

**WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS AND
SUBCOMMITTEE ON HEALTH CARE, BENEFITS AND ADMINISTRATIVE
RULES
ON IRS TAXPAYER SERVICE
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INTRODUCTION

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi, and Members of the Subcommittees, thank you for the opportunity to discuss the many ways in which the IRS provides assistance to taxpayers, and how we work continuously to improve those services.

Former IRS Commissioner Lawrence Gibbs once said that there are three types of taxpayers: those who comply, those who are trying to comply, and those who are actively trying not to comply. It is the responsibility of the IRS to ensure that those who are complying and trying to comply have everything they need to fulfill their tax obligations. It is also imperative that those two categories of taxpayers can feel confident the IRS will pursue those taxpayers who have decided not to comply.

The IRS is dedicated to helping taxpayers meet their tax obligations. The agency spends a significant amount of time and resources each year fulfilling this critical mission, as every inquiry from a taxpayer is important to us, and we know that taxpayers' overwhelming preference is to not interact with us at all, beyond filing a tax return and getting a refund.

DELIVERING THE TAX FILING SEASON

The most visible taxpayer service the IRS provides is the delivery of a smooth, problem-free tax filing season, so that people can file their returns and receive their refunds as quickly and easily as possible. It is important to note that delivering the filing season does not happen automatically or by accident, but because thousands of dedicated and experienced IRS employees work for months planning for the next filing season and then administering it effectively.

I am pleased to report that the last several filing seasons have gone smoothly in terms of tax return processing. Thus far the 2017 filing season has been no exception. As of February 24, the IRS received more than 52.3 million individual

returns, on the way to a total of about 152 million. We have issued over 41.3 million refunds for more than \$127 billion, with the average refund totaling approximately \$3,071. I would note this smooth operation of the filing season has been accomplished while using antiquated IT systems, as approximately 60 percent of the agency's hardware and 28 percent of its software are out of date and in need of an upgrade. Continuing to rely on such outdated systems is costly and poses a risk of outages or failures.

This tax filing season is notable for certain Protecting Americans from Tax Hikes (PATH) Act changes that were enacted in 2015 and took effect this year. For example, the IRS is now required to hold tax returns until February 15 each year if they claim either the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC). This change and another change accelerating the filing date of Forms W-2 have together helped the IRS improve its ability to spot incorrect or fraudulent returns. Another PATH Act provision required Individual Taxpayer Identification Numbers (ITINs) to expire if they had been issued before 2013 or if they had not been used on a federal tax return for three straight years. While these changes have increased the IRS's ability to detect and stop noncompliance and fraudulent refund claims, they required significant resources and coordination to implement. I am pleased to say that so far it appears that the IRS has been able to implement these important revenue-protecting changes while delivering a successful filing season.

By setting the effective date for these changes about a year after enactment, Congress gave the IRS sufficient lead time to get our systems ready and also prepare taxpayers and tax practitioners, which we greatly appreciate. We spent several months working extensively with many partner groups and using various outreach and communications channels – including press releases, speeches, social media and the annual IRS Nationwide Tax Forums – to get the word out so people would understand what the changes would mean for them. This has greatly reduced the need for taxpayers to call or write us with questions about these changes.

HELPING VICTIMS OF IDENTITY THEFT

Another important aspect of taxpayer service involves protecting taxpayers and their personal data from identity theft, and assisting taxpayers when they discover they have been victimized by identity thieves who use their personal information to file false tax returns and claim fraudulent refunds.

The problem of personal data being used to file fraudulent returns increased dramatically from 2010 to 2012, and for a time overwhelmed law enforcement and the IRS. Since then, we have been making steady progress even within our reduced resources, in terms of protecting against fraudulent refund claims, criminally prosecuting those who engage in this crime, and helping minimize the adverse effect on victims.

That progress has accelerated since 2015, thanks to the collaborative efforts of the Security Summit group. Over the past two years, this strong, unique partnership between the public and private sectors has allowed us to coordinate our efforts on many different levels. As a result, we put in place many new safeguards for the 2016 filing season that produced real results. To illustrate, the number of people who reported to the IRS that they were victims of identity theft declined from 698,700 in Calendar Year (CY) 2015 to 376,500 in CY 2016 – a drop of 46 percent.

Even with this progress, the fraud filters in our processing systems are still catching a large number of false returns, which shows that identity theft continues to be a major threat to tax administration – a threat that receives our sustained vigilance and the continuous strengthening of our defenses against this crime. During Fiscal Year (FY) 2016, our systems stopped more than \$6.5 billion in fraudulent refunds on 969,000 tax returns confirmed to have been filed by identity thieves.

