

**WRITTEN TESTIMONY OF  
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BEFORE THE  
SENATE APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON FINANCIAL SERVICES  
AND GENERAL GOVERNMENT  
ON FY 2012 IRS BUDGET  
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**INTRODUCTION & SUMMARY**

Chairman Durbin, Ranking Member Moran, and Members of the Subcommittee, thank you for the opportunity to appear today to discuss the President's FY 2012 Budget Request for the Internal Revenue Service (IRS).

This Budget was crafted during a time of fiscal austerity and belt tightening for the nation and it is incumbent upon all of us in government to be as efficient as possible and spend taxpayer dollars wisely. That means finding savings where we can, and continuing to invest in strategic priorities that allow us to continuously improve.

Against this backdrop, it is clear that the IRS is vital both to the functioning of government and keeping our nation and economy strong. In FY 2010, the IRS collected \$2.345 trillion in gross revenue to support the federal government, approximately 93 percent of all federal receipts. Moreover, for Fiscal Year 2010, we processed more than 140 million individual income tax returns and issued 109.5 million refunds to individual taxpayers totaling \$366 billion.

***A Record of Success***

Mr. Chairman, the IRS is also proud of its implementation track record over the past few years.

We have run smooth filing seasons for the last several years, despite new tasks being added to our agenda and late passage of legislation.

We have also made good strides in cracking down on international tax evasion. We struck a landmark deal with the government of Switzerland, and for the first time received information on thousands of Americans hiding assets in Swiss bank accounts. As we turned up the pressure on those not paying taxes on overseas assets, we had approximately 15,000 voluntary disclosures from individuals who came in under our special Voluntary Disclosure Program (VDP). Since the special program closed, we received an additional 4,000 voluntary disclosures from individuals with bank accounts from around the world.

Many of these voluntary disclosure cases involve significant amounts of previously unpaid tax.

However, collecting such substantial additional revenue for past misdeeds is not the only important consideration here. Regardless of dollar size, it is important that we are bringing thousands of US taxpayers back into the system so they properly report and pay their taxes for years to come on their offshore accounts.

In February, 2011, the IRS announced a new special voluntary disclosure program designed to help people with undisclosed income from hidden offshore accounts get current with their taxes.

Our goal in our offshore efforts is to fundamentally change the risk calculus of taxpayers. We are well on our way to deterring the next generation of taxpayers from using hidden bank accounts to avoid paying taxes.

We have also been ushering in a new relationship with corporate taxpayers with a major focus on creating forums and venues where we can resolve issues faster and provide more certainty.

The impetus for this new approach stems from the simple shared belief that at the end of the day, taxpayers and tax authorities pretty much want the same thing. They want a balanced tax administration system that provides:

- Certainty regarding a taxpayer's tax obligations sooner rather than later;
- Consistent treatment across taxpayers; and
- An efficient use of government and taxpayer resources by focusing on the issues and taxpayers that pose the greatest risk of tax noncompliance.

There are several interlocking pieces that will help advance this transformation. It requires more transparency on both sides; a re-tooling of our audit approach; and a commitment to resolving issues quickly and clarifying uncertainty in the law.

We now have a number of innovative, forward-thinking programs and forums, such as our Industry Issue Resolution program, Compliance Assurance Program, Fast Track Settlement and our Uncertain Tax Positions reporting requirement that are focused as a package on the goals of faster issue resolution and greater certainty for those taxpayers who want to be transparent.

One of the most important initiatives that the IRS has undertaken in recent memory is the return preparer initiative, which is now being implemented. In September 2010, we launched the new online PTIN (Preparer Tax Identification Number) application system. It is up and running with over 700,000 preparers already registered in the system.

More than just an identification number, the PTIN registration process gives the IRS an important and better line of sight into the return preparer community than we have ever

had before. We can leverage that information to help us better communicate, analyze trends, spot anomalies and potentially detect fraud.

