

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

Chairmen Jordan and Meadows, Ranking Members Krishnamoorthi and Connolly and members of the Subcommittees, thank you for the opportunity to provide you with an update on IRS operations.

After a career of more than four decades in the tax community, most of it in the private sector, I began serving as the IRS's Acting Commissioner in November 2017. During the five months I have been at the IRS, I have had the opportunity to examine its areas of focus, its direction and its operations.

One of the things I wanted to do when I came to the IRS was to ensure there was a fresh perspective at the agency and a clear focus on taxpayer service. I believe the IRS is taking a fresh look at how it can best fulfill its mission. In my view, the IRS needs to continue working on a number of areas, including improving taxpayer service; becoming more effective and efficient in its operations; and increasing accountability throughout the agency.

It is clear that, while the potential is there to continue making improvements, the IRS needs to execute on that potential, and there is still much to be done. There are many new leaders in place in key positions at the IRS, and I believe the current IRS leadership team and the entire workforce are committed to this effort. During my remaining time as Acting Commissioner, I will work to ensure the IRS continues taking steps to improve its operations and focuses on the right course.

IMPROVING TAXPAYER SERVICE

The IRS is mindful of the need to do everything possible to provide taxpayers and their representatives with secure, high-quality assistance and services, through every available channel. I have been impressed by the significant amount of time and resources the agency spends each year to fulfill this critical

part of its mission. The workforce remains dedicated to helping taxpayers understand and meet their filing obligations.

The most visible service the IRS provides each year is delivery of a smooth tax filing season. I'm pleased to report that the 2018 filing season began on schedule on January 29 and has gone well in terms of tax return processing and the operation of our information technology systems. As of March 30, the IRS received more than 94.1 million individual returns. We have issued more than 73.3 million refunds for more than \$212.3 billion. About 80 percent of returns filed so far claimed a refund, with the average refund totaling approximately \$2,900. It is important to note that, although today is the tax filing deadline for individuals, the work of the filing season continues throughout the year, as IRS employees continue to process tax returns, including amended returns, and returns for which taxpayers had requested an extension beyond April 17.

Every bit as important as efficiently processing tax returns is the IRS's responsibility for helping taxpayers understand the tax law and assisting them when they have questions. While all of the IRS's service channels are important, taxpayer needs have been evolving, with more people conducting their business using digital tools at the time and place of their choosing. The IRS has invested significant resources in developing a series of online tools and applications, such as "Where's My Refund?" so that those who prefer to interact with the IRS online can do so easily and securely. The plan is to continue investments in online tools and offerings and modernizing the taxpayer experience.

The IRS provides a wealth of tax information on IRS.gov, which was visited more than 495 million times during Fiscal Year (FY) 2017, and more than 324 million times so far this filing season. The most heavily used part of our website is the "Where's My Refund?" electronic tracking tool, which was used about 278 million times in FY 2017, and more than 240 million times already this filing season.

Here are several key online applications the IRS has developed in response to increased taxpayer demand for online services:

- Get Transcript, which allows taxpayers to go online, verify their identity with strengthened security, and download a copy of their tax records from prior years. Taxpayers used this tool 15.5 million times in FY 2017 and 7.4 million times so far this fiscal year;
- Online Payment Agreement, a secure, safe and easy process taxpayers can use to set up a payment plan and pay their tax obligations over time. A total of 798,000 online agreements were set up in FY 2017, and 303,000 have been set up so far this fiscal year; and
- Direct Pay, which provides taxpayers with a secure, free, quick and easy online option for making tax payments. This tool was used 10.2 million times in FY 2017 and has been used 4.1 million times so far this fiscal year.

We also are continuing the development, over time, of online accounts at the IRS where taxpayers can log in securely, obtain the information they need about their account and interact with the IRS as needed.

In 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. We followed that up with another feature that lets taxpayers see recent payments posted to their account. We anticipate the online account will remain a key point of contact between the IRS and taxpayers, and we will add other features to this platform, as they are developed and tested with taxpayers and tax professionals.

Some taxpayers would rather interact with the IRS on the telephone or face-to-face. Our toll-free telephone line, which constitutes one of the world's largest customer service phone operations, is critical to taxpayer service. In FY 2017, the IRS received more than 52 million taxpayer calls, with more than 40 percent, or about 23 million, handled by our customer service representatives. The rest were calls made to lines providing automated messages containing helpful tax information.

In regard to phone service, I'm pleased to report that during the 2018 filing season we are again seeing a strong level of service (LOS) on our toll-free lines, as we did in 2017. As of March 31, our phone LOS was over 78 percent, and we anticipate that the average for the 2018 filing season as a whole will be about 80 percent. Average LOS during the 2017 filing season was 75 percent, and 70 percent for the 2016 filing season. The average hold time for a call this busy filing season was less than six minutes, compared to around seven minutes last year.

The IRS has also been successful in providing timely assistance to taxpayers who visit one of our Taxpayer Assistance Centers (TACs) around the country. This is the second year that all TACs are offering appointments in advance, a process that we have found dramatically cuts wait times for TAC visitors. As in 2017, we have had no reports of long lines during the 2018 filing season – clear evidence that the appointment process reduces burden on taxpayers who seek in-person assistance.

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. Second, the IRS employee making the appointment can often help the taxpayer resolve their issue over the phone or refer them to the resources they need, eliminating the need to visit a TAC. So far this year, about half of those who called for an appointment were able to resolve their issue without actually having to come in for an appointment. This is an important point, because 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.