Importantly, the IRS continues its efforts to help taxpayers who have been victims of identity theft. Here too, the IRS has made steady progress over time in our ability to close identity theft cases quickly and efficiently. Several years ago, it was taking us an average of 300 days to close a case, but more recently the IRS has been meeting its goal of resolving cases in an average of 120 days or less. Additionally, case inventory for identity theft victims dropped from about 95,000 at the end of FY 2015 to 34,300 at the end of FY 2016. As of last month, the number was down to 28,900.

TAXPAYER OUTREACH AND EDUCATION

Another way in which the IRS serves taxpayers, especially as they are getting ready for the annual filing season, is by providing them with the information they need to help fulfill their tax obligations. The IRS conducts a wide range of outreach and education efforts, including enlisting the assistance of a variety of partners to serve taxpayers' filing and reporting needs.

A critical part of our work involves partnering with the tax professional community. These groups are critical to the nation's tax system, helping meet the needs of taxpayers ranging from individuals to businesses. The IRS shares information with groups at the national level and works across the country with local tax professional groups.

We have used these partnerships to share critical information related to such issues as identity theft and emerging tax scams, which can help taxpayers as well as tax professionals and businesses watch out for these evolving threats. The work with the tax professional community is also an important component of our Security Summit group.

An important example of the IRS's outreach efforts to the tax professional community involves the annual IRS Nationwide Tax Forums for tax return professionals. More than 10,000 professionals, most of whom are small businesses and self-employed individuals, attended the 2016 Tax Forums. These three-day events were held in five cities over the summer, with sessions providing updates on many critical tax law issues. Additionally, we provide special case resolution services for tax preparers with clients who have unresolved tax issues with the IRS.

Each year at the Tax Forums the IRS also solicits feedback from the tax community to find out how we can better serve them and their clients. For example, the tax professional community is critical to our Future State efforts as they serve taxpayers' needs. We used the 2016 Tax Forums to get feedback and input on the best way the IRS can help meet the evolving needs of taxpayers and the tax professionals who serve them going forward. This effort was well-received by participants last summer, and we plan to continue this effort during the upcoming 2017 Tax Forums.

In addition, the IRS works with a wide range of partner groups to share information to benefit taxpayers. For example, each year on Earned Income Tax Credit (EITC) Awareness Day, the IRS works with hundreds of partners across the nation to share details about this tax credit for working Americans. This year, EITC Awareness day was held on January 27.

In addition, the IRS continues to share information with taxpayers in new and evolving ways to adjust for changes in the communications landscape. Our communications efforts use a variety of channels. Given what our research has told us about taxpayers' preference for receiving information digitally, we have increasingly employed social media, including YouTube and Twitter, to provide important service messages to taxpayers such as important updates about tax law changes, the tax season and consumer alerts involving tax scams. Our Twitter accounts have more than 130,000 followers, and tweets are regularly retweeted by our partners and the tax professional community. In addition, the IRS continues to provide information for taxpayers on YouTube, where our videos have received a total of nearly 12 million views.

Communicating with taxpayers involves not only providing them with tax information, but also finding out what they want and need from the IRS to ease the tax filing experience. The IRS for decades has done customer research to help us understand what service improvements we need to make. Examples include the following:

- The IRS developed a roadmap, the Taxpayer Assistance Blueprint, for future taxpayer service improvements. The Blueprint was initially completed based on a careful analysis of a large body of research, and it

- provided critical guidance on how the IRS could enhance the efficiency and effectiveness of service delivery. The IRS continues to update the Blueprint, including updating research and analysis designed to understand taxpayers' evolving preferences for how to get needed assistance. Taxpayer Experience Surveys have been conducted 10 times over the last 16 years, and each one has provided important insights into the needs, opinions and behaviors of individual taxpayers. The most recent survey was conducted for tax year 2014 and completed in 2015.
- The IRS has recently established the Taxpayer Experience Coordinating Council to understand, leverage and expand research activities to gain insights about the taxpayer experience. Members of the Council include IRS operating divisions, the Taxpayer Advocate Service and IRS researchers.

SERVICE DELIVERY CHANNELS

The IRS provides service and assistance throughout the year, particularly during the filing season when the demand is greatest, and it comes through a variety of channels. We provide service online on our website, IRS.gov; answer taxpayer calls on our toll-free line; offer in-person help at our Taxpayer Assistance Centers (TACs); and correspond with taxpayers through the mail. All of our service channels are designed to provide taxpayers and their representatives with the information and answers they need to fulfill their tax responsibilities as quickly and as easily as possible. However, the IRS will not sacrifice the security of taxpayers' information in our efforts to increase taxpayers' ease in getting the information and assistance they need.

