

**IRS Commissioner John A. Koskinen**  
**Prepared Remarks for the**  
**2014 Fall Meeting of the Council for Electronic**  
**Revenue Communication Advancement (CERCA)**  
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John, thank you for that introduction. Good morning, everyone! I'm delighted to join you today. I see many familiar faces out there, so it's great to be in such good company. I know that every IRS Commissioner has spoken at one of CERCA's annual gatherings since this group first formed, so I'm proud to uphold the long-standing tradition.

In my first few months as the IRS Commissioner, I was surprised to learn how much time, effort and resources we spend trying to help taxpayers determine the amount they owe and how to pay it. And I thought to myself that while it might be difficult to convince the average taxpayer that "we're from the IRS and we're here to help you," we really do work hard to make it as easy as possible to file your taxes.

Part of the reason I accepted the challenge of running one of the largest organizations in the federal government is the importance of the work we do. Professionally and personally, everyone in this room plays a role in our tax system, and for many years now, the productive relationship we share has opened new doors and truly transformed the taxpayer experience.

So I've been tremendously impressed, not only by the talent and experience of our workforce, but also by the strong partnerships we've built with key stakeholder groups like CERCA. This was my first year as the IRS Commissioner working with CERCA and ETAAC, and I greatly appreciate the perspective you bring to the table. Over the years, many of the recommendations put forward in this forum have turned into real benefits down the line for taxpayers. For our common customer, the taxpayer, we share the goal of providing an experience that is world-class, using the innovative techniques that the American public has come to expect from the private sector, especially from financial institutions. This is the partnership that the IRS intends to build on in the coming years.

CERCA members are trusted partners at the IRS, so I know everyone is familiar here with the overall goals of the agency...to improve the taxpayer experience, to protect our nation's revenue, to uphold voluntary compliance, and to use our resources effectively. The agency's goals have been the same for a long time, but we're working off a new playbook and trying out a new strategy over these next three to five years.

Today I'll briefly discuss the challenges facing the agency and the tax industry overall. I'll also touch on issues important to this audience, like filing season and where we stand on implementing some of the more innovative taxpayer services like the online account.

Today's IRS has changed dramatically from where we began, and we continue to look for ways to serve taxpayers more efficiently through innovations like electronic filing. We know taxpayers are ready and willing to interact with the IRS online. That bears out in the numbers we have seen

for taxpayers using our website, clicking on the “Where’s My Refund?” tool, watching our YouTube videos, and downloading IRS2Go. In a typical year, IRS.gov gets more than one billion page views – far and away one of the most widely viewed government websites. So the IRS really is trying to help taxpayers, and we continue to find that people are happy and willing to do business online.

Despite these innovations in taxpayer service, the IRS is still far from providing enough of the type of access that taxpayers and our industry partners need for a more robust online experience. While taxpayers and practitioners are using the online channel more and more, we never lose sight of the fact that millions of users still call us on the phone, go to our walk-in sites and correspond with us through the mails, all in order to do the right thing and voluntarily comply with their tax obligations. I say this because while we always strive to provide quality service, we realize that the experience for the taxpayer isn’t always the most efficient. Millions of taxpayers and their representatives continue to wait on the phones, wait in lines outside IRS offices around the country, or wait for correspondence from us – simply because there’s no good option online.

The budget is a big reason for many of the roadblocks we face, but there are other challenges that this group knows well (privacy and data security being two of the more significant hurdles to overcome). For taxpayers, we want to provide more tailored services and support; we want to provide for faster issue resolution; and we want to take away the number-one excuse for falling out of tax compliance, and that is not understanding, not remembering, or not being able to untangle a mess of tax rules in time to file.

The IRS isn’t in the wholesale business of tax preparation or direct filing, as we all know. That won’t change. When I talk about online accounts...when I talk about giving taxpayers secure online access to their personal tax information...and when I talk about giving taxpayers more tools to self-correct mistakes on their tax return or communicate instantly with the IRS, I’m also talking about ways we can make it easier for CERCA members and other partners to continue to create and deliver their own unique brand of the taxpayer experience.

The vision for shifting more taxpayer services online really reflects the government-wide strategy for digital services. And it’s based on the idea of accessing government services anywhere, anytime, on any device. While much work remains, you can do a lot more online with the IRS these days...

- You can pay your tax bill using direct deposit.
- You can check the status of your tax refund.
- Within minutes, you can view and print a copy of your tax transcript.
- You can check on the status of your amended return – in English or Spanish.
- And the list goes on...