We expect that the total number of taxpayers served at TACs this year will be in excess of 5 million, including both in-person visits and instances where taxpayers were able to resolve their issue when calling for an appointment. While we encourage taxpayers to make appointments in advance, so they can be assured of quick and efficient service, we also do whatever we can to serve taxpayers who show up without an appointment.

INCREASING EFFICIENCY, EFFECTIVENESS AND ACCOUNTABILITY

A critical component of making the IRS more accountable, effective and efficient involves being responsive to Congress and other organizations that oversee the agency and recommend improvements. In this regard, the Treasury Inspector General for Tax Administration (TIGTA) plays an extremely important role. The IRS has been, and will continue, working to improve our actions to respond to the recommendations TIGTA makes in its audits of IRS operations.

I believe we are making important progress in this area. Since I became Acting Commissioner in mid-November, TIGTA has issued 21 reports, 18 of which contained recommendations. Those 18 reports proposed a total of 106 recommendations. The IRS has accepted 94 of those recommendations, which amounts to 88.7 percent. We are moving as quickly as we can to implement those recommendations, and I believe those recommendations will make a difference.

As an example of our efforts to become more responsive to TIGTA's recommendations, I would like to provide the Subcommittees with an update on the process we use to rehire former employees, which was the subject of a TIGTA report issued in July 2017.

The IRS is committed to properly evaluating prior performance and conduct issues during the rehiring process. We have procedures in place – which we continue to refine – to consider prior performance and conduct in the hiring process to the extent permissible by law. The IRS hiring process requires our human capital professionals to fully evaluate conduct and performance issues.

To strengthen this process, we have updated our policies and practices, and are continuing to explore additional methods to ensure that we meet hiring needs while considering all prior performance and conduct issues. These efforts include the corrective actions we have taken in response to the recommendations made in TIGTA's July 2017 report, which were completed in October 2017.

Our updated process allows us to review and document derogatory performance and conduct information on former IRS employees who apply through the external hiring process, regardless of the age of that information. Substantiated derogatory information on former employees is forwarded to the selecting official for consideration prior to making a tentative job offer. The selecting official is required to document any decision to select a former employee with prior conduct or performance issues, and our Human Capital Office is charged with maintaining the documentation.

We are monitoring and evaluating the impact of the new procedures and we anticipate this review will be completed in the next several weeks.

IMPLEMENTING THE NEW TAX LAW

The IRS's work to implement the Tax Cuts and Jobs Act provides a good illustration of how the agency is working to be more effective and efficient in fulfilling its mission. The IRS has put in place a disciplined project management approach to tax reform implementation that has already yielded results. This is critical, given the wide scope of the new law: early on, we determined the IRS would need to create or change an unusually large number of forms and publications, update scores of tax processing systems, retrain our workforce and educate the taxpaying public about the changes.

We began in early January, by setting up a special Tax Reform Implementation Office, or TRIO, with members from across the agency who bring tremendous experience and leadership. The TRIO is coordinating our efforts and interacting with our business divisions and our Office of Chief Counsel to ensure a smooth roll-out of everything needed to implement the law.

Regarding our implementation activities, we are well on our way towards drafting all new or revised forms related to tax reform by the end of April, with early release of the draft forms and instructions for comment planned for the summer. Work also continues on reprogramming about 140 information technology systems, with special focus on returns processing and compliance systems, to ensure those systems are ready for next year's tax filing season.

We also identified income tax withholding as an area in which it was critical to implement changes in response to the new law as soon as possible. The IRS moved quickly to begin revising the withholding system to take into account various changes made by the statute. This issue affects every taxpayer who receives a paycheck. We started in January by issuing updated withholding tables for employers to use in 2018 that take into account the changes in rates and brackets, increases in the standard deduction and the repeal of personal exemptions in the Tax Cuts and Jobs Act. Then at the end of February, we released an update to our Withholding Calculator on IRS.gov to help employees

adjust their withholding based on changes in the law and their particular financial situation. Also in February, we issued a revised 2018 Form W-4, *Employee's Withholding Allowance Certificate*, to more fully reflect the new law.

The IRS widely publicized the release of the Withholding Calculator and the 2018 W-4 to encourage employees to check their withholding. The IRS continues to encourage taxpayers to check their withholding, and to do so as soon as possible. For example, in late March, we conducted a "Paycheck Checkup" public awareness campaign to get the word out to taxpayers about what they can do to make sure the correct amount of tax is being withheld from their pay.

Another important area where the IRS has made significant early progress on tax reform implementation involves the guidance taxpayers and tax professionals need to understand and navigate the new law. This involves both formal guidance, such as regulations and notices, and other information such as Frequently Asked Questions (FAQs) and press releases.

While much of the guidance will take time to develop, we determined certain areas needed to be addressed quickly. For example, in late December, we released initial guidance to help corporations begin complying with the transition tax imposed on untaxed foreign earnings of foreign subsidiaries of U.S. companies under new code section 965, which became effective upon enactment of the new law. We followed that up with additional notices, and also released a set of FAQs with information to assist taxpayers filing their 2017 tax returns, including how to report section 965 income and how to report and pay the associated tax liability.

Chairmen Jordan and Meadows, Ranking Members Krishnamoorthi and Connolly, and Members of the Subcommittees, I am confident the IRS is moving forward in the right direction. I remain committed to doing everything possible, while I am Acting Commissioner, to ensure the agency continues making needed improvements in its operations. This concludes my statement, and I would be happy to take your questions.