

**WRITTEN TESTIMONY OF
CHARLES P. RETTIG
COMMISSIONER
INTERNAL REVENUE SERVICE
BEFORE THE
SENATE FINANCE COMMITTEE
ON THE 2020 FILING SEASON AND COVID-19 RECOVERY
JUNE 30, 2020**

INTRODUCTION

Chairman Grassley, Ranking Member Wyden and Members of the Committee, thank you for the opportunity to provide you with an update on the 2020 tax filing season and IRS operations.

I remain extremely proud to be working for the IRS in my second year as Commissioner and am excited about the future of our agency. My experiences as Commissioner have strengthened my belief that a fully functioning IRS is critical to the success of our nation. In Fiscal Year (FY) 2019, the IRS collected \$3.56 trillion in taxes and generated almost 96 percent of the funding that supports the Federal Government's operations. We serve and interact with more Americans than any other public or private organization.

The importance of the IRS to every American has become especially apparent over the last several months as our nation has faced unprecedented challenges, and the IRS has responded admirably by quickly facilitating financial assistance to millions of deserving and needy Americans. IRS employees continually demonstrate just how much they care, and how important the agency is to our country, by their heroic response to the crisis our country is facing during the pandemic.

At the same time, the IRS continues to remain focused on its core mission, striving to serve taxpayers in a manner that facilitates voluntary compliance by providing meaningful guidance and proper levels of staffing and support at points of significant taxpayer interaction. Our modernization efforts will not ignore traditional methods of communication, including meaningful opportunities for local and in-person interactions whenever possible.

In the year ahead, the IRS has many important changes on the horizon. We have embarked on a journey about how best to provide our services and how we are currently organized as we work toward implementation of the Taxpayer First Act. We want to earn the trust and respect of every American and improve our working relationships with taxpayers and others in the tax community. We will also continue implementation of the IRS Integrated Business Modernization plan released last year.

We respect and serve every taxpayer, none more or less so than any other. We must operate from their perspective, enhancing their experiences while striving to provide clear language, wherever possible, in our guidance and services. In support of compliant taxpayers, we must aggressively pursue non-compliant taxpayers by maintaining robust, visible civil and criminal enforcement efforts. We are making a difference, and we will not stop in the successful pursuit of our mission on behalf of the greatest country in the world.

PROVIDING RELIEF TO TAXPAYERS DURING THE COVID-19 PANDEMIC

Delivering Economic Impact Payments

IRS employees have worked around the clock since mid-March to develop new tools and deliver meaningful guidance to simultaneously deliver Economic Impact Payments (EIP) in record time and still keep the annual filing season on track. In fact, millions of Americans started seeing EIPs show up in their banking accounts within 14 days after the CARES Act was enacted on March 27. By comparison, for the last stimulus payments in 2008, the first 800,000 payments did not start reaching taxpayers for 75 days.

So far, approximately 160 million payments totaling approximately \$270 billion have been delivered, most by direct deposit and some by paper check. Working with the Bureau of the Fiscal Service, nearly 4 million payments were delivered by prepaid debit card. Some payments represent a single individual; some represent funds for more than one individual, such as a married couple or people with eligible dependents.

The vast majority of people did not need to take any action to receive an Economic Impact Payment. The IRS calculated and automatically sent the payments to those eligible. This included many people who may not normally file a return, such as senior citizens and others receiving Social Security retirement, survivors or disability benefits and railroad retirees. It also included those whose only income is from Supplemental Security Income payments and people receiving disability compensation, pension or survivor benefits from the Department of Veterans Affairs (VA).

The IRS worked cooperatively with the Social Security Administration and the VA and other government agencies to pull more information into our systems so that we could send payments to these groups of people without requiring them to file a return or take any other action. These agencies provided critical help that allowed us to reduce the burden for these individuals including reducing the need for them to seek tax return preparation to file a return. This is a step beyond anything the IRS was able to do during previous stimulus efforts.

The IRS designed, created, and built two online tools to help us quickly deliver the Economic Impact Payments:

- The **Non-Filer** tool launched on IRS.gov on April 10 – available in both English and Spanish – allows people who normally don't have a filing obligation to enter basic information so that they receive their payment.
- The **Get My Payment** tool launched on IRS.gov on April 15 – which is also available in English and Spanish – allows many taxpayers to check the status of their payment or enter their bank account information to receive their payment electronically.

