

**WRITTEN TESTIMONY OF  
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BEFORE THE  
SENATE FINANCE COMMITTEE  
ON THE 2018 FILING SEASON  
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**UPDATE ON THE 2018 FILING SEASON**

Chairman Hatch, Ranking Member Wyden and Members of the Committee, thank you for the opportunity to provide you with an update on the 2018 tax filing season and discuss IRS operations.

I am pleased to report that the 2018 filing season, which began on January 29, has gone well in terms of tax return processing and the operation of our information technology systems. As of March 30, the IRS received more than 94.1 million individual returns. We have issued more than 73.3 million refunds for more than \$212.3 billion. About 80 percent of returns filed so far claimed a refund, with the average refund totaling approximately \$2,900. It is important to note that, although the tax filing deadline for individuals is only a few days away, the work of the filing season continues throughout the year, as IRS employees continue to process tax returns, including amended returns, and returns for which taxpayers had requested an extension beyond April 17.

While the IRS was working to deliver the filing season, we also had two policy implementations to deliver on. The first was the need to begin implementing the Tax Cuts and Jobs Act, which was the most sweeping change to tax law in more than 30 years. This new statute requires extensive work by the IRS this year and next to serve the needs of taxpayers and tax professionals. In fact, the IRS began implementation efforts shortly after the legislation was signed into law last December.

The second major policy implementation was the tax-related provisions in the Bipartisan Budget Act enacted in early February, shortly after the filing season had started. The IRS began work immediately after passage of the legislation to reprogram its processing systems to handle more than 30 individual and business tax benefits that had expired at the end of 2016. This was the first time the IRS had ever been required to implement retroactive tax extensions this late in a filing season.

Thanks to the extraordinary efforts of IRS employees and assistance from the nation's tax community, by late February we had completed system reprogramming for the three benefits that were most likely to be claimed on tax

returns early in the filing season. We estimate that approximately 7 million taxpayers are eligible to claim those three benefits. They are:

- The exclusion from gross income of discharge of qualified principal residence indebtedness;
- The treatment of mortgage insurance premiums as qualified residence interest, generally claimed by low- and middle-income filers; and
- The deduction for qualified tuition and related expenses.

Since then, the IRS has completed reprogramming its systems, and has updated forms and instructions, to accommodate the other extender provisions in the Bipartisan Budget Act. They include extensions for several energy-related tax incentives: a credit for nonbusiness energy property; the alternative motor vehicle credit; and credits for qualified plug-in electric drive motor vehicles and certain two-wheeled vehicles.

This filing season was also the second in which the IRS held tax refunds until February 15 for returns claiming the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC) under a requirement established by the Protecting Americans from Tax Hikes (PATH) Act. Like last year, this change slowed the overall pace of refunds at the beginning of the filing season, but that pace accelerated once the IRS released 9.4 million EITC and ACTC refunds, totaling approximately \$46.9 billion, shortly after February 15.

## **TAXPAYER ASSISTANCE EFFORTS**

A critical component of the filing season involves the assistance the IRS provides to taxpayers, to help them fulfill their tax obligations as quickly and easily as possible. The IRS remains mindful of the need to do everything we can to deliver secure, high-quality assistance through every available channel, including online, in person and over the phone. We continue to expand opportunities for taxpayers and their representatives to complete service and compliance interactions through their preferred channel.

While all of our service channels are important, we realize that taxpayer needs have been evolving, with more taxpayers conducting their business using digital tools at the time and place of their choosing. We will continue our investments in improving the use of online tools and offerings and modernizing the taxpayer experience.

The IRS provides a wealth of tax information on IRS.gov, which was visited more than 495 million times during Fiscal Year (FY) 2017, and more than 335 million times so far in FY 2018. The most heavily used part of our website is the “Where’s My Refund?” electronic tracking tool, which was used about 278 million times in FY 2017, and more than 205 million times already this filing season.

Over the last several years, the IRS has launched a number of digital applications to improve taxpayers' interactions with the IRS. These include:

- Get Transcript, which allows taxpayers to go online, verify their identity with strengthened security, and download a copy of their tax records from prior years. Taxpayers used this tool 15.5 million times in FY 2017 and 7.4 million times so far this fiscal year;
- Online Payment Agreement, a secure, safe and easy process taxpayers can use to set up a payment plan and pay their tax obligations over time. A total of 798,000 online agreements were set up in FY 2017, and 303,000 have been set up so far this fiscal year; and
- Direct Pay, which provides taxpayers with a secure, free, quick and easy online option for making tax payments. This tool was used 10.2 million times in FY 2017 and has been used 4.1 million times so far this fiscal year.

Our work in this area also includes continuing the development, over time, of online accounts at the IRS where taxpayers can log in securely, obtain the information they need about their account and interact with the IRS as needed.

