November 9, 2015

The Honorable Thad Cochran
Chairman
Committee on Appropriations
United States Senate
113 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Barbara A. Mikulski
Vice Chairwoman
Committee on Appropriations
United States Senate
503 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Harold Rogers
Chairman
U.S. House Committee on Appropriations
U. S. House of Representatives
2406 Rayburn House Office Building
Washington D.C. 20515

The Honorable Nita M. Lowey
Ranking Member
U.S. House Committee on Appropriations
U. S. House of Representatives
2365 Rayburn House Office Building
Washington, D.C. 20515

Subject: IRS Appropriations for Fiscal Year 2016

Dear Chairman Cochran, Vice Chairwoman Mikulski, Chairman Rogers and Ranking Member Lowey:

We are all former Commissioners of the Internal Revenue Service. Over the last fifty years we served during the administrations of Presidents John F. Kennedy, Lyndon B. Johnson, Ronald Reagan, George H.W. Bush, William J. Clinton, and George W. Bush.

We are writing to express our great concern about the proposed reductions by the House and Senate in appropriations for the Internal Revenue Service for the current fiscal year that will end on September 30, 2016. We understand that the Appropriations Committees in the House and Senate have proposed to reduce the FY 2015 IRS appropriation of $10.9 billion by $838 million and $470 million, respectively, for the current fiscal year. If Congress were to reduce the IRS appropriation for the current year, it would represent yet another reduction in the IRS appropriation. The appropriations reductions for the IRS over the last five years total $1.2 billion, more than a 17% cut from the IRS appropriation for 2010. None of us ever experienced, nor are we aware of, any IRS appropriations reductions of this magnitude over such a prolonged period of time. The impact on the IRS of these reductions is that the IRS has lost approximately 15,000 full-time employees through attrition over the last five years, with more losses likely in the current fiscal year unless Congress reverses the funding trend. These staffing reductions come at a time when the IRS workforce is aging, with nearly 52% of IRS employees now over the age of 50 and 24% already eligible to retire. Three years from now, 38% of IRS employees will be eligible to retire. This loss of IRS knowledge and experience is alarming, particularly in light of the fact that, out of a present workforce of about 85,000 employees, the IRS has only about 3,400 employees under the age of 30 and only 384 employees under the age of 25 due to hiring freezes for budgetary reasons at the IRS since 2010 and periodically from 2005 to 2010. Over the last fifty years, none of us has ever witnessed anything like what has happened to the IRS appropriations over the last five years and the impact these appropriations reductions are having on our tax system.

These reductions in IRS appropriations are difficult to understand in light of the fact that, at the same time these reductions have occurred, the Congress repeatedly has passed major tax legislation to substantially increase the IRS workload. Most recently the Congress passed the Foreign Account Tax Compliance Act and the Patient Protection and Affordable Care Act, two major new programs, each of which significantly expands the IRS' tax administration burdens. The IRS personnel reductions come at a time when the IRS is stretched to the breaking point to cope with tax enforcement challenges attributable to global and domestic changes that are impacting our tax system. Increasingly, the United States is facing tax challenges as the result of efforts that are taking place in the international tax arena to deal with the tax non-compliance that is accompanying the continued globalization of business and investment activities. The most recent tax changes to address international tax non-compliance are proposed in the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting Report. Regardless of one's view of these proposed changes, it is clear that the IRS will be substantially impacted by changes and challenges of other countries who adopt them.

Additionally, increasing incidents of identity theft and refund fraud are being perpetrated against our tax system by large, sophisticated organized crime syndicates around the world. These criminals seek to file false returns and claim fraudulent refunds using personal taxpayer data obtained from sources outside the IRS. At the same time, many unlicensed, unregulated return preparers are preparing and filing fraudulent tax refund returns. Every time there is an information technology hacking event in the public or private sectors in which Social Security numbers are stolen, the likelihood exists for additional identity theft and refund fraud. The growing refund fraud challenge to our tax system is especially alarming to us because of the need, which is fundamental to our tax system, for the IRS to be able to assure taxpayers who are paying their fair share of taxes that other taxpayers are doing the same thing. To emphasize the seriousness of refund fraud, the Government Accountability Office earlier this year placed identity theft and refund fraud on its list of "high risk areas" in the federal government, a sure sign to each of us that the IRS should have more, not fewer, enforcement resources to deal with this threat to the integrity of our tax system.