So far, there have been more than 200 million successful status checks. And more than 14 million people have successfully provided their banking information, meaning they received, or will receive, their payments much more quickly.

Although the IRS has sent out the vast majority of these payments, it continues its extensive outreach efforts into the historically underserved communities of our nation. We are especially focused on getting payments out to people who are homeless, who don't normally have a return filing obligation, or who otherwise live their life outside normal lines of communication, etc. We have been reaching out beyond our normal contacts to many lower-income, military, veterans, retired, older, limited English proficient, and homeless communities around the country. In fact, we have distributed EIP outreach materials in more than two dozen languages and within each of these communities. We have also been asking for help from local community groups and religious organizations as well as the national associations to which they belong and numerous others to reach into their respective communities. The deadline for people in this group to register using the Non-Filer tool is Oct. 15, and we encourage everyone to share this information so the IRS can get Economic Impact Payments to people in need.

Providing Administrative Relief and Protecting Taxpayers

Along with implementing the CARES Act, the IRS is providing administrative relief to ease the burden on people facing tax issues:

- A postponement of the deadline for individuals to file and pay federal income tax from April 15, 2020, to July 15, 2020. This relief covers all taxpayers with a tax return filing deadline or payment due date between April 1, 2020, and July 15, 2020.
- The IRS People First Initiative, under which we have temporarily adjusted our processes to help people and businesses during these uncertain times. This includes limiting certain collection and examination activities.

It is also important to note that the IRS has been diligently working to alert taxpayers and tax professionals to scams related to COVID-19, especially calls and email phishing attempts tied to the Economic Impact Payments. The IRS and its partners have been making every effort to get the word out about these contacts, which can lead to tax-related fraud and identity theft.

IRS Operations During the COVID-19 Pandemic

The IRS's efforts to provide relief to taxpayers have come during a time when the agency has had to temporarily scale back operations to protect the health and safety of both IRS employees and taxpayers. Even with our reduced operations, the IRS has continued to deliver the tax filing season, continuing to process electronic tax returns, issue direct deposit tax refunds and accept electronic payments. A more detailed discussion of the 2020 tax filing season is provided below.

We have also been continuing the agency's ongoing work to find new ways to serve taxpayers, including our efforts to expand online options for them. A good example is our recent announcement that, later this summer, taxpayers will for the first time be able to file amended income tax returns electronically using available tax software products.

Providing an online filing option for the amended return – also known as Form 1040-X – has been an IRS goal for many years, and is a major milestone for us. Achieving this goal wasn't easy – the 1040-X posed a number of unique challenges – but we succeeded thanks to a great deal of hard work by employees across the agency.

Recently, we announced we were beginning a phased-in resumption of our operations for non-portable services, as more states and local areas also begin reopening. Throughout this crisis, our main concern has been protecting the health and safety of taxpayers and IRS employees, and that will continue as our operations resume. We have had more than 50,000 employees teleworking and don't anticipate significant changes in the foreseeable future. We are actively monitoring these operations on the ground and will continue to follow – and, where possible, exceed – applicable safety guidelines and measures. We appreciate the patience and understanding of taxpayers and tax professionals as we work to expand the scope of our operations. The entire IRS workforce cares about our people and our country, and they are committed to helping improve this situation.

UPDATE ON THE 2020 FILING SEASON

I am pleased to report that the 2020 filing season opened on time on January 27. On that first day, we set records by processing more than 2.275 million e-filed returns in an hour and at a rate of 631 submissions per second, without error. The previous records were set last year at the rates of 1.9 million submissions in an hour at 536 per second on January 28, 2019.

Notwithstanding obvious concerns about the spread of COVID-19, our employees have remained dedicated to delivering the filing season for taxpayers. As of June 19, the IRS received more than 138.2 million individual returns, and we have issued more than 93 million refunds for more than \$257 billion.

A critical component of the tax filing season is the help IRS provides taxpayers to ensure they can fulfill their filing obligations. The IRS must be focused on enhancing the experience of all taxpayers, including those who are unrepresented, lower-income, or have limited English proficiency. This focus dictates we maintain appropriate levels of staffing, training and systems modernization to be successful.

