

**ADMINISTRATIVE CHANGES IN FIELD STRUCTURE
OF INTERNAL REVENUE SERVICE**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
EIGHTY-EIGHTH CONGRESS
FIRST SESSION

INTERROGATION OF THE COMMISSIONER OF INTERNAL
REVENUE ON PROPOSED ADMINISTRATIVE CHANGES IN
THE FIELD ORGANIZATION OF THE INTERNAL REVENUE
SERVICE

APRIL 5, 1963

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ADMINISTRATIVE CHANGES IN FIELD STRUCTURE OF INTERNAL REVENUE SERVICE

FRIDAY, APRIL 5, 1963

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd (chairman), Long, Douglas, Talmadge, Hartke, Ribicoff, Williams, Curtis, and Dirksen.

Also present: Hon. George D. Aiken, U.S. Senator from Vermont; Hon. John Sherman Cooper, U.S. Senator from Kentucky; Hon. Roman L. Hruska, U.S. Senator from Nebraska; Hon. Kenneth B. Keating, U.S. Senator from New York, and Hon. Margaret Chase Smith, U.S. Senator from Maine.

Elizabeth B. Springer, chief clerk; Colin F. Stam, chief of staff of the Joint Committee on Internal Revenue Taxation accompanied by Thomas Vail, staff attorney.

The CHAIRMAN. The committee will come to order.

The chairman called this meeting of the Senate Committee on Finance at the request of members so as to obtain details of the proposed reorganization of certain regional offices of the Internal Revenue Service. We are pleased to have Mr. Mortimer M. Caplin, the Commissioner of Internal Revenue. Mr. Commissioner, won't you take the stand and proceed.

STATEMENT OF MORTIMER M. CAPLIN, COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY EDWARD PRESTON, ASSISTANT COMMISSIONER (ADMINISTRATION)

Mr. CAPLIN. Mr. Chairman and committee members, I am grateful for this opportunity to discuss with you the proposed realignment of some of the field offices of the Internal Revenue Service.

At the outset, I would like to put this realignment in proper perspective to the overall task of tax collection. Particularly it is important to distinguish between Internal Revenue's need for frontline enforcement and processing employees, on the one hand, and supervisory officials, on the other.

As members of this committee appreciate, our enforcement efforts are spread thinly and our workloads of returns and information documents to be audited and processed are constantly rising. In order to maintain even minimum standards of effective tax administration, we have pending before the Congress a request for substantial additions to our forces of frontline employees. An increasing popu-

lation, a greater mix of high-income returns, and continuing complexities in our tax laws, have all added to the task of Internal Revenue, and exert pressures for hiring additional personnel.

These are great and real needs; and we are compelled to conduct a constant search for any economies, large or small, which will free more of our resources for frontline work.

PRESIDENT'S CALL FOR EFFICIENCY

Furthermore, this agency and all other agencies of Government are under specific instructions from the President to trim our operations so as to achieve a "lean, fit, and efficient" Federal establishment.

The sole purpose of the proposed realignment is to save on our executive and administrative overhead, and thereby to make positions and funds available for direct tax work. We are striving for greater economy and efficiency, and are seeking to put as much of our resources as possible into frontline activities in direct contact with taxpayers. Expanded taxpayer services and assistance, as well as expanded enforcement potential, are our aims.

Over an extended period of time, it is our ultimate hope to substitute a frontline operational individual for every second or higher echelon supervisor being displaced.

Over a number of years, the Service has developed a long-range plan directed toward meeting certain minimum enforcement levels. This plan points out the need for significant increases in staff between now and our goal date—1970. To the extent we can meet some portion of these direct enforcement needs through reduction of our overhead costs, we reduce what we would otherwise have to request of the Congress in the form of additional appropriations.

The realignment of regional and district offices is not the first economizing step we have taken. There have been others. For instance, we have a continuing management improvement program which you may recall was credited by the President in his budget message with effecting savings of nearly \$4.2 million in the last fiscal year. These savings were made by such actions as simplification of reports, use of electronic typing calculators for preparing office audit reports, and reduction in supervision and inspection of alcohol plants.

A year ago, we embarked on a three-phase program to identify additional opportunities for more economical and efficient operation. Under phase I, which was accomplished at the end of fiscal 1962, we saved 280 man-years from 1963 managerial and service costs at our national and regional offices in order to hire more employees in our enforcement activities. These adjustments were strictly internal and did not involve any basic changes in organization or procedure.

Phase II was intended to provide a longer range, detailed examination of organization and work programs. For this purpose, we appointed a Committee on Resources Utilization, and instructed its members to make a critical analysis of why, where, and how we spend our appropriations. The members were asked specifically to seek feasible methods of eliminating unnecessary overhead and superstructure, and of shortening our lines of communication. The Committee spent several months and visited many field offices in the course of its work. Its findings and conclusions are penetrating and imaginative. They cover many vital areas of operations, including a close examination of our field organization. Some of its studies were preliminary in

nature, and will require follow-up evaluation and analysis in phase III of our program.

As a result of this study, we are now proposing realignment of our district and regional offices as well as our regional service centers. Historically, prudent management has called for many changes in the field organization of the Internal Revenue Service. Prior to the 1952 reorganization, the field structure of Internal Revenue was composed of more than 200 field office headquarters reporting directly to Washington—including 64 offices of collector of internal revenue, 39 offices of internal revenue agent in charge, 14 offices of special agent in charge, 12 offices of head of technical staff, Field Division, 13 offices of supervisor of accounts and collections, and 15 offices of district supervisor of alcohol and tobacco tax. Even though all these offices were part of Internal Revenue, each operated in a semi-independent manner with no intermediate supervision and management support between them and the national office in Washington.

As a result of our 1952 and 1953 reorganizations, the Service operates today through approximately 900 local offices grouped in 62 districts and 9 regions. Local field offices are not affected by the realignment we are discussing today. The question is whether we need as many headquarters district offices and officials.

MERGERS IN STATES HAVING MORE THAN ONE DISTRICT HEADQUARTERS

Regardless of the number of local offices in a State, we believe that more than one district headquarters office in a State is justified only on the basis of large and difficult workloads. In line with these principles, we propose to reduce the number of districts in New York from five to four, in Pennsylvania from three to two, and in New Jersey and Missouri from two to one.

A few years ago, we merged four Ohio districts into two, and we do not see the practicality of any further reduction there at this time. Similarly, our studies indicate that there is no immediate prospect of reducing the number of districts in Illinois, Texas, and California, each of which has two districts.

Every other State has one district. And it is our firm intention to maintain in each State at least one district headquarters.

In New York, we propose to maintain the present Albany, Manhattan, and Brooklyn districts, and to merge the Syracuse district with the larger Buffalo district.

In New Jersey, the Camden district would be merged with the larger Newark District.

In Missouri, the Kansas City district would be merged with the large St. Louis district.

In Pennsylvania, the territory of the small Scranton district would be divided between the large Pittsburgh and Philadelphia districts. There are three districts in all in that State today.

In each of these cases, a good-sized office will continue to operate in the same location, and there will be no reduction in the nature of the services to taxpayers or their representatives. The revenue agents, revenue officers, and special agents will still be there, along with their first-line supervisors. Facilities also will be maintained for taxpayer assistance on technical matters and returns preparation; for answering questions about bills and refunds; for holding informal

conferences on proposed audit adjustments; for distributing forms; and for other normal public services.

Elimination of certain second-echelon executives and their support personnel will constitute the principal change in those localities in which a district headquarters will no longer be located.

I should like to be clear about our thoughts on the employees affected by the proposed plan, and our concern over their welfare and proper utilization. They are generally people with long records of honorable and proficient service. We are proud of them and want to preserve their experience and skills. Even though their present jobs may no longer be necessary, these trained people are needed for other facets of our operations; and, in view of our previously discussed plans to cope with projected growth in workloads, we intend to place virtually every one of them either in his own locality or elsewhere.

MODIFYING ORGANIZATION OF SMALL DISTRICTS

Now we have a somewhat different problem in the less populous States. These are States that have only one district office, but have such small workloads that it is often inefficient and impractical to maintain a full corps of executives and supervisors there.

Because of the infrequency of more complex tax issues in these States, we have found it increasingly difficult to maintain there a staff with a full range of technical skills. Even at present, it is common for some of these small districts to borrow experts from other districts, especially for estate, gift, and excise taxes.

When you examine the extreme variations in size of our present 62 districts, you appreciate the impracticality of using the same organizational structure in all districts. For example, the smallest district, Anchorage, Alaska, has 94,000 tax returns and 65 employees; a middle-sized district like Des Moines, Iowa, has 1.5 million returns and 520 employees; and the district with the most employees, Manhattan, has 3.8 million tax returns and 2,800 employees. If you take into account the tremendous technical gap between the kinds of returns found in a small State and those found in the large commercial centers, you get an even stronger impression of the disparities.

From the standpoint of supervision, our present setup provides a chief of audit, for instance, in Anchorage to supervise 28 employees; in Des Moines the chief has 255 employees; and in Manhattan the chief is in charge of 1,400 employees. The same chief of audit, 26 employees, 255 employees, 1,400 employees in 3 different districts. Consequently, the ratio of overhead personnel to frontline enforcement personnel is much higher in the small districts. Inevitably, the administrative overhead for personnel, supply, and training activities is also disproportionately large in the small districts.

We think it advisable to go one step farther than the present sporadic borrowing of experts, and to make fuller use both of technical experts and middle management supervisors in larger neighbor districts. To accomplish this, we are proposing to modify the organization of 12 of our small districts by eliminating division and branch chiefs in these districts and providing assistance from other districts. The districts to be modified and those which will assist them are as follows:

State	Modified district	Servicing district
Alaska.....	Anchorage.....	Seattle.
Delaware.....	Wilmington.....	Philadelphia.
Idaho.....	Boise.....	Salt Lake City.
Maine.....	Augusta.....	Boston.
Montana.....	Helena.....	Salt Lake City.
Nevada.....	Reno.....	San Francisco.
New Hampshire.....	Portsmouth.....	Boston.
North Dakota.....	Fargo.....	St. Paul.
Rhode Island.....	Providence.....	Hartford.
South Dakota.....	Aberdeen.....	St. Paul.
Vermont.....	Burlington.....	Boston.
Wyoming.....	Cheyenne.....	Denver.

The district directors in these States will have the same authority and responsibility that a director has in New York, Chicago, or Los Angeles. In view of modification, they will face new problems and challenges, but I believe they possess the capabilities and experience to meet them successfully.

It is my firm view that the importance of the individual States in our Federal system fully warrants the continuation of our present policy of at least one district office in each State. I believe the proposed reorganization is a strong guarantee for preserving their separate identities and responsibilities as districts.

Throughout the country today we already operate a number of fair-sized offices known as type A offices. They have no district director and receive their direction from a district office in another city. For instance, we have more than 200 employees in our Houston office, supervised from Austin, 180 miles away; about 200 in Miami, supervised from Jacksonville, 346 miles away; and about 200 in Minneapolis, supervised by nearby St. Paul. Other offices that operate without resident directors, division chiefs, or—for the most part—branch chiefs include Columbus, Toledo, Washington, San Diego, Rochester, Memphis, and Tulsa.

Some of the districts proposed for modification have occasionally borrowed technical skills from other districts. Under the plan, each will have its own district director and will have full-time call on all of the resources of their servicing districts. Certain facets of the district director's office will be strengthened. The fact is that no district in the whole country operates 100 percent on its own resources and skills. Even the largest districts get advice, both technical and supervisory, from their regional offices and the national office. From the viewpoint of the taxpayers, I assure you that full service will be maintained very much as I mentioned in the case of the intrastate mergers.

Furthermore, we have amended our original plans so as to leave in these districts the employees who receive and process returns and maintain accounts and other records until this work is gradually absorbed in the automatic data processing system, which we began installing a couple of years ago. We have well advanced programs for retraining and redeploying these people when the time comes.

On the supervisory side, we have also decided to abolish the position of the Chief of the Administration Division in all but 15 to 20 of our largest district offices.

As in the case of the merged districts, we have need for the officials who will be affected by the modification of small districts and we expect to place them within a reasonable time,

REDUCTION IN REGIONAL OFFICES

All of these district changes give rise to a question about the number of regions needed to supervise the remaining districts.

You know, of course, that our regional structure was established only a decade ago, and shortly after its creation was reduced from 17 offices in 1952 to 9 in 1953.

Sometimes we are asked why we need regional offices at all. During the last 13 or 14 years, there have been a number of studies, both by Government experts and by industrial management consultants. These studies as a whole have strongly supported the conclusion that our district offices cannot get adequate supervision if the lines of communication run directly to the national office in Washington. The only question is how many offices are needed to do the job.

From our studies and experience in districts and regions over the past 10 years, and in view of our current developments in operations, we conclude we could adjust the areas to be supervised by the regional offices. Modification of our district structure would help in this adjustment. We therefore reached the decision to merge the Boston and New York regions and the Omaha and Chicago regions, reducing the total number of regions from 9 to 7.

These regional mergers are very important from a cost standpoint because they not only save on the staffs of the regional commissioners, but they also make possible a reduction from 9 to 7 in the number of regional service centers for automatic data processing, in the number of regional counsels, and in the number of regional inspectors.

As far as I know, no one has seriously questioned the logic of these regional office reductions. Naturally, there have been some questions about the location of the new regional headquarters. These were not easy choices to make.

In the case of Boston and New York, we had two large cities which were both equally able to provide facilities and skills for the job. Because of the importance of these cities as financial and business centers, it was obvious that whichever city was chosen to be the headquarters, the continued existence of a large branch office in the other city would be necessary to provide taxpayers and their representatives with appellate and other essential services. As you know, a number of operation functions—especially those relating to appellate settlements of cases, administration of the alcohol and tobacco tax laws, and certain review and administrative services—are centralized at the regional level. These duties are in addition to the primary regional role as a supervisory and control point for district operations.

In the last analysis, the decisive factor was the existence, in the Boston area, of a going service center at Lawrence, Mass., which is to be converted to our newer automatic data processing (ADP) techniques, and will serve all of the present Boston and New York regions. As the installation of ADP nears completion, the service center will become more and more the heart of our regional operations; and it is advantageous, if other factors permit, to have the regional headquarters nearby in order to provide rapid, day-to-day supervision and communications.

In the Middle West, the situation was different. The existing service center at Kansas City, Mo.—which also will be converted to ADP—is distant from both the present Omaha and Chicago regional offices. We concluded it would be inadvisable to uproot

both regional office staffs to shift the regional headquarters to Kansas City, although, I might add, that was seriously considered.

We also concluded it would be imprudently expensive to move the existing service center to the regional office city. Furthermore, we are counting on the Kansas City service center to absorb processing employees displaced by the merger of the Kansas City district into the St. Louis district.

In the present Omaha region, we are proposing to transfer three States (Kansas, Colorado, and Wyoming) to the Dallas region, and to modify two other of the present districts (Abordeen and Fargo). In the present Chicago region, we propose to transfer the State of Michigan to the Cincinnati region. Thus, as stated above, since there was no service center in either Omaha or Chicago, other considerations were weighed in deciding on Chicago as the headquarters location of the reconstituted region; for example, transportation facilities, nearness to major workload areas, number of employees affected, and so forth.

SAVINGS

Finally, we come to the question of savings. Our original estimate of the savings to be achieved when these plans are in full operation totals upward of \$5 million per year. Our subsequent and more refined calculations indicate this was a conservative figure. The affected field offices are presently working out the item-by-item changes to be made, and this will give us more exactitude in our total.

Our current calculations indicate that the approximate savings will be about:

- \$1.6 million a year for the merger of regions;
- \$1 million a year for the elimination of two service centers;
- \$1.7 million a year for merger of districts;
- \$1.3 million a year for modification of small district organizations; and
- \$0.3 million a year for eliminating Chiefs of Administration.

I am attaching maps showing the "before" and "after" organization, and a copy of Secretary Dillon's order.

Obviously, there will be some transitional expenses. Also, in order to properly place the skilled individuals affected by these changes, we will need time for gradual phasing into the new pattern. Therefore, it is only fair to point out that these savings will not be attained within the first year. But it is also important to understand that the transitional expenses—such as moving costs—will be one-time expenditures, whereas the savings in our operating overhead will be realized every year after they are fully installed.

CONCLUSION

May I say, in conclusion, that I thoroughly understand the elements of concern in the affected localities and among our employees. We are hopeful that, as the scope and purpose of the plan are better understood, most of the concern will be eliminated. Since the original announcement, we have talked extensively with our employees, and now find better understanding and acceptance of the plan.

Also, it should be noted that many favorable comments have been made. There have been gratifying editorials supporting our realignments in leading newspapers in cities such as Detroit, Baltimore,

Philadelphia, Milwaukee, Utica, Lewiston, Pittsburgh, and Memphis, and some business organizations like New York's Empire State Chamber of Commerce have also shown approval.

Large organizations, both within and without Government, are constantly prodded by the demand for "fewer chiefs and more Indians." We, too, have heard this from our own employees at all levels. The proposed reorganization is an effort to achieve this end in a sound and responsible manner.

I hope this committee will understand our goals of administrative economy and efficiency, and will appreciate the contribution they make both to sound operation of Internal Revenue and to improved service to the Nation.

I shall be happy to answer any questions, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Commissioner.

The Chair is pleased to place in the record a letter from our distinguished majority leader, the honorable Mike Mansfield. Senator Mansfield had planned to attend the meeting today, but, due to the illness of his wife, he is unable to be here and take an active part. In lieu thereof, he submits this letter.

(The letter referred to follows:)

U.S. SENATE,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., April 5, 1963.

HON. HARRY F. BYRD
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: I had intended to appear before your committee this morning in behalf of a large number of Senators who have expressed to me their opposition to the proposal of the Internal Revenue Service which would, in effect, bring about a shifting of personnel in many offices, transfers of some to other States, and the removal of certain offices from one State to another. Because of circumstances beyond my control, I find myself unable to appear before the committee personally.

Senator Metcalf and I have had conferences and conversations with Commissioner Caplin covering the Helena office. He has been most cooperative in discussing our situation with us.

I am taking this means to call to your attention the fact that many Senators have come to me seeking advice and counsel as to what to do. I have advised them to take up their particular problems with Commissioner Caplin personally and I am sure most of them have done so.

Now that the matter is before your committee, I would most strongly urge that the situation be gone into thoroughly, that the freeze order be continued indefinitely, and that a reconsideration of the proposal be made to the end that the least possible harm will be in any reorganization plan formulated and that the best possible results achieved. It would appear to me that with the increased activities in the Internal Revenue Service that the best answer would not be a shifting around of personnel, but the retention of both personnel and offices where they are, and that the Congress provide for the Internal Revenue Service the needed funds for the hiring of additional agents, which I am quite sure will repay for itself many, many times over. If this could be done, the present uproar over the proposed reorganization of the IRS could be attended to, the efficiency and the morale of the IRS employees at the various State and Regional offices could be maintained, and the end result, in my opinion, would be better administration, and, through the employing of more Internal Revenue agents, the achievement of better results in the payment of taxes.

I know that your committee will give this matter every consideration, and I am certain that you will come up with the right solution.

With best personal wishes, I am

Sincerely yours,

MIKE MANSFIELD.

The CHAIRMAN. Senator Douglas, do you have questions?

Senator DOUGLAS. Mr. Caplin, I notice your revised estimates indicate total ultimate savings of \$5.9 million a year.

Mr. CAPLIN. \$5.9 million, yes, sir.

Senator DOUGLAS. Do you have supporting data for that?

Mr. CAPLIN. Yes, sir, I do.

Actually, the \$5.9 million is a rounded figure, the total figure is \$6,062,900, and I would be very happy to submit for the record the summary of the estimated savings.

Senator DOUGLAS. Do I understand that a printed record will be made of these hearings, Mr. Chairman?

The CHAIRMAN. That is correct.

Senator DOUGLAS. I wonder if you would be willing to submit the detailed figures supporting these claims for these savings?

Mr. CAPLIN. I would be very happy to do so, Senator. I might add that these savings estimates only take into account salary savings. They do not take into account such additional savings as reduced retirement payments and the decreased actual costs of desks and equipment.

(The following was later received for the record:)

Summary of estimated savings

	Estimated reductions in affected offices		Offsetting increases in servicing or absorbing offices		Net estimated savings to the service	
	Positions	Amount	Positions	Amount	Positions	Amount
Merged Regions:						
Omaha (Chicago).....	223	\$1,804,300	119	\$936,300	104	\$868,000
New York (Boston).....	400	3,187,900	298	2,386,200	102	801,700
Subtotal.....	623	4,992,200	417	3,322,500	206	1,669,700
2 service centers.....	114	1,000,000	0	0	184	1,000,000
Region subtotal.....	757	5,992,200	417	3,322,500	340	2,669,700
Merged Districts:						
Camden (Newark).....	195	1,214,700	146	714,600	49	500,100
Kansas City (St. Louis).....	176	1,085,800	137	695,300	39	390,500
Beranton (Philadelphia/Pittsburgh).....	143	852,800	97	471,600	46	381,200
Syracuse (Buffalo).....	194	1,163,300	149	710,600	45	452,800
Subtotal.....	708	4,316,600	529	2,592,000	179	1,724,600
Modified Districts:						
Aberdeen (St. Paul).....	25	186,100	15	92,900	10	93,200
Anchorage (Seattle).....	12	100,600	3	23,800	9	76,800
Augusta (Boston).....	30	221,700	12	78,000	18	143,700
Boise (Salt Lake City).....	25	192,700	11	72,700	14	120,000
Burlington (Boston).....	20	146,400	8	47,400	12	99,000
Cheyenne (Denver).....	22	167,100	8	42,000	14	125,100
Fargo (St. Paul).....	25	182,000	13	81,100	12	100,900
Helena (Salt Lake).....	26	204,700	12	87,300	14	117,400
Portsmouth (Boston).....	24	165,800	13	79,200	11	86,600
Providence (Hartford).....	36	261,200	19	109,300	17	151,900
Reno (San Francisco).....	27	204,300	8	51,200	19	153,100
Wilmington (Philadelphia).....	26	183,600	15	96,800	11	86,700
Subtotal.....	298	2,216,000	137	661,700	161	1,554,300
Chiefs of administration, 20 districts.....	40	314,300	0	0	40	314,300
Grand total.....	1,803	12,839,100	1,083	6,776,200	720	6,062,900

Senator DOUGLAS. Will there not be savings on rents, too?

Mr. CAPLIN. Yes, Senator, there will be a rent saving related to the number of positions saved.

Senator DOUGLAS. I wonder if you could make an estimate on that?

Mr. CAPLIN. I do not know. I suppose we could make an estimate. We would be glad to prepare and submit an estimate, Mr. Chairman. (The following was later received for the record:)

ESTIMATED SPACE SAVINGS

The planned field consolidations will result in space rental savings. Reduced rent resulting from other agencies moving from leased to IRS-vacated-space will total approximately \$580,000. Offsetting rental increases resulting from the field consolidations will equal approximately \$215,000. Hence there will be a net saving to the Government of about \$365,000.

However, these savings will not be realized immediately, for the following reasons:

(a) Some of the district offices are now overcrowded so that a reduction of total staff will simply provide more room for the remaining staff. However, it will eliminate the need for acquiring additional space.

(b) Some small districts occupy the entire rented structure and it would be difficult for GSA to modify its long-term lease in order to reduce the amount of space rented.

(c) Where small amounts of space are involved, it is difficult for GSA to utilize the vacated space for other agencies.

In addition to the above there will be a saving of 100,000 square feet of space through the reduction from 9 to 7 service centers.

Senator DOUGLAS. You mentioned that these are ultimate savings. When do you think that they would be realized?

Mr. CAPLIN. The realization of the savings will, in large part, depend upon how fast we phase into this program. We have no desire to have a reduction in force. We are hopeful that over a period of 2 to 3 years, if we have the normal support of the Congress in the general growth and development of the Revenue Service, these people can be absorbed into other Revenue Service work. I would say that the savings should be realized in about 3 years.

Senator DOUGLAS. May I ask this: What is your attrition rate among personnel in the Internal Revenue Service from death, retirement and resignation?

Mr. CAPLIN. The attrition rate will vary by the different categories of our employees. The rate for technical personnel runs something over 6 percent, a year; and that for clerical and others, about 10 percent a year.

The Revenue Service today is approximately 59,000 in strength, nationwide. About 28,000 of these employees are technical personnel and the rest clerical.

Senator DOUGLAS. Making a hasty calculation, this would come to an attrition in the technical personnel of about 1,700 a year?

Mr. CAPLIN. Yes.

Senator DOUGLAS. And of about 2,800 a year in the clerical personnel?

Mr. CAPLIN. Yes.

Senator DOUGLAS. Or a total of 4,500 a year?

Mr. CAPLIN. Yes.

Senator DOUGLAS. How many jobs do you expect ultimately to eliminate?

Mr. CAPLIN. Taking into account the people directly affected, and the offsetting increase in staffing in other elements, the net employee saving would be 720.

Senator DOUGLAS. If you only diminish the total number of jobs by 700, and you have an attrition rate of 4,500, you can transfer these people and simply hire, say, 3,800, instead of 4,500 new people, so I should think you could effect this, so far as finding a job is concerned, in 1 year.

You may want to give people time to find new locations.

Mr. CAPLIN. Yes.

Senator DOUGLAS. But there is no problem, is there, of finding jobs for people?

Mr. CAPLIN. I think you are absolutely right, Senator, that that could be the result, if we did not take the human element into consideration. If we offered people assignments in other areas of the country, these field consolidations could be effected almost immediately.

But I would say this, as someone who is an appointed official, confirmed by the Senate:

We can be very proud of the people we have in the Revenue Service. They are a hard working, dedicated group of people, and I think that we should show them every consideration and convenience in effecting this change.

We are hoping that by phasing this out over a longer period of time, people who do not desire to make these changes and move to another city will be able to transfer into other Revenue Service or Treasury Department work in their own localities.

Mobility in the Revenue Service is something that has been highly developed over the years. We have developed an executive development program in which mobility is emphasized. The top people involved in the change we are discussing—District Directors, Assistant District Directors, Division Chiefs, and Branch Chiefs—are people who are oriented to the idea that the Revenue Service is a nationwide organization, and that their mobility is an important part of the job.

Senator DOUGLAS. No greater hardship for a Government employee to transfer, is there, than for an employee of General Electric to transfer, or the Atlantic & Pacific Stores?

Mr. CAPLIN. The only distinction I would make, Senator, is that I do think—and the Congress is reconsidering this right now—the amount of money paid to an employee for his moving costs is not always sufficient to reimburse him for his actual out-of-pocket costs even under the most conservative situations.

Also, you do have the potential loss on the sale of a residence. Many companies have some sort of reimbursement arrangement if there is a forced loss because of a rapid move. They take the fair market value of the house through appraisers, and then they find what the man had to take on a forced sale. The absence of such reimbursement for Government employee puts him at a disadvantage, and this is the sort of factor we want to take into account in not pushing this change too rapidly.

If we take the time to establish this reorganization on a longer range basis, I think the impact on employees will not be as severe.

Senator DOUGLAS. Now, of course, you have attrition in each and every district, and, apparently, you believe that the attrition in each and every district will be sufficient to absorb the occupants of displaced jobs, if they do not want to transfer?

Mr. CAPLIN. Yes, sir, that is correct, Senator, and we have retraining programs in operation today in connection with our automatic data processing program. Some employees in many of these districts have, for about the last 2 years been retraining for other jobs, preparing for the move into automation. We would hope to be able to follow through in a comparable fashion here.

Senator DOUGLAS. In other words, you are trying to introduce efficiency and economy in your practices, save the taxpayers \$6 million a year, but to bend over backward in being humane to the employees?

Mr. CAPLIN. That is right.

Senator DOUGLAS. I want to commend you, and I think this is a splendid demonstration of efficiency.

Mr. CAPLIN. Thank you very much, Senator.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Chairman, I yield to Senator Dirksen.

Senator DIRKSEN. Mr. Caplin, what is your budget estimate for fiscal 1964?

Mr. CAPLIN. Budget estimate?

Senator DIRKSEN. Yes; that is, in round figures.

