

**PREPARED STATEMENT OF  
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BEFORE  
THE SENATE FINANCE COMMITTEE  
2010 FILING SEASON AND FY 2011 BUDGET REQUEST  
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**Introduction and Summary**

Chairman Baucus, Ranking Member Grassley and Members of the Committee, thank you for this opportunity to testify on IRS' efforts to ensure a successful tax filing season this year. I would also like to thank you for allowing me to provide you with an overview of our proposed FY 2011 Budget and what we hope to accomplish with these resources. The 2010 filing season has proceeded smoothly and with few problems.

Accuracy rates for both customer tax law and accounts questions remain in the 91-plus percentile. Overall filing is down three percent, due in large part to the effects of the economic downturn. We are seeing lower than expected traditional paid practitioner e-file volume as taxpayers seek other ways to file their returns, such as on-line. However, e-file as a percentage of total individual returns is up from 76 percent to 79.6 percent – continuing a very positive trend. And in a still challenging economy, it is good news that the average refund is \$2,960 – up by 9.4 percent as compared to last year.

The IRS is also taking several additional steps this tax season to help people having difficulties meeting their tax obligations because of unemployment or other financial problems. Most recently, on March 9, 2010, the IRS announced several of these steps, the most significant being new flexibility for offers in compromise. For those taxpayers facing economic troubles, including recent unemployment, IRS employees will be allowed to consider a taxpayer's current income and potential for future income when negotiating an offer in compromise. The standard practice has been to review offers based on income in prior years. The IRS also announced that it will hold hundreds of special Saturday open houses to give struggling taxpayers more opportunity to work directly with IRS employees to resolve issues. These steps are an expansion of efforts that began more than a year ago and also include special outreach with partner groups to unemployed taxpayers and the availability of more information on a special page of the IRS website.

Mr. Chairman, in recognition of the critical role that the IRS plays in the nation's economy, the President's FY 2011 Budget submission includes a judicious investment in the IRS' core service and enforcement programs. It also includes the funding needed to work toward timely completion of the core taxpayer account database, a key priority for the agency.

The funding in the President's Budget will be used to carry out the IRS' strategic and balanced agenda that includes: improved service to taxpayers; a robust and targeted enforcement program to address offshore tax evasion and improve tax compliance for corporate and high-income taxpayers; better use of data, such as credit card and securities basis information reporting; completion of the new taxpayer account data base and enhancements to our electronic filing platforms, as well as improved IRS website offerings and performance; and workforce development to ensure that we have a talented and capable workforce for the foreseeable future.

## **The 2010 Filing Season**

Mr. Chairman, the current filing season has proceeded smoothly and with few problems, which were quickly identified and remedied. The IRS and its volunteer partners continue to help taxpayers struggling through these difficult economic times.

The IRS is also beginning its implementation of the Hiring Incentives to Restore Employment (HIRE) Act that was signed by the President on March 18th. Under the new law, employers who hire unemployed workers this year (after February 3, 2010 and before January 1, 2011) may qualify for a 6.2 percent payroll tax incentive, in effect exempting them from their share of Social Security taxes on wages paid to these workers after the date of enactment. In addition, for each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their calendar year 2011 income tax returns. The IRS is working on revised forms, instructions, and necessary programming so eligible employers will be able to claim the new tax incentive on their employment tax form beginning with the second quarter of 2010. Information and answers to frequently asked questions will soon be available on IRS.gov.

### **General Filing Season Data**

As of April 3, 2010, the IRS received almost 90 million individual returns. Overall filing is down 2.5 percent and we are seeing lower than expected traditional paid practitioner e-file volumes as taxpayers seek other ways to file their returns, such as on-line. E-file as a percentage of total individual returns is up, however, from 76 percent to 79.6 percent – continuing a very positive trend and showing the IRS' commitment to a robust electronic tax administration program.

