasury (“Treasury”) and the Service, because these items test the limits of the Service’s adherence to its mission of fairness in the enforcement of Federal tax laws.

Additionally, CEETA supports H.R. 3220, the Preserving Taxpayers’ Rights Act, a bipartisan bill introduced on July 13, 2017, by Representatives Jason Smith and Terri Sewell and referred to the Committee on Ways and Means. Bipartisan cosponsors include Reps. Chu, Thompson, Curbelo, Holding, Higgins, Jenkins, Reichert, and Kind. Enactment of H.R. 3220 will address directly certain concerns with current IRS overreach that result in unnecessary disputes with taxpayers that cause inefficiency, needless time consumption, and expense for taxpayers and the IRS.

CEETA is a coalition of companies and trade associations that seeks constructive administrative and legislative changes to ineffective and inefficient IRS practices and procedures.<sup>1</sup> CEETA thanks the Committee on Ways and Means Oversight Subcommittee for the opportunity to submit this statement and expresses hope in a continued dialogue with both the Subcommittee and the Committee generally.

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<sup>1</sup> The coalition of business organizations comprises: ACT | The App Association; Americans for Tax Reform; Citizens Against Government Waste; Financial Executives International; Information Technology Industry Council; National Association of Manufacturers; National Foreign Trade Council; Retail Industry Leaders Association; Small Business & Entrepreneurship Council; Software Finance and Tax Executives Council; TechNet; and U.S. Chamber of Commerce.

### **Revenue Procedure 2016-22**

Revenue Procedure (Rev. Proc.) 2016-22 generally provides a description of the administrative appeals process, within the IRS Office of Appeals, for cases docketed in the U.S. Tax Court. CEETA's concern with this revenue procedure focuses on Section 3.03, which provides: Chief Counsel will not refer to Appeals any docketed case or issue if IRS Division Counsel or a "higher level of Counsel official" determines that referral is not in the interest of "sound tax administration."

CEETA opposes any general IRS interpretation of its authority that affords it latitude, limited only by its view of what constitutes "sound tax administration," to deny a taxpayer the right to administrative resolution of disputes before the Office of Appeals. A taxpayer's right to an independent administrative review of proposed examination changes to a taxpayer's liability by the Office of Appeals is vital to efficient tax administration. Both taxpayers and the IRS alike seek to achieve mutually agreeable resolution of tax issues by Appeals, thereby avoiding litigation. Resolution by Appeals conserves finances, resources, and time of taxpayers, the IRS and the Federal judiciary. In recent years, use of this broad IRS discretion has resulted in heightened Congressional oversight, ultimately weakening taxpayer trust in the agency and calling into question the integrity of the tax administration process. Such broad discretion allowing the denial by the IRS of appeal rights is in the interest of neither taxpayers nor the IRS. If any limitations were to be placed on a taxpayer's right to Appeals, the limitations should be particular and narrowly circumscribed by statute (see discussion below of H.R. 3220). Allowing the Chief Counsel the unilateral authority to deny a taxpayer a right to have disputes regarding proposed examination changes heard by Appeals when, in his or her view it is in the interest of "sound tax administration," is a vague and unmoored standard. This provides him or her with nearly unfettered discretion to deny a taxpayer a right to Appeals for nearly any reason and force litigation at the expense of all parties.

CEETA recommended to both the IRS and the Treasury that Section 3.03 of Rev. Proc. 2016-22 be rescinded.

### **Treasury Decision 9778 (I.R.C. § 7602)**

On July 14, 2016, the Treasury Department finalized regulations under I.R.C. § 7602 clarifying that persons described in I.R.C. § 6103(n) and Treas. Reg. § 301.6103(n)-1(a) with whom the IRS or IRS Chief Counsel contracts for services (such as outside economists, engineers, consultants, or attorneys) may receive books, papers, records, or other data produced by taxpayers and others pursuant to the IRS's administrative subpoena power. Additionally, the final regulations provided that such contractors may, in the presence of an IRS officer or employee, participate fully in the interview of a person the IRS has summoned as a witness to provide testimony under oath.

In a letter dated May 5, 2016, addressed to the IRS, CEETA respectfully requested the withdrawal of the proposed and temporary regulations (T.D. 9669) issued under section 7602. CEETA believes the final regulations fall short on both policy and procedural grounds, thereby failing to promote a more effective and efficient tax administration. This regulation delegates, without a statutory basis, inherently

governmental functions to private contractors. Allowing outside contractors to question summoned witnesses and review summoned documents results in the transfer of control of a tax audit to persons not in the employ of the government. Undoubtedly, the regulations will lead to longer, more contentious and less efficient examinations.