This year's filing season has been particularly challenging in that taxpayers cannot depend on many of the usual outlets for assistance. I am proud of our past and look forward to future efforts to support the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Unfortunately, due to the current COVID-19 situation, most of these partners had to suspend their operations. In a normal year, the IRS supports approximately 11,000 VITA/TCE sites (including military bases) around the country, which are staffed by more than 82,000 volunteers, many of whom are current IRS employees and retirees. During this filing season, before sites were closed, volunteers at VITA and TCE sites helped prepare more than 2 million individual returns.

An important way the IRS serves diverse communities, during the filing season and throughout the year, is by communicating with them in their own language. The IRS has had a long history of providing major communications products in Spanish. Additionally, we are now able to provide tax information and free products and services in six additional languages. Examples include the Taxpayer Bill of Rights and key products related to the Tax Cuts and Jobs Act. And the IRS has expanded its efforts to use multiple languages on social media platforms, including Twitter and Instagram.

But we realize we need to do more. We are increasing our efforts to reach out to taxpayers in diverse communities, to be in their communities and share information with them in their languages to help them comply with the tax laws. For example, our Stakeholder Liaison employees work continuously around the country and throughout the year in this regard, and in the current fiscal year have held numerous tax information seminars and other events for taxpayers and tax practitioners in diverse communities.

ENSURING TAX COMPLIANCE

The IRS is committed to having a strong, visible, robust tax enforcement presence to appropriately support taxpayers who comply voluntarily. When taxpayers file their returns, they should feel confident others are doing the right thing too. Enforcement of the tax laws is critical to ensuring fairness in our tax system. IRS employees who collect taxes, audit returns and investigate fraud as well as tax-related identity theft work hard throughout the year to enforce the tax laws while treating taxpayers fairly and respecting their rights.

The IRS remains extremely active in the enforcement area. This is true across our agency – in our divisions that deal with individuals, large businesses, small businesses and exempt organizations are highly coordinated. In all our enforcement efforts, the IRS must emphasize the use of technology to develop new enforcement tools. Our advanced data and analytic strategies allow us to catch instances of tax evasion that would not have been possible just a few years ago.

We realize when the public thinks of compliance, they think of audits, but there is so much more to our work to ensure compliance with the tax law and serve the nation. This includes the important work of our Criminal Investigation division to uncover tax fraud, and the millions of notices the IRS sends each year to taxpayers when issues are discovered on their returns.

To help increase tax compliance, the IRS has been focusing on a number of special areas in our enforcement activities. For example, the IRS will continue to pursue offshore tax noncompliance by all available methods. We are also committed to pursuing those who promote and make use of abusive tax shelters, and are especially concerned about certain variations, including syndicated conservation easements and micro-captive insurance shelters. And we continue to be very active in emerging areas such as virtual currency. The IRS has been working to ensure taxpayers with virtual currency transactions understand the tax laws governing virtual currency and meet their tax obligations.

Taxpayers should remember the IRS is committed to pursuing those who would intentionally evade their tax obligations. We continue working toward the goal of having a presence in every neighborhood, on each type of tax issue and at every level of income, to ensure fairness for all taxpayers. For example, a coordinated IRS initiative announced in February of this year involves improving tax compliance among high-income taxpayers by increasing visits to those generally with incomes above \$100,000 who failed to file tax returns in 2018 or previous years. Similar initiatives include a significant shift in examination resources and technology focused on high-income/high-wealth taxpayers as well as certain types of questionable transactions typically engaged in by such taxpayers.

TAXPAYER FIRST ACT: UPDATE ON IMPLEMENTATION

During 2019, Congress helped the IRS in its efforts to enhance the taxpayer experience by passing the Taxpayer First Act (TFA). Implementation of the TFA gives the IRS an incredible opportunity to make significant improvements in the way we serve taxpayers, continue to enforce the tax laws in a fair and impartial manner, collaborate across the agency and train IRS employees.

Along those lines, in the fall of 2019, the IRS launched its Taxpayer First Act Office (TFAO). This was an important step, because the TFAO ensures our implementation efforts are focused and well-coordinated throughout the agency.

The TFAO has spent several months holding “listening sessions” with stakeholders inside and outside the tax administration universe. We are continuing to analyze this information and have begun drafting the various components of the TFA Report to Congress.