The number of taxpayers e-filing their returns from a home computer continued to grow this filing season. More than 25.6 million prepared their own e-file return – a 6.7 percent increase over the same time period last year. Free File, however, continued to show a decline, dropping by five percent over last year. Nevertheless, all qualifying taxpayers, including those filing for the Earned Income Tax Credit (EITC), are encouraged to use Free File to ensure a speedy refund.

Through April 3, 2010, the IRS has issued 74.1 million refunds for a total of \$219 billion, as compared to 77.7 million refunds for a total of \$210 billion over the same time period

in 2009. The average dollar refund totals \$2,960 as compared to \$2,705 for the same week last year, an increase of 9.4 percent. Over the same time period, the IRS has directly deposited 58.1 million refunds to taxpayers, as compared to 58.3 million last year. Starting this filing season, taxpayers could also purchase up to \$5,000 of Series I U.S. Savings Bonds using their federal tax refund. Through March 26, 2010, more than 15,700 taxpayers have taken advantage of this great opportunity, requesting more than 50,000 bonds totaling approximately \$6.2 million.

Working with media and its many stakeholders, the IRS publicized that taxpayers filing electronically with direct deposit can get their refunds in as few as ten days. Based on the most current Refund Timeliness data, the average time to process a refund for a paper tax return this year is six to eight weeks.

### **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.

As of April 3, 2010, IRS telephone assistors have answered 12.6 million calls, a 15.2 percent decrease over the same period last year. The IRS also completed 23 million automated calls, a 17.9 percent increase over last year's 19.5 million, reflecting a growing taxpayer appetite for quality self-serve options.

Particularly gratifying was the strong rebound in Assistor Level of Service (LOS) which currently stands at 74.9 percent over last year's 64.3 percent – a 16.6 percent gain.

The drop in LOS in 2009 was partially due to the number of taxpayers calling to obtain their prior year adjusted gross income, which is used to satisfy the signature requirements when e-filing a current year return. More taxpayers were also calling regarding math errors and refund issues related to the Recovery rebate credit and questions generated by the economic downturn and the Recovery Act.

LOS is a measure used by the IRS for both planning and internal management of our live customer service representative (CSR) telephone assistance services. This measure is derived through a mathematical formula that essentially equates to the success rate of customers that call the IRS for live telephone assistance on our 1-800 help line at any given point in time, it does not account, however, for those calling that choose to call back later because of anticipated wait time.

This year, the IRS added an estimated wait time feature as a convenience for taxpayers. In addition, increased funding in the President's FY 2011 Budget would be used to improve the telephone LOS from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011.

Accuracy rates for both customer tax law and account questions remain in the 91-plus percentile with minimal change over last filing season's levels.

### **Website Usage and New Media**

IRS.gov has become the preferred source of information for millions of taxpayers to get answers to their tax questions and economic recovery legislation, and to prepare and file a federal tax return accurately and on time. IRS.gov/Español offers many of the same services and information in Spanish.

As of April 3, 2010, the number of visits to the website is three percent less than last year's numbers over the same time period – approximately 152 million. Visits to the "Where's My Refund" electronic tracking tool, however, are up by 14.9 percent.

When taxpayers visit the IRS.gov website, they will first see a rotating spotlight feature on the front page. The spotlights, which change every few seconds, highlight important taxpayer information, such as "Making Work Pay," "Homebuyer Credit," "Tax Law Changes Can Benefit You," "Where's My Refund" and "What If Scenarios" that deal with payment and other financial problems.

Taxpayers can also use electronic tools such as the EITC Assistant to determine if they qualify for the refundable tax credit or click on "Tax Benefits of the American Recovery and Reinvestment Act of 2009" to learn about energy, education, new vehicle, and homebuyer credits available that could help them save money.

The IRS also produced a number of podcasts this filing season that are available on IRS.gov and iTunes. In addition, the IRS created more than a dozen YouTube Videos on a variety of subjects including the "Education Tax Credit," "Making Work Pay," and the "New Homebuyer Credit." Many are available in English, American Sign Language, and Spanish. These are new ways the IRS is using to reach out to a new generation of taxpayers.