Senator Orrin G. Hatch, Chairman of the Senate Committee on Finance, expressed similar concerns when the IRS previously hired a private law firm to assist in the income tax examination of a corporate taxpayer. In a May 13, 2015, letter to then IRS Commissioner John Koskinen, Chairman Hatch noted that the hiring of the private law firm to participate in the examination (1) appeared to violate Federal law and the express will of the Congress, (2) removed taxpayer protections by allowing the performance of inherently governmental functions by private contractors and (3) called into question the IRS's use of its limited resources.

Retaining outside lawyers to conduct audits of taxpayers is unprecedented in the history of the Service. At least one court has stated that it is "troubled" by the practice, noting, "[t]he idea that the IRS can 'farm out' legal assistance to a private law firm is by no means established by prior practice, and this case may lead to further scrutiny by Congress."

On October 2, 2017, under Executive Order 13789, Treasury released its Second Report to the President entitled "Identifying and Reducing Tax Regulatory Burdens." CEETA was pleased to learn that the Treasury and the IRS are considering an amendment prohibiting the IRS from hiring outside counsel for any purposes. According to the report: "Under the amendment currently contemplated by Treasury and the IRS, outside attorneys would not be permitted to question witnesses on behalf of the IRS, nor would they be permitted to play a behind-the-scenes role, such as by reviewing summoned records or consulting on IRS legal strategy". The report further provides at page 4:

"When the IRS enlists outside attorneys to perform the investigative functions ordinarily performed by IRS employees, the government risks losing control of its own investigation.

IRS investigators wield significant power to question witnesses under oath, to receive and review books and records, and to make discretionary strategic judgments during an audit— with potentially serious consequences for the taxpayer. The current regulation requires the IRS to retain authority over important decisions, but the risk of a private attorney taking practical control may simply be too great. These powers should be exercised solely by government employees committed to serve the public interest, not by outside attorneys. These concerns outweigh any countervailing need for the IRS to contract with outside attorneys. Treasury remains confident that the core functions of questioning witnesses and conducting investigations are well within the expertise and ability of the IRS's dedicated attorneys and examination agents."

CEETA looks forward to these amendments to the Final Regulations under IRC Section 7602 prohibiting the IRS from retaining outside counsel to participate, directly or indirectly, in tax audits. As referenced below, it is also important that Congress enact legislation codifying this prohibition preventing future administrations from reengaging in such activity.

### **H.R. 3220, Preserving Taxpayers' Rights Acts**

CEETA enthusiastically supports the enactment of H.R. 3220 as a step forward in ensuring efficiency and fairness in the Service's administrative procedures, as the bill directly addresses CEETA's concerns stated above with regard to Rev. Proc. 2016-22 and T.D. 9778, and more.

The bill would codify a taxpayer's right to an administrative appeal before the Office of Appeals and limit such right only in particular instances defined within the statute; there would no longer be any discretion for the Service to deny a taxpayer the right to an appeal on the grounds of "sound tax administration." Additionally, the bill would statutorily limit the Service's ability to "designate cases for litigation," a procedure allowing the Service to deny a taxpayer administrative appeal rights, only in certain circumstances where a taxpayer has made use of an abusive tax shelter.

The bill also modifies the Service's authority to issue "designated summons." Issuance of a designated summons under I.R.C. § 6503(j) automatically suspends the period of limitations on assessment under I.R.C. § 6501, thereby abrogating a very crucial taxpayer protection. Periods of limitations are a cornerstone of statutory law at the Federal and state level. Periods of limitations ensure that the Service, and taxpayers alike, do not indefinitely sit on potential claims; either the Service or taxpayer must act within the statutory period or have the potential claim legally foreclosed to further action. Suspension of the period of limitation on tax assessments of section 6501 is a serious consequence of the Service issuing a designated summons and enactment of H.R. 3220 would establish a check against inappropriate use of this authority. The bill provides that the IRS must clearly establish that a taxpayer to whom a designated summons is issued "did not reasonably cooperate with reasonable requests by the Secretary for witnesses, documents, meetings, and interviews..." This requirement does not currently exist in section 6503(j). This is a much needed limitation on this extraordinary authority of the Service to toll the statute of limitation on assessment of additional tax against a taxpayer.