The registration process will help us build in several years a publicly-accessible database of preparers who are authorized to prepare returns. This is an extremely important tool for consumers as they will be able to search the database to ensure that their preparer is registered. It will also make it easier to find and track the bad actors out there. They will not be able to pull up stakes and move around anonymously.

The IRS is also very proud of its work in implementing the tax-related provisions of the American Recovery and Reinvestment Act (ARRA) and other economic recovery legislation. We put out billions of dollars to help people buy homes and stabilize the housing market through the First-time Homebuyer Credit, and we added \$400 to \$800 to families' paychecks through the Making Work Pay Credit, just to name two provisions.

The IRS continues to provide taxpayers with quality customer service and different service channels and products. They run the gamut from traditional walk-in sites for those who need to see an IRS representative face-to-face, to toll-free automated and assistor telephone service, to web-based applications and social media. All make it easier for taxpayers to file and pay their taxes.

Telephone LOS has recovered after several challenging years. This year we are targeting a 71 percent assistor level of service for the full year. Toll-free tax law accuracy and accounts remain respectively at 93 percent and 95 percent, and the overall toll-free customer satisfaction rating stood at 92 percent. Last year, we also saw a 70 percent e-file rate for individuals as compared to a mere 10 percent 15 years ago. As noted in the next section, this translates into a huge savings.

IRS.gov has become the favorite source of information for millions of taxpayers. For FY 2010, there were almost 305 million web page visits to IRS.gov – a 14 percent increase over the same time period in FY 2009. Use of the “Where’s My Refund” electronic tracking tool continued to post double-digit yearly gains.

The IRS is increasingly communicating with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social and new media, such as YouTube, Twitter and even iTunes, we are able to reach these taxpayers with important service and compliance messages.

In January 2011, the IRS also unveiled IRS2Go, its first smartphone application that lets taxpayers check on the status of their tax refund and obtain helpful tax information. This new smartphone app reflects our commitment to modernizing the agency and engaging taxpayers where and when they want.

Finally, the IRS continues to run robust compliance programs. We continue to have appropriate and balanced audit coverage rates across taxpayers and to innovate in our collection programs.

And in our latest effort to help struggling taxpayers, the Internal Revenue Service announced on February 24, 2011 a series of new steps to help people get a fresh start with their tax liabilities.

The goal is to help individuals and small businesses meet their tax obligations, without adding unnecessary burden to taxpayers. Specifically, the IRS set forth new policies and programs to help taxpayers pay back taxes and avoid tax liens.

The announcement centers on the IRS making important changes to its lien filing practices that will lessen the negative impact on taxpayers. The changes include:

- Significantly increasing the dollar threshold when liens are generally issued, resulting in fewer tax liens;
- Making it easier for taxpayers to obtain lien withdrawals after paying a tax bill;
- Withdrawing liens in most cases where a taxpayer enters into a Direct Debit Installment Agreement;
- Creating easier access to Installment Agreements for more struggling small businesses; and
- Expanding a streamlined Offer in Compromise program to cover more taxpayers.

In short, despite a quickly evolving taxpayer base and unprecedented demands on IRS resources, the IRS continues to deliver for the American people.

### *Working Smarter and Greater Efficiencies*

The IRS continues to reap the financial benefits of the E-File program, one of the most successful modernization programs in government. Today we receive nearly 100 million tax returns electronically. In the past these returns had to be opened, sorted, and transcribed manually. The efficiency savings have allowed us to reduce our submission processing sites in half. This year we are closing our 5th of the original 10 sites that processed paper returns.

The FY 2012 Budget Request includes almost \$190 million in efficiency savings, reductions, and non-recurring activities. While these targets are substantial, I am confident that we will meet them and more, by finding cost-savings in our operations wherever we can.

I have also challenged the IRS leadership and indeed, all IRS employees, to take a hard look at their operations and look for potential savings and efficiencies.

Even in a tough budget environment, I am confident that the IRS will continue to deliver value for the American taxpayer and will emerge as a stronger agency in the years to come.