### **Walk-In Contacts**

The IRS continues to provide in-person service at its 401 Taxpayer Assistance Centers (TACs). As of April 3, 2010, approximately 1.84 million taxpayers were served – a 4.2 percent decline over the previous year, reflecting a continued weakening in the demand for such service.

Walk-in service still remains popular among elderly taxpayers, those with limited English and computer proficiency, and taxpayers without Internet access. As discussed later in my testimony, the TACs are a useful filing season resource for taxpayers resolving tax issues and needing help preparing their tax returns.

## Helping Struggling Taxpayers

The IRS is taking several additional steps this tax season to help people having difficulties meeting their tax obligations because of unemployment or other financial problems.

The steps build on efforts begun in the 2009 tax filing season to help taxpayers facing financial difficulties obtain the maximum refunds to which they are entitled by encouraging them to take advantage of applicable tax credits, such as the EITC and those contained in the Recovery Act, and to accelerate their refunds.

We recognize that some people are struggling to meet their tax obligations and need assistance. The IRS wants to do everything it can to help those taxpayers who have lost their job or face financial strain, especially those who have done the right thing in the past and are facing unusual hardships.

### New Flexibility for Offers in Compromise

For some taxpayers, an offer in compromise – an agreement between a taxpayer and the IRS that settles the taxpayer’s debt for less than the full amount owed – continues to be a viable option. IRS employees will now have additional flexibility when considering offers in compromise from taxpayers facing economic troubles, including the recently unemployed.

Specifically, IRS employees will be permitted to consider a taxpayer’s current income and potential for future income when negotiating an offer in compromise. Historically, the standard practice is to judge an offer amount on a taxpayer’s earnings in prior years. This new step provides greater flexibility when considering offers in compromise from the unemployed. The IRS may also require that a taxpayer entering into such an offer in compromise agree to pay more if the taxpayer’s financial situation improves significantly. These immediate steps are part of an on-going effort by the IRS to ensure the availability of the offer in compromise program for taxpayers.

### Saturday Open Houses

Even though the IRS provides tax assistance to individuals and families every day of the year, the focus for Saturday Open Houses this year was to help those dealing with difficult economic times. The first of these was held on Saturday, February 20<sup>th</sup>, when more than 200 Taxpayer Assistance Centers went the extra mile and opened their doors for extended service hours. The IRS also held an open house on March 27 at more than 180 local offices [which served 8713 taxpayers](#). The IRS plans to hold [three more events, one in May and two in June](#), to give struggling taxpayers opportunities to work directly with IRS employees to resolve issues. [One of those three will focus on the small business taxpayer.](#)

During the expanded Saturday hours, taxpayers will be able to address economic hardship issues they may be facing or get help claiming any of the special tax breaks in last year's Recovery Act, including the:

- Homebuyer tax credit
- American Opportunity Credit
- Making Work Pay Credit
- Expanded Earned Income Tax Credit

In addition to these special Saturdays, taxpayers can take advantage of toll-free telephone assistance and regularly scheduled hours at local Taxpayer Assistance Centers. Taxpayers can find the location, telephone number and business hours of the nearest assistance center by visiting the Contact my Local Office page on IRS.gov.

Low-income taxpayers, people who lost their jobs, and even those with a fear of the IRS and who had not filed their taxes in years, have received help in preparing their returns and in resolving their tax issues. Local volunteer tax preparation sites, as well as many Stakeholder Partnership, Education & Communications (SPEC) employees, pitched in to help as the massive rally of tax assistance has unfolded throughout the nation.