Mr. CAPLIN. Yes, sir.

The appropriation request was \$578 million, and the House has approved \$546 million. We are hopeful of making a presentation before the Senate requesting moving toward the \$578 million figure.

Senator WILLIAMS. How does your 1964 request compare with 1963?

Mr. CAPLIN. The 1963 base is regarded as \$504 million, which takes into account the \$18 million pending pay act supplemental. There is an additional \$10 million of 1964 Pay Act supplemental, which is built into our 1964 figures.

As the House committee pointed out, they allowed a \$42 million increase.

This involves absorbing over \$10 million of an additional pay increase, which is in the neighborhood of \$32 million net addition.

Senator DIRKSEN. What is the total number of departmental people?

Mr. CAPLIN. In Washington, we have roughly 3,500, Senator.

Senator DIRKSEN. And in the field?

Mr. CAPLIN. The balance would be about 56,000.

Senator DIRKSEN. So you have a little over 59,000?

Mr. CAPLIN. Yes, sir.

Senator DIRKSEN. What did you have last year?

Mr. CAPLIN. This is last year's figure. We have requested an addition, which takes into account the needs of automatic data processing elements, in the neighborhood of 3,000 more employees.

The growth of the population and the fact that income tax returns are becoming more complex—as people move up into higher income patterns and move away from a simple tax form—are very healthy for the economy, but, from the standpoint of tax administration, result in a greater number of returns and more difficult returns to examine. This creates a need for skilled people.

The tax laws are also changing. They are very complex and detailed laws. A very skilled professional bar and accounting profession emphasize the constant need for our keeping up with this development and growth.

Senator DIRKSEN. That is all.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. No questions.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Caplin, first, I want to say that if this is a bona fide step toward reducing the operating costs of your department I certainly shall be supporting it, and shall commend you upon the action. However, there are some questions which come to my mind as to whether or not there will be the true savings which you picture and whether or not it will disrupt some of the essential services to the taxpayers.

But before proceeding I want to make this statement as a member of the committee, I am disappointed that this, what you consider to be and what many consider to be, major reorganization plan was put into effect without first consulting with some of the committees of the Congress which are charged with the responsibility of maintaining the proper service.

I am wondering why this was not discussed with some of the members of the appropriate committees first. Is it not customary?

Mr. CAPLIN. Senator, the fact is that we did consult with the important Members of the Congress who were chairing committees directly affected by what we were doing. I personally consulted with Senator Harry Byrd; with Chairman Wilbur Mills; with Senator Robertson of the Senate Appropriations Committee; with Congressman Gary, the chairman of the House Appropriations Committee; and we fully explored the ramifications of the proposed changes.

In fact, the House Appropriations Committee has had an extensive examination of Internal Revenue Service in process for over 6 months. A detailed report has been submitted to the House Appropriations Committee, and there has been a very high degree of information available for sometime through these various studies.

Senator DOUGLAS. Will the Senator from Delaware yield?

Senator WILLIAMS. I will in a moment.

I appreciate that very much, but the Finance Committee and the Ways and Means Committee are the ones primarily concerned.

Mr. CAPLIN. Yes.

Senator WILLIAMS. And with all due respect to consulting with the chairman of these committees, those of us in the minority read it in the newspapers first. We would appreciate it in the future; when these major changes are involved if some of us on the minority would be consulted at least when you will later be asking for our support. But that is beside the point.

Mr. CAPLIN. Senator, I would just like to add this:

That I am very mindful of what you said, and I accept the criticism for not conferring further. The only statement I could make is that we had a very rigid timetable on this because of the necessity of my making an appearance before the Appropriations Committee on Tuesday, March 5.

We had to notify a large number of people almost simultaneously; one group was our regional commissioners. We brought them in on the preceding Saturday and discussed with them the details of the reorganization. They had a copy of a report which they had been studying for some time, but this was the first time that the definitive plan was made available.

The regional commissioners went back to their offices on Sunday. On Monday, they met with their district directors, and the district directors met with their employees on Tuesday, the same day that I was appearing before the House Appropriations Committee. On Monday, the day preceding my appearance before the Appropriations Committee—while I was trying to complete my presentation and study—I did confer with a number of congressional leaders. I conferred with some of the members of the Republican Party, as well as of the Democratic Party.

It was a question only of time, of my ability to contact people in the last minutes of Monday.

Senator DOUGLAS. Will the Senator from Delaware yield?

Senator WILLIAMS. Yes, I will yield.

Senator DOUGLAS. Does the Senator from Delaware maintain that a committee of Congress should exercise supervision over all the minutia of administrative procedure, the internal organization of departments?

I had always thought this was a function of the Executive. We have never tried to interfere when the Republicans were in power. We are supposed to pass legislation. But I have never thought that we were to exercise censorship or supervision where offices were to be located.

Senator WILLIAMS. No one is suggesting that the committee exercise any censorship over the Department's actions. This is an administrative decision, and you have a perfect right to proceed. I only point out that it was thought important enough to consult with the majority party, but, while the support of the minority party may not be too important, we as taxpayers do pay our proportionate part of the cost of operating this Government, and as members of this committee we do have some responsibility for the operations of this Department. Of course, if this is a political decision I can understand why you ignored us.

Mr. CAPLIN. Senator, I would like to state I did not view this on a partisan basis. I regret that I did not consult with more of the Members of the Congress on both sides of the aisle, and I stand ready to consult with you and any other Member of Congress at this time.

I would hope that I could supply you with additional information, as it has particular concern to you.

Senator WILLIAMS. I raise this point because this is not the only time this has happened. It seems to be the custom, whether it is the announcement of a contract, a change in the major operations of an agency, or in a request for a major revision of the income tax laws, that the minority members read it in the newspapers first.

I think our relationship would be better and we would be better able to understand your problem if at the same time you recognized that we have some responsibility to our constituents.

Now, to get back to the point at issue; I repeat, if this is a savings I will support you. I was one of the strong and early supporters of the reorganization plan in 1952 when it was submitted by President Truman. I thought it was one of the most constructive proposals that was before the Congress, and included in that reorganization plan were two very important points.

One was the removal of the directors from the patronage system and making them subject to civil service, and I think we are in complete agreement—

Mr. CAPLIN. Yes, sir.

Senator WILLIAMS (continuing). That that was a very important step, and it was one which was approved by Congress; and I think it has worked out very well.

Mr. CAPLIN. I would like to say it has contributed greatly to the strength of the Service.

Senator WILLIAMS. I think it has, but there was another step which in my opinion was of equal importance, and that was the proposed decentralization of many of the functions. Of course, there was quite a scandal at that time, and the reorganization was partly the result of this factor. There was much criticism about the fact that there was an overcentralization of the power of making decisions for the field offices here in Washington.

The purpose of the reorganization plan was to decentralize this authority and put it back in the respective districts. We gave the regional districts a lot more authority and gave more authority to the directors in the respective areas.

I was a strong advocate of that plan, believing that it would be a major step forward. I think it has worked out well over the years, and I am a little bit concerned here today over this apparent trend back to centralization.

I am wondering to what extent we will offset the savings by reducing the efficiency of the organization as it has functioned in the last few years. To what extent will we disrupt some of the services to the taxpayers?

Would you comment on that phase of your plans?

Mr. CAPLIN. Yes, sir.

Senator WILLIAMS. Which is, again, a trend toward centralization of powers?

Mr. CAPLIN. Yes, sir.

Sonator, when I first came to Washington, I, too, felt that the district-regional relationship should be carefully evaluated. I have had many Members of Congress question the validity of the regional-district relationship.

In my earliest appearances before the Appropriations Committee, I was requested to state an opinion on whether the nine regions were the correct organizational setup, and at that time I stated to the committee that I was not in a position to give a firm view.

During the past 2 years, I have been visiting our various offices, spending almost a third of my time in direct contact with the districts and regions; I think there is a very strong and important job being performed in the regions.

The only question is whether nine regions is the correct number.

In 1953, a year after the reorganization, the then Commissioner of Internal Revenue and the Secretary of the Treasury reduced the number of regions from 17 to 9. After careful study, I think that—with the 10 years of experience we have under the 1953 reorganization; with the 1953 reduction to nine; with the improved relationships between the regional commissioners and the district offices; with the very close, cooperative working relationship between staffs; with the training programs we have had; and with development programs for managers at all levels of the Service—we could (1) increase the span of relationship through this readjustment, and (2) effectively reduce the number of regions from nine to seven, while still providing all the services and supervision necessary.

The number of States within a region have varied considerably. Out in California, for example, the regional commissioner supervises 10 States including Hawaii and Alaska. In New York, on the other hand, we have the regional commissioner supervising one State. In Omaha, the regional commissioner has been supervising nine States. With the planned realignment we will attain a better average throughout the country.

Senator WILLIAMS. May I interrupt?

I was not referring necessarily to the number of regions. I recognize there is no magic in any number. But it is not only a reduction in the regional offices, but it seems to be a general movement toward assembling the powers in the larger offices again, and, if I recall correctly, it was in the large offices where we had the most of our problems during that particular period. The claim then was that it was due to the fact that proper supervision could not be exercised over the employees.

I have been very much impressed and, as you know, have complimented you and your predecessors almost every year, on some of the achievements under this reorganization plan.

For example, after this reorganization plan was put into effect, the first assembled statistics that we had of your total delinquent accounts were compiled. They were then averaging better than \$1.6 billion total delinquencies at the end of every year.

Under this reorganization plan we have had consistent reductions in the delinquent accounts through the years.

For instance, this year I notice they are down to \$1.1 billion. This represents a \$500 million reduction in your total delinquent accounts and this reduction has been achieved under this decentralization program in the last 9 years; \$500 million additional collected in 9 years is a sizable factor, and it is important.

In addition to that, we have had a rather efficiently operated Service. It is true that we have had minor instances of irregularities or improprieties on the part of some employees, but those have been rapidly discovered.

You had an incident on one of our—I will not mention the State, but recently you had several employees who were picked up for improper actions, and they were suspended or indicted. I commend you on the manner with which you promptly dealt with that situation.

But this record raises the point as to whether or not this savings is going to be a true savings.

Now, assuming we have a \$5 million annual savings, and, projecting back, if this had been in effect 9 years ago that would total \$45 million. Now, that is important. But, to what extent would it have affected the efficiency of the organization which collected this additional \$500 million in the same period?

That is the point that bothers me.

Mr. OAPLIN. Senator, on that point I do not know if it would have been advisable 9 years ago. I think—although it is difficult for me to make a judgment from this vantage point—I would have been reluctant 9 years ago to have made this recommendation. But the life of a Federal agency, like the life of a business organization, certainly moves on, changes, develops an experience, and I do think that the Revenue Service has reached a level today where the planned changes can be made without a loss of the efficiency and the supervision that you mentioned.

I am very happy to note the work that is being done on the point of integrity and honesty. We have highly dedicated people, and there has been strong support for this program throughout the Service. Our Inspection Service has done a commendable job. It was commented upon and commended by the U.S. attorney in the matter that you referred to just a few minutes ago.

But I do not think that the changes we are making today will adversely affect that program or the other programs of the Service.

Senator WILLIAMS. I will use some specific examples.

As I pointed out, the national total of delinquent accounts has been reduced \$500 million in the 9-year period under this reorganization. This is a commendable record. I notice that in my own State we have had an 85-percent reduction in delinquent accounts, and I have been rather proud of the fact that they beat substantially the national average.

But a lot of our functions are now being transferred to Philadelphia. Philadelphia has a reasonably good record, but it is a record nowhere near in comparison to our office.

Mr. CAPLIN. The people doing delinquent account work in Delaware—and Delaware does an outstanding job in this area—will stay there. The only people who would be affected in collection, would be the branch chief and the division chief who supervise this operation. In this instance, the branch chief and division chief would be located in Philadelphia. There would be assistance and direction given from the region and from the district, but the district director ultimately is the top man with line authority.

Today, if there is any dispute between a district director and a branch chief that cannot be resolved even in a single district, the matter would be referred to the regional commissioner for resolution. This would be the same situation under the planned changes. The district director will maintain supervision over his office, and he will have a direct line to the regional commissioner to get a decision on any dispute that arises.

Senator WILLIAMS. But it has been called to my attention—and this point would be equally applicable to Vermont, New Hampshire, or any of the other areas involved—that they have the impression that the tax returns are going to be shipped out of these areas and concentrated in the cities, that they will have to photostat them and bring them back. If a taxpayer has a consultant who wants to go in to Wilmington, Vt., Burlington, or in Augusta, that they would have to get their tax returns from the distant city.

Mr. CAPLIN. There has been some misunderstanding.

Senator WILLIAMS. They would have to go to the office, and the office will have to say, "Come back in 3 days; your tax returns will be photostated and brought back to us."

Maybe they will get there through the mails or maybe it will not.

Mr. CAPLIN. There has been some misunderstanding about that and also some change.

Misunderstanding arose because some people felt they would have to go outside of the district for some of the services. We have emphasized, and we will make sure, that all the services that the taxpayer or his representative had before will continue to be made available to them in the district.

The returns will not be shipped out of the State for storage. The returns will remain in the State. Even had they been shipped out, as originally proposed—

Senator WILLIAMS. That is the point. It was a part of your original plan that they would be shipped out, was it not?

Mr. CAPLIN. Yes, but they are shipped out for processing today, Senator. Every return in the country is shipped out of the district today.

Senator WILLIAMS. After—

Mr. CAPLIN. Before processing.

Senator WILLIAMS. Before they are processed?

Mr. CAPLIN. Before processing. Today they are shipped out. We have been considering—

Senator WILLIAMS. Where are they shipped?

Mr. CAPLIN. They are shipped to the three area service centers throughout the country, to Lawrence, Mass., to Kansas City, Mo., to Salt Lake City, Utah, and also to the new regional service center at Atlanta. The three area service centers have been operating for a great number of years.

We have been using machine equipment there, electronic equipment, for a number of years. The actual returns are shipped to these centers, and they are physically shipped back, after preliminary processing.

Senator WILLIAMS. You have spoken of your plans to reduce the number of your employees nationally by 700.

Mr. CAPLIN. 720; yes, sir.

Senator WILLIAMS. By 720.

Will you give us a breakdown of those 720 by offices and positions? Will you put that in the record? (Previously submitted, see contents for page number.)

Mr. CAPLIN. Yes; we will be very glad to, Senator.

Senator WILLIAMS. And then I understand you are asking for 3,000 additional employees this year; is that correct?

Mr. CAPLIN. That includes the data processing people; yes, sir.

Senator WILLIAMS. Will you give us a breakdown of the areas in which they are expected to be?

Mr. CAPLIN. Yes, sir; I will be very happy to.

(The following was later received for the record:)

Staff changes, permanent personnel, 1964 budget request

Activity and Category

	<i>Number</i>
2. Collection of revenue:	
(a) Returns processing.....	410
(b) Delinquent accounts and returns:	
Revenue officers.....	444
Other.....	217
3. Audit of tax returns:	
(a) Revenue Agents.....	1,204
(b) Tax technicians and office auditors.....	65
(c) Other.....	408
4. Tax fraud investigations:	
(a) Special Agents.....	64
(b) Other.....	22
5. Alcohol and tobacco tax: (a) Storekeeper gangers.....	(23)
7. Legal services:	
(a) Attorneys.....	34
(b) Other.....	34
8. Inspection:	
(a) Inspectors.....	61
(b) Other.....	11
9. Statistical reporting.....	14
10. Executive direction.....	34
Service total.....	2,999

Senator WILLIAMS. There seems to be a little question of how much we are saving, whether we are saving in the right direction, when you take off 700 and then hire another 3,000. I understood that automation usually has something to do with cutting down the number of employees. Do I understand that you are putting on 3,000 extra as a result of this automatic processing?

Mr. CAPLIN. I noticed a certain journal today made reference to this, and it indicates a complete lack of understanding of the function of data processing and the operation of the Internal Revenue Service.

The truth of the matter is that automation is primarily going to do jobs that were never done before. The chairman of this committee very strongly supported a bill for information reporting in lieu of withholding. Automation will permit us, for the first time, to make almost a 100 percent comparison of information documents against the actual reporting on returns.

This has never been possible before. We had only a small sampling obtained by hand. It is an enormous problem, almost 400 million informational papers pouring in from all over the country to be matched up with taxpayers' returns. We have had to make only a sampling. Automation, however, will make this sort of comparison at speeds of 125,000 a second. It will reveal unusual characteristics in tax returns by checking various ratios and will provide a 3-year record in a master file at Martinsburg, W. Va.

For the first time, we will have centralized in one location the name, the address, the account number, and a running 3-year history of each taxpayer.

By the press of a button, we will be able to tell whether a return or duplicate refund has been filed—the other day we had 20 refunds filed in the name of 1 man in 7 different States. Under the old system we might not have picked that up for years. Through automation, this name was recorded in the system, and the violation appeared at once in the central file in Martinsburg when the second claim for refund came through. This man has now been indicted.

Senator WILLIAMS. I supported the automatic data processing proposal. I will not pursue this further because we have other members, and we want to give them all a chance to ask questions, and maybe I can come back later for further questions—but you mentioned the fact that one of the hard decisions you had to make was a determination as to whether you shall recognize Boston or New York as the central office?

Mr. CAPLIN. Yes, sir.

Senator WILLIAMS. What was the determining factor in casting that decision as to Boston?

Mr. CAPLIN. The basic factor is the location of a going service center at Lawrence, Mass. We have over 2,000 trained people, key-punch operators and other people in the data processing field, located in the Lawrence area. It is one of the most important factors throughout the country to locate a service center in close proximity to a regional office, wherever possible.

The original location of our data processing center in Atlanta was made because of the location of the regional office there. Whenever we have an option to locate an ADP service center, the staff has consistently considered, all things being equal, that the most compelling factor is to locate it as close as possible to the regional office.

Now, we have situations which illustrate this practice—Philadelphia, Atlanta, and Covington, Ky., which is just across the bridge from the regional office in Cincinnati. In Texas, the staff had wanted to locate the center close to the regional office, but, on balance, the decision ultimately was for Austin, Tex. Recently we had to decide whether we would locate in Boston, where we have trained service center people and where the New York returns have been sent for 8 years.

It would be a terrible blow to move the Lawrence service center and the people there. These are not high-salaried people. It is a depressed area. On balance, we recognized that out of 785 people in New York only approximately 175 would be affected—the rest would stay in New York, providing all the services to the taxpayer. The decision was made internally, was forwarded to the Treasury, and was accepted by Mr. Dillon in the form proposed.

Senator WILLIAMS. How many service centers do you have?

Mr. CAPLIN. We had nine originally planned, but under the changes we will have seven official ADP service centers. There always has been in the background the need for another installation to take care of payroll, certain Treasury operations, and certain statistical work.

It might be that another building would be needed for these operations; but in terms of service centers, the original plan of nine has been reduced to seven. We also have the national computer center in Martinsburg.

Senator WILLIAMS. Those seven, where are the seven located?

Mr. CAPLIN. In terms of those under ADP, we have Atlanta, Philadelphia, and Austin. Covington was also announced as a site, but we are having some difficulty with the land there. Those are the four ADP service centers.

The three existing area service centers—the old service centers—which handle returns and have equipment, key-punch operators, and computers, have been in existence in Boston, Kansas City, and Salt Lake City for a number of years.

One of the big problems is. Do you move them? Do you move them to the regional offices, or, if possible, can you move the regional offices to them?

Senator WILLIAMS. Which two were you eliminating?

Mr. CAPLIN. We were eliminating the one for the Chicago region. That was one.

Senator WILLIAMS. Had one been promised for Detroit?

Mr. CAPLIN. There had been an announcement that there was a plan to put a service center in the Detroit-Port Huron area. That is correct, sir.

The other one planned was the New York service center.

Senator WILLIAMS. To get back to the original point, one of the points that disturbs me is the efficiency with which the agency has been operating heretofore under this reorganization plan. I pointed out the national average reduction in these delinquent accounts. I remember very well that New York City and Boston were two of the offices which were in rather serious difficulty just prior to the reorganization.

There was trouble with all three directors of New York offices, if I recall correctly, and trouble with the Boston office. And when you have difficulty with the top echelon it also simmers down to the lower level. Both areas went through major reorganization. I have been very much impressed with the improvement in New York City since this reorganization plan went into effect, and I say that as a former strong critic of the area at the time.

In 1954, you had operating two offices in New York City—the lower Manhattan and the upper Manhattan offices. The total amount of delinquent accounts in both offices in 1954 showed a total delinquency of \$329 million. These two offices have since been combined, but they have reduced those delinquencies in 1962 to \$110 million. They have cut them over two-thirds, which is a remarkable achievement, and it is above the national average.

I grant you they started from a very bad situation 9 to 10 years ago, but they have made progress; and they have reduced the total again this year to an alltime low since these statistics have been assembled. They have a 5-percent reduction again this year in their total delinquencies.

I compliment the area on that achievement. As a former critic I feel that I should give them credit.

On the other hand, I notice that in Boston 9 years ago their delinquent accounts were \$41,306,000, and this year their total delinquencies are \$42,996,000. They are at an alltime high. That is at an alltime high in the 9 years, and they have had a rather consistent record of not handling their delinquent accounts well in comparison to the way they have been reduced in other areas.

This is a major point which disturbs me in your present plan.

You are moving and concentrating the work of many of these offices—not only of New York City, but of Maine, New Hampshire, and Vermont—and concentrating those in an office which over the 9 years has had a very poor record of collections as compared with the national average.

Even under the decentralization plan of 9 years ago we have not had the results that we should have had in Boston.

I am disturbed on this point, especially when we consider that New York City accounts for \$219 million of the total reductions of \$500

million nationally. In view of this record I cannot understand why you selected Boston for expansion. It is one of our worst managed offices at this time.

Mr. CAPLIN. May I respond to that, Senator?

Senator WILLIAMS. Yes.

Mr. CAPLIN. I certainly agree with most everything that you said, Senator. This is an important part of our program. It has involved the efforts of the national office, the regional staffs and the district directors.

I do not know whether I have to say this to you, but your interest has not been unobserved. Your interest actually has been a helpful stimulant in this area. In New York, there has been tremendous achievement made, and this reorganization will not affect one iota the people who should get the primary credit for the achievement.

I am talking about the district directors and the district offices. The Manhattan and Brooklyn offices are headed by two extremely able men, Charles Church in Manhattan and Thomas Scanlon in Brooklyn.

We are constantly strengthening these district organizations. Both are getting new buildings in which their operations will all be together, and I think that they are going to continue doing an outstanding job. In Boston we have had a number of changes in recent years. We have a new regional commissioner in Boston who had experience in New England as a district director and had experience in Chicago as a district director, Harold All.

We also recently brought in a young, vigorous, able district director named Alvin Kelly, who had been in St. Louis. He is now the district director in Boston.

Over the past 2 years there have been other extensive changes in Boston.

I am hoping that the Boston record will become an outstanding one.

At the same time we are getting from the New York regional offices, under this proposed plan, some of the top people who will assume authority up in Boston.

Senator WILLIAMS. I think those factors have to be taken into consideration when talking about the savings of \$3 million to \$5 million per year. I know that a part of the reductions in delinquent accounts can be attributed to that portion of the reorganization plan which was to decentralize some of this work.

I do not say at this moment that this plan of yours will reverse that trend, but it does raise questions as to whether or not we are moving backward into the direction which gave us all of this trouble a few years ago.

Mr. CAPLIN. Senator, I have this as a high priority item in my points of emphasis throughout the country. The trust fund accounts, withholding dollars, are, to me, on a parallel with the bank money which passes through a teller at a bank. I think it highly improper to have delinquencies here. We actually have certain criminal sanctions for an employer who uses withholding dollars in his own business; in effect taking dollars which he holds as a trust fund for the United States and using it in his business. These are some of the aspects of the delinquencies that you are referring to on the delinquent accounts.

Now, most of the businessmen of America do an outstanding job here. They would not conceive of ever improperly using these funds.

After all, we collected over \$99 billion in gross receipts last year, and this year we will undoubtedly exceed \$100 billion.

The delinquent accounts are something in excess of \$1 billion; and should be reduced further despite the relative weight of the situation. But we will continue to be emphasizing it, and I do not think that there will be any lessening of our effort or of our effectiveness as a result of this reorganization. I am hoping that this is going to strengthen the situation. This is my judgment.

Senator WILLIAMS. I will yield.

I will merely say that the fact that much of this new concentration of power or concentration of authority over the collection of taxes which is being siphoned back into the trouble-spot area and that disturbs me, and the areas from which much of this work is being removed are the areas which have been able to advance thus far the best record in the country.

Those points should be taken into consideration.

I will be watching most carefully the results of this plan if it goes through.

Mr. CAPLIN. We will watch it carefully, too, sir.

(The questions subsequently submitted by Senator Williams and the replies by Commissioner Caplin follow:)

QUESTIONS SUBMITTED BY SENATOR JOHN J. WILLIAMS AND REPLIES BY COMMISSIONER CAPLIN ON NEW YORK-BOSTON REGIONAL OFFICE MERGER

1. Question. How does it help toward a goal of economy to transfer approximately 175 "top level" personnel to a location where there is now less than one-half that number, rather than the reverse?

Answer: By merging the Boston and New York regions, we will save 102 positions and \$801,700 annually. This obviously helps considerably toward our goal of economy.

The decision as to whether the Boston staff should be moved to New York or vice versa was decided primarily, as the Commissioner stated in his testimony, by the existence of an ADP Service Center at Lawrence, near Boston.

The following analysis of the number of people who would have to move may be of interest:

(a) The Boston regional office has an authorized staffing allowance of 425 positions, of which 197 are directly operational. The remaining 228 are managerial and support personnel.

If the consolidated office were to be located in New York City practically all the work of the 228 positions would have to be transferred there, the only exception being a small group of A. & T.T. support people. It is estimated that 126 new positions would have to be added in New York for this transferred work, thus creating a saving of 102 positions (228-126).

If permanent assignments for the 102 occupants of the surplussed positions could not be found in the Boston district office (approximately 1,300 in strength), they would have to be moved to New York or elsewhere, or separated.

(b) The New York region has an authorized staffing allowance of 785 positions, of which 385 are directly operational. The remaining 400 are managerial and support personnel.

Because of the heavy concentration of servicing and support activities in New York, 222 such positions would have to remain there in any event. Thus, only the work of 178 positions (400-222) would be transferred to Boston. It is estimated that in the consolidated office this work could be done by 76 people, thus creating a saving of 102 positions.

There is every reason to expect that the 102 occupants of the surplussed positions can comparatively easily be absorbed by the Manhattan and Brooklyn district offices (approximately 4,000 in strength). In addition, there will be opportunities in Boston and elsewhere for those employees who are able and willing to move.

Conclusion: In either case the saving is estimated at 102 positions. To achieve this saving it would be more expensive and upsetting to transfer 126 positions to New York than to transfer 76 positions to Boston.

2. Question. It appears that many, if not most, of the assistant regional commissioners being transferred from New York have seniority over those in Boston. How does it help toward a goal of economy to move such persons to Boston and then have to relocate the Boston personnel elsewhere? Would this not double the relocation costs?

Answer: It is true that many, if not most, of the assistant regional commissioners in New York have seniority over their Boston counterparts.

There are, however, only 12 such positions in the 2 offices as a whole. Even in the unlikely event that most of them elected to relocate the expense thus incurred would be a very small and only one-time offset to the total savings figure.

Furthermore, one of the basic precepts of our management philosophy is that executives must be placed where they can make the greatest contribution to the Service and to their own personal development through broadened experience.

3. Question. "Housekeeping" chores are most efficiently performed at the point of highest volume. Would it not save more money to move all housekeeping to the areas of most concentrated volume of returns, taxpayers, tax revenues, etc.?

Answer. The housekeeping, or service and processing operations connected with individual returns, taxpayers, etc., are in the main located organizationally at the district office level. As such they are not affected in any way by the proposed regional office merger.

The housekeeping functions located at the regional level are primarily in the administrative servicing area (personnel, space, equipment, and supplies, etc.) and are most efficiently located at the same site as the management positions they serve.