In recent years, we’ve re-directed millions to self-service channels like the website and the mobile application IRS2GO, while preserving phone and in-person service to the extent that we can with the resources we have. The right mix of technology and person-to-person services has

been a tough balance to strike, especially as the budget declines, but we've gradually built up our website with special sections and tools for almost every variation of IRS customer. In ten years, the site has grown to more than 100,000 pages of content, with a number of interactive tools for individuals, businesses and tax professionals.

I was especially pleased to see the recommendations in the annual report from ETAAC, particularly the recommendation to create online accounts for taxpayers, businesses and tax professionals, because it really reflects the industry-wide goal of improving the online experience and reducing the frustration and fear of making a mistake with the IRS. Today's experience can stretch into three, four or even five years before all the compliance issues are addressed. Cutting the time to 12 months or less would be a huge stretch accomplishment, and I believe it's within reach someday, especially if we get the funding to move ahead with key technology investments.

If online account access prevented even half the average number of amended returns we get in a year, we'd save a billion dollars over the next five years. That's a rough estimate, of course. But we're looking at a system that builds in some forgiveness for taxpayers who forget to account for a Form 1099 or some investment income or who fail to realize they qualify for a new tax credit. The vision for the future comes together around using technology to make the IRS smarter, faster and completely accessible to its customers.

As just one example, we still lack the legal authority to correct some very obvious errors on returns claiming the Earned Income Tax Credit, which is one of the most effective anti-poverty programs in the history of this country. Instead, we're forced to rely on the costly back-and-forth of paper correspondence, telephone calls and manual account adjustments. In the limited few situations where we can correct the error on the return, we manage to protect almost \$300 million a year in the EITC program. But this is the tip of the iceberg in the fight against refund fraud and we can do more.

The compliance work we do at the IRS is changing rapidly and like the vision for service, compliance work is driven by data. And with the technology we have in place, the IRS will identify more than 2 million errors on electronic returns claiming the Earned Income Credit this year – maybe more. And we'll protect upwards of \$1.4 billion through document matching.

It's also important to remember that these improvements in service and compliance are not simply to generate savings. The real aim is to make the IRS more accessible to every taxpayer and tax professional. And from a public service perspective, we're also focused on maintaining the necessary level of live assistance for those who need to rely on the phone and face-to-face service options.

So that gives you an idea of some of our long-term vision for modernizing taxpayer service and compliance. It's important for us to be able to maximize the advantages of CADE2, so that we can be on a more interactive basis with taxpayers before they file, and be much more efficient with everything we do post-filing to ensure a correct return. We talk a lot about filing season but the reality is that the business of tax administration is a year-round effort.

We do, however, face a major challenge to realizing this vision, and indeed to making progress in all other areas of IRS operations, and that is our budget situation. Continued funding reductions create serious obstacles to our ability to fulfill our mission. These reductions result in missed opportunities for the agency, as I will show in a moment.

The ongoing decline in IRS resources puts significant strains on our ability to provide adequate services to taxpayers and maintain a robust compliance program. The IRS budget for Fiscal Year 2014 was set at just under \$11.3 billion, which is nearly \$900 million below 2010. Going into Fiscal Year 2015 we're essentially at the same level, since we are under a continuing resolution at the moment. So we're still operating with a budget that is approximately 7 percent below 2010, while the taxpaying public grew by about 4 percent, or seven million taxpayers, over the same time period. Plus, the agency now has 13,000 fewer permanent full-time employees today than it did in 2010, even as our responsibilities have continued to expand.

Our ability to move forward on the long-term vision I just outlined needs to be seen in the context of these limitations on our resources. The ongoing funding shortfall has major implications for taxpayers and the tax system, and requires us to make some extremely difficult choices. Right now the problem is trying to figure out how to survive with the constraints we are under and the obligations we have. We will continue to implement statutory mandates like the Affordable Care Act and FATCA, but doing so in this budget environment will mean cutbacks on service, enforcement and IT.

As I mentioned, we're very concerned that continued funding reductions are resulting in missed opportunities for the agency. Our enforcement programs are one example. Since 2010, we're down 5,000 key enforcement personnel: that includes revenue officers, revenue agents and criminal investigators. This has forced the agency to reduce the number of audits and collection activities. As a result, billions of dollars in enforcement revenue are going uncollected. Essentially, the government is losing billions to achieve budget savings of a few hundred million dollars, since the IRS estimates that, for every \$1 invested in the IRS budget, it produces \$4 in revenue.