### **Tax Credit Helps Small Employers Provide Health Insurance Coverage**

Many small businesses and tax-exempt organizations that provide health insurance coverage to their employees now qualify for a new tax credit enacted in the Affordable Care Act, which was approved by Congress and signed by President Obama on March 23. The credit encourages small businesses and tax-exempt organizations to offer health insurance coverage for the first time, or maintain coverage they already provide. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

The maximum credit is 35 percent of premiums paid in 2010 by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit increases to 50 percent of premiums paid by eligible small business employers and 35 percent of premiums paid by eligible employers that are tax-exempt organizations.

The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low- and moderate-income workers. It is generally available to employers that have fewer than 25 full-time equivalent (FTE) employees paying wages averaging less than \$50,000 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many businesses will qualify even if they employ more than 25 individual workers.

Eligible small businesses can claim the credit as part of the general business credit starting with the 2010 income tax return they file in 2011. For tax-exempt employers, the IRS will provide further information on how to claim the credit.

The IRS will use postcards to reach out to millions of small businesses that may qualify for the credit. The postcards will encourage small business owners to take advantage of the credit if they qualify. More information about the credit, including tax tips, guides and answers to frequently asked questions, is now available on the IRS Web site, [IRS.gov](http://IRS.gov).

### **Special Outreach Efforts to Unemployed**

The IRS is working and coordinating with state departments of revenue and state workforce agencies to help taxpayers who are having problems meeting their tax liabilities because of unemployment or other financial problems.

These coordinated efforts may include opportunities for taxpayers to make payment arrangements and resolve both federal and state tax issues at one time.

### **Special Section of IRS.gov Created**

Taxpayers who are unemployed or struggling financially can find information on a new page on the IRS website, [IRS.gov](http://IRS.gov). This online tax center has numerous resources including links to information on tax assistance and relief to help struggling taxpayers.

### **Other Options Available for Taxpayers**

The IRS will continue to offer other help to taxpayers, including:

- Assistance of the Taxpayer Advocate Service (TAS) for those taxpayers experiencing particular hardship navigating the IRS;
- Postponement of collection actions in certain hardship cases;
- Added flexibility for missed payments on installment agreements and offers in compromise for previously compliant individuals having difficulty making payments;
- Additional review of home values for offers in compromise in cases where real-estate valuations may not be accurate; and
- Accelerated levy releases for taxpayers facing economic hardship.

In addition, the IRS will accelerate lien relief for homeowners if a taxpayer cannot refinance or sell a home because of a tax lien. As previously announced, a taxpayer seeking to refinance or sell a home may request the IRS make a tax lien secondary to the lien by the lending institution that is refinancing or restructuring a loan. The taxpayer may also request the IRS discharge its claim under certain circumstances if the home is being sold for less than the amount of the mortgage lien.

## **Return Preparer Initiative**

The IRS recently unveiled a major initiative to regulate tax return preparers, who are a critical part of the tax system. Given the complexity of the tax code, more and more Americans now turn to a preparer to help them file their taxes. The IRS estimates that there are somewhere between 900,000 and 1.2 million paid tax return preparers. Making them an integral link to our service and compliance strategies will help the IRS to do its job.

The IRS plans to require registration, minimum competency testing, and continuing education of paid tax return preparers. In addition, once a testing process is set up and running, the IRS will create a public database of preparers, so that taxpayers can find out if they are dealing with a qualified preparer.

The IRS is also shifting enforcement resources to focus on preparers. Beginning this filing season, the IRS is expanding “knock and talk” and other programs to visit thousands of preparers to discuss their operations and ways to reduce preparer error rates.

The goals of the strategy are to leverage the return preparer community to improve service to taxpayers, increase compliance, and enhance the integrity of the overall tax system.

## **The Administration’s FY 2011 Budget Funds Key Priorities**

The total resources requested to support IRS activities for FY 2011 are \$12,971,962,000. This amount includes \$12,633,270,000 from direct appropriations, an estimated \$144,592,000 from reimbursable programs, and an estimated \$194,100,000 from user fees. The direct appropriation is a \$487,147,000 increase, or a 4.01 percent increase over the FY 2010 enacted level of \$12,146,123,000.