4. Question. In determining estimated savings from the proposed merger into Boston, has consideration been given to the additional supervisory costs of controlling the three major districts, Manhattan, Brooklyn, and Buffalo, from Boston rather than from New York?

Answer. Yes. This is answered in more detail at another point.

5. Question. In determining estimated savings, has consideration been given to the material increase in costs to the largest taxpayers in the country in having their employees and representatives travel to Boston? The Federal revenues, through tax deductions, stand a major share of increased travel costs.

Answer. We see no reason for any increase in travel costs by taxpayers or their representatives. The IRS, employees with whom such personal contacts are made, will remain where they now are; only the regional executive functions are being merged.

6. Question. Did the staff report, upon which the move is supposedly predicated, specifically recommend the transfer to Boston or did it only recommend the merger of the two regions?

Answer. The recommendation was limited only to the merger of the two regions.

7. Question. At the time of the Service's reorganization, it was apparently understood that the regional offices were to serve two basic purposes: (1) to provide better and more convenient service to taxpayers, so that they would not be required to contact national headquarters, and (2) to provide more efficient and economical control over the housekeeping functions. How does the move away from the greatest concentrated area serve either of these purposes?

Answer. The stated objectives will still be met by the merged office. The reasons for locating the office in Boston are given above.

8. Question. Can it be stated unequivocally that the service center at Lawrence, Mass., is now able to service the combined regions or will it be necessary to enlarge or even move this present service center?

Answer. The present service center in Lawrence, Mass., is now servicing the Boston, New York, and Philadelphia regions. Under the ADP concept, 109,000 additional square feet of space will be required for the regional service center that will service the combined New York-Boston region. After careful review, it has been determined that it is not feasible to enlarge the present building. Accordingly, a new and larger facility will be required for the ADP regional service center. However, the present employees will be retained in the new building.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Thank you, Mr. Chairman. I have several questions to ask.

There are some distinguished Senators present here other than members of the committee. If they wanted to get into the record

rather briefly, I would be happy to withhold my questions, because it may take me a little while.

The CHAIRMAN. We are very honored to have Senator Smith, Senator Keating, because the distinguished Senator from Nebraska may be quite lengthy.

Senator CURTIS. Well, I hope not. I do not want to wear out the Commissioner.

Senator DOUGLAS. Mr. Chairman, I would suggest that the record be kept open so that the various Senators who object to this reorganization plan may file letters from their constituents and organizations as to their feeling in this matter.

I think we should do that.

Senator CURTIS. How long should we keep the record open?

Senator DOUGLAS. I refer not merely to letters from Senators, but letters from organizations to Senators, so we may judge what the reaction has been; what is the attitude of the chamber of commerce, for example.

The CHAIRMAN. We will have to place a time limit on it. I think it is important to have this testimony made public at the proper time.

We cannot leave it open indefinitely.

I would suggest that we insert the statements from the Senators but, if we include statements from organizations, it would unduly delay the release of this valuable information. I think it is important that it be expeditiously printed and made public information.

Senator Aiken?

Senator AIKEN. Mr. Chairman, I would like to say I appreciate the privilege of being permitted to sit with the committee and to hear Mr. Caplin's testimony this morning.

I regard Mr. Caplin as an efficient public servant.

I also understand that he is carrying out policies approved at higher levels of government. There is no doubt what he has said this morning clearly expresses the viewpoint of those who hold to those policies.

However, I find that what he has not said is still far more convincing with me than what he has said pertaining to efficiency, morale of employees, and so on and so forth. I do not want to make any statement. In fact, I will probably make a statement on the floor of the Senate in the hope that it will get wider circulation than simply a statement which may be filed in the archives of this committee.

But I think the plan which Mr. Caplin is understandably supporting is not good. I am sure that the facts will bear out a contention that the Vermont office is more efficient than the office it is planned to consolidate part of the functions with. As I say, I will explain that later, but I understand his position.

Mr. CAPLIN. Senator Aiken, might I just say this—

Senator AIKEN. I still think he is a capable public servant, promoting the wrong cause, and I hope a lost cause.

Mr. CAPLIN. I appreciate the kind things you have to say, Senator. I certainly recognize that there are many people who believe that the small districts do a more efficient job than the large districts, and I think that we can be proud of the record of the small districts.

The big point is the price that the U.S. Government can afford to pay for the very heavy ratio of supervisory employees and administrative employees in the small district. I have been in close contact with industry over a period of 20 years. I recognize that in industry, too, a reorganization plan is very disruptive. I recognize that

employees in industry are very much opposed to change, and we have been sensitive to that in trying to apply these same standards in government.

I would hope that the final plan, as it evolves, will lean over backward in terms of protecting the individual employee, his convenience and his welfare.

Senator AIKEN. Mr. Chairman, if I may add just one more thought, and then I will sit still, and that is in reference to what Mr. Caplin has just said with regard to the supervisory costs of the smaller districts.

The supervisory costs of the smaller districts would not have been as high proportionately, had the smaller districts not been required to hire supervisory personnel they did not need, apparently in an effort to justify increased personnel in the regional districts. You have made them hire, or your department has, people which they did not need.

Mr. CAPLIN. The service has been using a uniform pattern in every district.

Senator AIKEN. That is right.

Mr. CAPLIN. And the same pattern was used as a model and was put into every district, regardless of size.

Senator AIKEN. Some of the smaller districts did not need all that supervisory personnel?

Mr. CAPLIN. I agree with you, sir, and we are trying to correct that situation by the changes now under discussion.

Senator AIKEN. And another point is that the collections in northern New England apparently have gotten worse during the last year.

I think perhaps the record should show the reason for that is that all of the Goldfine assessments have been charged to each State in which he owned any property, making it appear that the delinquencies in my State are about five times what they actually are.

Senator DOUGLAS. Would you say that Goldfine distributed money in Vermont?

Senator AIKEN. Goldfine had his best mill in Vermont. That is where he made his vicuna cloth, and I did not even know that he owned a mill until somebody raised the question.

Senator DOUGLAS. Some of the taxes which Goldfine did not pay were distributed to Vermont people?

Senator AIKEN. That mill is still operating, and I think it has been earning money enough to pay off most of Mr. Goldfine's delinquency after all the rest of his mills were shut down.

(The following letter was subsequently received from Senator Aiken:)

U.S. SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
April 6, 1968.

Hon. HARRY FLOOD BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR HARRY: I appreciated very much the privilege of sitting with your committee on April 5 while Commissioner of Internal Revenue Mortimer Caplin was undertaking to justify the emasculation of the Internal Revenue Service offices in 12 States. Mr. Caplin failed to make a case for the reorganization.

Previous to appearing before your committee, Mr. Caplin had testified before the House Subcommittee on Departments of Treasury and Post Office and Exec-

utive Office Appropriations. I would like to point out a few fallacies which are apparent from the testimony which Mr. Caplin has given before the House and Senate committees.

1. On page 383 of the House hearings, Mr. Caplin is quoted in a memorandum to Secretary Dillon as follows: "We believe the morale of Service personnel today is at a high level." At no time have I known the morale of any Government agency to be as low as the morale of Internal Revenue employees at this time. If morale is high, why is it that Members of Congress have received hundreds of letters and telegrams from IRS employees protesting this program?

2. On page 355 of the same House hearings, Mr. Caplin states: "I believe these changes will not only make the small districts more efficient, but will also give the taxpayers in these districts the advantage of access to more skilled technicians than the small districts could provide on their own." Yet on page 434 of the same hearings, he intimates that one purpose of the reorganization is to reduce the number of technical and service jobs.

3. The record of the Burlington, Vt., district office will show that this office has been more diligent in the collection of delinquent taxes and has exceeded its goals to a greater extent than the region as a whole or the country as a whole. The reason that the records show delinquent taxes to the extent of \$3,980,000 for the Burlington district is due to the fact that the entire Goldfine account, amounting to \$3,154,171, was charged against each State where Mr. Goldfine owned any property at all. Discounting this item, it appears that the delinquent accounts on December 31, 1962, amounted to only \$825,829.

If the administrative costs of the Burlington office are slightly higher than those for the big city offices, it is due to the fact that the smaller district offices were required to employ unnecessary supervisory personnel. In fact, Mr. Caplin stated before your committee that supervisory personnel was appointed according to a pattern which was used for staffing all district offices, whether large or small.

Mr. Caplin draws a most unfair comparison between the offices at Anchorage, Alaska, and Manhattan in an effort to support a case for reorganization. He states on page 7 of his testimony before your committee: "From the standpoint of supervision, our present setup provides a chief of audit, for instance, in Anchorage to supervise 26 employees; * * * and in Manhattan the chief is in charge of 1,400 employees." The fact is that the chief of audit in Manhattan does not, by himself, supervise 1,400 employees. The time devoted to general supervision in Manhattan in fiscal year 1961 was 3,383 days. I am sure that the Internal Revenue Service does not have supermen of this type and based on actual work-time of 225 days per year, 3,383 days work would represent about 15 people who in 1961 were supervising about 1,300 employees. The Internal Revenue officials should not resort to unfair comparisons of this type to substantiate their claims.

Mr. Caplin has stated: "We have no immediate plans for further reduction of districts." The word "immediate" implies clearly that the Treasury Department does intend to further consolidate the offices of the Internal Revenue Service until the administration of this service is concentrated in a few places. The effect of this would be to weaken the identity of the States.

As to Mr. Caplin's claim for savings in the cost of operating the IRS, such claim is indefensible. He states that the reorganization will permit a total layoff of 700 personnel, while at the same time, the Treasury is asking Congress for funds with which to hire 3,000 additional employees.

To the best of my knowledge, the 12 district offices seriously affected by the IRS reorganization plan have an exceptional record for honesty and efficiency. Their service to the public has been outstanding.

My final observation is this: The President has asked Congress for \$4½ billion to carry on aid programs all over the world. Some of this money is to be used to help other nations install and improve their tax systems. I know of no good reason why we should appropriate a single dollar to set up or improve tax systems in other countries while at the same time we are emasculating State district offices at home on the pretext of saving \$5 million.

If the Government finances are in such condition that it is necessary to save \$5 million, it will be far better to cut other programs not \$5 million, but possibly as much as \$5 billion.

I urge your committee to do all possible to prevent the Treasury from putting its unsound and discriminatory program into effect.

Sincerely yours,

GEORGE D. AIKEN.

Senator CURTIS. Mr. Chairman, I will be happy to yield to the Senators on my left briefly, if they want to insert something in the record or ask a question.

Senator SMITH. Mr. Chairman, I would like to join Senator Aiken in thanking you, as chairman, and your committee, for giving us the privilege of coming in here and listening. I have not any questions other than those that have already been asked.

I have been very much concerned with the suddenness of the announcement and the confusion that it created in the State of Maine. I have been trying to determine just exactly what would happen up there. It is all the way from the loss of 95 to 10 employees, and then from \$418,000 loss to Maine to something under \$100,000.

So all I can say, Mr. Chairman, is this:

Mr. Caplin, when you do get your plans firmed up, and this goes into operation; and you know what it is going to do to the State of Maine, I would greatly appreciate it if you would make such an announcement, or permit Senator Muskie and myself to make such an announcement, that would clear up the confusion.

Mr. CAPLIN. I will make sure that you have the details. We have already sent to Senator Muskie a position-by-position analysis of what would happen in Maine under the plan, but I will make sure that you get a copy and also get you a copy of the communications we have had with the secretary of the New England senatorial group, Mr. Nichol. I have conferred with him, and I have given him detailed information over the past week.

Senator SMITH. Has the plan gone into effect yet, or are you still delaying?

Mr. CAPLIN. To effectuate most of the plan, it will be necessary to have the approval of Mr. Dillon, Secretary of the Treasury. He has signed the authorization. At the same time, he announced the matter was being held in suspension, pending consideration of the various comments received.

Today, no positions are being changed. The only things being done at present are discussion and planning. The program will be effectuated only in the event that Mr. Dillon gives the final approval.

Senator SMITH. Mr. Chairman, I would only like to state that I think no one has a better record than I have in economy, but I must say that I do not like the false economy that comes through sacrificing the service of the people in my own State. Thank you very much.

(The following letter from Senator Edmund S. Muskie was inserted in the record at the direction of the chair:)

U. S. SENATE,
COMMITTEE ON GOVERNMENT OPERATIONS,
April 5, 1963.

HON. HARRY F. BYRD,
Chairman, Senate Committee on Finance,
Washington, D. C.

DEAR MR. CHAIRMAN: I wish to record, with your committee my opposition to the Internal Revenue Service reorganization plan, as announced March 5, 1963.

I support efforts to improve the efficiency of Government operations, and I think the Commissioner of Internal Revenue should be commended for his active concern with ways and means of achieving savings in the cost of operating his agency. However, I am not convinced that the proposal will result in the savings projected. It is apparent that it will contribute to a reduction in service in the modified districts.

I am concerned over the potential impact on my constituents, and I urge that the plan not be implemented.

Sincerely,

EDMUND S. MUSKIE, U.S. Senator.

The CHAIRMAN. Senator Keating?

Senator KEATING. Mr. Chairman, I appreciate the opportunity to be here and to be allowed to participate in this hearing, which I think is very important.

I have a statement which, with the chairman's permission, I will not read, and, if I may, place it in the record at this point?

The CHAIRMAN. The insertion will be made.

(The statement submitted by Senator Keating, as well as the statement submitted by Senator Jacob Javits, and questions submitted jointly by them, and replies thereto, follow:)

REORGANIZATION OF INTERNAL REVENUE SERVICE FIELD OFFICES

Mr. KEATING. Mr. Chairman, members of the committee, let me say first that I am exceedingly grateful for the courtesy you have extended in permitting me to participate in this executive session. We Senators who have a particular, intense interest in the matters now before this committee certainly are pleased to have your cooperation, and, in turn, to cooperate with you in arriving at the facts.

What are the facts we are concerned with? Well, I hope this committee will bring out a great many that have so far been elusive, but, if I may be permitted, let me recount the relevant chronology and basic facts as I know them:

At approximately 10 a.m. of March 5, 1963, I received a letter, as I am sure all other Senators did, from Commissioner Caplin, advising me of the proposed reorganization of the field office structure of the Internal Revenue Service. Among the announced changes, and the one I am particularly concerned with, was the abolition of the office of the regional commissioner now located in New York City and a realignment of Internal Revenue Service regional boundaries so as to include, within the present Boston or New England States region, the entire New York State region theretofore headquartered in New York City.

After making a brief, preliminary check into the economics of the situation, I wired Secretary Dillon, the same day, to advise him of my protest and opposition to the proposed transfer, and asked that no implementing steps be taken until I had had an opportunity to discuss the matter with him, either by myself or in concert with the entire New York State congressional delegation. Limitations of time prevented me from pointing out, on March 5, the complete factual basis for my strong belief that the proposed transfer would work incalculable hardship on not only service employees in New York City but also upon millions of taxpayers and their legal representatives throughout our State. However, on March 7, I had an opportunity, on the floor of the Senate, to spell out my objections. Later that same day, I received a Treasury Department press release advising me that the Secretary had announced that he would give careful consideration to all the protests received, and, in the meantime, would call a halt to implementing steps. On March 8, Secretary Dillon replied to my original wire enclosing a copy of the previous day's press release, and I should like, and ask unanimous consent, that the correspondence just referred to, including the departmental press release, be made a part of this record.

(A)

The very same day, however, Mr. Chairman, to be precise, at 8:48 a.m., the reorganization plan embodied in Treasury Department Order No. 150-57, was filed as a Federal Register document and published in the Federal Register of the next day, March 9. Although section 6 of the order provided that the reorganization should not take effect until January 1, 1964, section 5 stated as follows:

"5. *Implementation.* The Commissioner of Internal Revenue is authorized to effect, at appropriate times and in an orderly manner, such transfers of functions, personnel, positions, equipment, and funds as may be necessary to implement the provisions of this order."

So that there may be a complete record, Mr. Chairman, I am asking unanimous consent that page 2313 of the March 9 Federal Register, setting forth the Secretary's order, also be inserted at this point.

(B)

Now, Mr. Chairman, I found it extremely difficult to believe that there was such an urgent situation involved that, contrary to the Secretary's personal assurances to me, some implementing steps were nevertheless about to be taken. I was therefore jolted when later in March and early this month I received a number of letters, some signed, and some, for perfectly obvious reasons, anonymous, stating in no uncertain terms that machinery had in fact already been set in motion for removing the New York regional headquarters from New York City to Boston.

For example, in an anonymous letter dated March 18, 1963, from some 20 New York City employees, I was told that "The instructions from IRS urge moves to be accomplished during the summer of 1963." A signed letter dated March 22 was to the same effect. Another signed letter dated April 2, 1963, said that "Task forces are in operation at this very moment planning the various moves. We have been informed this will be a gradual 'phasing out' operation and some people may be moved as early as this summer."

Naturally, Mr. Chairman, because of possible reprisals against the employees involved, the names I know of shall be held in strictest confidence.

I go into all this history because it seems to me it has a definite bearing on the substantive merits of the reorganization plan. Is the Service going to go ahead with steps to make the move so that it can later be claimed, upon review of the matter, that it will be difficult to unscramble the egg? In other words, are we dealing with a fait soon to be accomplished?

Second, this is obviously having a disrupting effect on the morale of the New York City employees. Are we going to get at a later date the bootstrap argument that the transfer is warranted because morale in New York City is at a low ebb and thus impairing the efficiency of that regional office's operations?

And third, but not least, do the steps that are now apparently being taken represent part of a preconceived and foreordained plan to transfer operations regardless of its real economic merits or disadvantages?

This, then, is part of the background against which, in my judgment, the committee should attempt to get at and ascertain the facts. I will not go deeply into the remaining facts, because it is my understanding that the committee will undertake to elicit answers to specific questions furnished jointly by my colleague, Senator Javits, and myself. But here, as I see them, are the broad issues:

1. How much money will be saved by consolidating the existing New York and New England States regions into a single regional office?

2. Would more money be saved by moving the consolidated regional office from Boston to New York City, or vice versa? Also, in this connection, has the Service fully considered the factors of inconvenience and hardship that may be involved for the Service employees, taxpayers, lawyers, accountants, and so forth, of the two affected regions?

3. What, if any, relevance does the proposed transfer have with respect to the IRS program for phasing in automatic data processing equipment? and;

4. Has the Service appropriately compared the two existing regional offices in such vital matters as the volume of tax business, the efficiency of the tax collection operations, and the reputation of management in each region for honesty, restraint, and fair dealing with the taxpayers?

Mr. Chairman, I thank the committee again for its courtesy.

STATEMENT BY SENATOR JACOB K. JAVITS ON IRS PROPOSED ORGANIZATIONAL CHANGES BEFORE SENATE FINANCE COMMITTEE ON APRIL 5, 1963

Mr. Chairman, I much appreciate having the opportunity to present a statement at this executive session of the committee regarding the proposed Internal Revenue Service move of its New York regional commissioner's office to Boston, which is of extremely serious concern to the employees of the New York office, to the great financial and legal communities centered in New York City, and to the taxpayers of the New York region, who contribute almost 20 percent of the Federal taxes paid in the entire Nation.

My colleague, Senator Carl Curtis of Nebraska, who is a member of this committee, has very kindly agreed to ask Commissioner Caplin questions relating to the effect on New York, on behalf of myself and my colleague from New York, Senator Keating. The committee will then, I believe, have a thorough basis for assessing the claim of IRS—with which I disagree—that the proposed change, along with other changes in other regions, will effect a saving of \$5 million. How-

ever, I should like to emphasize the major point which I believe the answers to those questions will reveal.

IRS contends that the shift of the regional office to Boston would be economical because an automatic data processing center will be constructed there. This appears to be a weak justification for two reasons:

(1) There is no necessity whatever for locating the automatic data center in the Boston area; it could with greater justification be located in the New York area. IRS points to the existing data processing center in Lawrence, Mass. But as I understand it, the Lawrence operation will have to be substantially revamped, possibly in another location, to become the proposed automatic data processing center.

Equipment must be leased for approximately \$600,000 annually; and the staff would have to be hired since the key punch operators presently employed in the Lawrence operation are not trained in the tax skills necessary to use the new high-speed equipment for processing tax returns. On the other hand, approximately 900 clerical employees in New York who are experienced in handling tax returns will lose employment; it would appear to be far simpler and more equitable to train these employees to handle key punch equipment than to hire and train Lawrence employees in the tax law and procedures.

(2) However, even if the projected Automatic Data Processing Center were to be located in Lawrence, there would be no reason to move the regional headquarters from New York. The Lawrence Center, as a matter of fact, has been doing processing (of the kind for which it is now equipped) for New York, approximately 250 miles away, for a number of years. Under the new plan, the ADP Center for the Chicago region is to be in Kansas City, Mo., and the one for San Francisco is to be in Ogden, Utah, 800 miles away. Clearly, the physical proximity of the ADP Center to the administrative headquarters of the regional commissioner is by no means significant. But the need of the great financial and tax center in New York City for ready access to the directing heads of the various branches of the Service and to the regional commissioner himself, is obvious.

I believe that the answers to the questions which will be presented today on the move to Boston will establish these points. They will demonstrate that the move should be in the opposite direction and that New York, as the larger work force, the larger professional center, and the larger taxpaying area, should be the site of at least the main regional office and probably the ADP Center as well. I very much hope that the committee will recommend against this move.

QUESTIONS SUBMITTED JOINTLY BY SENATORS JACOB JAVITS AND KENNETH B. KEATING AND REPLIES BY COMMISSIONER CAPLIN

Question. Why did you decide to consolidate the New York and Boston regions?

Answer. As stated in the introductory remarks, we concluded from our studies and experience that consolidations could be made in the areas supervised by the regional offices. The area of the present New York and Boston regions is one in which such a consolidation is possible.

Consideration of regional areas not suited for consolidation was based on these factors:

- (a) Volume of returns filed.
- (b) Number and characteristics of districts to be supervised.
- (c) Number of regional office employees which can be effectively managed.
- (d) Quantity of operational activities including appellate and alcohol and tobacco tax (as distinguished from managerial functions).
- (e) Geographic homogeneity.
- (f) Distances to be traveled for supervisory purposes.

A balanced consideration of these factors led us to the conclusion that the Boston-New York area was the most logical selection for consolidation in any reduction of regional offices.

Question. How much do you expect to save annually by the consolidation of the two regions?

Answer. The Service will realize an estimated net annual savings of 102 positions representing \$801,700 by consolidating the New York regional office with the Boston regional office.

This consolidation will also eliminate the need for another regional service center with additional savings of about \$500,000.

Question. How much do you estimate will be saved by moving the New York Administrative Headquarters to Boston?

Answer. As stated above, \$1.3 million annually.

Question. How does the New York City District compare in size with other districts?

How does the Brooklyn District compare in size with other districts?

How does the Boston District rank with other districts?

Answer:

	Number of returns	Dollars of collections	Number of employees
The Manhattan District ranks.....	3	1	1
The Brooklyn District ranks.....	6	15	4
The Boston District ranks.....	8	8	10

Question. Does the present New York region handle a much larger number of tax returns than Boston?

Answer. The present New York region handles 10.73 million tax returns of all types; the Boston region 6.23 million.

Question. Does the present New York region collect a much larger amount of taxes than Boston?

Answer. The present New York region collected \$18.95 billion and Boston \$5.53 billion in fiscal 1962.

Question. Does the present New York region have a larger personnel than Boston?

Answer. The present New York region has 6,801 employees and the Boston region 3,569.

Question. What is the operating cost of the two offices?

Answer. The total operating costs (obligations incurred) for fiscal year 1962 were:

New York regional office.....	\$5,776,000
Boston regional office.....	3,451,000

Question. How much more would you save if you retained the present New York regional headquarters in New York, and moved the headquarters from Boston to New York, instead of the reverse?

Answer. We anticipate no additional savings should the new regional office be retained in New York.

Question. Have you taken into consideration increased traveling expenses and losses of time of the larger number of supervisory personnel traveling from Boston to the vastly larger New York City and Brooklyn districts, than in supervising Brooklyn and Boston districts from New York City?

Answer. Yes, we have considered this and believe there is little, if any, significant difference in costs from one location or the other. It is true the larger offices require more supervision and more frequent visits. These dollar and time costs of travel from Boston to the Brooklyn and Manhattan districts will be more than if New York had been selected. On the other hand, the Boston district office is also a large office. In addition, five of the remaining seven district offices (Augusta, Burlington, Hartford, Portsmouth, and Providence) are closer to Boston than New York. Albany is only 5 miles farther from New York than Boston; Buffalo, of course, is considerably closer to New York.

In summary then, six offices are closer to Boston, one is about equidistant, and three (all large) are closer to New York. As we see it, this just about balances out to an even choice with the possibility that a precise analysis would weigh the scale in favor of Boston on travel and time costs.

Question. Why not retain the present regional headquarters in New York City and have it supervise the proposed consolidated region, rather than transfer that function to Boston, Mass.?

Answer. The decisive factor in our decision to locate the new regional headquarters in Boston is the existence of the Lawrence Service Center near Boston with its large cadre of trained personnel who can make a smooth transition to our automatic data processing operations. It is advantageous, if other factors permit, to have the regional headquarters near the service center.

Question. Is the Lawrence, Mass., processing center now equipped to operate as an automatic data processing center, or will it need a new building, new equipment, and additional personnel which would have to be trained for new tasks? Where will it be located?

Answer. The present installation in Lawrence, Mass., is not equipped to operate as an ADP regional service center as it is not large enough to house the total work force that will be required. In this respect approximately 1,500 additional employees will have to be recruited and trained for ADP operations. Although new computer equipment will be installed, it will be somewhat smaller in scale than the equipment now used in the existing installation. The new center will be located in the Lawrence, Mass., area accessible to present employees of the existing service center.

Question. What will be the cost of obtaining and installing new equipment for creation of the proposed automatic data processing center in Massachusetts?

Answer. Actually, the computer equipment in the new center will be less expensive than the equipment presently in use. This is because the large scale computers in the ADP system are located in the National Computer Center at Martinsburg, W. Va., and the regional centers will have smaller scale equipment configurations. In accord with Federal policy, we are now planning to purchase most of the computer equipment that will be used in the ADP system. On this basis, we will have a onetime purchase cost of approximately \$571,000, plus an annual recurring cost for related equipment and maintenance of approximately \$205,000.

Question. How many new employees will have to be hired and specially trained in order to handle the new type of data processing for both New York and Boston and what will be the cost of creating working space for them?

Answer. The Lawrence Center presently has 1,065 permanent and temporary employees during the peak rush of the income tax filing period. The combined Boston-New York regional service center will have 2,583 permanent and temporary employees at peak. The additional employees will, of course, require special training. The building we now occupy rents for \$287,000 a year. The General Services Administration has projected an annual cost of \$249,337, over a 50-year period, to provide for a new Federal building.

Question. Can you explain why the Treasury now considers it necessary for the New York regional administrative headquarters to be moved to Boston so as to be nearer the proposed automatic data processing center in Lawrence, Mass., when its latest plan is to have the automatic data processing center for the Chicago regional headquarters located in Kansas City, Mo.?

Answer. It is advantageous, if other factors permit, to have the regional office near its service center. In the case of Boston and New York, the deciding factor was the service center near Boston. We have a different situation in the Omaha-Chicago merger. The existing service center at Kansas City is distant from both existing regional offices. It would be impractical to uproot both regional office staffs in a shift to Kansas City or to move the existing service center to another city. These factors did not permit the new regional headquarters to be located near its service center. As stated elsewhere, other considerations were weighed in deciding on Chicago as the headquarters location.

Question. What is the importance of physical nearness?

Answer. As time goes on, the service center will become more and more the heart of our regional operations. Physical nearness of the regional headquarters and its service center will facilitate rapid, day-to-day supervision and communication.

Question. How many returns were shipped last year from New York to Lawrence, Mass., to be partially processed there, and, after processing, how were the resulting records handled?

Answer. A total of 10,752,725 returns of all types were filed in the New York region in calendar year 1962; 8,746,229, or about 81 percent, of these returns were shipped to the service center in Lawrence for processing. The vast bulk of these returns represented individual income tax returns. The center processed most of these returns to completion, including mathematical verification, the issuance of refund tapes to the disbursing office, issuance of bills to taxpayers, and the production of all required reference registers. The returns, together with related reference registers and accounting documents, are stored in the district offices where taxpayer service and any additional collection or enforcement action is carried out.

