

**WRITTEN TESTIMONY
OF
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BEFORE
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“TAX FILING SEASON: IMPROVING THE TAXPAYER EXPERIENCE”
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INTRODUCTION AND SUMMARY

Chairman Baucus, Ranking Member Hatch, and Members of the Senate Finance Committee, thank you for this opportunity to testify on the 2012 tax filing season and the IRS’s progress on some key programs.

The 2012 filing season is winding down and is going smoothly. As of March 31, 2012, the IRS received over 91 million individual returns. We have issued more than 75 million refunds for a total of \$213 billion, as compared to 75 million refunds for a total of \$220 billion over the same time period in 2011. The average dollar refund was approximately \$3,000, about the same as last year. During the same time period, the IRS directly deposited 62 million refunds to taxpayers, as compared to 61 million last year – a nearly two percentage point increase. The number of savings bonds being requested by taxpayers owed a refund is up by 16 percent and the dollar value of those bonds requested is up by 57 percent, to more than \$11 million.

Of note, the IRS e-file program continues to grow. This year the individual e-file rate continues to trend upward – a very positive development – while returns filed on paper continue to fall. Later in my testimony, I provide more statistics and information on the filing season.

Mr. Chairman, the IRS is vital both to the functioning of government and keeping our nation and economy strong. In FY 2011, the IRS collected \$2.415 trillion in taxes, representing 92 percent of Federal Government receipts. The IRS processed more than 144.7 million individual returns during the 2011 filing season and issued almost 110 million refunds totaling \$345 billion that traditionally help boost consumer spending and savings.

The IRS is also proud of its record over the past few years as we have made tangible progress on a number of strategic initiatives while carrying out our core duties, such as delivering a smooth filing season in 2011 – in spite of the late passage of legislation. The following are some of the more prominent programs and initiatives, including certain core programs that demonstrate how targeted investments can deliver real value to taxpayers and our nation. Gains in customer service can be found in the Filing Season section of my testimony.

CADE2 Launch

I want to highlight first a major milestone for the IRS and our tax system that occurred earlier this year – the successful stand-up of CADE2 (Customer Account Data Engine). Since the 1960s, the IRS has performed its core account processing, which includes basic taxpayer information such as current account balance, outstanding amounts due, and any recent payments, on a weekly basis.

I am pleased to report that in January 2012, the IRS successfully migrated from a weekly processing cycle to daily processing. CADE2 was a multi-year, incredibly complex undertaking, which went to the heart of systems that process trillions of dollars in tax revenue. Again, this is a major milestone for the IRS.

Our state-of-the-art database will become the sole authority source of individual taxpayer account data and will replace the legacy master file tapes. And of note, when we converted master file data from the legacy tapes to the new database, the financial information going back to the 1960s balanced to the penny.

CADE 2 addresses a multitude of issues that have historically created challenges and problems in the tax system. It will provide more up-to-date information at the fingertips of our customer service representatives that will enable faster resolution of taxpayer account issues and account adjustments – both of which will greatly help taxpayers and the IRS.

And CADE2 will correct one of the biggest problems we have when a taxpayer calls about a payment he or she made, but our representative cannot tell whether it has been posted or not. It will also eliminate structural technology problems that could lead to time-lag problems, such as when notices are sent to taxpayers.

Practitioners will see quicker updates to web-based applications, and faster taxpayer notices. The CADE2 database will also allow IRS to consider offering a wider range of web-based, self-initiated service solutions that could fundamentally change the way taxpayers interact with the IRS and potentially provide greater operational efficiencies.

In addition, CADE2 supports sophisticated, next-generation service and compliance systems, which will improve overall compliance through better taxpayer information, enhanced workload selection and advanced decision analytics.

Return Preparer Program

The Return Preparer Program is one of the most important initiatives the IRS has undertaken in recent memory. Our goal is to leverage preparers' expertise and commitment to quality service to improve the integrity of the tax system.

Boiled down to its essence, the program will ensure a basic level of competency for return preparers while enabling us to focus on addressing those who produce low-quality

returns or who are downright unscrupulous.. First, we had to identify all preparers and have them register.

Since September 2010, almost 840,000 individuals have registered and obtained a Preparer Tax Identification Number, or PTIN, and are now in our tax professional database. And we are learning some interesting facts about not only the size, but the nature of the tax preparer community. For example, over 60 percent of PTIN holders are not attorneys, CPAs, or enrolled agents and, prior to this effort, were not required to demonstrate competency or meet any set of consistent standards.