The National Taxpayer Advocate noted in her 2016 report to Congress that tax administrators in other countries and the private sector have found that taxpayers and other customers usually prefer a mix of service channels. Consistent with these findings, IRS also provides assistance through a variety of service channels, and we are continuously looking for ways to improve and expand service channels to serve taxpayers' needs. No matter what channel taxpayers choose, every taxpayer contact is important to us.

Online Services

The IRS continually works to improve and expand our online offerings to meet taxpayers' expectations, so they can interact with the IRS just as they do with any financial institution. Taxpayers come to IRS.gov to find information that is important to them, such as information about when their refunds will be sent. Our tool, "Where's My Refund?" was used about 300 million times in FY 2016, and 160 million times already this filing season. Taxpayers also use IRS.gov to find tax information, download forms and pay their tax bills. During FY 2016, taxpayers visited IRS.gov over 500 million times, and have returned over 175 million times so far this fiscal year.

Beginning in 2014, the IRS launched a number of digital applications to further improve taxpayers' interactions with the IRS, focusing on high-volume transactions that taxpayers have said they want to conduct online, and those that minimize burden. These include:

- "Where's My Amended Return?" – a tool that helps taxpayers understand the status of their Form 1040X amended tax returns for the current year and up to three prior years. Status includes information about when their amended return was received, adjusted and completed;
- Get Transcript, which allows taxpayers to go online and download a copy of their tax records from prior years;
- Online Payment Agreement, which taxpayers can use to set up a payment plan and pay their tax obligations over time; and
- Direct Pay, which provides taxpayers with a secure, free, quick and easy online option for making tax payments.

The IRS understands the need to continually improve the online content we provide to taxpayers. For that reason, over the last few years we have updated many of the most-often used sections of IRS.gov through our Content Upgrade program. We have used clearer writing, employed web and editorial best practices, and made design improvements – all to improve taxpayers' online experience and increase taxpayers' understanding of the information provided on IRS.gov.

While the current online content and digital services have been helpful to taxpayers, the IRS is taking a broader look at the future of taxpayer service. Our goal is to find out how we could enhance and expand important services for all taxpayers, no matter what their circumstances.

Through this effort, it became apparent that taxpayers needed services, tools and support that are both innovative and secure, and specific to their needs, especially in relation to online interactions. To that end, we are developing online accounts at the IRS where taxpayers, or their representatives, can log in securely, get the information they need about their account and interact with the IRS as needed.

In December 2016, we took the first step toward a fully functional IRS online account with the launch of an application on IRS.gov that provides information to taxpayers who have straightforward balance inquiries. This new feature allows taxpayers to view their IRS account balance, including the amount they owe for tax, penalties and interest, in a secure, easy and convenient way. Soon, we will add another feature that will let taxpayers see recent payments posted to their account. These balance-due and recent-payment features, when paired with existing online payment options, will increase the availability of self-service interactions with the IRS.

This is just the first step, but an important one. Over time, we will be adding other features to this platform as they are developed and tested with taxpayers and tax professionals. One such service improvement is Taxpayer Digital Communications. This feature, which we are now testing, provides a secure online messaging capability so that taxpayers, their authorized representatives and IRS employees can correspond electronically and resolve issues more quickly than through traditional mail.

As we improve the online experience, we understand the responsibility we have to serve the needs of all taxpayers, whatever their age, income or preferred method of communication. Although our research tells us that taxpayers increasingly prefer to interact with the IRS through digital channels, we recognize there will always be taxpayers who do not have access to the digital economy, or who simply prefer not to conduct their transactions with the IRS online.

Consequently, the IRS remains committed to providing the services these taxpayers need. While we will continue to offer more web-based services, taxpayers will still be able to call our toll-free lines, write to us or obtain in-person assistance if that is how they want to interact with the IRS. In fact, we believe that providing more online services for those who want them will free up valuable resources to allow us to further improve service on our other channels – phone, in person, and correspondence, particularly for those taxpayers with more complex issues.

An excellent example of our commitment to providing service to all taxpayers involves the tax return filing process. Although e-filing by individuals has grown steadily over the years, and is expected to reach 87 percent this filing season, that still leaves roughly 20 million taxpayers filing paper returns. We remain dedicated to serving these paper filers.