Question. What would be the effect on present personnel at New York City if regional headquarters were transferred from there to Boston?

Answer. The New York regional office has an authorized staffing of 785 positions. Of these, 385 are operational personnel located in New York State and Puerto Rico; the bulk of them in New York City. The remaining 400 are managerial, support services, and associated clerical personnel.

The 385 operational personnel will remain in their present location. The responsibilities now assigned to the 400 managerial and support personnel will be transferred to the Boston regional office. However, because of the heavy concentration of Service activities in the New York City area, 222 of these employees will be retained in a subregional office located in New York City. Thus, 178 personnel are directly affected. In addition, however, it will be necessary to establish 76 additional positions in the Boston office.

It is anticipated that the 102 (178-76) employees not taken care of above will be able to transfer to the Manhattan and Brooklyn district offices. Additional opportunities will, of course, be available in Boston and other IRS offices, where appropriate vacancies exist, for the employee who is willing to move.

Question. What would be the effect on present personnel at Boston if headquarters for the consolidated region were in New York City?

Answer. The Boston office has an authorized staffing of 425 positions. Of these, 197 are operational personnel. The remaining 228 are managerial and support personnel. If the Boston office were consolidated in New York City, the 197 operational personnel would remain in their present location. The responsibilities now assigned to the 228 managerial and support personnel would be transferred to the New York regional office. Current Service activities in Boston are similar to those in Omaha. These activities are not as concentrated as in New York. Thus, if the regional headquarters were moved to New York, only a very few of the 228 managerial and support personnel (probably only a small group in the alcohol and tobacco tax activity) would be retained in Boston. However, to absorb the work of these two hundred and twenty-eight or so positions it would be necessary to establish 126 additional positions in the New York office.

It is anticipated that the 102 (228 minus 126) employees not taken care of above might be able to transfer to the Boston district. This would, of course, present more difficulties than absorbing the same number (102) in the larger Brooklyn and Manhattan districts. Additional opportunities would be available in New York and other IRS offices, where appropriate vacancies exist, for the employee who is willing to move.

Question. Are plans presently being implemented so as to begin, in the near future, transferring personnel from New York to Boston?

Answer. We directed our regional commissioners on March 7 to delay all implementing actions pending completion of Secretary Dillon's review.

They were instructed at the same time to proceed with planning for the changes in accordance with the guidelines which had been furnished them.

However, no steps will be taken to carry out the plans until the Secretary completes his review and announces his decision.

In directing that no "implementing action" be taken while his review was underway, the Secretary meant that no changes in work assignment or in personnel should be made.

He did not intend that all study be dropped of reorganization possibilities and methods.

Actually these studies—which are now going on—will benefit the employees, because these studies include efforts to identify the employees who will be adversely affected and to find ways of avoiding or minimizing the adverse impact.

Senator KEATING. This is a matter of very deep concern to New York, of course, and I think a completely erroneous decision.

Senator Javits and I have submitted to Senator Curtis, who is a member of the committee, some questions specifically with regard to the New York office, which I understand he will propound to the witness. I, therefore, will not go into that.

Senator CURTIS. On that point, those questions have been typed and are here. I think it would serve just as well if I submitted them and let them be answered for the record.

Senator KEATING. I would leave that to you.

The CHAIRMAN. There is no objection to that, Mr. Caplin?

Senator CURTIS. Then I would like to ask unanimous consent, following Senator Keating's statement and observations, to insert Senator Javits' statement, and then follow with the questions that the two Senators submitted to me in reference to New York.

The CHAIRMAN. The Chair thinks it is important to make public this testimony at the earliest possible time. I think we will set

Wednesday morning, April 10, 1963, as the final date for submission of statements of Senators for inclusion in the record. After that, the publication will be made as soon as possible.

Senator CURTIS. Senator Cooper?

Senator COOPER. I want to thank the chairman and the committee for permitting me to ask a question of the Commissioner. I shall be brief.

I would like to inquire of the Commissioner, Mr. Caplin, the status of the proposed computing center at Covington, Ky. For the benefit of the committee, I will give what I believe are the facts which make this question an important one.

When it was proposed that a service center, a computing center, would be built in this particular region, the city of Covington offered to donate a site. Afterward, on January 23, 1963, the White House announced that the center would be built in Covington. Legislation was introduced in the State legislature to clarify the power of the city of Covington to donate a site to the General Services Administration.

Then an ordinance was passed by the city of Covington, and the ordinance was tested in the courts and was affirmed by the highest court in Kentucky, the Court of Appeals of Kentucky.

After that, the city borrowed \$1.8 million to purchase the site. It executed a lease to the General Services Administration. Bids were advertised for construction. Those bids have all been rejected. The House Public Works Committee has approved the prospectus of the GSA for construction of this center at Covington.

I understand the funds required of the Government have been submitted in the supplemental appropriation bill, but it has been reported that the Secretary of the Treasury is reviewing, not only, as I understand it, the question of the location of this center, but the entire regional arrangement.

My question is this:

The city of Covington has obligated itself for \$1.8 million. I would like to ask, Does the Internal Revenue Service intend to locate its center in Covington which has obligated itself for \$1.8 million?

Mr. CAPLIN. Senator, there is nothing that I know that would cause any change in these plans. My own personal participation was to work with the Bureau of the Budget to make a presentation to the Congress. I understand there are certain committees that have approved, and there are other committees that have not yet approved this.

I think that the matter really is resting in the lap of the Senate right now.

It depends upon what action is taken in the Senate to determine whether or not the program will move forward. That is my understanding of the situation.

Senator COOPER. I do not want to take up the time of the committee, but the White House made a statement that this center would be located at Covington. The city has obligated itself for \$1.8 million. I am on the Public Works Committee of the Senate. I may say that the IRS has told me that there is no change in its position. GSA says there is no change in their position, but they all say the matter is being reviewed by the Secretary of the Treasury, and no commitment is to be made until he makes the decision.

Mr. CAPLIN. Senator, I am not aware of any formal review of that decision in the Treasury Department. My last information was that this matter has passed through the House committees just a matter of a few days ago, and that it is now before one of the committees of the Senate. I could be wrong, but this is my understanding of the situation.

Senator COOPER. I accept your statement in full. But I have been told that it is being reviewed by the Secretary of the Treasury.

Mr. CAPLIN. I was in contact with the Secretary this morning, sir, and there is nothing to indicate that there was any change in his thinking.

Senator COOPER. Can you make, in your report, a statement whether or not the Treasury or IRS intends to locate this center at Covington, Ky., or has it changed its decision, and I think it is important, in view of the fact concerning all the agreements with the city committing itself to \$1.8 million.

Mr. CAPLIN. Senator, I will be very happy to make a statement as it pertains to my own authority, but I certainly could not go beyond that, as you can well appreciate, but I will be very happy to add to the record a statement on this.

(The following was later received for the record:)

The site for the proposed regional service center in Covington, Ky., was selected on January 24, 1962.

Invitations for bids were issued August 28, 1962. Bids were opened October 15, 1962. Fourteen bids were received. On December 13, 1962, the Chicago GSA regional office informed all bidders by letter that their bids were being rejected because GSA 1963 Appropriation Act requires congressional approval on leased construction projects costing over \$200,000. On January 16, 1963, Administrator Boutin informed Commissioner Caplin by letter that "The Director of the Bureau of the Budget has determined that it shall be this administration's policy to construct facilities such as Internal Revenue Service regional service centers with funds appropriated by the Congress rather than through private financing." On January 31, 1963, the GSA submitted a prospectus to Congress requesting approval of the Public Works committees to construct the regional service center at Covington at an estimated cost of \$4,610,000; \$790,000 of this amount was for site purchase and design.

On or about March 27, 1963, we were informed by GSA that a letter was being sent to Representative Thomas, Chairman of GSA's Appropriations Subcommittee, asking him to reduce the appropriation request by \$500,000, since the city of Covington had agreed to donate the land.

The Internal Revenue Service has not changed its plan for a regional service center at Covington, Ky. However, this proposal—like all other parts of the overall proposal—is still under review by the Secretary.

Senator COOPER. I may say that statements from your Division have been thoroughly in accord with what you have said.

Senator WILLIAMS. Will the Senator yield?

Senator COOPER. Yes.

Senator WILLIAMS. When was the White House statement made?

Senator COOPER. According to the records I have, the White House announcement was January 23, 1962, that a center would be built in Covington, and, relying on that, the city of Covington has obligated itself for \$1.8 million; not wholly relying on that, but relying upon its agreement with the General Services Administration and its talks and conferences with IRS.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Caplin, just as one member of this committee, it has always been my reaction that I would be willing to vote you just whatever money you need to go out and check anybody's tax return

that you think ought to be checked. I would go with you to the extent of checking every taxpayer's return, if you thought that you would make money by doing that; that you would collect more than it cost to do it.

Mr. CAPLIN. I appreciate that, Senator.

Senator LONG. I feel that way about it because I think that where money is owed, it ought to be paid, and it ought to be collected.

Now, what concerns me is the sort of case that appears to make an example out of an individual taxpayer by punishing him on charges of fraud. These are three such cases which come to mind. I am sure, if I wanted to, I could multiply that many times over in my own State, and I guess you could, too, in a lot of other cases.

I have in mind the kind of case where a man obviously owes you some taxes. He did not pay them all. He gave some weak excuse that, for example, he gave it to his accountant and that the accountant did not understand what he had in mind or something of that sort. The man, his lawyer and others concede that there are taxes owed. Yet the lawyer advises the man if he files an amended return, he is going to put himself in jeopardy, he is still subject to fraud prosecution, and one thing and another, with the result that it just drags on year after year after year.

Four, five, six years the Government comes in and asks the man to waive his rights under the statute of limitations, and these things just drag on and on and on. It is kind of a surprise to me that a number of these people just have not died from heart attacks or heart failure as a matter of anxiety and uncertainty over the period of years that those things drag on.

What I wonder is: Why can this thing not be worked out more on the basis that when you find that somebody owes you some money, go ahead and settle it, rather than to keep dragging it out with the prospect of making a fraud charge out of it.

Mr. CAPLIN. On the first point you make, I think the great need of the Service is to expand its audit, collection, and intelligence operations. We are examining a little over 5 percent of the returns, but should be examining more. Most Americans do an outstanding job in reporting taxes. They are inherently an honest people, with a high level of education; and I think we owe it to these people to make sure that the fellow down the street, who may be trying to avoid these taxes or evade them, pays his fair share.

This is the reason why we have been asking for increased personnel: to increase enforcement results, and to assure everyone that each of us is bearing his proper tax burden.

This is why we want to take as much of the overhead as we can, and translate that into effective operating personnel. This would permit us to make more rapid audits, to have better coverage.

I would not want to recommend examining every return in America, but I think that our present figure of 5 percent plus is much too low.

On the fraud cases, out of 62 million individual income tax returns filed a year, perhaps 2,000 or more fraud investigations are undertaken. I could give you the exact figures for the record, just so that you would have the full picture.

I would like permission to add that, Mr. Chairman.

The CHAIRMAN. Without objection.

Mr. CAPLIN. In the main, we prosecute only a very small percentage of cases.

The taxpayer is afforded rights of review in the district and in the region. The case then goes to regional counsel. The taxpayer also has a right of review and conference in the Department of Justice. The Department of Justice is charged with the full obligation of prosecuting or not.

We merely recommend whether we think a fraud case is supportable. I think here, too, there is an effort to lean over backwards to make sure that a man who may be technically guilty of criminal fraud is not subjected to an unwarranted trial. We do not want to have a man subjected to a trial where there is any real doubt.

I think this contributes to the lengthening of the process. It is a very difficult analysis to make as to whether a man has properly reported his taxes. We have a criminal statute, passed by the Congress, which reflects the policy of the country. I think it is an important policy, and that the ultimate criminal prosecution for willful evasion of taxes is extremely significant to the successful operation of our type of tax system.

Senator LONG. Let me ask you this:

Could you provide me with the figures, if you do not have them, and if you have some idea, I would like to know it here—as to the percentage of prosecutions that actually result from a recommendation of fraud prosecution at the district level, that is, at the field office level?

Mr. CAPLIN. I will attempt to give you a breakdown of the recommendations from the field; translate that into actual prosecutions and try to refine that as well as our statistics permit.

Senator LONG. Right. I would like to have that.

Now, sometime ago I gained the impression that there was only about 1 percent of the recommended prosecutions out of Louisiana being prosecuted; that either at the district office at Dallas, at the Washington office of IRS, or over in Justice, somewhere along the line, 99 out of 100 were being dropped out on the basis that they would not be appropriate for prosecution.

Mr. CAPLIN. That is a very surprising figure, if it is accurate Senator. I will try to supply a specific figure.

Senator LONG. Here is the thing that concerns me about this. Just taking your figures here, you are investigating 5 percent of these returns; you are checking 5 percent and showing up with 2,000 fraud investigations. My guess is that if you would investigate all of them, you would probably be showing up with about 40,000 fraud investigations.

It is my impression that for every one of these fellows that you prosecute, you have probably got 10 or 20 who are guilty but who are never prosecuted.

Now, I say that as a lawyer who knows what it is to defend guilty clients. Oftentimes, we have someone guilty of theft. If he makes restitution, he will not be prosecuted. I recall having settled that with the district attorney at one time. Some old colored boy was carrying the money of his employer, and he said he fainted on his way to deliver it to the intended receiver; and the authorities did not take his word for it.

I had his relatives make restitution, and I told the district attorney I wanted the charges dropped, because the complainant had withdrawn any interest in it.

His answer was, "Well, the State is still interested in this matter."

I said, "Well, you come down to the Main Street and I can point out to you enough people to fill your jail, and every jail in this State, who have violated some law, but who are just not being prosecuted for it."

We had a fellow who was guilty of a game violation for shooting more ducks or having more ducks in his possession than the law would allow. He ran for reelection and was reelected. As a matter of fact, he made a point in every campaign speech, he said, "Now, everybody who has never violated a game law, anybody who has never caught some fish out of season or some shrimp out of season or never shot a squirrel out of season or never shot a duck out of season, raise your hands."

One hand went up and he said, "I'll bet you don't fish or hunt," and the person said no. He was elected State senator, having served 6 days in jail for having more ducks in his possession than the law would permit.

Now, I am concerned with picking out a few individuals and making them the matter of exemplary punishment when a lot of them are good folks. I thought that one wealthy man in my community might get caught some day for cheating on his income tax; but, lo and behold, by the time you got the fraud charge on him, you didn't prosecute him. Instead, you go and prosecute some other fellow who must run for public office and who has a good reputation among his own people.

I would like to explore with you, and I wish you would look into it to see if there is some way we can handle this thing so that you go after your money first, to see if you cannot settle as to whether the money is owed. After you settle on getting your money, then take a good look at it and see if this fellow can be prosecuted for fraud.

Mr. CAPLIN. There are about 3.5 million returns audited each year. Many other returns are actually physically handled and looked over preliminarily. We mathematically verify, glancing at the return, adding, subtracting—as many as 80 percent or more of the returns filed.

There is a careful attempt to identify the potential fraud cases, and I would hope the disparity is not as great as you suggest. Certainly, the system is far from perfect, and we do run into situations akin to the one you describe. We make every effort, though, to make our selection an unbiased one.

This is certainly the program we emphasize; that it be done across the board, without favor to any person, regardless of who he is or his political affiliations.

Senator LONG. I know of accountants who represent a substantial number of clients who have had a practice of advising their clients to go ahead and claim a deduction.

Mr. CAPLIN. Yes.

Senator LONG. And that if nobody raises a point about it, they are going to save that much in taxes. I think that you have probably found in your business particularly that these nonprofessional fellows, these fellows who hang a shingle out and say that they will consult with you about taxes, are worse than the CPA's about that.

Some of them might charge \$5; others might want a percentage of what they contend they have saved you by urging that you go the limit in claiming deductions and take a chance on skinning by with something, where taxes are properly owed.

I think that all those cases are situations where we ought to try to tighten up and get our money, and I think there is a great amount of money that could be collected in those respects. But I am very much concerned about the honorable, decent person, who has done nothing different than what a great number of others have done, being the 1 man out of 100 to be subject to sometimes 10 and 15 years of these tax prosecutions dragging on, just never to be free, never to settle his income tax problem.

Mr. CAPLIN. You know, Senator, I think that the percentage of people in this country who would even think of committing criminal fraud in the tax field is minute, when you take into account 62 million individual returns filed each year.

A criminal tax fraud case is usually a fairly aggravated situation. Our people will not go forward with a case unless there is something of significance in it, recognizing that it has to pass through these various layers of review—from the district level, from the agent, supervisor, the division chief, the assistant regional Commissioner (intelligence), then the regional counsel, and finally over to the Department of Justice.

The normal situation is for it to be a rather significant item.

The special agents and the revenue agents, who spend their time on this, usually do not like to raise the issue if the matter will be rejected at higher levels. They try to reflect the policy as they see it coming through the different stages of review.

If they feel that their findings would not ultimately result in acceptance in the higher echelons, their tendency will be not to go forward with that type of investigation again. But I certainly will look into the points you have made and will supply for the record the figures.

Senator LONG. I am frank to say I have seen a number of cases, a number of cases of which I have some knowledge, which have just dragged on and on. It is bound to have cost you a lot of money to keep this thing going, conference after conference after conference, dragging in all of the person's relatives, all of his associates, everybody under the sun you can think of.

I think most of these wound up without criminal prosecution. Most of them did, but it just seems to me as though the Government would have been saved a great amount of money if it had just gone ahead and let the man settle in the beginning.

The man wants to settle. Once he has been caught cheating, he wants to settle, if he can.

It seems to me as though we ought to go ahead and settle some of those cases, instead of keeping them going on forever. We had a situation in Louisiana where a young fellow who was sheriff put gambling out of his parish, while other parishes still had the gamblers operating. So the gamblers wanted to report that this fellow had gained some money out of the gambling activities in that parish. So what do they do? They spend 10 years trying to put that fellow in jail for going straight, while the rest of the sheriffs still had the gamblers operating in their parishes.

If there is any payoff going on, it seems to me the Revenue Service should get after the guy who had the gamblers in his parish, not after the fellow who put the gamblers out.

But that kind of thing seems to me as though it is a case where, if you just let a person settle and go ahead and do his business, he would be better off.

In the case I had in mind, the whole ministerial association supporting the sheriff but the Government still went after him who put out the gamblers.

Senator DOUGLAS. When did this happen?

Senator LONG. Quite a few years back.

Senator DOUGLAS. Did it happen between 1953 and 1960?

Senator LONG. It was prior to that time.

(The material previously referred to, the written questions subsequently submitted by Senator Long, and the replies by Commissioner Chaplin follow:)

QUESTIONS BY SENATOR RUSSELL B. LONG

1. Of the number of returns examined, how many fraud investigations were conducted?
2. Of the number of fraud investigations, how many prosecutions were recommended at the field office level?
3. How many of those were approved for prosecution?
4. How many prosecuted?
5. How many convicted?

Processing of tax evasion cases, Intelligence Division, fiscal years 1958 to 1962, inclusive

	1958	1959	1960	1961	1962
Income tax returns examined:					
Field audit.....	702,000	725,000	682,000	703,000	613,000
Office audit.....	1,794,000	1,870,000	2,054,000	2,539,000	2,635,000
Total.....	2,496,000	2,595,000	2,736,000	3,242,000	3,248,000
Fraud investigations:					
Preliminary.....	12,736	12,360	9,918	10,839	8,342
Full scale:					
Total.....	3,282	3,166	2,753	2,626	2,121
Withdrawals.....	748	889	996	910	862
Completed.....	2,534	2,277	1,757	1,716	1,259
Nonprosecution.....	1,254	1,251	626	476	304
Prosecution.....	1,280	1,026	1,131	1,240	955
Percent of completed.....	50.6	45.2	64.6	72.4	76.0
Full scale fraud investigations in progress, end of year:					
Total number.....	3,808	3,093	2,526	2,639	2,718
Over 2 years old.....	478	263	171	148	154
Percent of total.....	12.5	8.5	6.8	5.6	5.7
Disposal of prosecution recommendations:					
Indictments.....	918	702	839	948	836
Disposals:					
Pleas.....	720	543	630	662	629
Convicted after trial.....	87	88	71	66	94
Acquitted.....	46	48	47	34	41
Nol-prossed or dismissed.....	142	64	84	67	70
Total.....	995	743	832	829	734

Processing of tax-evasion cases, New Orleans District Intelligence Division, fiscal years 1958 to 1962, inclusive

	1958	1959	1960	1961	1962
Fraud investigations:					
Preliminaries.....	145	125	96	141	63
Full scale.....					
Total.....	41	32	28	38	29
Withdrawal.....	4	1	8	7	8
Completed.....	37	31	18	31	21
Nonprosecution.....	20	17	9	10	4
Prosecution.....	17	14	9	21	17
Percent of completed.....	46.0	45.1	50.0	67.7	81.1
Full scale investigations in progress, end of year:					
Total.....	48	34	34	48	61
Over 2 years old.....	5	4	5	3	1
Percent of total.....	11.6	11.8	14.7	6.3	1.6
Disposal of prosecution recommendations:					
Indictments.....	7	5	9	10	22
Disposals:					
Pleas.....	10	8	8	7	3
Convicted after trial.....	1				1
Acquitted.....	1				
Not-prosecuted or dismissed.....	3	2	8	1	3
Total.....	15	7	16	8	7

Tax evasion sentences, fiscal year 1962, and 6 months ended Dec. 31, 1962

	Fiscal year 1962	6 months ended Dec. 31, 1962
Defendants sentenced:		
To serve time.....	231	104
To serve probation.....	259	127
No actual time to serve.....	79	42
Total.....	569	273
Fines imposed:		
To be paid.....	\$2,079,397	\$985,491
Suspended.....	41,600	5,500
Total.....	2,120,997	990,991

Senator CURTIS. Mr. Chairman, I wish to thank you for having a hearing at my request. I assure the Chair that I will move as rapidly as I can.

It is 12 o'clock, but I do have some questions I wish to ask, or I would have made the request of the chairman for the hearing.

This is a matter that I have been interested in for a long time. As a member of the Committee on Ways and Means, I served on the Lynch committee investigating the Bureau of Internal Revenue, which later became the King committee, probably erroneously referred to as the tax scandal committee. At any rate, out of that came a decentralization of the Bureau of Internal Revenue.

Prior to the great expansion of the taxpayers in number, prior to World War II, we only had about 5 million individual taxpayers, did we not, or thereabouts, and it moved up almost overnight to over 50 million; isn't that correct?

Mr. CAPLIN. That is right, sir.

Senator CURTIS. And out of that experience, investigation and so on, it was decided to have regional offices whose primary function was to supervise; isn't that correct?

Mr. CAPLIN. They had dual functions, sir. About one-third of their function is supervisory, the other two-thirds operational.

Senator CURTIS. But it was functions that had been handled in Washington, isn't that correct?

Mr. CAPLIN. The supervisory phase; yes, sir.

Senator CURTIS. Isn't that true of the function?

Mr. CAPLIN. No, sir. We actually had many offices in the field, as I have mentioned in my opening statement.

Senator CURTIS. Yes.

Mr. CAPLIN. Different Revenue agents in charge, intelligence, alcohol and tobacco tax, and so forth. The 1952 reorganization moved a good deal of this down into the districts. We also wound up leaving certain of the operations in the regions.

Senator CURTIS. But you did have, whether you called it regional or not, you did have offices dispersed over the country?

Mr. CAPLIN. Yes, sir; we did.

Senator CURTIS. So that was not really a part of bringing Washington supervision nearer to the field, was it?

Mr. CAPLIN. No, sir; although it was intended to have the regions operate as an extension of the national office headquarters.

Senator CURTIS. Senator Williams called attention to the decrease in delinquencies. I noticed in 1954 at Omaha there was about \$4,180,000 in delinquencies. In 1962 it is down to \$1,318,000. The number of cases has dropped from 3,932 to 1,900.

Mr. CAPLIN. I believe you are giving the District figures, sir?

Senator CURTIS. Yes.

Mr. CAPLIN. The district is not being affected by this. I have some regional figures.

You had asked me a comparable question in our recent conference in your office. At the end of 1954 the Omaha Region had 68,671 outstanding TDA's, taxpayer delinquent accounts; at the end of 1962, 51,479, or a 25-percent reduction over that period—as compared to a nationwide situation of 1,725,474 TDA's in 1954 against 976,147 at the end of 1962, or a 43-percent reduction. Omaha has shared to a large extent in the nationwide reduction.

Senator CURTIS. And the Omaha District Office has had——

Mr. CAPLIN. Has shared in that, too.

Senator CURTIS. Now you estimate an overall saving in the first announcement of \$5 million, and I believe the figure is up now, what you gave today is \$5.9 million. That is out of all that you propose.

Mr. CAPLIN. Under this phase of the study; yes, sir.

Senator CURTIS. Did you allow for any offsets?

Mr. CAPLIN. Yes, sir. This is a net figure which would show the direct dollar amount actually of almost \$13 million directly with an offset of about \$6.7 million, or a net in the neighborhood of \$6 million.

Senator CURTIS. What were the offsets, not the dollar amounts, but what were the figures?

Mr. CAPLIN. The offsets occur in servicing districts where there is a modified district——

Senator CURTIS. Servicing?

Mr. CAPLIN. The districts that will provide technical and administrative services to these districts to be modified.

Senator CURTIS. That is one thing. Now what else?

Mr. CAPLIN. The other major offset would be in a region where you may have to place some additional staff personnel to take care of an amalgamation of two regions.

For example, up in Boston there would be approximately 76 additional people placed in Boston as an offset to the savings occurring in New York.

Senator CURTIS. Additional staff in a regional office?

Mr. CAPLIN. That is right. We also have the one-time offsets which we do not figure here, such things as the moving costs of affected employees.

We certainly recognize that this may be disruptive in the first instance, and will have an impact on some of the work patterns of the people affected, but we are hoping we could minimize this. We feel that any adverse impact will be dissipated within a couple of years.

Senator CURTIS. What are some of the other offsets?

Mr. CAPLIN. I believe that in terms of other offsets the picture is very favorable. I think the travel costs are more favorable.

Senator CURTIS. They are increased?

Mr. CAPLIN. No, that is a plus factor. But I think that there may be some additional space costs involved.

Senator CURTIS. Offsets?

Mr. CAPLIN. Those are additional costs. When I say offsets against the savings, I am referring mostly to some temporary expenses involved in implementing these changes.

Senator CURTIS. Then there will be more travel?

Mr. CAPLIN. No, we think we will save on that.

Senator CURTIS. Then travel is not an offset?

Mr. CAPLIN. No, that is a plus factor. Space might be an offset.

Senator CURTIS. Might be. Is it?

Mr. CAPLIN. We think the actual additional space costs in locating in Chicago will be about \$24,000.

Senator CURTIS. How much?

Mr. CAPLIN. It will be in the neighborhood of \$24,000.

GSA will be using the Omaha space. It has people in rented space, for example in the Omaha region, who will be moved into the Government space that is now being occupied by the Internal Revenue Service.

Had the decision been to move the other way, Chicago into Omaha, there would not have been enough Government space available. There would have been a rental of additional space. The cost of space in Omaha is about \$4.25 a foot as compared to about \$4.50 a foot in Chicago. There is additional space in the same building in Chicago to take care of the expansion.

Senator CURTIS. Not a Government building?

Mr. CAPLIN. No, this is the \$4.50 a foot commercial space.

Senator CURTIS. But what I want you to answer now is what items you consider offsets. I have got servicing of a modified district, additional staff in the regional office, and your space is going to cost you something more. Now are there any other offsets?

Mr. CAPLIN. Of course there is a 2-year salary saving requirement. Under the statute if you downgrade a man he can keep the higher salary for 2 years.

Senator CURTIS. Is there anything else?

Mr. CAPLIN. There are other savings which we did not take into account. As I mentioned before, there are the retirement costs which are figured at about 8 percent of the salary saving. That is a plus factor. I think the space and equipment—as long as we are going down to those items—I think you would have to put that into the saving part in all fairness.