Once PTIN registration was in place, we began the next phase of the program aimed at ensuring a minimal level of competency for all return preparers. In November 2011, we launched a new competency test for certain tax return preparers who prepare Form 1040 returns but who are not attorneys, CPAs, or enrolled agents, or supervised by one of them in a firm. These individuals also have a new requirement to complete 15 hours of continuing education each year from IRS-approved providers.

Let me add also that from the beginning we planned to exempt CPAs, attorneys, and enrolled agents from the testing and continuing education requirements as they already have more stringent testing and education requirements.

As we've set up the registration, testing and continuing education components of our return preparer initiative, it is also important that we focus on finding unscrupulous preparers who damage the good name of honest return preparers and undermine the overall tax system; therefore, we are developing a comprehensive strategy to focus on preparer enforcement and compliance.

Our compliance efforts will be focused on places of highest risk – where the vast majority of preparers who play by the rules should want us to focus.

We will also continue to conduct undercover shopping visits to return preparers suspected of engaging in fraud, and we will continue to work closely with the Department of Justice to pursue civil or criminal action against unscrupulous return preparers.

Budget Trends

Over the last several years, the IRS budget requests have reflected strategic investments in the IRS that serve to reduce the deficit, along with substantial efficiency and other targeted reductions that reflect our commitment to effective stewardship of the resources that we are given.

These savings and efficiencies reflect an across-the-board commitment to finding better and more efficient ways to administer the tax system. They come from a variety of sources, including reductions in outside contracts, training and all but case-related travel.

However, even with these efficiencies, the IRS would not have been able to meet the level of budget reduction enacted for FY 2012 without substantially reducing our workforce. The IRS had already instituted an agency-wide hiring freeze and has only been replacing attrition on an exception basis. Attrition savings were not sufficient to meet the 2012 levels, though, so the IRS resorted to voluntary incentives designed to accelerate retirements of those who were retirement-eligible, or close to eligible. As of March 5, 2012, these incentives – known as Voluntary Separation Incentive Payments (VSIPs) – were given to approximately 1,000 workers. As a result of these measures, the IRS has approximately 5,000 fewer staff on the payroll this filing season compared to last year. Of the 5,000, approximately 3,000 were associated with enforcement activities, with the balance of the reduction principally coming from taxpayer service functions.

Enforcement

Turning to enforcement, 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. Through our Offshore Voluntary Disclosure Programs, we have collected more than \$4.4 billion to date from those hiding money overseas, and that number will grow as the IRS processes the 2011 cases.

In FY 2011, IRS compliance activities returned \$55.2 billion to the Treasury as a result of our examination and collection programs. While the direct revenues brought in by IRS activities are important, the indirect effects are far more substantial and important. A strong and fair enforcement program serves to support over \$2 trillion that is paid on a timely basis every year without the need for direct enforcement measures.

It should be underscored that IRS enforcement revenues do not include billions of dollars in attempted refund fraud that is stopped by IRS up-front fraud detection programs. Overall, IRS identified and prevented the issuance of over \$14 billion in fraudulent refunds in 2011. Identity theft is a subset of this overall refund fraud. Moreover, this filing season, we have expanded our work on several fraud filters which catch not only identity theft but other fraud. In this area we have stopped roughly as much so far this filing season as we stopped last calendar year.

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

People

The IRS' workforce is our greatest asset. Three years ago, Commissioner Shulman embarked on a campaign to make the IRS the best place to work in the Federal Government. This past November, the Partnership for Public Service released the results of the 2011 Best Places to Work in Federal Government survey. The IRS ranking improved yet again, moving over a two-year period from a ranking of 127 to a ranking of 65 out of the 240 participating agencies. And, we are now ranked third out of 15 large agencies (those with over 20,000 employees) in the employee engagement index from the survey.

In addition, our own employee engagement index – which measures the degree of employees’ motivation, commitment and involvement in the mission of the organization – and the job satisfaction index both remained stable compared with last year. In other words, we saw no erosion of the substantial gains we had made over the past few years.

The fact that our survey results showed that our employees remain engaged, motivated and committed, regardless of the external environment, is a testament to the professionalism and deep commitment to service woven into the culture of the IRS.

THE 2012 FILING SEASON & TAXPAYER SERVICE

Mr. Chairman, although the budget reduction for FY 2012 has had an impact, there is much of which to be proud this filing season. Let me stress that providing quality taxpayer service throughout the year, but especially during the filing season, is important if we are to help taxpayers get it right from the start and avoid making unintentional errors.

Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other interactions with the IRS.

The IRS continues to provide taxpayers with quality customer service and different service channels and products. We recognize that we must never stop innovating to meet the service needs of an increasingly diverse taxpayer base and must serve taxpayers when and where they need it.