### **Enforcement Program**

The FY 2011 President’s Budget Request includes an Enforcement account increase of \$293.4 million for investments in strong compliance programs, including a robust initiative to address offshore tax evasion. Additional enforcement resources will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment activities. The new enforcement personnel funded through a program integrity allocation adjustment in the FY 2011 President’s Budget will generate nearly \$2 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2013. This alone is a return of almost \$7 for each \$1 spent. Similar to past budgets, the allocation adjustment applies to the Enforcement and Operations Support accounts, and is justified by the net positive value enforcement resources deliver. Vigorous enforcement also encourages voluntary compliance, further

increasing revenue, by generating public awareness of the consequences of not meeting one's tax responsibilities. The return on investment estimate does not include the additional revenue impact from 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.

### *Explanation of Enforcement Budget Activities*

The FY 2011 President's Budget request is \$5,797,400,000 in direct appropriations and an estimated \$61,506,000 from reimbursable programs for a total operating level of \$5,858,906,000. The direct appropriations level is an increase of 5.3 percent from the FY 2010 enacted level and includes additional tax enforcement activities funded through a program integrity allocation adjustment. This appropriation funds the following budget activities.

- **Investigations (\$651,966,000 from direct appropriations and an estimated \$50,567,000 from reimbursable programs)** This budget activity funds the criminal investigation programs that uncover criminal violations of the internal revenue laws and other financial crimes, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. This funding provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates, and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- **Exam and Collections (\$4,974,618,000 from direct appropriations and an estimated \$10,245,000 from reimbursable programs)** This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It also includes programs such as specialty program examinations (employment, excise, and estate and gift tax exams), international collections, and international examinations. The budget activity also supports appeals and litigation activities associated with exam and collection.
- **Regulatory (\$170,816,000 from direct appropriations and an estimated \$694,000 from reimbursable programs)** This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal services, rulings and agreements; enforcement of regulatory rules, laws, and approved business practices; and taxpayer support in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Office of Professional Responsibility is funded within this budget activity and is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

## Taxpayer Service Program

The FY 2011 President's Budget includes a Taxpayer Services account increase of \$43.1 million. The increase includes \$20.9 million to improve telephone level of service, increasing the level of service performance target to 75 percent from 70 percent in FY 2009 and 71 percent in FY 2010.

Providing quality taxpayer service is especially important to help taxpayers 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 correspondence from the IRS.

### *Explanation of Taxpayer Service Budget Activities*

The FY 2011 President's Budget is \$2,321,975,000 in direct appropriations, an estimated \$34,159,000 from reimbursable programs, and an estimated \$127,000,000 from user fees, for a total operating level of \$2,483,134,000. The direct appropriations level is an increase of 1.9 percent from the FY 2010 enacted level. This appropriation funds the following budget activities.

- **Pre-Filing Taxpayer Assistance and Education (\$693,753,000 from direct appropriations and an estimated \$1,459,000 from reimbursable programs)**  
This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.
- **Filing and Account Services (\$1,628,222,000 from direct appropriations, an estimated \$32,700,000 from reimbursable programs, and an estimated \$127,000,000 from user fees)** This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods.

## Operations Support

### *Explanation of Budget Activities*

The FY 2011 President's Budget is \$4,108,000,000 in direct appropriations, an estimated \$48,927,000 from reimbursable programs, and an estimated \$67,100,000 from user fees, for a total operating level of \$4,224,027,000. The direct appropriation level is an increase of 0.6 percent from the FY 2010 enacted level. This appropriation funds the following budget activities as well as \$25 million to improve the IRS.gov website infrastructure and

redesign the website to meet taxpayer needs and the growing demand for more electronic services.