Senator CURTIS. The reason I asked the question, your paper said how much you were going to save.

Mr. CAPLIN. Yes.

Senator CURTIS. What I wanted to know is what additional costs did you subtract from that to arrive at that figure?

Mr. CAPLIN. On both sides of the ledger, Senator, we tried to stick to salary savings only. We did not take a plus on some of the other benefits, and we did not take a minus.

Senator CURTIS. Very well.

Mr. CAPLIN. Yes, sir.

Senator WILLIAMS. Will you yield for a question?

Senator CURTIS. Yes.

Senator WILLIAMS. Did you take into consideration the additional costs that might arise from the taxpayer having to travel the larger distance?

Mr. CAPLIN. We don't think that the taxpayer will have to travel a larger distance, Senator.

The services to the taxpayer—I hope this can emerge very clearly from this hearing—the services to the taxpayer will not be diminished. I view this as a former tax practitioner, who someday expects to return to the practice of tax law. The contacts with the revenue agents, intelligence agents, collection officers, their supervisors, and the conferees all will be provided right where they are now.

The people who are affected by the reorganization are mostly people that the taxpayer should not be in contact with. In the 10 years under the reorganization, and I engaged in active tax practice in Virginia and in different parts of the South, never once did I have occasion to contact the regional office.

Senator CURTIS. Any point where I repeat it will be very brief, but it will be because it lays a foundation for my next question.

I have before me a letter of March 5, 1963, sent to me by you, where it lists the various items. Now of this \$5.9 million, how much of this reduction comes from a reduction in overhead of the 12 small districts?

Mr. CAPLIN. \$1.3 million a year.

Senator CURTIS. And how much by the merger of multiple State districts?

Mr. CAPLIN. \$1.7 million a year.

Senator CURTIS. How much is saved under the heading of service center changes?

Mr. CAPLIN. \$1 million a year.

Senator CURTIS. Does that involve automatic data processing?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. How does that come about when it is going to be separate and apart from regional offices and district offices?

What relation is that saving to the elimination of district offices, the merger of multiple district offices in the State, or what relation to it is it going from nine regional offices to seven?

Mr. CAPLIN. I think the relationship is very clear, Senator. Incidentally, to round out the picture, there is \$1.6 million involved in the amalgamation of the regions.

The whole analysis and planning of data processing has supported maintaining one service center in each region. All the districts in the region send their tax returns to the regional service center. The regional service center is there as a servicing tool for all the district offices.

The regional office maintains close tie-in with the service center, the programming of machines, for example, which is very detailed and delicate work.

Senator CURTIS. I am not disputing that.

Mr. CAPLIN. What I am saying is that the regional commissioner and his staff are in close contact with a service center. We feel that there should be one service center per regional commissioner, and if we have nine regional commissioners, we need nine service centers as the plan originally called for. But if you can contract the organization and build it around seven, significant savings are possible.

In my contacts with the House Appropriations Committee, this whole area was explored. I believe its report focuses on the number of regions and the number of service centers.

Senator CURTIS. How many service centers have you planned?

Mr. CAPLIN. The same number as regions. We planned nine and now we are cutting back to seven.

Senator CURTIS. That plan was determined prior to this—

Mr. CAPLIN. The original plan was nine. The references to the different service centers were the nine service centers for nine regions. As we reevaluate the regions and can reduce them to seven, then we can have seven service centers.

Senator CURTIS. But you have always planned on having seven.

Mr. CAPLIN. No, sir; nine. The plan all the time was nine.

Senator CURTIS. I can't see the relation of the location of the regional office with service centers. Lawrence, Mass., has been processing data for New York for many years, hasn't it?

Mr. CAPLIN. Yes, sir; but not under ADP.

Senator CURTIS. It is under automatic machines of some kind.

Mr. CAPLIN. That is not the system as we talk about it. The heart of ADP is the centralized file of taxpayers, having one location where every taxpayer's account, his entire tax record, is centralized in one place in the Nation.

All of these service centers are going to fit into the new ADP system. It is an entirely different approach, although we use the same type of people.

Senator CURTIS. In fact it fits into Martinsburg, doesn't it?

Mr. CAPLIN. Martinsburg is the centralized national computer center; yes, sir.

Senator CURTIS. Yes, and in the Chicago region, the processing machines are going to be in Kansas City; is that right?

Mr. CAPLIN. Yes, sir, that is our present thinking. We have actually announced this site. It would be extremely costly to move.

Senator CURTIS. The San Francisco region, the processing equipment will be in Ogden, Utah?

Mr. CAPLIN. We have not announced a final decision on that, sir. We are reevaluating that right now, and there is some real concern. There are many problems.

In terms of accessibility, it is not favorable. Ideally it should be close to the regional commissioner. It should be in San Francisco or in Los Angeles.

Senator CURTIS. But currently, up to now, it has been on Ogden?

Mr. CAPLIN. We have an area service center there under the old system, but we haven't stated that it is going to be converted to ADP.

Senator CURTIS. Is Lawrence, Mass., the old type of machine?

Mr. CAPLIN. Yes, sir, the old type of operation.

Senator CURTIS. And the reason for taking Boston instead of New York was not based on the fact of an existing data-processing center at Lawrence.

Mr. CAPLIN. Oh, it was, sir. All these people will be utilized. It is just a question of reprogramming the machines. We will use the key-punch operators we now have.

Senator CURTIS. Isn't that true in Kansas City and Ogden?

Mr. CAPLIN. Yes, sir; that is right. The point I was making was that these sites were not selected initially for ADP purposes. They were selected many years ago as three operations which were going to service the entire country, unrelated to specific regions.

Now we are moving into regional service centers. We have three old sites. The question is do we use them or do we try to relocate them.

All the arguments are strongly in favor of using them. We have trained people. We know how hard it is to get them in sufficient quantities. Our problem in Ogden is that we don't know if we have a large enough work force. The building certainly is not large enough.

We are going to have to expand, but we don't know if there are enough people there. If possible we will want to protect this trained group we already have.

Senator CURTIS. You don't anticipate any difficulty, the fact that the machines are in Kansas City and the regional office is in Chicago; do you?

Mr. CAPLIN. It is not ideal. We would prefer it the other way. All things be equal we would much rather have it—

Senator CURTIS. The closer the better.

Mr. CAPLIN. The closer the better.

Senator CURTIS. How far is it from Kansas City to Omaha, about 100 miles, isn't it?

Mr. CAPLIN. From Omaha, the mileage is better, but the timing difference in transportation is de minimis, as I understand it. You may be more familiar with it than I am.

Senator CURTIS. Now the alcohol and tobacco offices, they are located in the regional offices, aren't they?

Mr. CAPLIN. Yes, sir. Essentially the operating phase will remain unchanged. It will continue to stay exactly where it is.

Senator CURTIS. Are they affected by the ADP systems?

Mr. CAPLIN. Not directly, sir, no.

Senator CURTIS. Will there be any alcohol and tobacco offices from Omaha being moved to Chicago?

Mr. CAPLIN. Not the operational offices. The only part moved would be the headquarters staffing.

Senator CURTIS. Isn't it true that making this change in reference to the alcohol and tobacco branch that there will be set up a Chief of Investigations section?

Mr. CAPLIN. There will be no new man set up. We will be using the same chief in Chicago as far as I know, Senator.

Senator CURTIS. Won't there be the branch to be increased from 10 to 14 men?

Mr. CAPLIN. It is conceivable that this is part of the offset, yes, sir, that we have taken into account.

Senator CURTIS. And four more typists and stenographers to be added to the number now in Omaha.

Mr. CAPLIN. We do not have all of the details given to us from the region yet. We gave the district until May 1 to work out the details, and we gave the regions until June 1 to review the district plans, and to give us exact details. We have a pretty good fix on the overall numbers of positions, but we don't have the minutiae of the breakdown in each single activity.

Senator CURTIS. Will there be two staff assistants instead of one?

Mr. CAPLIN. I don't know if that is true, sir.

Senator CURTIS. And will the new regional office double the number of clerks? That is my information.

Mr. CAPLIN. The net figure that we have, Senator, is that there are 51 people affected in alcohol and tobacco tax. I don't have the exact job-by-job analysis.

We will actually save 28 of the 51. There will be 23 as an offset that may wind up in Chicago, but there is an actual saving of 28 in alcohol and tobacco tax. This is the pattern followed throughout.

There is a good hard saving throughout, of supervisors essentially, and this is the pattern that follows every activity.

Instead of supervising a limited group of people, these individuals are given a broader group of people to supervise. Instead of two supervisors, you get one.

Senator CURTIS. Is it true that at Omaha two of the trained tax examiners in the alcohol and tobacco tax are women within 1 year of their retirement and will not go to Chicago?

Mr. CAPLIN. I did not know that much detail at this point. I would say this: That we will make every effort to arrange the shifts so that nobody will be discharged. There will not be a reduction in force.

I would hope that in situations of this sort, we could, within the civil service rules, find work for these people so that they would certainly not lose their retirement benefits.

Senator CURTIS. Now wasn't the adoption by the Congress of a law giving a number to each taxpayer's file—that was a prelude to setting up the ADP system.

Mr. CAPLIN. That is right. That was a crucial statute, and I think that it accelerated the whole ADP process. We could not have effectively worked without the account number in the bill.

Senator CURTIS. That is estimated to pick up \$5 billion in revenue?

Mr. CAPLIN. This is the figure which is the estimated gap between tax reported and collected, and tax that we think should be reported.

The Treasury has made an estimate that there is approximately \$5 billion more of tax that should be collected through full reporting. This is the gap that we hope to now close—ADP doesn't do this automatically.

Through its enlarged potential, its matching ability, ADP produces a work product which will require additional people to run down. There will be more enforcement leads than before. This issue came up in connection with the discussion on the new information reporting.

Senator CURTIS. The knowledge that informational returns will be related to the individual's own return will have an effect that you can't measure, isn't that correct?

Mr. CAPLIN. That is right, sir. We have identified, for example, that this past year 1,000 old returns were amended or filed because of ADB, and about \$3 million in extra taxes were paid.

Senator CURTIS. Now you won't add or detract to that potential \$5 billion recovery.

Mr. CAPLIN. No, sir.

Senator CURTIS. By any of this reorganization.

Mr. CAPLIN. No, sir.

Senator CURTIS. And as a matter of fact you can support the Martinsburg master machine and headquarters with the seven machine centers over the country regardless of how many regions you have, isn't that correct?

Mr. CAPLIN. That is right, sir.

Senator CURTIS. Now, how many dollars will be saved by eliminating the Omaha regional office?

Mr. CAPLIN. \$868,000.

Senator CURTIS. How much of this is salaries?

Mr. CAPLIN. That is all salaries.

Senator CURTIS. All salaries?

Mr. CAPLIN. Yes, sir. This hasn't taken into account the other factors such as space and equipment.

Senator CURTIS. How many of those positions will be abolished to the net advantage of the taxpayers, and how many positions where you take them off of an administrative classification will go on to a function or operating classification?

Mr. CAPLIN. The total number of employces affected in the Omaha region is 223, and this includes operating as well as some of the administrative overhead.

There is an offset of 119 positions that will have to be added into the Chicago staffing—with a net estimated saving of 104 positions. But some of these 104 people will remain in the Omaha region in operating positions.

Many of them can be reassigned to operating jobs with Alcohol and Tobacco Tax or the Appellate Division throughout the Omaha region. On a longrun basis, we expect the operating units to expand throughout the entire organization.

Senator CURTIS. In other words, while you are lessening the number of people working under a classification of supervisory, many of those people will continue to work only they will be in the operating classification?

Mr. CAPLIN. The whole aim is to try to translate these overhead positions ultimately into operating positions.

Senator CURTIS. And if in connection with Senator Williams' questions, if you will give the same information with regard to the Wilmington office, as I asked you in detail about Omaha, if you will?

Mr. CAPLIN. All right, sir.

Senator WILLIAMS. You have that information with you, don't you?

Mr. CAPLIN. Which information is that, sir?

Senator WILLIAMS. In connection with the Wilmington office, could you furnish that for us?

Mr. CAPLIN. Yes, sir, I could give it to you right now. In Wilmington there are 26 positions being affected; 15 would be the increased offset in Philadelphia essentially, and 11 net savings as far as Wilmington.

Senator WILLIAMS. There will only be 26 affected in Wilmington?

Mr. CAPLIN. Yes, sir. Now the way the plan originally emerged, we had attempted to accelerate our whole ADP conversion, which would have involved the processing people. I think it created uncertainty here, because we were talking two things, this reorganization and ADP.

We have decided to put the ADP conversion back on the original schedule, we have so notified the field. As a result this entire reorganization, so far as it affects Wilmington, now involves only 26 people.

Senator WILLIAMS. Sixty-three, I think was the first figure that you gave.

Mr. CAPLIN. It may have been that large, yes, sir.

Senator CURTIS. I want to make sure I get Omaha right. How many employees are affected?

Mr. CAPLIN. 223.

Senator CURTIS. And of 223, how many will stay in Omaha?

Mr. CAPLIN. Actually 277 people will remain. There are 500 people in the region.

Senator CURTIS. In the regional office?

Mr. CAPLIN. In the whole regional establishment, the Omaha region.

Senator CURTIS. Yes, that is how many?

Mr. CAPLIN. 500; 277 will remain there in the region unaffected, 233 staff positions will be affected.

Senator CURTIS. How many will be employed in Chicago?

Mr. CAPLIN. We have an estimate of 119 right now, sir.

Senator CURTIS. And how many will be employed in other capacities?

Mr. CAPLIN. We would hope that the remaining 104 people will be employed in other operating capacities.

Senator CURTIS. If they are all employed now and all employed later, the saving is zero.

Mr. CAPLIN. No, sir.

Senator DOUGLAS. Just a minute. I mean you won't have to hire 104 persons whom otherwise you would have to hire.

Mr. CAPLIN. Yes, sir, 104 people would not be hired. These people would be put into vacancies through attrition, retirement, and the like.

Senator CURTIS. I was asking about positions.

Mr. CAPLIN. 104 positions net are saved. There are 104 positions net which will never be replaced.

Senator CURTIS. But how many positions are increased functionally as contrasted to supervision?

Mr. CAPLIN. I don't know if I understand, when you say increased functionally.

Senator CURTIS. There are positions that will disappear from the classification of administrative, but other positions will appear that do not now exist and will be classified as operational, isn't that correct?

Mr. CAPLIN. Just to go back, there are 223 people affected. There will be 119 positions created to do work now done by the 223.

There will be 104 people whose positions will not be replaced, and who will technically be out of a job. We hope that the attrition of the organization and the growth in workload will enable us to build these positions and people right back into productive work.

Senator CURTIS. How many positions, new positions, will exist after this that do not now exist other than in the regional office?

Mr. CAPLIN. I don't think there will be any positions growing out of this which will be created other than the figures I have mentioned.

Senator CURTIS. There will be some branch people; won't there?

Mr. CAPLIN. Not new branches. We are trying to eliminate the branches.

Senator CURTIS. Will there be any field people who are representative of the regional office whom you do not now have?

Mr. CAPLIN. I don't see any change, sir. As far as I can see, the same operating staffs today will continue, but without the dual supervision that we have.

The whole conception is to broaden the span of supervision, and to have fewer supervisors. Remember these are second and third line supervisors. They are not the direct supervisors.

Senator CURTIS. If you have fewer supervisors, then you are having more people in the operational level, because your requests before the Budget asked for more people.

Mr. CAPLIN. We would hope that all these people will ultimately be transferred into operations. A nationwide saving of 720 people we hope will go into frontline operational activity.

We discussed before the fact we are only examining a little over 5 percent of the returns of America. Senator Long mentioned the desirability, if it were our judgment, to increase this. We should. I say very strongly I think this percentage is too low.

I think our collection activity should be improved. I think we would prevent delinquencies occurring if we had more collection people on the line, people who could go out and directly contact the taxpayer, taxpayers' services, taxpayer assistance, participation in schools on taxpayer education.

Senator CURTIS. Do you see a correlation between the improvement in taxes and the lessening of the amount of delinquent taxes and the decentralization that took place in the early fifties?

Mr. CAPLIN. I think that the decentralization, the entire reorganization has contributed to this improvement.

Senator CURTIS. It brought the authority of Washington closer to the collector, and now we call him the Director.

Mr. CAPLIN. That is right, and I think that the availability of regional commissioners with staffs at reasonable distances to be able to go out and have contact with the districts is an important aspect.

Senator CURTIS. You started out with 17.

Mr. CAPLIN. In 1952 with 17.

Senator CURTIS. Then it went to nine.

Mr. CAPLIN. Almost immediately before it was fully installed.

Senator CURTIS. And now it is going back to seven.

Mr. CAPLIN. Yes, sir, and there have been some Members of the Congress who have questioned whether we should have any regions at all. I hope this will finally end, once and for all, the continued debate over the function of the region.

I am hoping that the regions will be lean, fit, and efficient hard-hitting organizations that can do their jobs—partially supervisory, partly direct operations—in an effective manner.

Senator WILLIAMS. If the Senator will yield, at the time we approved that reorganization plan one of the main arguments used by the opponents of the plan was the fact that they did not think we needed these nine regions.

Mr. CAPLIN. Yes, sir.

Senator WILLIAMS. And some of us felt that this decentralization of the power from Washington was very essential for the improved service and efficient management of the Service. The results have been very good. This present plan is a trend back in the direction of those who argued against the reorganization plan in the beginning.

Mr. CAPLIN. Senator, I would like to—

Senator WILLIAMS. That point disturbs some of us who are fearful as to how far you intend to go back to the old system, which was a failure.

Mr. CAPLIN. I am completely in accord with you on the concept of the importance of the regions. I think that they are vital to good management. I think they are vital to better service of the taxpayers.

I think you could see the soundness of the reorganization if you examined the disparity that existed before among the regions. I would be glad to submit for the record the number of returns, the number of square miles, the number of districts supervised by the old nine regions, and to show you the much better balance to be attained under the new seven-region plan.

Senator CURTIS. That is on paper. You haven't tried it yet.

Mr. CAPLIN. We know, for example, that under the old plan we had 11 districts in San Francisco being supervised; 10 in Omaha; 4 in the Chicago region; 6 in Boston. In other words, in some you have four and six districts.

(The information referred to was later received for the record. See contents for page number.)

Senator CURTIS. But Mr. Caplin, in Chicago you had three highly industrialized populous States, Michigan, Wisconsin, and Illinois.

Mr. CAPLIN. That is right, but you also had important district offices there doing the real operational work. The regional staffs essentially are supposed to coordinate the districts. They are supposed to make sure there is uniformity throughout the States.

Senator CURTIS. I think that these regional offices are highly important, and I think Senator Williams has made the case for them.

Now how many employees' positions will be eliminated in the regional offices Omaha and Chicago by reason of mechanized equipment?

Mr. CAPLIN. This plan does not move into that phase at all. It has no impact.

In terms of administration, in the regional office we have 84 people. Part of this workload will go to Dallas, part to Chicago. The total offset is 49, with a 35 net saving in administration.

This does not result from automation. It is only because of the amalgamation.

Senator CURTIS. How many square feet of office space is now used in Chicago by the regional office?

Mr. CAPLIN. I think I have that information here, sir. The regional office in Chicago occupies approximately 104,000 square feet of commercial space.

Senator CURTIS. And what is the address? What building is it in?

Mr. PRESTON. The Pure Oil Building.

Mr. CAPLIN. On East Wacker Drive.

Senator CURTIS. Where will the additional space be?

Mr. CAPLIN. In the same building, sir.

Senator DOUGLAS. It is not in the Merchandise Mart?

Mr. CAPLIN. No, sir.

Senator DOUGLAS. The Merchandise Mart is owned by Joseph P. Kennedy? The answer is "Yes." It is not in the Merchandise Mart.

Senator CURTIS. I had no idea about that.

Senator DOUGLAS. I think it should be a matter of public record.

Senator CURTIS. The guilty flee when no man pursueth.

Now how much additional space will you need in Chicago?

Mr. CAPLIN. The space in Chicago has been estimated at costing us approximately \$23,700. That is computed at \$4.50 a square foot.

Senator CURTIS. \$4.50?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. At the present time according to the figures that I got this morning from the General Services Administration, the Government owns 3,202,709 feet of space in Chicago. The Government leases 1,635,805 feet of space in Chicago at an annual rent and operating cost of this leased space of \$3,326,092. You say that is at the rate of \$4.50?

Mr. CAPLIN. This is information given to us by GSA, and they are responsible for the spacing needs.

Senator CURTIS. Incidentally the latest construction costs in Chicago of building space by the Government amounts to \$28.89 per square foot. In Omaha it comes out \$18.31 per square foot.

The Government owns 508,095 feet of space in Omaha. The Government is leasing only 3,550 feet of space as compared to 1.6 million in Chicago, which means by the very fact of the competition for space that the Government drove a hard bargain to make a better deal in Omaha.

Senator DOUGLAS. Would the Senator yield a moment?

Senator CURTIS. Surely.

Senator DOUGLAS. This does not take into account the space which will be created by the new Federal building in Chicago I believe.

Senator CURTIS. \$28.89 per square foot. That is what the taxpayers have to pay. The last building they built in Omaha was \$18.31 a square foot. The annual rent for this 3,550 square feet in Omaha is only \$9,600. So that figures out much less than the \$4.25 figure that you have.

Mr. CAPLIN. I understand we have 49,000 square feet in the Federal office building in Omaha. This is the information we have been given.

Senator CURTIS. Of course if there is Federal space available, and an agency needs it, they move in, do they not?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. So if any city has more agents that need more space than the Government owns, they have got to rent.

Mr. CAPLIN. Yes, sir. Now, as I understand it, the GSA will be moving, from rental into the Federal building, agencies which will fill right behind the people affected by this reorganization. So that there will be a saving of rental at this rate of \$4.25 a square foot.

Senator CURTIS. I think your figure is entirely wrong. This figure that I have here figures out \$28.78.

Mr. CAPLIN. You may be absolutely right, sir, and I could be in error. I am just relying upon information given to us by GSA.

Senator CURTIS. In Omaha you are in the Federal building now?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. As I understand it, the regional offices, particularly those of supervisory character, in general, do not deal directly with the taxpayer or his representative; is that right?

Mr. CAPLIN. That is right, sir.

Senator CURTIS. But those engaged in supervisory positions do deal with district offices?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. And branch offices?

Mr. CAPLIN. Mostly district offices.

Senator CURTIS. Do employees and officials from regional offices sometimes travel to district offices?

Mr. CAPLIN. Yes, sir; and vice versa.

Senator CURTIS. Who are some of the people that travel from a regional office to a district office?

Mr. CAPLIN. It might be the regional commissioner, the assistant regional commissioner. It might be various members of their staffs. Audit analysts for example, who are examining some of the reports coming through, might see disparity among the districts in the way issues are handled. They will visit and confer with district division and branch chiefs. They confer with the district director.

In collection they might see that the delinquent accounts, for example, in one district are being handled differently than in another. They sit down and actually consult. There is a two-way travel back and forth.

Senator CURTIS. Yes. If the regional office is going to do a good job, they have to go out and see the district offices.

Mr. CAPLIN. That is right, sir.

Senator CURTIS. If a district office is going to do a good job, they have got to go in and consult.

Mr. CAPLIN. That is right, sir.

Senator CURTIS. Who are some of the district officers and employees traveling into the regional office?

Mr. CAPLIN. You might have district directors, you might have division chiefs, you might have branch chiefs. Those are the primary people who would come.

Senator CURTIS. Do you realize that with all of these people you mentioned, if somebody from the regional office in Omaha, the present regional office in Omaha, were to contact the district office in Cheyenne travels a distance of 493 miles, but under your proposal an official from the regional office in Dallas will have to go 880 miles to get to Cheyenne.

Mr. CAPLIN. We have made a very careful analysis on the travel costs with the best available figures. It is our best estimate that by locating in Chicago, as opposed to Omaha, there will be a savings of \$32,000 a year when you think of every one of the districts to be

affected, in addition to the better availability from Washington to the region.

Senator CURTIS. That means you are going to make less trips in supervising.

Mr. CAPLIN. No; that would be the same number of trips we are making now, but this is in terms of the radii coming out from Chicago.

Senator CURTIS. That is just what I am going to. If you are going to make the same number of trips to and from district offices under the present setup, to and from Cheyenne is 493 miles. Cheyenne will be attached to Dallas, and that is 880 miles. I accept your word for it that it will be the same number of trips.

Mr. CAPLIN. Yes, sir. I think you must keep in mind that the larger districts involve more trips than the smaller districts. Our records of last year show this.

For example, just taking one side of the fence, forgetting the district trips to the region, but the region to the district, there were 31 trips to the district office in Aberdeen, 182 to Chicago, 53 to Des Moines, 33 to Kansas City, 104 to Milwaukee, 53 to Omaha, 103 to Springfield, 100 to St. Louis, 96 to St. Paul, 65 to the service center, and 43 to Washington. These are the trips that were made from regions to districts, either the Omaha or Chicago.

Following this same pattern, there would be, so far as the regional travel alone, savings of over \$16,000 a year, and if you just use the district coming back in reverse, there would be a \$32,000 saving.

Senator CURTIS. You have told me you would have the same number of trips.

Mr. CAPLIN. Yes, sir; the same number of trips as were made last year. I am making that assumption.

Senator CURTIS. All right, and in the case of Wyoming, the number of miles would almost double. Now we will take Denver, Colo. To and from district and regional office now in Omaha it is 540 miles.

Mr. CAPLIN. Excuse me, sir, Denver would go into Dallas.

Senator CURTIS. I mean at the present time.

Mr. CAPLIN. Yes, sir.

Senator CURTIS. Denver can go to the regional office, the regional office can go to Denver, and it is 540 miles. Now it will be attached to Dallas, and the distance is 784 miles. If you have the same number of trips, that can't show a saving.

Fargo, the district office at Fargo, N. Dak., can go to its regional office, regional office back to Fargo, and the distance is 431 miles. Under your new setup it is going to be 650 miles.

Aberdeen, S. Dak., is 389 miles from the regional office at Omaha. It is going to be 695 miles from the regional office at Chicago.

St. Paul, Minn., is 364 miles to Omaha, but that is even closer—I was a little surprised at that—than Chicago. It is 404 miles to Chicago. There isn't a spot on here where the taxpayer's aren't going to get soaked for a lot more travel.

Mr. CAPLIN. Our travel figures show a net saving in travel by using Chicago instead of Omaha. I would be glad to give you our figures, Senator. Remember the larger offices will have more repeated visits. They have more problems.

Senator CURTIS. You are going to have a larger office in Chicago than you have now?

Mr. CAPLIN. The district office, you see, sir, is in Chicago. Michigan, with the Detroit office, is a very big office. This is visited quite frequently. Its accessibility from Chicago is favorable.

Senator CURTIS. But that doesn't change now.

Mr. CAPLIN. No. What I am saying is taking into account the extra costs, and I can give you, for example, Aberdeen, 31 trips, round trip costs from Chicago is \$93. The round trip cost from Omaha is \$58.

There is an additional cost there. In Chicago, of course, with 182 visits, there is no cost in Chicago, \$10,400 from Omaha.

In Des Moines there were 53 trips last year, round trip from Omaha, \$22.50; round trip from Chicago, \$49.10.

In Fargo, 33 trips last year, round trip to Omaha, \$66, round trip to Chicago, \$68.50.

Milwaukee, 104 trips made last year, \$42.30 from Omaha. \$17.70 from Chicago.

In other words, we analyzed this item by item, and showed that on a regional level if we apply the same pattern, there would be a \$10,000 saving. Assuming the same number of trips from the districts to the region, there would be another \$10,000 saving.

Senator CURTIS. Mr. Caplin, the travel from Michigan and Wisconsin to Chicago won't change over what it is now, will it, by reason of this reorganization.

Mr. CAPLIN. That is right.

Senator CURTIS. And you have repeatedly told me there will be just as many trips to and from the other places, and when it is twice as far, it won't be a saving.

Mr. CAPLIN. In certain trips there will be a loss. But what I am saying is this: if we were to move to Omaha, the costs of going from Omaha to Chicago or the costs from Omaha to Detroit would be greater—this is the point that I am making, sir.