In 2016, we took the first step toward a fully functional IRS online account with the launch of an application on IRS.gov that provides information to taxpayers who have straightforward balance inquiries. We followed that up with another feature that lets taxpayers see recent payments posted to their account. We anticipate the online account will remain a key point of contact between the IRS and taxpayers, and, subject to the availability of resources, we will add other features to this platform over time, as they are developed and tested with taxpayers and tax professionals.

Another important service delivery channel continues to be our toll-free telephone line, which constitutes one of the world's largest customer service phone operations. In FY 2017, the IRS received more than 52 million taxpayer calls, with more than 40 percent, or about 23 million, handled by our customer service representatives. The rest were calls made to lines providing automated messages containing helpful tax information.

In regard to phone service, I'm pleased to report that during the 2018 filing season we are again seeing a strong level of service (LOS) on our toll-free lines, as we did in 2017. As of March 31, our phone LOS was close to 80 percent, and we anticipate that the average for the 2018 filing season as a whole will be about 80 percent. Average LOS during the 2017 filing season was 75 percent, and 70 percent for the 2016 filing season.

The IRS has also been successful in providing timely assistance to taxpayers who visit one of our Taxpayer Assistance Centers (TACs) around the country. This is the second year that all TACs are offering appointments in advance, a

process that we have found dramatically cuts wait times for TAC visitors. As in 2017, we have had no reports of long lines during the 2018 filing season – clear evidence that the appointment process reduces burden on taxpayers who seek in-person assistance.

We have also found this arrangement provides major advantages to taxpayers. First, when people call for an appointment, we can tell them what documents they need to bring with them, reducing the number of return trips. Second, the IRS employee making the appointment can often help taxpayers resolve their issue over the phone or refer them to the help they need, eliminating the need to visit a TAC. So far this year, about half of those who called for an appointment were able to resolve their issue without actually having to come in for an appointment. This is an important point, because TAC employees can now spend more time with those who do visit, as they tend to have more complex issues that cannot be resolved over the phone.

The total number of taxpayers served at TACs this year through March 31 is more than 790,000, which includes nearly 52,000 who visited a TAC without an appointment. We encourage taxpayers to make appointments in advance, so they can be assured of quick and efficient service, but we are also doing whatever we can to serve taxpayers who show up without an appointment.

## **SAFEGUARDING IRS SYSTEMS AND TAXPAYER DATA**

Another important aspect of taxpayer service, during the filing season and throughout the year, involves the IRS's efforts to protect IRS systems and taxpayers' personal data from tax-related identity theft. Over the last several years, the IRS has made significant progress in this area.

Much of that progress is the result of Security Summit initiatives that help safeguard the nation's taxpayers. In fact, the 2018 filing season was the third in which the IRS worked with its Security Summit partners to put in place many protections to help stop fraudulent returns from entering tax processing systems.

I'm pleased to report recent statistics show there continues to be a substantial decline in several indicators of tax-related identity theft. That includes the number of taxpayers reporting to the IRS they are victims of identity theft; the number of tax returns with confirmed identity theft; and the number and amount of fraudulent refunds recovered by financial institutions. The following table shows the declines in these areas between 2015 and 2017:

**Table 1: Identity Theft Refund Protection by Activity and Dollar Amount, Calendar Years 2015-2017**

	2015	2016	2017	% Change (2015 to 2017)
IRS Forms 14039, Identity Theft Affidavit	677,000	401,000	242,000	- 65%
Tax returns with confirmed identity theft	1,400,000	883,000	597,000	- 57%
Estimated dollar amount of revenue protected	\$8.7 billion	\$6.4 billion	\$6 billion	-31%
Fraudulent tax refunds recovered by financial industry	249,000	124,000	144,000	-42%
Estimated dollar value of recovered refunds	\$852 million	\$281 million	\$204 million	-76%

*Source: IRS data*

Despite all the progress that has been made, we realize we cannot let up in the fight against tax-related identity theft. As we have strengthened our defenses, identity thieves are becoming more sophisticated, and attempting to obtain more-detailed financial information to help them do a better job of impersonating legitimate taxpayers and file more realistic-looking tax returns to attempt to obtain fraudulent refunds.

Cyberthieves are targeting tax professionals, human resources departments, businesses and other places with large amounts of sensitive financial information. For that reason, the IRS and its partners are not only continuing to improve our safeguards against fraudulent returns, but we also continue to encourage taxpayers, tax professionals and businesses to do everything they can to protect their data and avoid becoming victims of the tax scams that continue to proliferate.