In addition, although all tax forms and publications are conveniently available online at IRS.gov, we continue to mail hard copies of tax forms to taxpayers who request them by phone or online. Taxpayers can also obtain copies of many tax forms at our TACs, as well as at their local public libraries.

Telephone Service

The IRS's toll-free telephone line constitutes one of the world's largest customer service phone operations and receives considerable attention from observers of the IRS's taxpayer service delivery, even though it is only one of many channels taxpayers choose to get assistance. The IRS receives more than 63 million taxpayer calls a year, with more than one-third of those, or more than 25 million, handled by our customer service representatives. The rest are calls made to lines providing automated messages containing helpful tax information. Each of these taxpayer contacts is extremely important to us.

After a very challenging year in FY 2015, the level of service (LOS) provided on the phones improved significantly in FY 2016 as a result of additional funding from Congress. We received a total of \$290 million in extra funding to improve service to taxpayers, strengthen cybersecurity and expand our ability to address identity theft.

We used approximately \$178 million of this additional funding to add about 1,000 extra temporary employees to help improve phone service during the filing season. As a result, the average level of service on our toll-free lines during the 2016 tax filing season exceeded 70 percent, compared to the average of 37 percent during the FY 2015 filing season. When the temporary employees went off rolls at the end of the 2016 filing season, phone LOS dropped, and our average for all of FY 2016 ended up at 53 percent, which nonetheless was still higher than 2015.

I'm pleased to report that during the 2017 filing season, we are again seeing improved phone service. We anticipate that the average phone LOS for the filing season as a whole will be about 75 percent. Although we are still performing research to understand what other factors, aside from resources, may be contributing to this year's sustained high LOS, we believe a major factor is a relative lack of major tax law changes enacted in 2016, as call demand is lower than expected. Without such changes, fewer taxpayers need to call us with questions. Another factor is that the 2017 tax filing season has been a smooth one thus far, which also reduces taxpayer inquiries on the phone.

In-Person Assistance

The IRS serves millions of individuals each year at our TACs located around the country, and each of these contacts is extremely important to the IRS. In recent years TACs in many locations experienced such heavy demand during the filing season that taxpayers were lining up for hours before the centers opened, just to ensure they would get in the door. To cut down on those long lines, the IRS in 2015 began testing a new way of doing business: letting people make appointments in advance – a process that had already been used successfully in other countries.

We found the pilot conducted in 2015 to be so successful that, with some adjustments, we have moved to extend the appointment process to all TACs as of this year. We also started a program this year in which taxpayers can make appointments to meet with IRS employees at several Social Security Administration offices.

I am pleased to report that the appointment process has dramatically cut waiting times for taxpayers seeking assistance at TACs. In contrast to the last couple of years, we have had no reports of long lines so far this filing season.

We have also found this arrangement provides major advantages to the taxpayer. First, when a person calls for an appointment, we can tell them what documents they need to bring with them, reducing the number of return trips. Secondly, the IRS employee making the appointment can often help the taxpayer resolve their issue over the phone, eliminating altogether the need to visit a TAC. In fact, we have found that about 50 percent of the taxpayers who call for an appointment resolve their issues during that initial phone contact.

This fiscal year, through February 18, just over 1 million people have called for an appointment. Of that total, about 526,000 – more than half – were able to resolve their issue over the phone, meaning there was no need for the time and expense of visiting a TAC. This is an important point, because we believe TAC employees can now spend more time with those who do visit, as they tend to have more-complex issues that cannot be resolved over the phone.

In implementing this new arrangement, we realized it would take time for people to adjust, so we have also served 610,000 people who walked in without an appointment so far this fiscal year, bringing the total number served so far in FY 2017 to over 1.6 million. The 610,000 number also includes people who visit TACs to pay their tax bill, a transaction for which no appointment is needed.

Given these results, we view the move to appointments as a common-sense change that increases and improves the level and quality of customer service the IRS can provide while minimizing burden on taxpayers. At the same time, we are still getting feedback and adjusting the appointment process to make sure it works as efficiently as possible.

To supplement the in-person service provided at TACs, the IRS is collaborating with various partners to provide a secure Virtual Service Delivery (VSD) capability in some areas where there is limited staffing at a TAC or where no TAC exists. VSD involves taxpayers interacting with live assistors that are located in a different geographic area, via secure IRS computer and high-resolution video capabilities. The computer can be placed in community partner locations, such as public libraries, or in other government offices. We currently have 28 VSD locations serving taxpayers. We will continue to look at VSD as well as exploring other technologies to deliver service in new ways.