Our broad portfolio of customer service channels 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, and web-based applications and social media. All make it easier for taxpayers to file and pay their taxes.

Providing high-quality customer service also means assisting taxpayers who are facing tough economic times. For example, in March we announced a major expansion of our “Fresh Start” initiative to help struggling taxpayers by taking steps to provide new penalty relief to the unemployed and making Installment Agreements available to more people. Under the new Fresh Start provisions, part of a broader effort started at the IRS in 2008, certain taxpayers who have been unemployed for 30 days or longer will be able to avoid failure-to-pay penalties. In addition, the IRS is doubling the dollar threshold for taxpayers eligible for Installment Agreements to help more people qualify for the program.

We received an important sign of the progress the IRS is making on customer service: every year, the American Customer Satisfaction Index survey is conducted and for 2011, the survey of taxpayers showed satisfaction with our services reaching 73 on a scale of 100 among all individual tax filers. That score is a three-point jump from a year earlier

and our highest score since we began participating in the survey that began in 1994. Satisfaction among people who filed electronically came in even higher at 78. This is a tremendous step in the right direction and one that we will build upon in the future.

Submission Processing, Refunds and E-filing

Mr. Chairman, let me turn to the 2012 filing season. As of March 31, 2012, the IRS received over 91 million individual returns. Overall individual filing is up two percent compared to the same time period last year.

The IRS e-file program continues to grow. This year the individual e-file rate is trending higher than last year – a very positive development. On the other hand, paper returns are dropping.

For FY 2011, it cost only 15 cents to process an e-filed return – a fraction of the \$3.55 it takes to process a paper return. And with e-file, taxpayers get their refund faster, with fewer data processing errors that can lead to problems later in the process.

Indeed, taxpayers filing electronically can get their refunds as soon as 10 to 21 days upon acknowledgement of receipt by the IRS. This compares favorably with the six week average time frame for processing a paper tax return.

I would be remiss if I did not acknowledge that in the first few weeks of the tax filing season, we experienced some delays in processing a subset of e-filed returns. These were temporary issues that affected a subset of taxpayers who filed in late January and early February, and the issues were resolved by mid-February. And, even with the delays, the IRS was generally delivering refunds in our normal 10 to 21 day time frame. I recognize that this group of taxpayers encountered delays this filing season and we regret any inconveniences.

It bears mentioning that the overall average refund timeline remained steady in FY 2012 when compared to FY 2011. In other words, the delays were isolated to early issues in the filing season, and after that IRS was processing tax returns according to normal refund timelines.

At the same time, combating refund fraud, including identity theft, can also affect the time frame of delivering a refund. As previously noted, we are continually improving our screens and filters to help us identify and block fraudulent returns. For most taxpayers, these measures do not impact refund timelines. However, it can add time to processing for some. There is clearly a delicate balance here.

We cannot manually inspect 100 million refunds to ensure all are correct – nor is there any justification for doing so. The IRS has a dual mission when it comes to refunds, particularly when they are generated in whole or in part by tax credits. Refundable and other tax credits are provided to achieve important policy goals, such as relieving poverty or boosting the economy.

The IRS must deliver refunds in the intended timeframe, while ensuring that appropriate controls are in place to minimize errors and fraud. We must balance the need to make payments in a timely manner with the need to ensure that claims are proper and taxpayer rights are protected.

Toll-Free Telephone Performance

High quality toll-free telephone service – both assistor and automated – is an extremely important tool in answering taxpayer questions, helping them navigate an extremely complex tax code and making voluntary compliance easier.

For the current filing season through March 31, 2012, IRS telephone assistors answered 11 million calls as compared to 13 million calls over the same period last year. Due to budget constraints, fewer resources are available to staff our toll-free operations. As of March 31, 2012, Assistor Level of Service stood at 68 percent versus 75 percent in 2011. This is largely a result of reduced budget resources provided in the FY 2012 budget as enacted, which means fewer assistors available to answer taxpayer phone calls.

Taxpayers also completed 36 million automated calls – a one-third increase over last year’s 27 million calls, reflecting in part a growing taxpayer appetite for quality self-serve options and the time savings of not having to wait for a live assistor.

Accuracy rates for both customer tax law and account questions remain in the 90-plus percentile with minimal change over last filing season’s levels.

Website Usage and New Media

IRS.gov continues to be the favorite source of information for millions of taxpayers. As of March 31, 2012, there were over 200 million visits to IRS.gov – a 26 percent increase over the same time period last year. Use of the “Where’s My Refund” electronic tracking tool continued to post double-digit yearly gains. IRS.gov/Español offers many of the same services and information in Spanish.