Because of the restrictions on our funding, the IRS has also been forced to delay critical information technology and infrastructure projects, which I know are important to this group.

To cite one example in the IT area, we're falling behind in upgrading hardware infrastructure and software. This compromises the stability and reliability of our information systems, and leaves us open to more system failures and potential security breaches. In addition, we have not been able to implement an enterprise-wide unified case management platform. As a result, we continue to operate separate legacy systems, which duplicate effort and are costly and inefficient to maintain.

Another area that I know is important to CERCA members is refund fraud caused by identity theft. Here too, we've had a number of missed opportunities in the past year. Although we have made considerable progress, our funding constraints mean we have not been able to do as much as we would like to reduce the backlog of identity theft cases. We haven't been able to do as much as we would like to enhance our ability to detect fraud at the earliest opportunity. And while we have implemented major initiatives like the Identity Protection Specialized Unit and

the Taxpayer Protection Program, we have not been able to expand them as much or as fast as we would like. Those are just a few examples from a much longer list.

In making the case for additional funding for the IRS, I want to emphasize that we take very seriously the need to be careful stewards of the resources we receive. Our cost-cutting measures have saved nearly \$1 billion since 2010. One of my responsibilities is to ensure that we are minimizing risks and quickly solving management and operational problems that may arise, so that taxpayers can be confident that when we request additional funding, the money will be used wisely. But these efforts do not compensate for the massive deficit left by reduced appropriations in recent years, and we will continue to find it difficult to fulfill our goals for both service and enforcement as long as we do not receive adequate funding. I know this creates significant issues for your groups as well as the entire tax community.

That leads me to a discussion of another subject important to everyone here, and that is the upcoming filing season. We're getting ready to run one of the more complicated filing seasons we've ever had. Part of the reason for this is the Affordable Care Act. This will be the first filing season with a Form 1040 that reflects two major ACA provisions, the premium tax credit and the individual shared responsibility provision. Years of planning and preparation, and hundreds of employees from all across the agency, have played a role in this effort.

I want to say a special thank-you to the CERCA Task Force that has worked so closely with our ACA Office to make sure the IRS is ready for these changes. We wouldn't be as prepared as we are without your support and insight.

The IRS has also been working to make sure taxpayers know how these major ACA provisions may affect them next year at tax time. We have done a number of things to get the word out. For one, we created a new web page devoted to the ACA. We have also issued plain-language Health Care Tax Tips and flyers, all with information publicized widely to over 500,000 subscribing organizations that serve individual taxpayers. We are also using social media and, of course, YouTube videos to help people learn about these important provisions. We will be doing even more communications and outreach in the months ahead. Again, I want to thank CERCA for working with us to help ensure that taxpayers and practitioners understand what will be expected of them at tax time in regard to the ACA.

But the ACA isn't the only thing that will create filing season challenges. We're concerned the 2015 filing season will be further complicated by the possibility of late tax legislation. Congress has been working on legislation to extend a group of major tax provisions that expired at the end of 2013, but it has not completed action yet. This continuing uncertainty about the extender legislation imposes stress, not only on the IRS, but on the entire tax community, including everyone in this room.

If this uncertainty persists into December, we could be forced to postpone the opening of the 2015 filing season. This would delay the start of processing of tax refunds for millions of taxpayers.

That's not our only concern. There's also the possibility that Congress could enact policy changes to the existing extenders or even add new tax provisions. Either scenario would mean the IRS would need to reprogram systems and make processing changes, which would result in longer delays. I know that's a concern for you as well as for taxpayers.

One more thing keeping me up at night is the possibility that Congress might not pass extender legislation until early 2015. We certainly hope that doesn't happen, and there have been some recent encouraging signs. But we can't discount that possibility, since it has happened before, and not long ago. I'm sure everyone remembers when Congress acted retroactively to pass an extender bill in January 2013. Retroactive tax law changes create even bigger challenges, including significant service disruptions and the need for millions of taxpayers to file amended returns.

I will continue to urge members of Congress not to let this uncertainty drag on. Our hope is that lawmakers will provide a clear policy direction on the extender legislation before the end of November.

It's now time for me to listen to what you have to say. Thank you again for allowing me to spend this time with you, and I'll be happy to take your questions in the time we have left.

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