Senator CURTIS. But this is not what we are talking about. You are answering there the question why if you were going to merge, why do you merge in Omaha instead of Chicago.

Mr. CAPLIN. I see.

Senator CURTIS. That is a different question. I am stating that your merger is going to increase the cost tremendously of travel.

Mr. CAPLIN. Senator, I see that we are talking to different points.

Senator CURTIS. Yes.

Mr. CAPLIN. But the total travel costs from Chicago to make all these visits will amount only to \$29,950 which is relatively little when contrasted to these other savings, Senator.

Senator DOUGLAS. The other savings were about \$900,000?

Mr. CAPLIN. I am just saying the total savings, yes; about \$900,000.

Senator CURTIS. I think we must keep the record straight. I asked you for all the offices. You didn't mention travel, and you also a bit ago said there would be a saving in travel.

Now it is going to be much more travel. Take Des Moines. You can go to and from regional and district offices now and travel 309 miles. Under your new plan it will be 333 miles. Kansas City is 205 miles from Omaha. It is 490 miles, $2\frac{1}{4}$ times, to Chicago. You also have a district office in St. Louis, don't you?

Mr. CAPLIN. I would just like to correct this erroneous impression that I gave. I was replying in terms of travel costs by making a comparison between the Omaha and Chicago cities as alternative

sites. You are absolutely correct, sir, that there will be additional travel costs in reaching some of these other sites.

Senator CURTIS. Yes.

Mr. CAPLIN. But I would like to point out that the total travel costs, old and now, would aggregate about \$30,000 for the year as contrasted to a saving approaching \$900,000.

Senator CURTIS. You pay a man when he travels his salary, don't you?

Mr. CAPLIN. Yes, his salary goes on.

Senator CURTIS. And he can't do very much work on a plane or a train.

Mr. CAPLIN. I know I do a lot of work.

Senator CURTIS. I know, but if you are going from the office 3 days, where you could do it in 1 day—

Mr. CAPLIN. I don't want to belabor this point, but I don't regard this as lost time for myself. Very frequently I can do reading that I am never able to do back in the office.

Senator CURTIS. Are you stating that in Internal Revenue people get just as much work done if a trip takes 2 days as if it takes 1?

Mr. CAPLIN. No, sir; I don't make that statement at all.

Senator CURTIS. Because Denver is 1 hour, and 784 miles from Dallas, and not nearly as good transportation.

Mr. CAPLIN. Senator, I just repeat that this was a factor which was considered. It was one of all the other factors. My top staff agreed with this decision. It was a question of judgment. I think the Government is going to have significant savings.

Senator CURTIS. I think it is a question of arithmetic.

Mr. CAPLIN. And also arithmetic; yes, sir.

Senator CURTIS. Now Wichita has a district office, and they can go to the regional office, and all these people that you enumerated can go from the regional to the district offices, and it amounts to 384 miles. They are going to have to go to Dallas, Tex., 650 miles. How many of these employees draw overtime?

Mr. CAPLIN. Very few of our employees draw overtime.

Senator CURTIS. What classes of employees draw overtime?

Mr. CAPLIN. I would think mostly of a clerical nature, sir; people who would not be involved in these trips. The type of people making these trips would not expect to get overtime.

Senator CURTIS. Who pays the cost of transportation from the airport to the downtown office in travel?

Mr. CAPLIN. This would be part of the transportation costs charged to our travel.

Senator CURTIS. It is not a charge to per diem?

Mr. CAPLIN. I am not sure of that, sir. I believe it is part of the travel. I don't believe it is a part of the per diem.

Senator CURTIS. And what does it cost to get from the airport in Chicago downtown?

Mr. CAPLIN. I don't know what the limousine cost would be, maybe \$2.

Senator CURTIS. \$2 or \$2.25, I believe. It is about 2½ times as much as in Omaha.

Now if an employee or an official instead of transacting business in Omaha has to go to Dallas, and he is gone 3 days instead of 1, his salary remains the same, but there would be 3 days per diem, wouldn't there?

Mr. CAPLIN. Yes, sir; if he were away 3 days.

Senator CURTIS. How much did the Internal Revenue Service spend for travel last year?

Mr. CAPLIN. I would have to get you the figures. You want it for this particular region? Of course that travel includes every time a revenue agent uses an automobile, and we have a lot of people on the road—collection, intelligence. They are all facets of this travel that would be involved. Now we are here essentially talking regional travel.

Senator CURTIS. No; I think it would be pretty hard to separate, wouldn't it?

Mr. CAPLIN. No; our budgets are very clear on this.

Senator CURTIS. Give it to me for the regional and for the current year and what the budget calls for this next year.

Mr. CAPLIN. Yes.

(The following was later received for the record:)

Travel expenses, Omaha regional headquarters

Fiscal year 1962: Actual.....	\$189, 800
Fiscal year 1963:	
Actual, July 1, 1962 to March 31, 1963.....	146, 680
Estimated, April 1 to June 30, 1963.....	55, 000
Total (estimated).....	201, 680

If the regional office were not moved from Omaha, we would have no reason to expect any substantial changes in travel expenses from fiscal year 1963 to fiscal year 1964.

Senator CURTIS. Have you had any complaints about ample hotel space in Omaha?

Mr. CAPLIN. I visited Omaha. I didn't recall any complaint. I thought it was quite satisfactory.

Senator CURTIS. Or about the rates being more favorable than in Chicago?

Mr. CAPLIN. I haven't had any complaints.

Senator CURTIS. Are there long distance calls used in communicating between district and regional offices?

Mr. CAPLIN. I believe there are some, sir.

Senator CURTIS. What do you mean by some?

Mr. CAPLIN. I don't know how much there is. I would have to supply that for you. I am sure that there are communiques, a lot of writing and some telephone.

Senator CURTIS. Throughout the Government telephoning amounts to quite a little, doesn't it?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. Now in that connection I find that at Government rates if the district office in Cheyenne wants to call the regional office now it is \$1.20. After this reorganization, if they have to call Dallas it will be \$1.25.

Denver can call their regional office for \$1.25 at Government rates. When they have to call Dallas it will go to \$1.40.

Fargo can call Omaha for \$1.10. It will go to \$1.35 when they have to call Chicago, and if there is a call back.

Aberdeen cost \$1 now and it will cost \$1.35. This isn't just 35 cents. It is 35 percent in this particular case.

St. Paul regional office can be called for 95 cents. It will go to \$1.05. Des Moines, the regional office can call the district office at Des Moines for 60 cents. This is the minimum call. When the regional office in Chicago wants to call Des Moines, it will cost \$1.

Kansas City, it now cost 70 cents to call Omaha. It will cost \$1.15 to call Chicago.

Wichita it will go from 90 cents to \$1.05. How much did the Internal Revenue Service spend for long distance calls last year, or this current year?

Mr. CAPLIN. You want this on the regional level the same way?

Senator CURTIS. Yes.

Mr. CAPLIN. We will provide that for you, sir.

Senator CURTIS. And what is the budget for next year?

Mr. CAPLIN. Very well, sir.

(The following was later received for the record:)

Long distance telephone expenses—Omaha regional headquarters

Fiscal year 1962: Actual	\$12,540
<hr/>	
Fiscal year 1963:	
Actual July 1, 1962 to Mar. 31, 1963	10,730
Estimated Apr. 1 to June 30, 1963	3,200
<hr/>	
Total (estimated)	13,930
Fiscal year 1964, estimated	10,200

Senator CURTIS. Now what did you say was the total expected expenditures for all functions of the Internal Revenue Service this year?

Mr. CAPLIN. The original request was \$578,300,000, and the House has allowed us \$546 million.

Senator CURTIS. And what did you get last year?

Mr. CAPLIN. \$486 million was the base plus \$18 million the supplemental. For all practical purposes it was \$504 million.

Senator, I would like to add that I recognize the validity of the points you are making both on travel and on telephone calls. There will be some extra expenditure, but we think that this is offset by some of the items which we did not put into the savings figure such as the savings on space, equipment and personnel benefits. I do think that the figures will show that on balance these other items will offset each other.

Senator CURTIS. In addition to putting these States a long, long way from the regional office, it is a different type of economy, isn't it? There is a similarity in the economy of Wisconsin, Illinois, and Michigan at the present time. It is quite dissimilar to some of these other Mountain States.

Mr. CAPLIN. There are nine States in the existing Omaha region. At present you have States of Wyoming and Colorado, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, and Missouri, all in the Omaha region.

Under the new setup, Wyoming, Colorado, and Kansas will be affiliated with the Dallas region. And you will have Wisconsin and Illinois being affiliated with the remainder of the region.

Senator CURTIS. Yes, I understand that. That is how I compiled my figures here. Now how many new positions will be created to shelter affected employees?

Mr. CAPLIN. We hope that there will be no new positions to shelter affected employees, sir. We hope that as the plan is fully phased in over a period of 2 or 3 years that we will have the basic savings nationwide of 720 that I mentioned.

There will be no created jobs to fill the void. The 720 people if they are still with us will be in effective front-line work.

Senator CURTIS. What was the Smith committee?

Mr. CAPLIN. That was a committee comprised of some of our top people in the service. The chairman of the committee was the Assistant Commissioner of Planning and Research, William Smith. One of the members was Homer Croasmun, the regional commissioner from Omaha. Another member was Robert Ridell, who is our district director in Los Angeles, all of these very top people.

We also had Division Director Harry Donnelly of the national office, and a man from the Bureau of the Budget.

Senator CURTIS. Headed by an Assistant Commissioner named Smith?

Mr. CAPLIN. Yes, sir. William Smith. There are others.

Senator CURTIS. Did they make a report?

Mr. CAPLIN. They have submitted an internal task force report to us, sir, which has not been fully evaluated. It will be discussed with the Secretary of the Treasury.

Senator CURTIS. Has it been made public?

Mr. CAPLIN. No, sir; it has not.

Senator CURTIS. Was it the basis upon which this organization plan was made?

Mr. CAPLIN. Yes. The studies there were the basic ingredients of the material on which we moved forward.

Senator CURTIS. When do you expect to make it public?

Mr. CAPLIN. This will be discussed with the Secretary of the Treasury. There are certain parts of the report which relate to different facets of the organization involving the Treasury Department, involving the relation with Treasury and Internal Revenue Service and other things.

I think Mr. Dillon would want to participate in any thought of this being made public. I regard it essentially as an internal document.

Senator CURTIS. I have a letter that purports to come from 20 employees of the New York regional office and it is addressed to me. It says:

We have read the entire report, and you may be interested to learn that no mention is made of eliminating the Omaha regional office.

Mr. CAPLIN. That is correct, sir.

Senator CURTIS. All right. At what point then did you decide to eliminate Omaha?

Mr. CAPLIN. I would say this, Senator. That for 2 years we have been discussing in a low key the whole regional setup. For the past year the House Appropriations Committee has been making a detailed study.

Through the chairman of the committee, Mr. Gary, and through others, we have the impression that there was a strong view that perhaps six regions and six service centers would be the most effective way of operating.

When the Smith committee presented a suggestion of an eight regional setup, I discussed this informally with Mr. Gary. I knew his thinking. I know the thinking of some members of the committee.

I went back with Mr. Smith and asked him to evaluate what the nationwide setup would be if we had six regions. After all, we would need appropriations for our service centers and the related regions.

The conclusion reached was that six regions and service centers would not be advisable. They then made further studies on seven regions and service centers. I have a document here which was the basis of their study, and I would be glad to make this available to you and to the record.

Senator CURTIS. What is that?

Mr. CAPLIN. This is a summary of the seven regional analysis based upon population, area of square miles, number of districts, modifications, number of returns filed in 1962, and 1970 projected returns to be filed. These are all important factors. The conclusion was that the seven-region balance worked out very well, and it was recommended.

(The following was later received for the record:)

Population, area, number of districts, number of returns filed in fiscal year 1962, and number expected in 1970, for each region under present boundaries and under the 7-region boundary plan

Region	Popula- tion, 1960	Area (square miles)	Number of districts	Number of returns filed	
				Fiscal year 1962, actual	1970
Existing 9 regions:	<i>Millions</i>	<i>Thousands</i>		<i>Millions</i>	<i>Millions</i>
Atlanta.....	24.8	343	7	11.2	14.6
Boston.....	10.6	67	6	6.2	6.4
Chicago.....	21.9	171	4	11.8	13.1
Cincinnati.....	23.2	183	6	11.5	13.4
Dallas.....	17.9	561	6	8.8	10.6
New York.....	18.8	50	5	10.7	11.0
Omaha.....	17.5	719	10	9.7	10.8
Philadelphia.....	21.7	66	7	12.3	14.0
San Francisco.....	23.0	1,457	11	14.2	17.3
Total.....	179.3	3,615	62	96.4	111.5
Average.....	19.9	402	6.9	10.7	12.4
7-region plan:					
Atlanta.....	24.8	343	7	11.2	14.6
Boston-New York.....	27.3	116	10	17.0	17.4
Cincinnati.....	27.1	200	6	13.4	15.7
Dallas.....	22.2	845	9	10.9	13.3
Chicago.....	27.2	548	9	15.1	16.4
Philadelphia.....	25.7	107	6	14.3	16.4
San Francisco.....	23.0	1,457	11	14.2	17.3
Total.....	179.3	3,615	53	96.4	111.5
Average.....	23.6	516	8.3	13.8	15.9

Senator CURTIS. Did the Smith report recommend six?

Mr. CAPLIN. The Smith report recommended eight. It was regarded as a modest step in moving toward economy.

Senator WILLIAMS. Will you yield at that point? You made the statement again in moving toward something. Do I get the understanding that you are moving away from regions entirely?

Mr. CAPLIN. No, sir. My thought would be that the seven regions would be the firm foundation.

Senator WILLIAMS. But did you not recommend six?

Mr. CAPLIN. Excuse me, sir?

Senator WILLIAMS. Did you recommend six?

Mr. CAPLIN. I did not recommend six. No, sir. I merely made an inquiry based upon what I understood the House Appropriations Committee was leaning forward.

Senator CURTIS. Now how long did the Smith committee work on this?

Mr. CAPLIN. Approximately 6 months of time.

Senator CURTIS. And some pretty top people?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. I can understand why they made no recommendation of eliminating Omaha, and it seems to me that they did a rather thorough job. Now what did the Smith group say about Dallas?

Mr. CAPLIN. In terms of the region, I don't recall that there was any suggestion of anything to be done with the Dallas region.

Senator DOUGLAS. May I interject? The Commissioner from Omaha was on the Smith Committee, was he not?

Mr. CAPLIN. Yes, sir, Homer Croasmun was on the committee.

Senator DOUGLAS. The Commissioner from Chicago was not on it?

Mr. CAPLIN. He was not on it.

Senator CURTIS. Was that the reason?

Mr. CAPLIN. I have no reason to think that it is the reason.

Senator CURTIS. The regional commissioner at Omaha is going to be the commissioner at Chicago, isn't he?

Mr. CAPLIN. We haven't made a firm decision.

Senator CURTIS. He has the right to bump.

Mr. CAPLIN. He has the right to bump under these circumstances, yes, sir.

Senator CURTIS. Wasn't it true that the Dallas regional office was to be lessened or moved?

Mr. CAPLIN. Not that I have any recollection of, sir. This is completely novel to me.

Senator CURTIS. What did the Smith studies say about Boston?

Mr. CAPLIN. The Smith Committee said it could go either way, Boston or New York, and left the decision for the Commissioner.

I called upon my top staff in Washington, and asked "Which way should we go?" They said, on balance, Boston.

Senator CURTIS. When was then the order made to eliminate Omaha as a regional office?

Mr. CAPLIN. I think March 5 was the official order signed by Secretary Dillon.

Senator CURTIS. And what was scheduled to be done the first month?

Mr. CAPLIN. The first month?

Senator CURTIS. Yes.

Mr. CAPLIN. For 60 days there was to be planning, a submission of projections by the districts to the region; and in 30 more days the regions will report back to Washington.

Senator CURTIS. Didn't the Secretary say on March 7: "No implementing of the action will be taken pending the completion of this review"?

Mr. CAPLIN. That is right, sir.

Senator CURTIS. How did he happen to promise a review?

Mr. CAPLIN. Well, a number of letters came in to him, and telegrams, from different public figures requesting a review.

Senator CURTIS. Why wasn't the Secretary's commitment of March 7th nothing would be done while it was reviewed, carried out?

Mr. CAPLIN. It was, sir. The Secretary is completely informed of what we are doing. The understanding was that there be no changes in work assignment or changes in personnel under the order. The original order permitted an immediate shifting of people. Although January 1, 1964, is the official legal date for the change in the regions and district lines, there was a broad delegation to the Commissioner to implement the plan almost immediately. The thought was that, within a matter of weeks and months, there could be some shift of personnel to accommodate the needs of the employees.

The January date was selected to give us a maximum flexibility. For example, many people would prefer to move to a new local at the end of the school year so that children could start in new schools in September.

Senator CURTIS. Mr. Caplin, in the Omaha World Herald, March 26, 1963, the headline:

IRS Workers Visit Chicago, spokesman calls it an orientation trip, 17 Omaha Internal Revenue Service officials took off for Chicago Monday for a look at IRS offices there.

In addition to that I have it from an authoritative source who says:

I know that the files in the enforcement branch are being prepared for moving—referring to the alcohol and tobacco, and everything that possibly could have been done the first month has gone ahead and been done, and the Secretary's statement that it will be held in abeyance while he reviewed it just hasn't been carried out.

Mr. CAPLIN. Senator, the point you are making refers to planning. This is as you know a large, very sensitive organization. This plan could not be effected overnight.

If we had 30 more days of lead time, I think the whole program would have been understood much better, and we would have gotten much better employee acceptance.

At this stage the idea is that, if Secretary Dillon makes his decision that the plan move forward, it can then move forward in an orderly fashion. There are many people involved. All that is being done now is planning. Nobody is being moved. Mr. Dillon has prohibited me from moving anybody from one assignment to another.

Senator CURTIS. You couldn't have gotten anybody moved in March anyway, but you have gone right ahead with sending your teams on ahead.

Now here is the embarrassing position. My colleague, Senator Hruska, made an inquiry, possibly a protest about this, and he got a letter back which says the Secretary is going to hold up things while he studies it and that is released to the press.

Then they move ahead in Omaha; getting files ready to move. They send officials to Chicago in preparation for moving, and I want to read from a letter. And mind you, it would be employees that would rely upon these things as being restudies. A lady writes:

Another thing which I resented as the flat statement of our regional Commissioner at last Friday's mass meeting—

this was written March 20th—

that it would take a miracle to change the plans as now set up, and the chances would be one in a million to stop the move.

Mr. CAPLIN. I have no reason to state whether that is an accurate or an inaccurate statement. I would just like to refer to the fact that Mr. Dillon in his announcement stated:

He pointed out that none of the changes are scheduled to become effective before January 1, 1964, which will give full opportunity to review all assets of the matter in the light of these protests.

No implementing action will be taken pending the completion of such a review.

This was a reference to following through on the plan. But it is difficult not to continue planning, to stop thinking and to stop discussing the elements. I know nothing of personnel files. I am rather surprised to know that any personnel files would have been prepared for shipment.

Senator CURTIS. I think it said enforcement files.

Mr. CAPLIN. Or enforcement files. I know nothing of that. This seems odd to me because normally most of the field operations will be staying where they are.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Chairman, we have now kept Mr. Caplin on the stand for over 3 hours, and the Senator from Nebraska has further questions. Could we recess for lunch?

The CHAIRMAN. What is the pleasure of the committee? How much longer do you require?

Senator CURTIS. It doesn't matter to me. Although I took the burden on myself to ask for this hearing, I did not get to ask a question before noon, but I think maybe we could finish up in 30 to 40 minutes. I will come back.

Senator DOUGLAS. I want to be present. I took 9 minutes in my cross-examination, and the Senator from Louisiana took something like 20. The Democrats have occupied less than half an hour of this time. We have been here over 3 hours. The remainder has been taken by our Republican colleagues.

Senator WILLIAMS. Of course, the Democrats were advised what was going to happen before it happened, and we are only now finding out about it—after it happened.

Senator DOUGLAS. I would suggest that we recess for lunch and come back after lunch.

Senator CURTIS. Whatever the chairman and Mr. Caplin wish.

Senator DOUGLAS. Under these conditions I must ask for a recess until after lunch.

The CHAIRMAN. What is the pleasure of the committee?

Senator CURTIS. I have no preference.

Mr. CAPLIN. I would be glad if you would like to do it this way. I would be very happy to continue. If you want to follow the procedure we followed before, I would be happy to answer a whole series of questions you might care to submit.

Senator DOUGLAS. I would like to reserve the opportunity, if I may, at the conclusion of questions by the other members to be permitted to place a few minutes' questions myself.

Senator CURTIS. Now what proposals of the Smith report have been deferred?

Mr. CAPLIN. The report goes into all facets of our operation. They were told to use complete freedom, to reexamine everything in the Service from the size of audit groups, intelligence, collection, every single activity, to relationship with the Treasury Department, and the entire organization.

Senator CURTIS. The only part that has been put into effect is this one, the current announcement?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. When was the last study made by an independent group?

Mr. CAPLIN. We had an outside agency some years ago, a private organization.

Senator CURTIS. McKinsey & Co.?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. And that was Mr. Harrington?

Mr. CAPLIN. I believe so, yes, sir.

Senator CURTIS. Isn't it true that McKinsey & Co. recommended keeping the regional offices as they are?

Mr. CAPLIN. I believe they recommended keeping the regional offices, yes.

Senator CURTIS. Who pays the moving cost of employees?

Mr. CAPLIN. The Government would pay it in accordance with its regular procedures.

Senator CURTIS. What do you estimate that to be?

Mr. CAPLIN. I don't have the figure on this. It will depend greatly upon the ability to absorb people into other jobs in the locality. We hope to have better information after the 90-day period when the reports come in.

Senator CURTIS. Now the alcohol and tobacco office in the regional office at Omaha would follow the regional office to Chicago, is that right?

Mr. CAPLIN. Not all of it, sir, only the top staffing of that office. But most of it would be moving over.

Senator CURTIS. Most of it?

Mr. CAPLIN. Yes.

Senator CURTIS. I would like to have the record show this observation. The Alcohol and Tobacco Tax Division alone has men-in-the-field visits constantly and they seldom go near the district office.

In addition this permits various other things. The beverage system also operates under this Division. When a citation is issued against a permit for violation of its terms, the administrative hearing must by law be held within 50 miles of the respondent's place of business unless he agrees to have it elsewhere. I can hardly imagine a resident of Minot, N. Dak., agreeing to travel at his own expense to Chicago, or one in Casper, Wyo., agreeing to go to Dallas. These hearings are expensive because they involve travel and expense for witnesses as well as regional office personnel including regional counsel.

Mr. CAPLIN. Where we have regional counsel and where we have field installations of alcohol and tobacco tax, I don't anticipate any shift. This is only the regional headquarters staff involved, and not the field offices or the branch offices which would be in operations.

Senator CURTIS. What does it cost to process a tax return?

Mr. CAPLIN. I will have to give you some figures on that, sir. In terms of overall costs, we have figures on costs of administration, using the total collections.

(The following was later received for the record.)

In fiscal year 1962 it cost \$0.45 to collect every \$100 of revenue.

Senator CURTIS. If somebody owes \$3 tax, of course it has to be filed or you would not get the people that owe much more.

Mr. CAPLIN. Yes, sir.

Senator CURTIS. But I would just like to know what it costs.

Mr. CAPLIN. In term of revenue agent's time and in terms of examination?

Senator CURTIS. Total cost to the Government.

Mr. CAPLIN. Yes.

Senator CURTIS. If that varies as to different cities also.

Mr. CAPLIN. I will see if we have some statistics. We actually find in terms of revenue agent's time, if you isolate that by itself, the deficiencies proposed are usually about 10 times and sometimes 20 times the actual cost of his time.

Senator CURTIS. Now the low grade people won't have very substantial bumping rights, will they?

Mr. CAPLIN. No, sir.

Senator CURTIS. And some of them may be in clerical positions whose spouses may be employed locally and they can't move, isn't that right?

Mr. CAPLIN. That is right, sir.

Senator CURTIS. Do you estimate there will be a retraining cost of taking on new employees?

Mr. CAPLIN. We do not anticipate any substantial costs for retraining. We are hoping that, in terms of these people you are referring to, most of them will be absorbed into operations, either within Treasury or some other agency. We don't intend doing this overnight. We hope to take time as I mentioned—2 or 3 years. I don't anticipate any significant training costs involved here.

I might add the type of people you are referring to do not get substantial training.

Senator CURTIS. "Retraining" isn't the right word?

Mr. CAPLIN. Yes, sir.

Senator CURTIS. I mean expensive taking on a new employee and teaching him his functions. There will be some of that, won't there?

Mr. CAPLIN. I don't really anticipate anything significant. There must be some, I would think.

Senator CURTIS. For the record, when was the announcement made that there was a plan to build an ADP center in the Detroit area?

Mr. CAPLIN. I will supply that for the record.

(The following was later received for the record.)

It was announced on April 6, 1962, that a regional service center was planned in the Detroit area.

Senator CURTIS. Do you have any idea when it was?

Mr. CAPLIN. It may have been several months ago, sir.

Senator CURTIS. Isn't there the factor of similarity of agriculture and industry being all in one region, do you regard that as a significant factor at all?

Mr. CAPLIN. Internal Revenue Service cuts across the whole economy. We train our people in different activities. We try to encourage mobility of people, and there are specialties in different activities. Those specialists will be available to take care of agriculture, special industries, or different types of income.

But I don't really see any identical pattern running through the makeup of the regions in terms of industry.

Senator CURTIS. You could have a very, very capable man who spent years and who has years of experience in my State, and who

probably would never know anything about the taxation as a growing force.

Mr. CAPLIN. The heart of the tax system in terms of the problem you are talking about is the people in the grassroots.

Senator CURTIS. And they are as effective as they get experience and specialize, isn't that right?

Mr. CAPLIN. Yes; that is true of the entire force.

Senator CURTIS. And isn't it also true that they are effective only as they are well supervised?

Mr. CAPLIN. The first line supervisor, I think, is crucial to the effectiveness of our working force.

Senator CURTIS. And if it is an expert in the problems of a homogeneous area from the standpoint of agriculture and industry, I don't know how you would measure it in dollars, but I think it is a significant factor, don't you?

Mr. CAPLIN. I think this would be very helpful, and these people are going to remain exactly where they are. Not one of them would be affected by the plan.

Senator CURTIS. I think not. I think you are going to have a regional office in Chicago that has been geared to the past, to the Chicago metropolitan areas, the problems of Detroit, a different type of economy than the wide open spaces that make up so much of the region Omaha has been serving.

I think you will have a different kind of specialist. I think you will have people supervising in Chicago, supervising the enforcement and collection of taxes arising out of a type of economy that they aren't familiar with.

Mr. CAPLIN. I was not clear before when I said the importance of the firstline supervisor. I am talking about the supervisor in the district who has direct contact and control over maybe 15 revenue agents and 15 collection officers. These are the people who are so vital.

The type of supervision you are referring to is really quite removed from these day-to-day operations. Their job is to see the national office policy is handed down uniformly and being administered. They are not making these day-to-day operational determinations.

Furthermore, of course, on your point, you mentioned the seniority bumping rights of the regional commissioner from Omaha. All things being equal, this would be respected; and if he should remain in the position, of course you would have his philosophy still pertaining in the region.

Senator CURTIS. Mr. Commissioner, if a consolidation was wise, why wasn't the consolidation at Omaha instead of Chicago?

Mr. CAPLIN. Why wasn't—

Senator CURTIS. Why wasn't the new office at Omaha instead of Chicago.

Mr. CAPLIN. These are the basic points which we were discussing before. You would take into consideration question No. 1: Is a service center there? Well, it isn't there, and so we were left with the other consideration.

The next thing you think of is access to large districts—the important contact between the region and the larger districts where the problems tend to be more acute.

We think of transportation, accessibility to and from Washington, accessibility to and from the different districts, the availability of

work force and the like, a whole lot of intangibles which come into the picture.