I am particularly pleased with the progress that we are making in achieving efficiencies in our technology operations. The IRS has embarked on a multi-year effort to streamline and standardize processes that will allow for substantial efficiency gains. For example, the Information Technology Infrastructure Library is a collection of best practices used to aid in the implementation of a lifecycle framework for IT Service Management. In September 2010, an independent third party found that the IRS recently reached Capability Maturity Model (CMM) Level 2 based on established criteria.

Achieving this level allows standardized project management practices across projects. This will improve our agility and quality in delivering software to our business customers and the taxpaying public, as well as reduce the cost of developing and maintaining products, and improve the cost of engineering services.

### **Investing in Core Programs**

Indeed, it is in recognition of the critical role that the IRS plays in the economy that the FY 2012 Request includes a judicious investment in the IRS' core service and enforcement programs and initiatives. Enforcement and customer service are not an either/or proposition. Accomplishing our mission requires that we do both well.

The Request also includes the necessary funding for completing on time for the 2012 filing season the core taxpayer account database. A fully operational customer account database will mean faster processing of returns, expedited refunds for 140 million individual taxpayers and enhanced data security.

The funding in the President's Budget Request will be used to carry out the IRS' strategic and balanced agenda that includes:

- Improved service to taxpayers, including enhancements to the IRS.gov website to meet taxpayer needs and growing demand for more e-services;
- Robust and targeted enforcement programs to address offshore tax evasion and improve tax compliance for corporate and high-income taxpayers;
- Completion of the new taxpayer account database and enhancements to our electronic filing platforms;
- Leveraging the Return Preparer Program to reduce non-compliance;
- Implementation of our Uncertain Tax Position (UTP) reporting requirements;
- Combating errors and fraud for refundable tax credits, such as the Earned Income Tax Credit (EITC);

- Better use of data, such as credit card and securities basis information reporting;
- Implementation of new tax provisions found in major recent legislation, including the Affordable Care Act (ACA);
- Workforce development to ensure that we have a talented and capable workforce for the foreseeable future; and
- Enhancing workplace/physical security for IRS employees.

The IRS will also administer those portions of ARRA that were extended into 2011. These include the expanded EITC for families with three or more children and the American Opportunity Tax Credit to help pay tuition and other expenses for individuals enrolled in institutions of higher education. In addition, we continue to administer the Health Coverage Tax Credit (HCTC) that was enacted as part of the Trade Adjustment Assistance Reform Act of 2002.

The new enforcement personnel included in the request will generate more than \$1.3 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2014. The roughly \$6-to-\$1 return on investment estimate related to these initiatives does not include the indirect revenue effect of the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

### **AFFORDABLE CARE ACT**

The IRS will need to implement and administer the tax provisions of the Affordable Care Act (ACA) (Public Law 111-148) in 2012. The IRS seeks to be helpful to families and businesses that will benefit from the ACA. In fact, some benefits have already begun. For example, upon enactment of the ACA, the IRS immediately began to make sure that small employers were aware of a significant new tax credit to help them provide health coverage to their workers.

Because the tax credit was enacted mid-year, and became effective immediately, the IRS conducted a significant outreach campaign to small businesses. In addition to mailing postcards to millions of employers alerting them to the new credit, the IRS held or attended more than 1,000 outreach events targeted at small businesses and the tax practitioners who serve them.

Working with the Department of Health and Human Services, we also administered a program to provide \$1 billion in tax credits and grants to qualifying therapeutic discovery projects.

In addition, we have implemented or have begun to implement changes that expanded the tax credit for adoptive parents, a new exclusion for loan forgiveness programs for certain health professionals, and a new excise tax on indoor tanning services.

We are also working diligently to implement the tax law components of the changes made to the health insurance marketplace that will begin in 2014. Let me put these efforts in context by describing the activities that we are undertaking to plan for these upcoming changes.