- **Infrastructure (\$889,929,000 from direct appropriations, an estimated \$398,000 from reimbursable programs, and an estimated \$16,100,000 from user fees)** This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment.
- **Shared Services and Support (\$1,337,776,000 from direct appropriations and an estimated \$33,110,000 from reimbursable programs)** This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.
- **Information Services (\$1,880,295,000 from direct appropriations, an estimated \$15,419,000 from reimbursable programs, and an estimated \$51,000,000 from user fees)** This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS business programs rely on these systems to process tax and information returns, account for tax revenues collected, send bills for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities, including the public's toll-free access to tax information.

### **Business Systems Modernization (BSM)**

#### *Explanation of Budget Activities*

The FY 2011 President's Budget is \$386,908,000 in direct appropriations. This is an increase of 46.6 percent from the FY 2010 enacted level. This appropriation funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems and to move toward completion of the new taxpayer account database. The completion of the core taxpayer account database is the cornerstone of modernization and is a prerequisite to the development of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls. This activity also funds the ongoing development of the Modernized e-File platform for filing tax returns electronically. It also funds BSM labor and related contract costs.

## **Health Insurance Tax Credit Administration (HITCA)**

The FY 2011 President's Budget is \$18,987,000 in direct appropriations. This is an increase of 22.4 percent from the FY 2010 enacted level. This appropriation funds the administration of a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002. The additional resources will help administer the Health Coverage Tax Credit expansion found in the Recovery Act.

### **FY 2011 Budget Adjustments**

The IRS funding increase for FY 2011 is \$487,147,000, which includes \$219,523,000 for maintaining current levels, a temporary base adjustment of \$3,494,000 to support the Recovery Act's expansion of the Health Coverage Tax Credit (HCTC), a decrease of \$32,680,000 from non-recurring activities, a decrease of \$157,958,000 from efficiencies and savings, and a program increase of \$454,768,000 to improve taxpayer service, strengthen enforcement, and complete the new taxpayer account database. By FY 2013, the revenue-producing enforcement investments are projected to increase annual enforcement revenue by nearly \$2 billion. The Budget supports these activities by proposing the following initiatives:

- \$20,945,000 to increase the telephone level of service, which includes a \$9.0 million reallocation from the FY 2010 enacted levels for Taxpayer Service grant and advocacy programs;
- \$247,446,000 to reduce the tax gap by investing in a strong compliance program; and
- \$167,585,000 to complete development of the new taxpayer account database and continue investments in electronic filing systems.

### **Building on the FY 2010 Enacted Level**

The FY 2010 enacted level for the IRS is \$12,146,123,000, supporting an estimated 95,070 FTE.

### **Maintaining Current Levels**

- ***Adjustments Necessary to Maintain Current Levels: +\$219,523,000 / 0 FTE***  
Funds are requested for: FY 2011 cost of the January 2010 pay increase of \$47,473,000, the proposed January 2011 pay raise of \$119,537,000, the cost of the increase in Federal Employee Retirement System (FERS) agency contribution percentage of \$16,392,000, and non-labor related items such as contracts, travel, supplies, equipment, and a GSA rent adjustment of \$36,121,000.

## Base Adjustments

- **Resource Adjustment to Support Recovery Act-HCTC Program Expansion:** +\$3,494,000/ 0 FTE This temporary base increase will provide additional contractor funding for the continued support, sustainability, administration, and operation of the HCTC program. Taxpayer participation in the HCTC program is expected to grow because of the Recovery Act. The additional contractor support will allow HCTC to serve a significantly larger participant population.
- **Technical FTE Adjustments:** \$0 /-318 FTE This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget.