Finally, H.R. 3220 would amend I.R.C. § 7602 by expressly nullifying the final regulations of T.D. 9778 and codify the yet to be issued amendment prohibiting the IRS from retaining outside attorneys to assist in tax audits. The bill would amend section 7602 and prevent any person, other than an officer or employee of the IRS or for the sole purpose of serving as an expert, to receive any books, papers, records, or other data obtained in an examination. CEETA commends the drafters of H.R. 3220 for recognizing the final regulations of T.D. 9778 delegated inherently governmental functions to private contractors, and correcting the Service's and Treasury's overreach in issuing the regulations.

### **Publication of IRS Notices Asserting Future Regulations**

Although not specific to dispute resolution procedures amongst the IRS and taxpayers, CEETA requests the Subcommittee consider the following scenario and consider necessary review and oversight.

There have been several recent occasions where the IRS has issued so-called "Notice" guidance, which provides that the Service and Treasury "expect" to issue regulations that incorporate the guidance or asserts that the Agency "will amend" existing regulations to incorporate the guidance. See, e.g., Notice 2016-73; Notice 2012-15; Notice 2012-39; Notice 2014-32. In the case of the Notices cited, despite the passage of time - in some cases several years - the regulations have not been issued. The result has



been that taxpayers often have little practical choice but to follow the Notice guidance as if it were regulatory law, despite the lack of compliance with the Administrative Procedure Act's public notice and hearing requirement in the issuance of such Notices and lack of the clarity formal regulations would provide. See I.R.C. § 7805(b)(1)(C). These Notices have an *in terrorem* effect and bring attendant uncertainty. CEETA views this practice, whether intentional or unintentional, as circumvention of the requirements of the Administrative Procedure Act. This is a matter the Subcommittee should look into further.

### **Conclusion**

CEETA thanks you for your consideration of the above matters. CEETA looks forward to participating in any further discussions concerning the issues raised herein or more generally the procedures for resolving disputes between the IRS and taxpayers with an eye to minimizing litigation that is unnecessary, inefficient, time consuming, and expensive for taxpayers and the IRS.

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**Anthony M. Reardon**  
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**National Treasury Employees Union**

**Statement for the Record**

**For**

**House Ways and Means Oversight Subcommittee Hearing  
on IRS Oversight**

**December 13, 2017**

Chairman Buchanan, Ranking Member Lewis and distinguished members of the subcommittee, I would like to thank you for allowing me to provide comments on the taxpayer experience with the IRS. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

Mr. Chairman, providing quality taxpayer service is a critical component of the IRS' efforts to help the taxpaying public understand their tax obligations while making it easier to participate in the tax system. Through a variety of in-person, telephone and web-based methods, the IRS seeks to help taxpayers navigate an ever increasingly complex tax code and prevent inadvertent noncompliance. Unfortunately, the IRS' ability to provide excellent taxpayer service has been severely challenged due to reduced funding in recent years. Without additional resources, further degradation in taxpayer services will occur that adds risk to our voluntary compliance system.

### **Impact of Inadequate Funding on Taxpayer Services**

Since FY 2010, overall funding for the IRS has declined by more than \$900 million, or 17 percent when adjusted for inflation, while the number of individual taxpayers has increased by 10 million, or more than 6 percent. **These reductions have forced the Service to reduce the total number of full-time, permanent employees by almost 21,000, and resulted in a reduction in the number of employees assigned to answer telephone calls from 9,400 in 2010 to 6,200 in 2015, a 34% drop.**

In the past few years, many experts in the tax community, including the National Taxpayer Advocate, IRS Oversight Board and the IRS Advisory Council have all warned of the dangers of underfunding the IRS and the adverse impact it has had on taxpayer service.

In her Annual Report to Congress released earlier this year, National Taxpayer Advocate Nina Olson identified insufficient funding of the IRS as one of the most serious problems facing taxpayers. According to Olson, the lack of adequate funding, coupled with a rising workload has had a devastating impact on IRS taxpayer service. Among the report's findings are:

- Last year, only 61 percent of calls from taxpayers seeking assistance reached a customer service representative (CSR), leaving 20 million taxpayers unable to get through—that is a decline from 87 percent a decade earlier, with half the decline occurring since 2010;
- Taxpayers who did get through had to wait on hold approximately 17.6 minutes before speaking with a CSR. That's up from 2.6 minutes ten years earlier, a nearly six-fold increase, with nearly half the increase occurring since FY 2010;
- An 86 percent drop in tax law questions answered from 795,000 10 years ago to only 110,000 in the 2013 tax-filing season;
- A cut of 87 percent, from \$172 million in 2010 to just \$22 million in 2013 for employee training.
- The IRS historically has prepared tax returns for taxpayers seeking its help, particularly for low income, elderly, and disabled taxpayers. Ten years ago, it prepared some 476,000 returns. That number declined significantly over the decade, and the IRS no longer prepares returns at all;