To place the impact on our tax system of the Congressional IRS appropriations reductions over the last five years in its proper context, Congress almost annually over the last 25 years has passed legislation that has imposed additional burdens on IRS tax collection and administration under our revenue laws. During this time, the Congress also repeatedly added more and more socio-economic incentives to the tax code and called upon the IRS to administer these new socio-economic programs, including healthcare, retirement, social welfare, education, energy, housing, and economic stimulus programs, none of which is related to the principal job of the IRS to collect revenue. At the same time, Congress passed even more legislation to pay for these tax spending programs. The result is that almost 30 years after the 1986 Tax Reform Act, our tax laws are a mess. Our tax laws have become so difficult for taxpayers to understand that 80% of all individual taxpayers now use paid consultants or software to prepare their income tax returns. Because of insufficient IRS resources in FY 2015, an average of more than 60 percent of the taxpayers who called the IRS for assistance in preparing their returns during the last filing season were unable to reach an IRS assistor, even after many taxpayers had remained on the telephone for more than 30 minutes before they were automatically cut off because of the volume of calls, which the reduced numbers of IRS assistors were unable to handle. Equally serious are the cybersecurity threats illustrated by the problem that occurred earlier this year involving unauthorized attempts to access taxpayer information using the IRS' Get Transcript online application. Separately, the IRS continues to experience about one million attempts each week to hack into its main information technology systems. Although the IRS has so far successfully thwarted these attacks and its main systems remain secure, all of this astonishes us and emphasizes to each of us that the IRS taxpayer assistance and IRS information technology resources are severely underfunded, especially when compared to the increasing cybersecurity budgets of private sector companies.

It is clear to each of us that the IRS appropriations reductions over the last five years materially and adversely affect the ability of the IRS to assist taxpayers who are trying to comply with their tax obligations, as well as the ability of the IRS to detect and deter taxpayers who have not complied with their tax obligations. Recently, we understand that the IRS estimated a direct annual revenue loss to the Federal government in tax enforcement at $6 billion last year and $8 billion this year, due to such appropriations reductions. Historically, for every dollar invested in IRS tax enforcement, the United States received $4 or more in return, and we understand that continues to be true today.

The Congressional Budget Office in its June 2015 Long-Term Budget Outlook projected future fiscal challenges to the United States because of the large and increasing size of our national debt and rising future operating deficits attributable to an aging U.S. population and rising healthcare costs. It, therefore, is imperative that our tax system in the future operate at an optimal level in order to maximize the revenues the IRS collects. For that to happen, the IRS must be able to assist taxpayers who are trying to comply with their tax obligations, and at the same time be able to enforce the tax laws against those taxpayers who have not complied with their tax obligations. In short, because of our country's fiscal and other challenges, our tax system must work and work well to collect the taxes that are owed.

Some have argued that the IRS can solve these problems by simply becoming more efficient. This argument ignores the reality that the IRS is already, by far, the most efficient tax collection agency among large countries in the world. The OECD recently released its bi-annual analysis of tax administration across the developed world and reported, based on 2013 statistics which don't reflect the most recent IRS budget cuts, that the amount the IRS spends to collect a dollar in taxes is approximately half the average amount spent by all OECD countries. Germany, France, England, Canada and Australia all spend as much as two to three times the amount the IRS does to collect a dollar of revenue.

In light of the foregoing, we fail to understand how it makes any logical sense to continue to reduce, rather than increase, the IRS budget for FY 2016 in order to optimize the IRS' ability to provide taxpayer service and to enforce the tax laws to increase revenue collections. To put it succinctly, we do not understand why anyone with present and projected debts and annual losses as large as those of the United States would refuse to pay for telephone assistance to people trying to fulfill their tax obligations, would turn their back on $8 billion annually in additional revenue, or would fail to make an investment that offers a return equal to at least four times the amount invested. For these reasons, we respectfully call upon each of you to support and work to accomplish the passage of an IRS appropriations request for FY 2016 that is substantially in excess of the appropriation for the IRS in FY 2015.

Mortimer M. Caplin (1961-64) Sheldon S. Cohen (1965-69) Lawrence B. Gibbs (1986-89)

Fred T. Goldberg, Jr. (1989-92) Shirley D. Peterson (1992-93) Margaret M. Richardson (1993-97)

Charles O. Rossotti (1997-2002)