## **TAX REFORM IMPLEMENTATION UPDATE**

The IRS continues to make important progress in implementing the Tax Cuts and Jobs Act. As I noted when I testified to this Committee in February, implementing the new tax law is one of the IRS's highest priorities, and will be a major Service-wide effort for some time. This work touches on many major aspects of the tax system affecting both individual and business taxpayers. Our main goal is to ensure everyone can navigate and understand the changes made by the new law, and be able to file their returns in 2019 as quickly and easily as possible.

Our Tax Reform Implementation Office (TRIO), which was set up in January, continues to coordinate our efforts. The TRIO is responsible for interacting with our business divisions and our Office of Chief Counsel to ensure a smooth roll-out of everything needed to implement the law. Where there is overlap in responsibilities, the TRIO will ensure IRS divisions collaborate to get the job done. The TRIO has a broad portfolio: it is responsible for identifying areas of impact, establishing and monitoring implementation action plans, ensuring communication with external and internal stakeholders, and making sure we address any risks that arise in our work.

Regarding recent implementation activities, one critical area we identified early on was income tax withholding. The IRS moved quickly to begin revising the withholding system to take into account various changes made by the statute, such as increasing the standard deduction, removing personal exemptions, increasing the child tax credit, limiting or discontinuing certain deductions and changing the tax rates and brackets. This issue affects literally every taxpayer who receives a paycheck.

We started in January by issuing updated withholding tables for employers to use. These tables were designed to produce the correct amount of tax withholding for taxpayers with simple tax situations. Then at the end of February, we released an update to our Withholding Calculator on IRS.gov, to help employees adjust their withholding amount based on their particular financial situation. This will be especially helpful for taxpayers with more complex tax situations. Through March 8, the Withholding Calculator page on IRS.gov had had been viewed more than 1.2 million times.

Also in February, we issued a revised Form W-4, *Employee's Withholding Allowance Certificate*, to more fully reflect the new law. This form takes into account such provisions as the changes in available itemized deductions, increases in the child tax credit, the new dependent credit and the repeal of dependent exemptions.

The IRS is continuing efforts to encourage taxpayers to check their withholding, and do so as soon as possible. For example, in late March we conducted a "Paycheck Checkup" public awareness campaign to get the word out to taxpayers about what they can do to make sure the correct amount of tax is being withheld from their pay. The activities during this special weeklong campaign included the release of an IRS YouTube video series and several online Tax Tips. These were designed to walk taxpayers through what they need to know about withholding, and help them navigate complex issues that might affect how much should be withheld from their pay.

Another important area where the IRS has made significant early progress on tax reform implementation involves the guidance taxpayers and tax professionals need to understand and navigate the new law. This involves both formal guidance, such as regulations and notices, and so-called “soft” guidance, such as press releases and Frequently Asked Questions (FAQ) about tax topics.

In February, the Treasury Department and the IRS provided an initial idea of where we are headed, with an update to the Priority Guidance Plan. As a first step, the revised plan contains 18 new guidance projects related to tax reform. There are many other areas of the law that will require additional guidance, given that, overall, there are 79 explicit grants of regulatory authority in the tax reform statute.

While much of the guidance we are developing will take time, there were certain areas we needed to address quickly. In late December, we released initial guidance to help corporations begin complying with the transition tax imposed on untaxed foreign earnings of foreign subsidiaries of U.S. companies under new code section 965, which became effective upon enactment of the new law. We followed that up with additional notices, and last month released a set of FAQs with information to assist taxpayers filing their 2017 tax returns, including how to report section 965 income and how to report and pay the associated tax liability.

Another area where we are working to issue guidance as soon as possible involves the deep reduction in the corporate income tax rate to 21 percent. We know there is much guidance needed in regard to this change, and there are several projects underway. We realize the need for guidance is especially acute for fiscal-year filers, so we are making that a priority.

Those are just a few of the actions the IRS has taken so far in its ongoing efforts to implement the new tax law. We are also continuing the work needed to create or revise approximately 450 forms and publications affected by tax reform. Work also continues on reprogramming about 140 information technology systems, with special focus on returns processing and compliance systems, to ensure those systems are ready for next year’s tax filing season. We are also developing the training that will be needed to familiarize our workforce with the new tax law and, in particular, ensure our customer service representatives can provide the most effective service possible to taxpayers when they have questions about the tax changes.

In my previous testimony to this Committee, I noted the IRS would need additional resources to ensure successful implementation of tax reform. We appreciate the additional \$320 million approved by Congress as part of the omnibus appropriations bill for FY 2018. This funding ensures the IRS can move forward with critical implementation activities in a timely manner, and we will be transmitting updated implementation plans and two-year cost estimates to Congress in the very near term.

Chairman Hatch, Ranking Member Wyden and Members of the Committee, that concludes my statement. I would be happy to take your questions.