The TFAO has thoughtfully considered thousands of pieces of feedback, largely centering around six major themes, which helped us shape the foundational components of a holistic taxpayer experience:

- **Expanded Digital Services:** An improved experience through self-service digital channels by building upon existing online accounts and introducing online accounts for tax professionals and business taxpayers. However, the IRS will not ignore traditional channels of communications.
- **Seamless Experience:** Taxpayers should be guided to the resources and communication channels that will resolve their issues most effectively and efficiently.
- **Proactive Outreach and Education:** Educate the taxpayer community by proactively providing information in the language, timing, and method taxpayers need or prefer.
- **Focused Strategies for Reaching Underserved Communities:** To establish a consolidated program to engage with historically underserved communities to address issues of communication, education, transparency and trust, as well as access to quality products and services.
- **Ecosystem of Partnerships:** Establish, shepherd, and facilitate a collaborative and interactive network of partnerships across the entire tax ecosystem and bring together existing efforts.
- **Enterprise Data Management and Advanced Analytics:** That is an Enterprise Data Management strategy that includes a cross-enterprise understanding of the customer experience, emerging needs and expectations, and operational data. The strategy should rely on a central repository of data from IRS systems that can be used to create reports to enable more-informed decisions.

These components will continue to be refined as we finalize our recommendations in the TFA Report to Congress.

Due to the IRS’s intense focus and shift in IRS resources to our COVID-19 response, we have been modifying timelines and activities for our TFA Report to Congress, which was originally planned for submission in July 2020. We’re working with Congress to adjust that timeframe, and plan to submit the report in December.

Meanwhile, the IRS is continuing to solicit feedback from stakeholders: taxpayers, tax professionals, tax software companies, advisory groups, financial industry stakeholders and other partners inside and outside the tax administration universe. We have a special email address for this feedback: tfao@irs.gov.

THE PRESIDENT'S FY 2021 BUDGET

The President's FY 2021 budget proposal for the IRS provides \$12 billion to administer the nation's tax system fairly, collect more than \$3.6 trillion in gross taxes to fund the government, and strengthen tax compliance. In addition to the base appropriations request, the Budget proposes a program integrity cap adjustment that would provide an additional \$400 million in FY 2021 to fund investments in the IRS tax enforcement program. These investments will generate \$79 billion in additional revenue over 10 years and cost \$15 billion, for net revenue of \$64 billion over 10 years, which will help reduce the net tax gap of \$381 billion. The IRS funds our country and is one of the best investments in the federal government with an overall return on investment (ROI) of about \$5 for every \$1 invested, excluding significant deterrence effects. The FY 2021 request provides:

- \$106 million to implement the TFA, which will revamp customer service, introduce new taxpayer protections, and deliver new online service platforms to facilitate filing and payment for individuals and businesses. This investment will provide for creation of a new IRS website that allows taxpayers to prepare, file and distribute Form 1099 information returns online; electronic filing of statements and returns in the Form 990 series or Form 8872, *Political Organization Report of Contributions and Expenditures*; and increased staffing so that the Independent Office of Appeals can share files with taxpayers prior to conferences and the IRS Whistleblower Office can provide periodic updates on referral status.
- \$300 million for systems modernization to transform the taxpayer experience with new digital communications, online payment tools and reminders for individuals and tax professionals, and stronger data encryption to protect taxpayer information from billions of cyberattacks each year. Modernization must always remain priority for our country, is an IRS priority and also a key driver of the President's Management Agenda. The modernization funding request includes an increase of \$113.8 million to continue implementing the IRS's Integrated Modernization Plan in FY 2021. This plan will enable the IRS to provide consistently superior service to taxpayers and deliver long-term budget efficiencies as the IRS modernizes capabilities currently provided via legacy applications.
- \$452 million for inflation and labor investments to fund current activities and annualization of the 3.1 percent pay increase from Congress.