Senator CURTIS. Now, Omaha would be nearer the center even of the new district.

Mr. CAPLIN. Our studies show that the travel is more efficient from Chicago than from Omaha. The figures I referred to before show higher, overall costs for Omaha as compared to Chicago—about \$32,000 a year.

Senator CURTIS. That is based on the fact that the Chicago district office would have to transact business in the regional office in Omaha.

Mr. CAPLIN. That is right.

Senator CURTIS. And you decided in favor of the one that had more tax returns.

Mr. CAPLIN. That was one of the major considerations, the large districts over there, Detroit, Chicago.

Senator CURTIS. But you followed exactly the reverse reasoning in New York and Boston.

Mr. CAPLIN. Because we had the one big factor: an existing area service center. If the service center weren't in the picture, there would be no doubt in my mind.

Senator CURTIS. The service center in this case is in Kansas City and it is going to stay there.

Mr. CAPLIN. That is right. The question is, Do you disrupt an entire service center, Senator?

There is one major point: all things being equal, I am convinced that if you have a decision to make on where you put your service center, it should always be as close as possible to the regional office. And if you have to decide where to put your regional office then all things being equal I would move in favor of it being close to the service center.

Senator CURTIS. But the fact remains that milewise, which includes travel expense, it includes time, it includes per diem, Omaha is nearer the center. This means less per diem away from home. It involves cheaper long-distance calls, building costs are less, our rental charge is much less.

But on the one thing I have to agree if there is to be a reorganization, there is more business in the Chicago district office than, of course, there is at the Omaha district office. But if that were the controlling factor, then the regional office would remain at New York and would not have gone to Boston.

Mr. CAPLIN. As I pointed out, while these are important considerations, a more important consideration is the accessibility to that service center.

Senator CURTIS. Of course, the accessibility will not stand up. Omaha is in the center. It has been a tremendous transportation center all through the years.

Out there they tell the story about Abraham Lincoln standing on Council Bluffs looking across the river and he said, "Someday the railroads of the Nation will cross there."

And no one has any difficulty in getting into Omaha.

Mr. CAPLIN. I have visited Omaha. It is a beautiful place. I have enjoyed it immensely. We have a fine operation in Omaha. This was a difficult decision to reach.

Senator CURTIS. It seems to me that the taxpayers are going to take it pretty much on the chin because the miles in travel for regional

officers going to a district office and vice versa is almost double in some instances, which means a lot more per diem, the added expense getting to the airline. It is going to be more.

All of that is borne by the Government. And on the one issue, if there is to be a consolidation, and I am rather convinced that the Smith Committee was right, and that there shouldn't be a consolidation, but if there is going to be a consolidation, then it is decided in favor of Chicago and against Omaha on exactly the opposite reasons that it was decided in favor of Boston and against New York.

Mr. CAPLIN. All these reasons that you suggest are extremely favorable to New York. But there is one other factor added to the Boston-New York situation, the service center which is some 25 to 27 miles from Boston, a simple hop in an automobile.

We have a trained work force of 2,000 service center people.

Senator CURTIS. When was that established?

Mr. CAPLIN. About 8 years ago. The tax returns from the Philadelphia region and the New York region have been going up to that Lawrence service center for over 8 years.

Senator CURTIS. When was Kansas City established?

Mr. CAPLIN. That was established before that.

Senator CURTIS. When was Ogden established?

Mr. CAPLIN. Many years ago, too.

Senator CURTIS. So that doesn't add up.

Ogden and Kansas City do not end up as a regional office.

Mr. CAPLIN. They were placed there, Senator, not as an ADP office. They were placed there as service centers for the entire country just to take care of certain processing work which did not tie into a specific region.

We are now moving on a regional basis for the first time. The question is, To what extent can we salvage a location and use it as a part of ADP, without getting into extra costs for dismantling and moving it to the regional office, or moving the regional office?

Senator CURTIS. I have given a lot of attention to this and I cannot see anything but increased cost. I think that a great improvement came with decentralization. I think it is moving back the other way too far.

Mr. Chairman, everybody has been very patient. If I think of any further questions, I will submit them in writing.

At this point I would like to insert a resolution of the City Council of Omaha and also the statement of my senior colleague, Senator Roman L. Hruska.

(The resolution and the statement of Senator Hruska follows.)

CITY OF OMAHA,
COUNCIL CHAMBER,
Omaha, Nebr., March 19, 1963.

Whereas the Internal Revenue Service has proposed the elimination of the Omaha Region Internal Revenue Office which would eliminate 25 Internal Revenue Service positions in Omaha at an annual payroll of \$2 million; and

Whereas, it is proposed that the present region will be divided, certain States being merged with the present regional offices in Chicago, Ill., and Dallas, Tex.; and

Whereas, the proposed reorganization plans are based upon the premise that it would be a saving of tax money; and

Whereas, Senator Carl T. Curtis, Senator Roman L. Hruska and Representative Glenn Cunningham have requested that the proposed plan be restudied from the standpoint of the claims that it would result in a saving of money and Secre-

tary-Treasurer Dillon has announced the proposed consolidation plan will be restudied: Now, therefore, be it

Resolved by the city council of the city of Omaha, That the city council go on record and join with the chamber of commerce, other organizations, and interested Omahans, and protests the above mentioned plan for the Internal Revenue which would eliminate the regional office in Omaha, for the following reasons and each of them:

(1) The present Omaha regional office serves the States of Missouri, Iowa, Minnesota, North Dakota, South Dakota, Wyoming, Colorado, Kansas and Nebraska, and Omaha is located in almost the geographic center of said nine States. The proposed reorganization of the region will provide that Chicago be the regional office located on the eastern boundary of said region to be composed of the following States: Michigan, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Nebraska, South Dakota, and North Dakota. The proposed plan also provides that the office at Dallas, Tex., will serve the States of Colorado, Wyoming, and Kansas, which are being presently served by the Omaha office and which would again result in another geographically unbalanced region.

(2) One of the purposes of the recently constructed Federal building project at a cost of \$8 million was to provide housing for Federal employees including the 225 employees of the Internal Revenue Service of the regional office in Omaha. Any economic survey should certainly take into consideration this factor. Further, with the regional headquarters being centrally located in Omaha with all of its transportation facilities, the travel cost to the taxpayer has been held to a minimum.

(3) The city of Omaha values the relationship and services of Government workers who are a part of our community and have been for many years. These employees have established homes in this area and throughout the years have become highly skilled in the performance of their duties with the Internal Revenue Service. If this proposed merger is completed, many of these employees will not transfer to a new city. This will result in a loss to the Government of the years of experience which these personnel possess; and be it further

Resolved, That the city council of the city of Omaha request the Commissioner of the Internal Revenue Service and Secretary-Treasurer to furnish the city with a copy of the original survey and copies of the information contained in the review of this proposal, and keep this city council fully advised of the proceedings relative to this subject matter.

WARREN R. SWIGART.
ERNEST A. ADAMS.
STEPHEN T. NOVAK.
ALBERT L. VEYS.

(By Harry Trustin, Councilman. Adopted March 19, 1963.)

FANNIE SHERMAN, Deputy City Clerk.

Approved:

JAMES J. DWORAK, Mayor.

STATEMENT OF SENATOR ROMAN L. HRUSKA ON INTERNAL REVENUE SERVICE PROPOSED REORGANIZATION

My appearance before this committee is occasioned by the fact that one of the major moves in the proposed realignment of the Internal Revenue Service field offices would eliminate the Omaha, Nebr., regional office. This would involve approximately 225 employees.

There is no disposition to quarrel with the goal of achieving a "lean, fit, and efficient" establishment. However, I question whether the proposed plan would achieve any substantial progress towards this goal.

Neither this Senator nor the people in Omaha and in my State are opposed to change as such. But in view of the record of performance and service rendered under the present field office structure, the strictest burden should be placed upon and met by those who propose a change.

Prior to this hearing, Commissioner Caplin was kind enough to attend a conference at which my colleagues Senator Curtis, Representative Glenn Cunningham and I were present. We had a full discussion of the subject at hand. Various information was requested of Mr. Caplin's office. We appreciated his efforts to clarify the reasons for the contemplated move, but, frankly, Mr. Chairman, we were not persuaded by these reasons.

If the proposed change is not clearly justified by savings and greater efficiency, or if evidence does not preponderate in favor of a change, then the transfer of the regional office out of Omaha should not be made. The seriousness of uprooting employees and their families cannot be underestimated. The impact upon morale would be severe and would linger for a long time.

Because my valued colleague, Senator Curtis, is on your committee, I shall defer to him in the matter of questioning Mr. Caplin and presenting the views which we jointly discussed in regard to this subject.

Mr. Chairman, I appreciate the opportunity afforded me to make this statement.

Senator CURTIS. I thank the chairman for his usual patience and long suffering, and to you too, Mr. Commissioner.

Mr. CAPLIN. I appreciate your courtesy, sir.

The CHAIRMAN. Before the Chair recognizes Senator Douglas he wants to make a brief statement.

I want to congratulate and commend Commissioner Caplin for reducing to the extent he has the uncollectible taxes.

In 1959 the uncollectible taxes were \$285,985,000.

In 1962 they were reduced to \$189,371,000, a reduction of 40 percent, and the abated taxes in 1959 were \$195,493,000, and they were reduced in 1962 to \$155,593,000.

So the uncollectible taxes under your administration, as compared to 1959, have been reduced by 40 percent, and the evaded taxes have been reduced by 25 percent.

I consider that a very fine record and I want to express my approval of it and congratulate you on what you have done in that direction.

Senator WILLIAMS. If the Senator from Illinois will yield, I would also like to join the chairman in congratulating you, Mr. Caplin. As I have said on previous occasions, I think you have done an excellent job in reducing the outstanding delinquencies, and as the chairman has just pointed out, I am glad to note that it has been done with lower amounts being written off as uncollectible in each of the years.

It is significant that these reductions have not been achieved by increasing the amount written off, and I think it is a commendable record. I am glad to state that this record has been getting better over the past several years, or ever since the reorganization. Some of that credit goes to your predecessors, and in saying that I am not minimizing your part. I want you to understand that my questioning here today was not in any way intended as a reflection on your administration of this office since you have been there.

I think you are doing an excellent job. Furthermore, I am not passing any judgment at the moment on the proposals that you have made under this latest plan.

As I said, if it can be shown that without disrupting the service which we owe to the taxpayers, and we do owe them some service, you recognize that, and without destroying the efficiency with which the Department has been operating and we want to keep moving toward a degree of great efficiency if without disrupting those you can reduce the personnel, I will be wholeheartedly in back of you whether that reduction be in Omaha, Chicago, Delaware, or elsewhere.

I am expressing my concern on the basis of this excellent record which has been built up over the past 9 years under this decentralization program. I am expressing the fear that this may be a trend in the other direction. I remember that at the time we adopted the reorganization plan there were those who felt that these regional offices could serve no useful purpose, and now we are seeing them gradually being eliminated.

The results under the reorganization have been good, but at the same time I fully recognize there is no magic in any given number.

As long as we can continue the efficiency of the organization I will support you.

I still have some reservations as to the wisdom of some phases of this latest plan.

I have submitted some questions to the Commissioner, Mr. Chairman, on which I would like to have him submit his answers for the record.

The CHAIRMAN. That will be satisfactory.

Senator Douglas.

Mr. CAPLIN. Thank you, sir.

Senator DOUGLAS. Mr. Caplin, my colleagues have given you quite an endurance test.

You have been on the stand for 3½ hours of which the Democratic members have taken less than half an hour.

I want to commend you for your patience and your courtesy and for the fullness of your replies.

I hesitate to add to your burden but there are a few points that I should like to develop.

In the statement of economies which you made indicating a savings of approximately \$6 million, you did not include savings effected by less space being required, did you?

Mr. CAPLIN. I did not, sir.

Senator DOUGLAS. Now you are going to save 700 positions, approximately?

Mr. CAPLIN. That is correct.

Senator DOUGLAS. What is the average amount of space per employee?

Mr. CAPLIN. About 135 square feet.

Senator DOUGLAS. So there would roughly be 100,000 square feet of space which would be saved?

Mr. CAPLIN. Yes, sir.

Senator DOUGLAS. What is the average rental per square foot?

Mr. CAPLIN. I would think \$4 would be a fair figure.

Senator DOUGLAS. And this would probably be the rough cost to the Government under Government construction too, so that you would have effected annual savings of around \$400,000 in space each year which you do not take into account.

Mr. CAPLIN. We did not count that in our estimate of savings. We only counted the salary savings.

Senator DOUGLAS. This would offset any increased temporary costs or any increased travel costs per employee?

Mr. CAPLIN. That is correct, Senator.

Senator DOUGLAS. Now in the discussion of increased distance, distance is not as formidable a matter now as it was in the days before the airplane, is it?

Formerly it would take a day to travel 500 miles, roughly. Now 500 miles can be traveled in the course of an hour or an hour and a half; isn't that true?

Mr. CAPLIN. Yes, sir.

Most of the district regional contacts would be through air travel.

Senator DOUGLAS. So that the airplane, while it does not annihilate distance, has reduced the importance of distance.

Now I think perhaps Senator Aiken brought this out, that there is an excess number of supervisors in the districts and the regions.

Did you agree with this?

Mr. CAPLIN. The point that I had suggested was that in the smaller districts the ratio of supervisors to employees was much higher than it was in the larger districts.

This is also true in regard to the ratio of administrative personnel to other employees. This is very costly.

This additional overhead cost, of course, does contribute to efficiency, but the question is what price can the U.S. Government afford to pay. For example, if we had a supervisor for every 10 men, we might get efficiency but it would be extremely costly. I think industry faces the identical problem.

The question is what is an optimum point or what is a reasonable span to get a good level of supervision at a good cost.

Senator DOUGLAS. The question I wanted to ask was you have not increased the ratio of supervisors to correct that; have you?

Mr. CAPLIN. No, sir.

This particular move would tend to decrease the number of supervisors in relation to the number of employees.

Senator DOUGLAS. When did this increase in the rate of supervisors in rank and file personnel occur?

Mr. CAPLIN. I couldn't state accurately, Senator.

Senator DOUGLAS. But not in your administration?

Mr. CAPLIN. No, sir, not in this area, no, sir.

Senator DOUGLAS. I hope my friend from Delaware will forgive me.

You mentioned the hardships which may be caused to people in Wilmington having to work out of Philadelphia.

I have a map here of the Eastern States, and it seems to indicate that the distance between Wilmington and Philadelphia is somewhere around 35 miles, and I do not believe that this is a formidable distance for a person from Delaware.

Senator WILLIAMS. I wasn't raising the point about the distance.

I was raising the point about the service to the taxpayers. It so happens that Delaware is the 30th in the Union in the amount of money which is collected from tax returns and the tax returns which are processed. The rating of the office has been very high—far above the national average.

Delinquent accounts in that office have been reduced over 85 per cent since this reorganization plan.

It has been a very efficiently managed office, and when we speak of distance, I notice that Camden, which is just across the river from Philadelphia is moved to Newark which is 75 to 100 miles, so all of this is not related in distance. It is a very proper question to ask from a taxpayer's standpoint—will he have to go to Philadelphia rather than stay in Wilmington?

Mr. CAPLIN. He will not have to go to Philadelphia, Senator.

Senator WILLIAMS. I saw nothing wrong with asking these questions and I tried to emphasize in the beginning that if you have employees in Wilmington which you don't need, I will support you any day in the week in eliminating those employees, but I do not want to disrupt the efficiency of the organization. I made that clear.

Mr. CAPLIN. This is the point we are making. In terms of the service, we hope we are providing all of these services to taxpayers and their representatives.

Senator WILLIAMS. I think it is important that we continue with these services. I was a very strong advocate of the reorganization under a Democratic regime.

I was one of the strongest supporters Harry Truman had in getting that reorganization plan through.

There were many sincere men on both sides of the aisle who opposed the plan.

But one of the major arguments was the decentralization provision of the reorganization plan and this is a trend, as you will admit, toward centralization.

I don't apologize for having raised these questions.

Since this reorganization has been in effect, your predecessors and you have done an excellent job. You have been paying more attention to these delinquent accounts, and I think that I had a little something to do with alerting the offices to this problem.

We have reduced total delinquencies by \$500 million—that is, you have—you have reduced them, and I have complimented you many times, and I will again.

I don't want to destroy that progress, and we cannot overlook the fact that this trend now is back toward the centralization in the large offices in which we had so much trouble before.

That point is in my mind, and I think it is in your mind, and I think it should be taken into consideration.

I don't apologize to the Senator from Illinois for having raised this point.

Senator DOUGLAS. I don't ask you to apologize. I merely pointed out the travel distances are not as formidable as may have been inferred.

Senator WILLIAMS. Who said it was? I didn't raise the travel point.

Senator CURTIS. It isn't.

I raised it and it exists.

Senator WILLIAMS. In Delaware, the total savings are estimated to be \$86,000 annually.

Under the old reorganization plan, the delinquent accounts in Delaware have been reduced by \$19 million in the last 9 years.

That is an 85-percent reduction.

If a savings of \$86,000 a year is going to lose a sizable part of the achievements in collecting that \$19 million, I think we should consider it.

And I wish the Senator from Illinois would join me in expressing concern that tax delinquencies in Boston today are at the highest level in 9 years, and this poor record is in the face of the fact that the country, as a whole, has achieved a 35- to 40-percent reduction.

Senator DOUGLAS. I think it is true in Boston there are very inefficient collections from the years 1953 to 1960.

Senator WILLIAMS. Yes, and they are still getting worse. Last year, on December 31, they were at an all-time high.

I wish the Senator, for the moment, would get his mind on the importance of collecting these taxes rather than the national election.

Senator DOUGLAS. I hope the remark of the Senator from Delaware stays in the record.

Senator WILLIAMS. It will stay in the record.

Senator DOUGLAS. And is not withdrawn.

I can merely say this: That the experience we have had this morning, that we are having in connection with the efforts of the Commissioner to reduce administrative costs shows the great difficulty of economy.

Everybody talks about economy in general—1 million, 5 million, 10 billion—and people make great speeches about economy in general, but when it comes to the specific application, if it hurts their locality or hurts their industry or hurts their friends, then they protest, and this is what we are up against.

I think we ought to put the national interest first and not try to raid the Treasury in behalf of local interests.

Senator CURTIS. Just a minute; I think every figure that I have submitted here, although I did submit the resolution of the city council of Omaha because they asked me, but otherwise every inquiry I made was attempting to try to find the cost to the taxpayers.

All of the figures I submitted about travel and so on and long-distance calls, these great additional costs that are going to come from the Federal Government—

Senator DOUGLAS. Which are more than offset under the economies.

Senator CURTIS. Doing business under the shadow of Mayor Daly and Mr. Arvey, or whatever his name is, is going to cost the people more money than if it is done elsewhere.

And it is the national economy in which I am interested.

Senator WILLIAMS. I think the record should show, Mr. Caplin, that I haven't called to your attention a single protest in connection with this change, have I?

Mr. CAPLIN. No, sir.

Senator WILLIAMS. And, in addition to that, Mr. Caplin very graciously agreed, he was invited by the Delaware Bar Association, but I was consulted prior to or at the time you were being invited, and wholeheartedly subscribed to the fact.

He has been up in Wilmington. He has had an opportunity to explain it. We appreciate the fact.

You did a good job in explaining this. I tried to help you get the facts of this out and explain it, and I am now, and I have made it clear from the beginning.

I am not passing any opinion as to whether this is good or bad. I don't know.

And if it is good, I don't care how many you lose in Wilmington; if you don't need them, don't keep them.

And if you can more efficiently operate somewhere else without disrupting the service, I will support you.

I think I have emphasized that and made it clear. But I do feel, and this is not a new concern since I came up here, the Commissioner knows that on these annual reports on delinquent taxes, I have consistently, over the years, each of the year, taken this question up and discussed it with you and discussed it in the Senate, the reports on checking these delinquent accounts, and we have made progress.

He is making progress still under his administration and the Senator from Illinois can't use adjectives, in my book, that—

Senator DOUGLAS. What was that statement about me?

Senator WILLIAMS. I said, you can use any adjectives in the book with which to compliment him on the job he has done, and I will agree.

The Department has a good record in collecting these taxes.

Senator DOUGLAS. Then help him on this.

Senator WILLIAMS. I am helping him, but I am not forgetting that we also have a responsibility to the taxpayers.

Senator DOUGLAS. Help him on saving \$6 million, John, instead of throwing obstacles in his way with your fine sense of public duty and fine regard for the taxpayer.

Help him carry out these economies.

Senator WILLIAMS. Has my questioning here today been interpreted by you as throwing a roadblock in the way of what you are trying to do?

Mr. CAPLIN. I don't interpret your remark that way, Senator, and I am hoping we will have your full support in this.

Senator WILLIAMS. I feel that we do have a problem. I have a right to ask these questions. I say again that I hope in the future that when there are major changes being made in this area the minority as well as the majority can discuss these plans with you in advance. We, too, have a common interest in maintaining and preserving the efficiency of the service.

The CHAIRMAN. Anything further?

The meeting is adjourned.

Thank you very much, Mr. Commissioner.

(The following statements were subsequently submitted by Senators for inclusion in the record.)

U.S. SENATE,
Washington, D.C., April 4, 1963.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.,

DEAR SENATOR BYRD: As Senators from Rhode Island we emphatically disagree with the reorganization plan promulgated by the Internal Revenue Service under date of March 5, 1963, that would transfer important services out of Rhode Island.

This would inflict a drastic payroll cut of upwards of a quarter of a million dollars on the economy of our small State.

We are not opposed to sound economy—but will the Internal Revenue Service appropriation be cut to correspond to Rhode Island's loss? We strongly believe that the answer is "No." The Internal Revenue Service flatly declares its intent to ask for every dollar of the appropriation they requested. They will spend the money elsewhere.

They plan to juggle dollars by juggling human beings. There will be a disturbed community by reason of discharges and displacements in carrying out their proposals.

Will the convenience and accommodation of the Rhode Island taxpayer be improved by this upheaval? Certainly not.

Why should Rhode Island be asked to bear the brunt of an experiment?

We respectfully ask your rejection of the projected plan.

Sincerely yours,

JOHN O. PASTORE,
U.S. Senator.
CLAIBORNE PELL,
U.S. Senator.

U.S. SENATE,
April 4, 1963.

HON. HARRY F. BYRD,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I am sure that you as chairman of the Senate Finance Committee have become aware of plans announced recently by the Commissioner of Internal Revenue to reorganize the field offices of the Internal Revenue Service by shifting certain positions from some of the field offices to others, abolishing two regional offices, merging four multi-State districts and otherwise changing the

structure of the IRS field office setup. You may have been made aware, too, of objections from the people and Congressmen of the affected districts.

In Alaska we were finally successful only 2 years ago in having a district office established at Anchorage. Before that time the district office which handled tax collections in Alaska was located at Tacoma, Wash. The proposed reorganization announced by Commissioner Caplin would transfer 12 positions in the Anchorage, Alaska, office to Seattle, Wash. I feel strongly that this is a step backward and contrary to good public policy and efficient administration.

Not only has full functioning of a district office within Alaska greatly facilitated tax collection in my State for the Federal Government but it has assisted the State of Alaska also. I think uniquely among the States Alaska has its State income tax based directly on the Federal income tax law, with the State collecting a percentage of the amount taxpayers resident in Alaska pay the Federal Government. The levy at this time is 16 percent of the Federal tax on individuals and 18 percent on corporations. The commissioner of revenue of the State of Alaska has stated that since organization of the district headquarters in Anchorage there has been better, more timely taxpayer assistance and closer and prompter liaison between the Internal Revenue Service and the State department of revenue. I am fearful that this useful and mutually beneficial relationship would be disturbed if the reorganization proposed by Commissioner Caplin is carried through.

Gov. William A. Egan of Alaska has voiced the fear that the IRS reorganization will result in a cutback in service to Alaska taxpayers and partial return to the former situation, which was highly unsatisfactory.

I ask that you file this statement of my objection to the reorganization proposal in any investigation or hearing your committee may be planning to hold on this matter.

With best wishes, I remain
Cordially yours,

ERNEST GRUENING,
U.S. Senator.

U.S. SENATE,
COMMITTEE ON COMMERCE,
April 8, 1963.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to the announcement in early March by Commissioner of Internal Revenue Mortimer M. Caplin that a series of changes would be made in a number of Internal Revenue offices through reduction in positions in some 12 of the smaller districts, merger of 4 districts and other regional and service center changes.

Under this plan the district office at Anchorage, Alaska, would lose 12 positions with the responsibilities involved transferred to Seattle.

After a long struggle, Alaskans were successful approximately 2 years ago in having a district office established in their State. Prior to that time all tax collection and related activities were performed at Tacoma, Wash. Since this change was made there has been a remarkable improvement in assistance to taxpayers. The State of Alaska, perhaps uniquely among all the States, bases its income tax on a percentage of what is paid to the Federal Government. There is a continuing need for close liaison between the State department of revenue and the Federal Internal Revenue district office at Anchorage, and the procedure has worked admirably well. If some of this work being performed at Anchorage is transferred to Seattle there cannot help but be harmful effects to a system which has proved of inestimable value.

I am certain, as is Gov. William A. Egan, of Alaska, that the out in staff will result in considerable loss of the benefits of direct contact and consultation which have resulted from the establishment of the district office at Anchorage. Under the proposed plan some of the work would be performed vast distances away from Alaska. This should not be. It isn't efficient. It would reestablish in part a long line of communication from Seattle which is completely undesirable.

Sincerely yours,

E. L. BARTLETT,

STATEMENT OF SENATOR HOWARD W. CANNON

Mr. Chairman, the proposal by the Commissioner of Internal Revenue to consolidate the operations of the district office in Nevada and transfer certain important activities of the service to San Francisco, has caused great concern and anxiety in my State.

It is no secret that the State of Nevada is the fastest growing State in the United States, and I share with all responsible officials and with the general citizenry of Nevada the conviction that it would not be possible nor practical to attempt to administer Nevada tax problems from California or any other State.

Many jobs will be abolished in the district office in Reno if this proposal is permitted to be put into effect. It was even proposed, Mr. Chairman, that all tax collections be forwarded unopened from Reno to San Francisco for processing.

It is utterly impossible, in my opinion, to serve the people of my State from another State. I believe that the citizens of Nevada have a right to expect personal attention in their tax problems from employees of the Federal Government who reside in the State of Nevada since through their residency they can be expected to learn something of the economy of the State and the problems of its people.

I have informed the Secretary of the Treasury and the Commissioner of Internal Revenue of my objections as has every member of the Nevada delegation and the top officials of my State. The IRS study, from which these administrative recommendations have come, proposes a saving nationwide of \$5 million. From all that I have been told, that saving is questionable. Furthermore, it is clear to me that this so-called economy will result in a noticeable deterioration of the service which citizens of my State have a right to expect.

Thank you for your attention to this matter and for your consideration of Nevada's special problems which would be adversely affected by this proposal.

HOWARD W. CANNON

U.S. SENATOR

STATEMENT OF SENATOR GALE W. MCGEE

First I would like to thank the chairman for the privilege of giving me time to present my views on this issue.

The proposal to reduce the work force of the Internal Revenue Service in Cheyenne was made in the name of efficiency. Mr. Chairman, I am not opposed to efficiency but I believe that we in the Government must seek to draw a line, in a place equitable to all, between efficiency and service. In this case I believe the line has been inequitably drawn and will deprive the citizens of services that a just government should provide.

The collections of taxes is an unpleasant task, however necessary are the funds for the operation of government. Therefore, we should make the collection of taxes as equitable and efficient as possible. I think that a Wyoming taxpayer who is having problems with the computation of his taxes should not be forced to travel to another State to be afforded the appeal rights written into our tax laws. Nor do I think it unreasonable to expect that a person living in an area has a better grasp of the problems of that area than one living in another State. To me it is only fair that we in this case should lean a little more toward service for the taxpayer, his burdens are difficult enough, without compounding them with time and distance.