## Efficiencies and Savings

- **Non-Recur Savings:** -\$32,680,000 / 0 FTE This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2010 enforcement initiatives (e.g., IT equipment and training).
- **Increase e-File Savings:** -\$22,808,000 / -472 FTE This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to fewer returns filed on paper in FY 2011. The number of returns filed electronically is expected to increase substantially in FY 2011 with the addition of the recently enacted Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by all tax preparers filing more than ten returns in a calendar year.
- **Information Technology (IT) Infrastructure and Process Improvements:** -\$75,000,000 / 0 FTE The IRS will reduce infrastructure costs through process improvements in IT infrastructure. Initiatives such as the Information Technology Infrastructure Library will allow the IRS to improve the quality of IT services. In addition, the IRS is working to achieve a Capability Maturity Model Integrated certification that will yield efficiencies in software engineering.
- **Reduce Procurement/Contracting:** -\$25,000,000 / 0 FTE In accordance with Presidential guidance on controlling contracting costs, the IRS will generate savings by improving the effectiveness of existing acquisition practices and reduce the cost of contracts.
- **Reduce Printing, Travel, and Training:** -\$10,000,000 / 0 FTE The IRS will generate savings by reducing agency-wide printing of selected internal manuals, selected training materials, and other items, non-case related travel and non-technical training.
- **Reduce Tuition Assistance Program (TAP):** -\$5,150,000 / 0 FTE The Tuition Assistance Program provides funding to employees for courses that support both

career development and the IRS mission. In FY 2011, the IRS will generate savings by restructuring this program.

- ***Eliminate Selective Mailing of Forms and Publications: -\$20,000,000 / 0 FTE***  
The IRS will generate savings by eliminating the non-mandated notice inserts; the automatic mailing of Form 1040, U.S. Individual Tax Return, tax packages; and the automatic mailing of business tax products.

### **Program Reinvestment**

- ***Submission Processing Consolidation (Atlanta): +\$2,792,000 / 0 FTE*** Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the increased e-File savings will be reinvested to fund the one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will assist employees to find employment either in or outside the organization.

### **Program Decrease**

- ***Reduce Taxpayer Service Grant and Advocacy Programs: -\$9,000,000 / 0 FTE***  
The FY 2010 appropriation included an additional \$3,500,000 to expand Taxpayer Advocate Service case processing activities; \$500,000 to increase the Low-Income Taxpayer Clinic (LITC) grants program; \$1,000,000 to increase the Tax Counseling for the Elderly (TCE) grants program; and \$4,000,000 to increase the Volunteer Income Tax Assistance (VITA) grants program. These program decreases will realign the programs to the 2010 requested level to fund the Increase Telephone Level of Service initiative.

### **Program Increases**

- ***Improve IRS.gov: +\$25,000,000 / 0 FTE*** This initiative, part of a multi-year plan, will initiate the migration of IRS web content and applications from the current outdated portal infrastructures to a new consolidated IRS web environment. These funds will enable the IRS to complete the first phase of the migration of the taxpayer-facing content and applications and to begin the second phase of the migration and transition of approximately 35 percent of the public and partner-facing applications to the new environment.
- ***Increase Telephone Level of Service: +\$20,945,000 / 0 FTE*** Recent legislation has led to an unprecedented demand for telephone services over the past few years. In addition, the additional complexity of – and time needed to resolve – many phone calls resulted in a decline in the telephone level of service. This initiative will improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011 through a program increase of \$11.9 million and a \$9.0 million reallocation from TAS and the LITC, TCE and VITA grant programs.

- ***Address Business and Individual International Compliance: +\$121,086,000 / +781 FTE*** This initiative supports the Presidential priority to address offshore tax evasion and builds on the IRS FY 2010 international enforcement initiative. It will allow the IRS to continue its multi-year investment in international tax compliance activities. It increases coverage of the most strategically important international issues, including large enterprises with international components operated by businesses and investors through multiple interrelated financial and tax entities and high-wealth individuals and the complex business enterprises they control.

This initiative will increase examinations of additional international issues pertaining to international structures involving tiered pass-through entities, corporations, and high-wealth individuals by a projected 4,864 cases. The increase in examinations will generate \$812.2 million in additional enforcement revenue once the new hires reach full potential in FY 2013.