- Last year, the IRS received about 8.4 million letters from taxpayers responding to proposed adjustments to their tax liabilities. As of the end of the fiscal year, 53 percent of taxpayer letters in the IRS’s “adjustments” inventory were considered “over age” (generally, more than 45 days old). That compares with “over age” percentages of 12 percent ten years earlier and 28 percent in FY 2010;
- At the same time, the number of individual tax returns grew from 131 million in 2004 to more than 150 million in 2016, an almost 13 percent increase;
- Additionally, because funding reductions forced the IRS to shorten the period of employment for their seasonal employees who help answer taxpayer correspondence, the IRS’ inventory of correspondence from taxpayers in 2014 and 2015 grew significantly above what it normally would have been to more than 900,000.

For FY 2016, the IRS was provided with \$290 million to improve the customer service representative level of service (LOS) rate, among other things. With \$178 million of this additional funding, the IRS was able to hire an additional 1,000 extra temporary telephone assistors which helped the IRS raise the phone level of service to 72 percent during the 2016 filing season. Furthermore, taxpayers waited on average about 11 minutes to speak to an assistor, a dramatic improvement from the 23 minute average wait time during the previous filing season. The additional funding also freed up more resources to help the IRS reduce the correspondence inventory to 690,000 by the end of FY 2016, a drastic reduction from just two years prior. However, when the temporary employees went off the rolls at the end of the 2016 filing season, the phone LOS dropped, and the average for all of FY 2016 ended up at 53 percent.

Section 113 of the FY 2017 Omnibus Appropriations Act also included the \$290 million in funding to raise the phone LOS, among other things. With a portion of this funding, the IRS was able to raise the LOS during the 2017 filing season to 79 percent (up from 72 percent during the 2016 filing season), and set a target of 64 percent for all of FY 2017.

NTEU was disappointed to see that neither the Administration’s FY 2018 budget request, nor the House or Senate FY 2018 FSGG bills, included the \$290 million in targeted Section 113 funding to raise the phone level of service. Furthermore, **the Administration actually proposed a \$239 million reduction in taxpayer services seasonal staffing costs and a loss of roughly 2,200 FTEs.** Without this critical funding and necessary staffing, the IRS projects an overall phone LOS for FY 2018 of just 39 percent, a drop of 25 percent from the FY 2017 level. While the House and Senate FY 2018 FSGG bills would increase base funding for taxpayer services over the FY 2017 level, the proposed overall reductions of \$155 million (House) and \$124 million (Senate) to the IRS for FY 2018 will require the IRS to divert some of their limited taxpayer service funding to other underfunded activities and programs. Without the full \$290 million in targeted funding, critical gains made by the IRS in improving the phone LOS will be reversed, resulting in longer taxpayer wait times and inability of taxpayers to resolve their tax questions in a timely manner.

## **Impact on Taxpayer Identity Theft Assistance**

As stated previously, the importance of quality taxpayer assistance is critical to ensuring taxpayers are able to navigate the complex tax code and understand and meet their tax obligations in a timely manner. But, it is also vital that the IRS has the resources to provide assistance to those who have been victimized by fraud, and in particular, identity theft. The need to provide timely assistance to victims of identity theft is clear. According to the IRS, the number of people who reported to the IRS that they were victims of identity theft grew from 233,365 in 2012 to 698,700 in 2015, an increase of almost 200 percent.

Identity theft cases are extremely complex and resolving these cases in a timely manner can be difficult as they often comprise multiple issues over multiple tax years. Recognizing the need to address the rising incidence of identity theft and provide victims with the assistance they need, the IRS has increased the number of employees dedicated to working identity theft cases. The IRS also provided updated training to telephone representatives who deal with identity theft victims on a daily basis so that they better understand the serious financial problems of identity theft victims and maintain the proper level of sensitivity when working with them.

And while the IRS is doing what it can to prevent identity theft, resolve cases in a timely manner, and provide its victims with the assistance they need, its ability to do so has been greatly diminished due to recent funding cuts.

## **Impact on IRS' Ability to Provide Face to Face Service**

Many taxpayers with tax problems still want to talk to an IRS employee face-to-face. However, if the IRS is forced to continue absorbing drastic cuts to its budget, fewer and fewer taxpayers will have that opportunity.

According to TIGTA, funding reductions have already forced the IRS to reduce the number of taxpayer assistance centers (TACs) from 401 to 376 since 2011. In addition, 22 TACs have no staff, while 95 have only one employee, and the IRS is considering closing a significant number of additional TACs through FY 2018. Because of its new "appointment only" policy, the IRS is projecting that the number of taxpayers visiting a TAC will decline from about 5.6 million in FY 2015 to 3.5 million this year.