Another way the IRS facilitates in-person assistance is through its support of nearly 12,000 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites around the country. These sites provide free tax preparation assistance to low-income taxpayers who make \$54,000 or less, as well as older Americans, people with disabilities and those with limited proficiency in English. These VITA and TCE sites are staffed by nearly 90,000 dedicated volunteers, and I'm proud to say that many of them are IRS employees

and retirees. These volunteers help prepare more than 3 million federal income tax returns a year.

The IRS also works with partners to provide the Free File program, which allows taxpayers to prepare and e-file their federal income taxes at no cost. Free File can be used by anyone who earns \$64,000 or less, which is approximately 100 million individuals and families. Free File is made available through an agreement between the IRS and more than a dozen companies that form the Free File Alliance.

The IRS continues to look for ways to make it easier, not only for taxpayers to file their taxes, but to pay what they owe. Although some of the newer options have involved making payments via credit card or through direct debit, the IRS also began offering a new cash payment option, PayNearMe, in 2016. PayNearMe allows taxpayers who want to pay their taxes in cash to go to any of more than 7,000 7-Eleven convenience stores in 34 states to make those payments.

Taxpayer Correspondence

Another aspect of our customer service efforts involves taxpayer written correspondence, which gets less attention than other channels, but is critically important in resolving account and compliance issues for taxpayers and their representatives. In a given year, the IRS processes nearly 8 million pieces of mail from taxpayers. Each of these taxpayer contacts is extremely important to the IRS.

Typically, taxpayers write to the IRS after receiving a notice from the agency about an issue with their tax return. When taxpayers do not receive a timely response from the IRS to their letters, they call for an update. In other words, failing to manage correspondence can actually increase phone demand

In 2014 and 2015, our inventory of correspondence from taxpayers grew significantly above what it would normally be, because our constrained funding forced us to shorten the period of employment for our seasonal employees who help answer taxpayer correspondence. To illustrate, inventory of pending correspondence stood at 900,000 at the end of FY 2014 and 859,000 at the end of 2015. During 2015, to keep the escalating correspondence backlog from worsening still further, we ultimately shifted resources from the phones to correspondence to answer the letters and prevent additional phone calls.

As noted above, the \$290 million in additional funding we received for 2016 allowed the IRS to significantly improve phone service that year. This also freed up more resources to help reduce the correspondence inventory, which declined to 690,000 by the end of FY 2016, and stood at 539,000 as of last month.

The difficulties we experienced in 2015 with both correspondence and phone service need to be seen in a broader budget context, which includes the availability of user fees to supplement resources for taxpayer service. We have allocated user fees to effectively fund taxpayer service activities when discretionary appropriations are lower than what is necessary to support taxpayers' demand for services.

Historically, the IRS had spent about \$150 million a year in user fees on taxpayer service. But in 2015, we needed funding to maintain many of our current information technology (IT) systems and for IT upgrades needed to implement numerous unfunded legislative mandates. Therefore, for the 2015 filing season, we were forced to divert user fees to prepare for the upcoming filing season. As a result, only \$45 million was available from user fees to help fund taxpayer service in 2015. To help make up this shortfall, we transferred \$30 million from enforcement to taxpayer service that year.

It is important to note the number of provisions enacted by Congress over the last several years that came with little or no funding for their implementation. This list includes: the Affordable Care Act (ACA); Foreign Account Tax Compliance Act (FATCA); a new certification program for professional employer organizations; reauthorization of the Health Coverage Tax Credit (HCTC); the private debt-collection program; the registration requirement for newly created 501(c)(4) organizations; the seriously delinquent debt certification program; the delay of refunds of returns claiming the EITC and ACTC; and expiration of ITINs.

As you can see from the multiple service channels and options we offer taxpayers and their representatives, and our continuous efforts to find ways to improve and expand those options, we take former IRS Commissioner Gibbs' admonition seriously about efficiently and effectively serving the needs of all taxpayers, especially those who comply and those trying to comply.

Chairmen Meadows and Jordan, Ranking Members Connolly and Krishnamoorthi and Members of the Subcommittees, the IRS has always believed, and continues to believe, that every taxpayer is important, and we need to serve each one in whatever manner they interact with us. For that reason, the agency and its workforce remain dedicated to improving taxpayer service throughout the year, especially approaching and during the filing season, through outreach, education and across all channels. We look forward, with Congress's help, to continuing to do so. This concludes my statement. I would be happy to take your questions.