The IRS also has significant information technology development work that must be completed in order to administer these provisions. The vast majority of the resources that IRS will require between now and 2014 will be dedicated to technology and the associated business process design required to effectively administer these new provisions.

### *Exchanges and Medicaid Health Coverage*

Individuals seeking subsidized coverage will interact with the IRS at a few discrete points in the process:

1. Obtaining coverage through exchanges and/or Medicaid

The ACA outlines eligibility rules for the premium assistance tax credit, as well as Medicaid. In both cases, the household income as reported to the IRS by approximately 140 million taxpayers on the 2012 tax returns will be relevant to eligibility determination. The IRS will alter its systems to take account of the new concept of household income, and is planning to provide significant educational tools to help individuals understand what household income represents. Furthermore, planning is underway to determine the best way to provide this information to taxpayers via the Web, telephone, and other channels.

2. Receiving advance premium tax credits

Individuals who are determined to be eligible for the premium assistance tax credit can receive the benefit through advance monthly payments that are made directly to the plan provider. Working with the Treasury Financial Management Service, which will be making the advanced payment, the IRS will develop new systems for the administration of the tax credit. In addition, the IRS will work with the exchanges as appropriate to insure there is significant outreach and education to make taxpayers who are receiving the advance payments aware of the importance of reporting mid-year changes in circumstance that could affect their eligibility for, or the amount of the credit.

3. Reconciling the premium assistance tax credit with advance payments made through the year

The ACA provides that individuals will reconcile the amount of advance payments of the premium credit with the actual amount as computed on the tax return. In other words, advance payments made throughout 2014 will be reconciled with individuals' tax returns that are filed in the spring of 2015. To the extent that the ultimate credit amount is larger than the sum of the advance payments, the additional amount will be added to the taxpayer's refund. If the ultimate credit amount is lower than the sum of the advance credit, the taxpayer will owe additional tax on the return, potentially subject to a cap.

### ***Individual Coverage Requirement***

The IRS will also be responsible for administering the requirement that individuals who can afford health coverage either obtain it or make a payment to the IRS. While implementation of this requirement does not come into effect until 2014, and will appear on the 2014 tax forms that will be filed in the spring of 2015, we have nonetheless received a number of questions about how this provision will be implemented.

First, we anticipate providing significant outreach and education on this provision. This will come directly from IRS and in partnership with state and federal agencies, employers, tax return preparers, and others. Our experience in administering new tax laws suggests that the vast majority of individuals will successfully incorporate this provision into their tax year 2014 returns, filed in 2015.

The forms will provide instructions on how individuals can determine if they met the coverage requirement, and if not, how to compute the payment and include it in that year's tax liability. We also plan to work closely with the tax return preparation industry to ensure that the professionals who advise taxpayers are fully informed about this provision. Today, approximately 60 percent of taxpayers use a return preparer and another 25 percent use software to prepare their own returns.

### ***Employer Provisions***

Finally, the IRS will administer the employer responsibility payment for large employers who do not offer affordable coverage, and have at least one employee who receives subsidized coverage through the exchange. This provision closely intersects with the rest of the exchange provisions, and we are working closely with the Department of Health and Human Services and the Department of Labor to reach out to the employer community, understand what questions and issues they foresee, and incorporate the feedback that we get into the upfront program design and regulatory guidance.

### ***Tax Law Changes***

The IRS is also working diligently to implement other tax law changes that come into effect over the next several years. Earlier in my testimony I mentioned several that we are already implementing, and would be happy to answer any questions that you have on those, or the provisions coming into effect in the months and years ahead.

## **CONCLUSION**

In conclusion, let me thank the subcommittee again for this opportunity to discuss the IRS Budget Request for FY 2012 which reflects the progress and improvements the IRS continues to make – even in a difficult budget environment.

I believe the FY 2012 Budget is fiscally prudent and makes wise investments in strategic priorities in enforcement, service, and business modernization. It will help ensure that the IRS will continue its vital role in keeping our nation and economy healthy and strong.