- ***Reduce the Reporting Compliance Tax Gap: +\$77,679,000 / +700 FTE*** This initiative will improve compliance by increasing examination of field and correspondence individual return audits by 61,100 annually; business return audits by 1,200; audits targeting employment, excise, and estate and gift taxes by 9,300; and Automated Underreporter (AUR) document matching individual return audits by 234,000. This request will generate \$659.6 million in additional enforcement revenue once new hires reach full potential in FY 2013.
- ***Reduce the Nonfiling and Underpayment Tax Gap: +\$38,181,000 / +406 FTE*** This initiative will allow the IRS to broaden its collection coverage and address the tax gap more effectively by increasing staff resources for field collection and the Automated Collection System (ACS) program. The additional staff will produce an additional 144,000 tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 22,500 tax delinquency investigations (TDI) (i.e., investigations of taxpayers with unfiled returns who have not responded to a notice). This request will generate \$474.4 million in additional enforcement revenue once new hires reach full potential in FY 2013.
- ***Support of Increased Enforcement Activities: +\$5,000,000 / +65 FTE*** Most tax enforcement actions result in downstream Accounts Management activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. This funding will allow the IRS to assist taxpayers to resolve issues early in the enforcement process, pay their taxes, and respond to and close out various enforcement actions. Improving the response to taxpayers who have received enforcement notices should increase revenue and reduce interest paid.
- ***Maintain Recovery Act Staffing: +\$5,500,000 / +31 FTE*** Among other responsibilities, the IRS is mandated by the Recovery Act to administer the new

bond provisions. The Treasury is required to issue a direct payment to the bond issuer. The unique nature of this new role requires continuous compliance reviews and verification throughout the administrative life of the bonds. This initiative will extend IRS staffing resources received in the Recovery Act to administer ongoing Recovery Act bond provisions.

- ***Business System Modernization (BSM): +\$167,585,000 / +156 FTE*** The BSM increase is a top priority for the IRS and will allow the completion of the new taxpayer account database for the 2012 filing season. The new taxpayer account database will result in faster refunds for taxpayers, improve service accuracy and timeliness, and enhance data security. Completion of the taxpayer account database is a prerequisite for other major initiatives such as significant expansion of online paperless services and next-generation enforcement technologies. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until it is completed.

## **Legislative Proposals**

The FY 2011 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly \$26 billion over the next ten years. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Expand information reporting – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:

- Require information reporting for private separate accounts of life insurance companies;
- Require a certified Taxpayer Identification Number (TIN) from contractors;
- Require increased information reporting on certain government payments;
- Increase information return penalties; and
- Require information reporting on expense payments relating to rental property.

Improve compliance by businesses – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically;
- Provide Treasury regulatory authority to reduce the current threshold for requiring electronic filing (250 or more returns filed during a calendar year) and include certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);

- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes; and
- Increase certainty about the rules pertaining to classification of employees as independent contractors.

Strengthen tax administration – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise; and
- Allow assessment of criminal restitution as tax; and

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- Clarify that the bad check penalty applies to electronic checks and other forms of payment.

### **Improve Tax Administration and Other Miscellaneous Proposals**

The Administration has put forward additional proposals relating to IRS administrative reforms. These proposals would:

- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that a vendor levy on “goods and services” would not exclude “property.”

### **Conclusion**

Mr. Chairman, thank you again for this opportunity to provide testimony on the 2010 filing season and the President's FY 2011 Budget for the IRS.

The IRS continues to demonstrate improvement in key areas, including service, and the ability to react effectively and quickly to evolving situations, such as the economic downturn, and make a meaningful difference in taxpayers' lives.

We also urge passage of the President's proposed FY 2011 Budget for the IRS. It gives the IRS much needed resources to provide taxpayers with high quality customer service and bolsters IRS enforcement in critical areas, such as unlawful offshore tax evasion. It also makes wise investments for the next generation of technology and the IRS workforce. I also urge the Committee to support the enactment of the legislative proposals included in the Budget to improve compliance. That concludes my testimony. I would be happy to answer any questions.