LEGISLATIVE PROPOSALS IN THE PRESIDENT'S FY 2021 BUDGET

Along with the funding requested in the President's FY 2021 Budget, we are also asking for Congress's help legislatively in several important areas that would improve tax administration and support the IRS in fulfilling its mission, including the following:

Greater Flexibility to Address Correctible Errors. The budget would expand the IRS authority to correct errors on taxpayer returns. Current law only allows the IRS to correct errors on returns in certain limited instances, such as basic math errors or the failure to include the appropriate social security number (SSN) or taxpayer identification number. This proposal would expand the still limited instances in which the IRS could correct a taxpayer's return to situations where: (1) the information provided by the taxpayer does not match the information contained in Government databases or Form W-2, or from other third party databases as the Secretary determines by regulation; (2) the taxpayer exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer failed to include with his or her return certain documentation that is required to be included on or attached to the return. This proposal would lessen taxpayer burdens and make it easier for IRS to correct verified taxpayer errors, directly improving tax compliance and reducing EITC and other improper payments and freeing limited IRS resources for other compliance activities.

Increase Oversight of Paid Tax Return Preparers. Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. Incompetent and dishonest tax return preparers burden unsuspecting taxpayers, increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest because of incorrect returns, and undermine confidence in the tax system. To promote high quality services from paid tax return preparers, the proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers.

Improve Clarity in Worker Classification and Information Reporting. The budget proposes to: (1) establish a new safe harbor that allows a service recipient to classify a service provider as an independent contractor and requires withholding of individual income taxes to this independent contractor at a rate of five percent on the first \$20,000 of payments; and (2) raises the reporting threshold for payments to all independent contractors from \$600 to \$1,000, and reduces the reporting threshold for third-party settlement organizations from \$20,000 and 200 transactions per payee to \$1,000 without regard to the number of transactions. In addition, Form 1099-K would be required to be filed with the IRS by January 31 of the year following the year for which the information is being reported. Significant information reporting and withholding can result in a 90% effective rate of voluntary compliance. The proposal lessens worker classification disputes with service recipients, increases clarity in the tax code, reduces costly litigation, and significantly improves tax compliance.

In addition, the President's FY 2021 Budget request also includes these two provisions related to tax administration:

Fund the Federal Payment Levy Program via Collections: This proposal would allow the Fiscal Service to retain a portion of the funds collected under the Bureau's

Federal Payment Levy Program (FPLP) which processes and collects delinquent tax debts through the Treasury Offset Program (TOP). TOP currently recoups its costs from retained amounts from collected amounts for all its programs except for the FPLP but under current law, the IRS must pay these costs through annual reimbursement agreements under the Economy Act. This proposal would make the FPLP consistent with other TOP programs. Delinquent taxpayers will not be impacted by the proposal, because they will receive credit for the full amount collected. This proposal creates efficiencies, because it allows the Fiscal Service to recover its FPLP costs from the IRS in the same manner as other TOP programs.

Require a social security number (SSN) that is valid for work to claim child tax credit (CTC), earned income tax credit (EITC), and credit for other dependents (ODTC): The Administration proposes requiring an SSN that is valid for work to claim the EITC, CTC (both the refundable and non-refundable portion), and/or the ODTC for the taxable year. For all credits, this requirement would apply to taxpayers (including both the primary and secondary filer on a joint return) and all qualifying children or dependents. Under current law, taxpayers who do not have an SSN that is valid for work may claim the CTC if the qualifying child for whom the credit is claimed has a valid SSN. Furthermore, the ODTC, created by the Tax Cuts and Jobs Act, allows taxpayers whose dependents do not meet the requirements of the CTC, including the SSN requirement, to claim this non-refundable credit. This proposal would ensure that only individuals who are authorized to work in the United States could claim these credits by extending the SSN requirement for qualifying children to parents on the tax form for the CTC and instituting an SSN requirement for the ODTC. While this SSN requirement is already current law for the EITC, this proposal also would close an administrative gap to strengthen enforcement of the provision.

CONCLUSION

Chairman Grassley, Ranking Member Wyden and Members of the Committee, thank you again for the opportunity to provide you with an overview of the filing season and budget request, and update you on our responses to the COVID-19 situation. The IRS is dedicated to improving service to taxpayers, modernizing its systems and maintaining the integrity of the tax system, while also protecting the health of its workers and American taxpayers.

We believe we have made great strides over the past year, but we want to do more. The entire IRS workforce wants to do more in every area. With the help of Congress, we will continue improving, as we move the agency forward into the future. This concludes my statement, and I would be happy to take your questions.