Taxpayers can also use electronic tools, such as the Earned Income Tax Credit (EITC) Assistant, to determine if they qualify for the refundable tax credit and a withholding calculator to help them determine the right amount of tax to withhold from their paychecks.

The Interactive Tax Assistant (ITA) is an expanded resource this filing season that provides consistent answers to a limited number of tax law questions using a probe and response process. The ITA will guide taxpayers to accurate answers that are not readily addressed through simple Frequently Asked Questions.

In FY 2011, the IRS received a Compuware Gomez “Best of the Web” award, which recognized IRS.gov as one of the best websites in government for performance and quality and first in consistency.

The IRS is also 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. Last year, 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 application reflects our ongoing commitment to modernizing the agency and engaging taxpayers where and when they want.

For example, during the week of February 10-17, 2012, our YouTube Video “When Will I Get My Refund?” had more than 254,000 views. Our “tweet” and subsequent “re-tweets” on the “Dirty Dozen” tax schemes reached almost 28,000 people. The IRS Video in English is currently the 4th most viewed Federal Government YouTube channel with nearly three million total views.

Virtual Service Delivery

In October 2011, the IRS began testing the use of video communication technology to deliver services to taxpayers. This technology is located in 10 of the 400 Taxpayer Assistance Centers, two IRS partner sites in Prescott, Arizona and Bellefonte, Pennsylvania, and one in Tampa, Florida serving taxpayers seeking assistance from the National Taxpayer Advocate. Taxpayers will find many of the typical services available at an IRS office, such as assistance with letters and notices, tax law and procedural questions, and case advocate appointments. Services are limited to those that do not involve the exchange of paper, such as accepting payments or tax returns. In May, two additional sites will give taxpayers using the services of the Low Income Tax Clinics access to Appeals Officers.

These pilots provide the IRS an opportunity to (1) seek service delivery alternatives outside IRS facilities; (2) improve the utilization of resources (3) optimize staffing and balance workload, and (4) increase access to face-to-face service where currently not available.

Taxpayers participating in the pilot will visit an IRS office, and walk up to a high definition videoconference monitor that is connected to an employee in another location. The taxpayer and IRS employee will be able to see and talk to one another live, face-to-face while the employee provides assistance. The high resolution equipment facilitates document (driver’s license, passport or IRS notice) viewing by holding in front of the camera.

As of mid-March, the IRS has served over 8,000 taxpayers using video conferencing. So far, taxpayers that have used the technology are satisfied with an 87 percent overall

satisfaction rate and 92 percent of taxpayers indicating they would use the technology in a future visit.

Taxpayer Assistance Centers (TACs)

As of March 24, 2012, approximately two million taxpayers were served at TACs. In addition to IRS help, community organizations partner with the IRS on services such as tax preparation and counseling. For example, Volunteer Income Tax Assistance (VITA) programs assist people who earned \$50,000 or less, and Tax Counseling for the Elderly programs assist individuals age 60 and over with their 2012 income tax return preparation and electronic filing. Many of these sites have Saturday hours while others offer assistance at various times during the week. Over two and a half million taxpayers have been served by volunteer return preparation through April 1, 2012.

On January 28, 2012, the IRS launched on IRS.gov a locator tool called "Get Free Tax Help." The easy-to-use locator tool helps taxpayers find VITA sites, where free tax return preparation assistance is available. The locator tool provides the opportunity to enter a Zip Code and a range (in miles) from that zip code, and then allows the taxpayer to select a list of the closest available VITA sites. Taxpayers will be able to browse further details about the VITA site, including address, contact information, hours of operations, and languages supported. In addition, taxpayers can easily get directions to the VITA site by using the integrated Google Maps feature. To date, more than 115,000 visitors have accessed the tool from IRS.gov. This tool replaces 52 pages of content on the website.

Limited English Proficiency (LEP)

Today, the IRS offers language services to LEP taxpayers, thereby affording them the same access to Federal benefits and services as English speakers. We now have more than 2,300 bilingual employees who provide services to LEP taxpayers; a Spanish language web site; and a Multilingual Gateway that provides information in Chinese, Vietnamese, Korean and Russian. A telephone interpreter service is also available in more than 170 languages, and more than 600 tax products have been translated into languages such as Spanish, Chinese, Vietnamese, Russian and Korean.

CONCLUSION

In conclusion, let me thank you again, Mr. Chairman and the Committee for this opportunity to discuss the 2012 filing season and the progress on some of our strategic initiatives. The IRS continues to make improvements, innovate and better serve taxpayers – even in a difficult budget environment. This is a great tribute to our employees and management. I would be happy to answer any questions.