The National Taxpayer Advocate has previously warned that limited resources were impeding IRS' ability to provide taxpayers with the in-person assistance they need. For example, she has repeatedly warned staffing levels at TACs across the country are woefully inadequate.

Inadequate staffing and availability of service at TACs has long been a problem at the IRS and disproportionately impacts the most vulnerable populations who use TACs most often, including non-English speaking taxpayers, the elderly and low income individuals and families, who often need additional assistance in understanding and meeting their tax responsibilities. If these taxpayers are not provided the assistance they need to understand their tax obligations, they may inadvertently file an incorrect return which could necessitate the need for IRS to undertake post-filing actions that are costly and burdensome to both the taxpayer and the IRS.

Taxpayers' inability to get the answers they need to understand complex tax issues will almost certainly impact the accuracy of their returns, which could delay refunds to the many taxpayers that depend on their refunds to pay their bills and meet other financial obligations. While returns without any issues may be processed in a timely manner, those returns that are kicked out of the automated process will have to be worked by an understaffed IRS workforce which is down more than 20,000. A lack of adequate staff to handle these returns will almost inevitably lead to substantial delays in processing refunds for those taxpayers, delaying the financial relief they may require.

With taxpayers unable to receive the assistance they need to resolve their tax questions and accurately prepare their returns, many may be forced to turn to paid preparers for help, resulting in additional expenses for them to simply comply with their tax obligations.

NTEU strongly believes that limiting the amount of live assistance to taxpayers that are actively seeking assistance with their tax related issues will be detrimental to efforts to increase compliance with our nations' tax laws, and only serve to harm those taxpayers that rely on the assistance of qualified and experienced IRS employees to understand and meet their tax obligations.

## **TAX REFORM**

Mr. Chairman, I would be remiss if I didn't mention ongoing efforts in Congress to consider the most extensive change in tax law since the "Tax Reform Act of 1986." Should House and Senate negotiators agree on a final proposal to drastically reform the U.S. tax code, implementation of the proposal will fall almost entirely on the IRS. In order to implement tax reform legislation and assist the taxpaying public, IRS must, among other things, extensively reprogram its computers, develop new regulations and tax forms, educate taxpayers and the tax practitioner community so they can understand and comply with the new tax law, respond to what is expected to be a significant increase in taxpayer requests for direct assistance, and train IRS employees.

Unfortunately, little attention is being paid to the fact that the IRS will be charged with implementing the biggest overhaul of the U.S. tax code in 30 years, nor has any consideration been given to ensuring IRS has the resources necessary to carry out this monumental task. As noted previously, pending FY'18 appropriations bills in the House and Senate would actually decrease overall funding for the IRS by more than \$100 million, resulting in the further loss of employees that would be central to IRS efforts to implement tax reform.

As with all statutory mandates, despite the absence of sufficient funding to carry out tax reform, the IRS will have to prioritize implementation which could result in the IRS being forced to divert resources from other critical enforcement and taxpayer service programs and defer investing in or upgrading its existing aged IT infrastructure.

Contrast this with the approach taken by the Administration and Congress after passage of the 1986 Reform Act when both acknowledged the vital role the IRS would play in implementing the new law and provided the agency with additional funding for

FY 1997 and FY 1998. With the additional funding, the IRS was able to increase overall staffing for taxpayer service positions by more than 2,100 between 1986 and 1988, thereby allowing the IRS to better meet the considerable demand from taxpayers, businesses and other stakeholders for assistance in interpreting the new tax law.

NTEU was pleased to see the Senate tax reform proposal includes language expressing the need to improve IRS customer service and protections for taxpayers by reinstating appropriate IRS funding levels. In particular, the language “expresses the sense of the Senate that politically motivated budget cuts are counterproductive to deficit reduction, diminish the IRS's ability to adequately serve taxpayers and protect taxpayer information, and reduce the IRS's ability to enforce the law.” We strongly urge Congress to include this language in its final tax legislation and to ensure that any final FY'18 funding agreement provides the IRS with the necessary resources to implement any proposed changes to the tax code and to carry out their taxpayer service and enforcement mission.

Mr. Chairman, thank you again for the opportunity to provide NTEU's views on IRS taxpayer service. NTEU believes that only by restoring funding for effective taxpayer service programs can the IRS provide taxpayers with the assistance they need to understand and meet their tax obligations, combat identity theft through fraud prevention and victim assistance and maximize revenue collection that is critical to reducing the national deficit.