This move would also remove a number of families from the city of Cheyenne. By the standards of many States, Cheyenne is a pretty small town. But it is the State capital and the center of commerce for a rather large area. Its relationship to the State, which itself is not heavily populated, is the same as would be a city of several million here on the east coast. To remove these employees would work definite hardship on the city and upon the employees concerned. There are some female workers who have husbands employed elsewhere in the city and would have to give up their jobs rather than move. And, of course, no one likes to pull up his life by the roots and start again in another city any more often than is absolutely necessary.

Mr. Chairman, to me the facts in this matter are quite clear. This decision was made here in Washington by well-intentioned men who were striving to give us the most for our civil service dollar. Their attitude is commendable but in this case they did not take into account the local conditions. It is hard to put a dollar value on good will and service but the loss of these two items would certainly be far more than the few dollars saved in the move. I earnestly ask your support in preventing this move and thus preventing a real injustice to the people of my State.

U.S. SENATE,
 COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
 April 6, 1963.

Hon. HARRY F. BYRD,
 Chairman, Committee on Finance,
 U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: On April 3, 1963, your committee provided an opportunity for Senators to express their opposition to the proposed reorganization of the Internal Revenue Service which would provide for shifting of personnel and transfer of duties in several regions of the United States. Senator Mansfield originally intended to appear before your committee protesting this proposal but as he has written you, he was unable to do so.

The purpose of this letter is to reiterate our opposition to the Internal Revenue Service reorganization plan. From conversations with Mr. Caplin and a study of the material released from the Internal Revenue Service itself regarding the proposal, it seems quite apparent that there is going to be a diminishing of service in the offices that are to be consolidated. Although Senator Mansfield and I have been assured that the number of employees in the Helena area will not be decreased and that most of the present employees will be retained in different capacities, it is not clear how the present services can be retained. Location of headquarters in Salt Lake City and executive and policymaking personnel working out of there throughout a vast geographical area, on a circuit rider schedule, will entail delays or long and costly trips on behalf of those who are negotiating with the tax services.

I join Senator Mansfield in urging you to recommend that this proposal, now under a freeze order, be completely abandoned and that the essential services in these areas continue to be maintained.

Kindest personal regards.

Very truly yours,

LEE METCALF.

STATEMENT OF SENATOR GEORGE MCGOVERN, OF SOUTH DAKOTA

The recent announcement by the Internal Revenue Service of a proposed plan to consolidate certain features of the administrative section of the Service in 12 States has been the subject of much concern in South Dakota.

Hearings have been held in Aberdeen, S. Dak., which indicated widespread opposition to the proposed move. I have participated in several discussions with other Senators concerned with the proposal. We have made our opposition known both at the White House and at the Internal Revenue Service.

I feel that an implementation of this order will mean decreased local service to the taxpayers of South Dakota. Carrying out the order will move the intermediate level of Internal Revenue personnel from Aberdeen to Minneapolis. Taxpayers seeking intermediate level tax service, both at informal hearings and in an advisory capacity will be forced to travel several hundred miles.

After careful consideration, I do not feel that the promise of savings in the expenditures of the Internal Revenue Service can be justified in the light of the service that should be rendered by the agency in the local district office.

I also express my conviction that wherever possible, we should resist the tendency of Government agencies to move away from moderate sized towns and cities into large metropolitan areas which are already overcrowded. I believe that the same philosophy that has motivated special Government consideration to depressed areas and other sections of the country where job opportunities are limited should prevail wherever possible in the location of necessary Government services such as the Internal Revenue Service. I feel that the severe economic impact to the city of Aberdeen which would result from an implementation of this order can hardly be justified by the nominal savings to the agency which would result from the reorganization.

STATEMENT BY U.S. SENATOR LEN B. JORDAN CONCERNING PROPOSED CHANGE IN BOISE, IDAHO, INTERNAL REVENUE OFFICE

Mr. Chairman and members of the Senate Finance Committee, I am grateful to you for this opportunity to express my opposition and the opposition of the people of my State regarding the effect that the proposed reorganization of the Internal Revenue Service will have on the taxpayers of my State. This proposal will reduce the Boise office and move personnel from Boise to enlarge an office in Salt Lake City, Utah.

As one who appreciates the economy efforts of this outstanding committee and shares your concern for getting maximum value for every tax dollar spent, it might appear odd for me to come here to oppose a reorganization proposed in the name of economy. But, after studying this plan as it affects my State, I have come to seriously doubt its economy to either the Federal Government or the taxpayer.

The budget proposed for the Internal Revenue Service for fiscal year 1964 includes funds for increasing the number of persons hired by that agency from 57,775 in fiscal 1963 to 60,504 for the coming fiscal year. It is interesting to note that in fiscal 1962 only 55,018 employees were handling the work of the Internal Revenue Service.

In light of the increased personnel asked for in the coming year, it is difficult for me to understand the so-called economy in reducing the personnel in district offices in such cities as Boise, Idaho, which serves the Internal Revenue Service needs and business of my State. It appears that apparently the IRS is not content with its budget-proposed personnel increases for its larger offices, but wants to cut the service of its smaller offices to further centralize IRS operations and expand the larger offices.

Little thought has apparently been given to the increased costs to taxpayers of Idaho and other small States on their right to continue to get the fine service they are presently receiving from District Director Calvin Wright and his experienced staff in Boise. These people are so familiar with the problems of Idaho taxpayers and with the IRS handling of these Idaho tax problems.

Many of the services and decisions which can now be obtained in the Boise district office will only be available in Salt Lake, if the proposed IRS reorganization is put into effect. This means additional travel expenses for both Idaho taxpayers and their representatives, and employees of the IRS who will then have to travel from outside the State to Idaho points to handle their work with Idaho taxpayers.

I challenge whether proponents of this IRS reorganization as it affects the district offices can prove its economy for the Federal Government, and I am sure it will call for much higher costs to the taxpayers in Idaho. Centralization in this area of operations is neither economical, efficient, or in the best interests of all parties concerned.

I should like to take this opportunity to present to you a memorial approved by an overwhelming number of State legislators concerning this proposal, and would like to have it included in the record.

STATE OF IDAHO, DEPARTMENT OF STATE

CERTIFICATE

I, Arnold Williams, Secretary of State of the State of Idaho, and legal custodian of the Great Seal of the State, and of legislative enactments, do hereby certify that the attached copy is a full, true, and complete transcript of House Joint Memorial No. 12 enacted by the 37th session of the legislature of the State of Idaho and received and filed in this office the 27th day of March, 1963.

[SEAL]

In testimony whereof, I have hereunto set my hand and affixed hereto the seal of the State of Idaho. Done at Boise, Idaho, this 29th day of March, A.D. 1963.

ARNOLD WILLIAMS,
Secretary of State.

LEGISLATURE OF THE STATE OF IDAHO, THIRTY-SEVENTH
SESSION, IN THE HOUSE OF REPRESENTATIVES

HOUSE JOINT MEMORIAL NO. 12 BY REVENUE AND TAXATION COMMITTEE—
A JOINT MEMORIAL

To the Honorable John F. Kennedy, President of the United States, and the Honorable Douglas Dillon, Secretary of the Treasury of the United States:

We, your memorialists, the legislature of the State of Idaho, respectfully represent that:

Whereas it has recently been announced that a reorganization of the United States Internal Revenue Service is contemplated which will reduce the staff of the Boise, Idaho, office of the Internal Revenue Service by approximately one-fourth, and will require many of these employees to leave their homes in Boise, Idaho, and move to Salt Lake City, Utah; and

Whereas almost all of said employees and their families have been permanent residents of, or have resided for many years in the Boise area, and have contributed substantially to the economy of the southwestern portion of the State of Idaho, and their transfer will cause a decided economic and social disadvantage to them and could well become a severe economic depressant to a key area in the State of Idaho; and

Whereas such a reorganization will necessarily have an adverse and restrictive effect upon the services which have heretofore been rendered by the Internal Revenue Service to the taxpayers in the State of Idaho; now, therefore, be it

Resolved, by the 37th session of the legislature of the State of Idaho, now in session, the Senate and the House of Representatives concurring: That we respectfully urge the President of the United States and the Department of the Treasury of the United States to review and reconsider said reorganization plan for the Internal Revenue Service as it affects the office of said service in Boise, Idaho, and to retain the staff and services heretofore made available to the taxpayers of Idaho by the Boise, Idaho, office as they presently exist and operate; be it further *Resolved,* That the Secretary of State of the State of Idaho be, and he hereby is, authorized and directed to forward certified copies of this memorial to the President of the United States, the Secretary of the Treasury of the United States, and to the Senators and Representatives representing this State in the Congress of the United States.

This joint memorial passed the House on the 8th day of March, 1963.

PETE T. CENARRUBA,
Speaker of the House of Representatives.

This joint memorial passed the Senate on the 15th day of March, 1963.

W. E. DREYLOW,
President of the Senate.

I hereby certify that the within joint memorial No. 12 originated in the House of Representatives during the 37th session of the legislature of the State of Idaho.

ROBERT H. REMAKLUS,
Chief Clerk of the House of Representatives.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
April 8, 1963.

HON. HARRY F. BYRD,
*Chairman, Committee on Finance,
US Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to the letter dated April 6th which my senior colleague, George Alken, addressed to the Committee on Finance.

In this letter, Senator Alken brings sharply to focus the fact that Mortimer Caplin, Commissioner of Internal Revenue, has failed to provide a proper justification for the reorganization of the Revenue Service which is taking place in 12 States.

I wholeheartedly endorse the arguments raised by Vermont's senior Senator and I join in urging that your committee take all steps possible to discourage the Treasury Department from putting into effect the contemplated reorganization.

Sincerely yours,

WINSTON L. PROUTY.

STATEMENT BY SENATOR QUENTIN N. BURDICK

Mr. Chairman, thank you for allowing me the opportunity to present this statement in opposition to the proposed reorganization of the Internal Revenue Service.

When the announcement was made on March 5 that the Service intended to reorganize certain district and regional offices, I immediately became concerned. One of the district offices to be affected by the proposed change is Fargo, N. Dak., which presently has a staff of 137 positions with an annual payroll of \$942,000. Under the new plan 25 positions in the Fargo office are to be transferred to the regional office in St. Paul.

I want to say at the outset that I am in favor of any reorganization plan which will keep service at its present high level and at the same time eliminate some of the overhead costs involved in the administration of the Internal Revenue Service. I cannot see in the present plan as it affects Fargo, N. Dak., that there will be any substantial savings in the overall cost of administering the Internal Revenue Service by transferring employees from one district to another. Further, I am unalterably opposed to any plan that would bring greater centralization to the activities of the Federal Government at the expense of small rural communities when the farm community is shrinking. I submit that any reorganization plan should decentralize rather than centralize the activities of any given department or bureau.

The honorable mayor of Fargo, N. Dak., Herschel Lashkowitz, has indicated to me that the proposed reorganization of the Internal Revenue Service in Fargo would create an economic hardship upon that community.

On March 18, 1963, the Honorable William L. Guy, Governor of North Dakota, wrote to Secretary of the Treasury Douglas Dillon, indicating his opposition to the reorganization of the Fargo district office. In this letter to Mr. Dillon, Governor Guy said, "The closing of the Fargo office of the Internal Revenue Service would have an adverse effect on the economy of North Dakota and would impose a hardship on employees who would be required to transfer to St. Paul or whose jobs would be eliminated.

It is my hope that the plan which is now being reviewed by Secretary Dillon will be abandoned.

U. S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
April 9, 1963.

HON. HARRY F. BYRD,
Chairman, Finance Committee,
U. S. Senate,
Washington, D. C.

DEAR MR. CHAIRMAN: On March 4 I was notified by a representative of Internal Revenue Service that changes were being announced the following day in a number of field offices.

The announced change would seriously affect my State of Idaho. First, I was told that the proposed change would mean that approximately 31 supervisory positions would be transferred from the Boise, Idaho, district office to Salt Lake City, Utah. Later I was advised that the proposal would involve the transfer of 19 supervisory and 6 supporting positions. But, in the later memorandum, I was also told that the transfer of these personnel to Salt Lake City would require increased staffing at that office of approximately 11 new supervisory positions. Thus, the announced savings appear to be an ever-changing mirage.

Originally, I learned that it was planned that all income tax returns from Idaho would be forwarded, unopened, for processing in Salt Lake City. Later this plan was altered. Also, I heard that the bank deposits from Idaho taxpayers were to be deposited in Salt Lake City banks, but this plan was also abandoned.

I point out these things, Mr. Chairman, to indicate that this proposal, from its inception, was poorly planned and altered step by step as legitimate objections were raised.

My position, which I have held from the time I first learned of this plan, is that it is not a sound proposal. I base my objections on these grounds:

I have learned, from previous experience, that these proposed concentrations of staff and responsibilities in regional offices do not decrease the overall cost to the taxpayers. Indeed, a similar move a few years ago in the Post Office Department, had the opposite effect in that it costs more to operate a number of regional offices and still give a minimum of service at the State and local levels.

The protests in Idaho to this plan have been widespread and vigorous. The Idaho State Legislature memorialized the Congress, urging that the plan be abandoned. Many chambers of commerce, attorneys, certified public accountants, newspapers, and individual taxpayers have protested this move. They have pointed out that a person living in Boise who had a special tax problem would be required to travel 370 miles to Salt Lake City for discussions and conference. But, since Boise is centrally located in Idaho, a taxpayer living in Coeur d'Alene would have to travel 763 miles for this same purpose.

In addition, it would involve a real hardship on the employees who would be forced to transfer to Salt Lake City or lose their jobs. Many of these people are native Idahoans, owning their own homes, with children established in schools. This is a human equation, but it cannot be ignored.

It is my strong belief that any move to centralize in a more distant place the functions of an agency of the Federal Government which touches the lives of everyone is a bad move. It makes it difficult, if not impossible, for the average taxpayer to discuss a problem without the expenditure of considerable time and money. I respectfully urge that this proposal be rescinded.

Sincerely,

FRANK CHURCH.

U.S. SENATE,
COMMITTEE ON COMMERCE,
April 9, 1963.

HON. HARRY F. BYRD,
Chairman, Finance Committee, U.S. Senate

DEAR MR. CHAIRMAN: I am writing to comment on the proposed modifications of several district Internal Revenue Service offices, and respectfully request that my letter be made a part of the permanent record of your testimony on this proposal.

I was happy to learn that the Treasury Department and Internal Revenue would take a second look before putting into effect the centralization of internal revenue functions in Boston, and the shrinking of the force in Maine, New Hampshire, and Vermont.

Certainly we are all willing to give careful consideration to any proposed plan which will bring about economy, so long as it is not detrimental to the public interest. We want to make certain, however, it will be true economy and not merely the shifting of personnel from one area to another.

Much controversy and misunderstanding could have been avoided if Treasury and Internal Revenue had seen fit to take us, the representatives of the people, into their confidence while they were developing this plan, and before announcing it.

I sincerely hope the Internal Revenue Service and the Treasury will keep us advised of the progress of its review and fully discuss with us any modifications of district offices before implementing action is taken.

Unless this is done, I fear Internal Revenue will have suffered another severe setback in the minds of the public, and, certainly, Congress will never be satisfied that the proposals achieved the economy accredited to them.

Very truly yours,

NORRIS COTTON, U.S. Senator.

U.S. SENATE,
Washington, D.C., April 10, 1963.

HON. HARRY F. BYRD,
Chairman, Senate Committee on Finance,
Washington, D.C.

DEAR MR. CHAIRMAN: I deeply appreciate this opportunity to present to the Senate Finance Committee my personal views on the proposed program by the Internal Revenue Service for reorganization of its various field offices as detailed in the announcement of March 5, 1963, from the Office of the Commissioner of Internal Revenue. It is encouraging to me, to the taxpayers of South Dakota, and to the area served by the district office in Aberdeen, S. Dak., to know that this most important committee of the Congress is reviewing the program as presented by the Treasury Department and the Commissioner of Internal Revenue to determine whether or not this proposed program is in line with sound and efficient operations and will actually, in the long run, be an economy program as espoused by the Treasury advocates.

In studying the proposed program, and in studying the transcript of a hearing regarding proposed modification of the Aberdeen district office, at Aberdeen, S. Dak., I am somewhat confused by just what is being advanced by the IRS for implementation at a later date. For background information, let me say to this committee that we in South Dakota have received several varied opinions as to how many individuals this proposed program will actually affect. The number of individuals to be affected has ranged from 7 to 18 for immediate changes, and as high as 60 individuals to be transferred to various working centers by 1966, depending upon which IRS official is discussing the proposal at a particular time. The explanation which most often is given is that these personnel adjustments are being made under the guise of economy and efficiency. Yet, while we consider this contemplated "economy" effort, we find, at the same time, the IRS requesting, through their budget funds, an increase of over 4,000 additional persons for the Service.

In the meeting of Aberdeen, S. Dak., citizens with Internal Revenue officials, it was indicated that perhaps over the long haul the district office would receive some of these additional new staff people. I bring this out to point up what I believe to be not only confusion in the proposed program—particularly as it relates to my constituents back home who are carefully following these gyrations in personal movements—but an incongruous position by IRS of reducing now by transfer only to replace later by who knows what method. If this is planned economy, Mr. Chairman, it escapes my observation.

However, I would like to direct my statement here to what I believe would be more constructive economy in the operations of the IRS. I am firmly convinced that the transfer of IRS personnel to large metropolitan areas, in my own instance from Aberdeen, S. Dak., to either Minneapolis, Minn., or St. Louis, Mo., is false economy. We know that if the transfers occur that the taxpayer picks up the tab for the moving of the families involved. We know from figures which are available to all of us that it is going to cost the individuals more to live in the larger metropolitan areas. Their cost of living is going to increase and either this increase will have to be compensated for through increased salary grades or the Service could possibly lose the services of experienced personnel.

In addition, it costs the Government more to maintain each employee in a metropolitan area. All overhead expenses are higher.

I would like to recommend that this committee, in its review of the proposed program of IRS, give careful consideration and study to the potential economic savings of increasing the services of district offices, and utilize their facilities to a greater extent. These communities such as Aberdeen, S. Dak., in addition to offering to IRS personnel education benefits, recreation benefits, cost-of-living benefits, and a greater opportunity for closer family living relations than any large metropolitan area can offer—and these benefits are most important to a growing America and improved family relations—are able to continue the tradition of keeping Government services close at hand and readily available to the people.

I would hope this committee will review the potential services to be rendered to the taxpayer. In this era, when we demand so much for the already overburdened taxpayer in both his time and his financial resources, the most we can do is to locate convenient to him the necessary services and expert Government personnel so that he can have access to that service at a minimum cost to him at all times and at a time, unhappily, when our tax laws become more confusing, resulting in more frequent consultation by more and more taxpayers with these offices. I do not need to tell this committee that if a taxpayer has a problem with IRS and would have to travel from South Dakota to either Minneapolis or St. Louis that it is going to be a burden on that taxpayer financially. All of us know that travel costs money and that in the metropolitan areas the costs of hotels, meals, and other daily necessities are excessive.

I would hope that the committee, in its review of the proposed program, would give serious consideration to the public-relations aspect of this proposed program. The taxpayer of America is a most important individual. We live by the sweat of his brow. I firmly believe that we should give consideration to his desires of the Service, the advice, and the consultation that should be in relative close proximity to where he lives—even if it has to be done at the expense of some alleged economizing, which I personally doubt would be achieved in the contemplated centralization plan. Let us keep at full strength and operation, at all times, these district offices to which the taxpayer can come from his home—to receive needed attention which is his right, not privilege—and return all in 1 day without putting that taxpayer to additional expense on his tax problems when

they so frequently arise as they do in today's complicated tax structure and formula.

Therefore, in conclusion, let me again briefly reiterate the hope that the committee will review the proposed program of the IRS and will recommend to the Commissioner that if modification is deemed absolutely essential that such modification be directed to enhancing the present system of diffused and close-at-hand service in our smaller communities instead of funneling at excessive costs, these operations into metropolitan areas; that they be modified with the view to economy for the taxpayer who has to come to the IRS office; and that they be modified in the interest of the taxpayer and good public relations with his Government which he so valiantly supports with his dollar and his patriotism:

With best wishes, I am,
Cordially yours,

KARL E. MUNDT.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
April 10, 1963.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: Attached is a statement I wish to submit in connection with the hearings your committee held recently on the proposed reorganization of the Internal Revenue Service, and I respectfully request that it be made a part of the record of the hearings.

May I take this opportunity to thank you and the members of your committee for your courtesy.

Cordially,

ALAN BIBLE.

STATEMENT SUBMITTED BY SENATOR ALAN BIBLE WITH RESPECT TO THE PROPOSED REORGANIZATION OF THE INTERNAL REVENUE SERVICE

Mr. Chairman, the reorganization of 12 small districts of the Internal Revenue Service, 1 of which involves Reno, Nev., is of much concern to me.

I have asked Commissioner Caplin to furnish me the facts and figures relevant to the proposed changes for the Reno office. At this point, I want to assure your committee that I am appreciative of the cooperation of the Commissioner, and I am sympathetic to his desire to make savings in the Internal Revenue Service. I have no desire to downgrade his honest beliefs that his committee, which made the original study, is entirely wrong in its findings.

Nevertheless, any findings are subject to close scrutiny and examination by Members of Congress. I would be derelict if I did not examine, closely, the recommendations for changes in my State and attempt to arrive at a just conclusion with respect to the findings of the Commissioner and his committee. This I have done.

It was, in my opinion, a very poor job of timing with respect to the announcements which notified those of us who could expect to receive changes within our districts. I know that the Commissioner explained this to your committee when he was before you; however, I believe this should be a lesson in public relations. The Commissioner should have spurred his committee forward with its report to the Secretary of the Treasury so that each Member of Congress would have the full facts before him in order to make certain suggestions, which I am sure the Commissioner welcomes.

Mr. Caplin has furnished me with a summary of the effect on the Reno office. I have secured as much information as possible and have attempted to analyze the summary objectively. I will furnish the information for the record and accompany it with my analysis.

Mr. Chairman, it has been acknowledged that the March 5 public announcement had a serious impact on the morale of the employees of the Internal Revenue Service. I would like to expand on this. I have received correspondence from fine, intelligent, longtime employees who have worked in the Reno office many years and who now are faced with the choice of accepting a job of lesser import, or uprooting their families and moving to other areas. In the majority of instances, being faced with such moves is of major importance to them. The morale factor in the Reno office is at an all-time low. This does not foster improved

service and loyalty. All of us know that we need capable, loyal employees if we are to serve at maximum efficiency.

I want the best possible service in the Reno Internal Revenue office for the citizens of Nevada, and I am sure that every member of this body wants the same in his State. I want to point out that perhaps savings can be made in the present operation. The Commissioner has testified that his plan for reorganization will involve 720 positions. He has requested funds for an additional 3,500 Internal Revenue employees and he testified that he loses 4,500 employees each year by attrition. I submit that the net savings of 720 employees could be made without any reorganization plan.

Again, this would not meet the Commissioner's findings, as he is mostly concerned with moving supervisors, or getting more "Indians and fewer chiefs," as he said. In Nevada, we have few chiefs, we have a preponderance of Indians. In fact, my summary will show little savings in the Reno office and the Commissioner's summary will show a net savings of nine employees, most of them clerks and stenographers, which I classify as the type of employee the Commissioner does not want to affect, if I interpret his statement correctly.

My summary, which I hope every member of this committee will study in detail, will show a net savings annually of \$900. This is a high price to pay for a lessening of morale in the Service. I further believe that personal trips between San Francisco and Reno, telephone calls, etc., will eat up the \$900 in less than a year, and there will be some waiting, delays, and a deterioration of service to the patrons of the Reno office.

The growth of Nevada, one of the fastest growing States in the Union, will be affected by California, now the largest in population. I see little improvement in service to Nevada patrons by being supervised from California. I have had actual experience along these lines, with changes in other Federal agencies, and I can tell you that the residents of my State do not believe the changes improved the service. I have checked many of these complaints personally, and I must agree that centralization in some areas is undesirable and decentralization is preferable.

In Nevada we have a work force of 164 Internal Revenue Service employees. The Commissioner has stated that he loses, by attrition, 6 percent of his technical force each year, and 10 percent of his clerical force. I submit at this point the Commissioner's analysis of his reorganization plan for Reno, Nev., and my analysis of his summary. He could have achieved practically the same savings with no announcement with respect to the Reno district office. Attrition would have accomplished his end product.

RENO-SAN FRANCISCO SUMMARY (AS SUBMITTED BY COMMISSIONER CAPLIN)

"Reno has a current staffing of approximately 164 positions with an annual payroll of \$1,060,000. San Francisco's personnel strength is 1,670, at an annual cost of \$10,628,000.

"The modification of the Reno district office will involve the transfer to San Francisco of the responsibilities of 24 overhead positions. The work of three additional positions, which currently provide support and technical services, will be also transferred to San Francisco. These 27 positions are funded at \$204,300. In order for the San Francisco district to assume this additional supervisory and service work, it will be necessary to increase staffing at that office by approximately eight positions, costing \$51,200. Hence, the net savings to the Service amounts to 19 positions and about \$153,100.

"Many of the 27 people (24 plus 3) displaced in Reno are qualified to perform other work of a direct enforcement or operational nature. We will not know exactly how these placements will work out until all of the affected employees have been surveyed in the light of present or projected vacancies in the office. It is our present estimate, however, that about 18 can be reassigned within the Reno district, leaving a hard core of about 9 employees (\$52,100) who cannot be absorbed in Reno and must be placed elsewhere within the Service or, if eligible, retired.

"The direct services to taxpayers in Reno will not be affected by this reorganization."

Mr. Chairman, I now submit my analysis of the proposed Reno-San Francisco reorganization.

The Reno District Administration Division is currently staffed with nine positions, which are as follows:

1. District Director
2. District Director's secretary
3. Chief, Administration Division
4. Secretary
5. Chief, Personnel Branch
6. Appointment clerk
7. Chief, Facilities Management Branch
8. Clerk
9. General supply clerk

Under the reorganization guidelines to modify the Reno district, it is indicated that all functions of the Administration Division will be transferred to the San Francisco district with the exception of the District Director and his secretary. If all these positions are transferred to San Francisco, it will be a net deduction of seven positions.

It will be necessary, however, to retain a telephone switchboard operator and a clerk who will serve as relief for the telephone operator and handle forms, supply distribution, and serve as a "handy man."

It has been indicated to me in the advance planning that it will be necessary for the San Francisco district to increase their administration ceiling by five positions at the time our functions are transferred. If this is true there will be no personnel savings.

A counterproposal is being considered to redesignate the titles of all the affected employees and leave them in the Reno office except for the Chief, Administration Division, and his secretary. The nonsupervisory functions of the latter positions would be handled by the San Francisco district.

This would reflect little savings and deny the Reno District Director of administrative staff assistance.

Clarification of savings resulting from the transfer of Reno Internal Revenue Service functions to San Francisco

	Positions	Amount
According to par. 2 of the Commissioner's summary:		
Number of Reno positions lost.....	27	\$204,300
Number of positions added to San Francisco.....	8	51,200
Net savings (positions).....	19	
Net savings (dollars).....		153,100
According to par. 3:		
Number of Reno people to be displaced.....	27	
Number of Reno people to be reassigned.....	18	
Number of Reno people not absorbed.....	9	
Conclusion:		
Number of Reno people not absorbed.....	9	52,100
Number of positions added to San Francisco.....	8	51,200
Actual total savings (in positions).....	1	
Actual total savings (dollars).....		900

NOTE.—Dollar amounts to be saved by elimination of 1 position would not begin to cover additional travel costs necessary if functions were transferred to San Francisco.

As the Commissioner has testified, studies are still going forward and the reorganization plan will not go into effect until Secretary Dillon approves. It is now being held in abeyance until January 1, 1964, by the Secretary. It is my belief Commissioner Caplin, after he has a better opportunity to evaluate the Reno-San Francisco reorganization plan, will rectify some of the rash changes now planned. He has demonstrated his ability as an efficient administrator and my analysis and remarks should be of immeasurable aid to him. I have already assured the Commissioner of my cooperation as long as improvement and savings can be made to the taxpayer without deterioration of service by the Internal Revenue offices.

(Whereupon, at 1:55 p.m., the committee adjourned, to reconvene at the call of the Chair.)