PREPARED REMARKS OF
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I'm delighted to be here today, and especially with a group that actually commemorates Tax Day every year. Where else could you find that except in Washington?

This is normally the point where I would deliver my standard public service announcement reminding everyone to file their taxes by the April 15th deadline, which is just a week away. But I'll dispense with that, since we've got some of the leading minds on budget and taxes in the room. Nobody here would leave their taxes till the last minute, I'm sure. Right?

Before I begin, I'd like to say a special thank-you to Rosemary Marcuss, the head of our research division, who helped put together today's event, and will be on the next panel. Rosemary is retiring soon, after more than three decades of wonderful public service, at the IRS, the Bureau of Economic Analysis and the Congressional Budget Office, and she will be missed.

I also want to recognize someone else who will be on the next panel: Nina Olson, the Taxpayer Advocate. Over nearly 16 months as IRS Commissioner, I have found Nina's advice and recommendations for improvement a great help to me in charting a path forward for the agency.

Turning now to why we're here, I need to thank the Tax Policy Center for selecting my favorite subject for this year's Tax Day event. The question of how IRS budget cuts affect taxpayers and the tax system is certainly something that keeps me up at night. It's something that all policymakers in Washington should be losing sleep over, and I'm grateful to the Tax Policy Center for fostering a discussion that needs to continue until we achieve the right result.

My view is simple. I believe that the underfunding of the agency is the most critical challenge facing the IRS today. And the serious ramifications of five years of budget cuts are becoming increasingly visible, and will worsen if action isn't taken soon.

This is not just about the agency. It's about the entire tax system. We're coming to the point where the significant reductions in the IRS budget will degrade the agency's ability to continue to deliver on its mission during filing season and beyond.

I'm sure most people in this room know how critical our situation is, but in case you're just back from a few months in Antarctica, I'll recap it for you. The IRS budget level for Fiscal Year 2015 of $10.9 billion is $1.2 billion less than five years ago. The IRS is now at its lowest level of funding since 2008. If you adjust for inflation, our budget is now comparable to where we were in 1998.

But while our budget has been shrinking, the taxpayer base has grown by millions. We've also taken on many new responsibilities, such as implementation of the Foreign Account Tax Compliance Act and the tax-related provisions of the Affordable Care Act.

Since 75 percent of the IRS budget is personnel, the agency has been absorbing the budget reductions mainly by shrinking our workforce. As a result, we ended Fiscal Year 2014 with more than 13,000 fewer permanent full-time employees compared with 2010. We expect to lose another 3,000 or more through attrition by the end of this fiscal year.

You might think that shrinking an agency would force it to do more with less. That may have been true for us in the early going. We have heard the comments from the Hill and elsewhere that our funding was deliberately lowered to make us think twice about our spending. The IRS does need to be as efficient as possible, and we now save over $200 million a year as a result of non-labor cost savings put in place over the past few years. But after five years of budget cuts, and a hiring freeze that has lasted four years, people need to understand that the IRS is going to have to do <u>less</u> with less.

This means that both enforcement and taxpayer service will suffer. The problem is that our levels of staffing are insufficient to fully deliver on our mission. Consider that the 13,000 employees we have lost since 2010 include 5,000 key enforcement personnel. These are the people who audit returns and conduct collection activities, and the special agents in our Criminal Investigation division who investigate refund fraud and other crimes.

We estimate the drop in audit and collection case closures this year will translate into a loss for the government of at least $2 billion in revenue that otherwise would have been collected. Essentially, the government is forgoing billions to achieve budget savings of a few hundred million dollars, since we estimate that every $1 invested in the IRS budget produces $4 in revenue. The cumulative effect of the cuts in enforcement personnel since Fiscal 2010 is an estimated $7-8 billion a year in lost revenue for the government. As some have called it, this amounts to a tax cut for tax cheats.

On the services side, this year we were forced to substantially reduce hiring of extra seasonal help we usually have during the filing season. As a result, our phone level of service at the start of the filing season was just 54 percent. As we have gotten closer to the end of filing season, it has dipped below 40 percent. That means more than six out of every 10 people who called could not reach a live assistor. That's simply unacceptable, especially when you consider that our goal for phone level of service in a given year is 80 percent.

The negative impacts of our underfunding extend to the business side as well. It might sound like good news to corporations that we're conducting fewer audits, but the ones we do are likely to be more burdensome, because we have fewer examiners with specialized training who understand complex business issues. As for tax law guidance needed by businesses, we are having to target our resources more to retail issues involving individuals and 1040s. That means guidance sought for more highly specialized issues in the corporate arena will likely suffer as a result.

The risk to our tax system posed by underfunding goes deeper than uncollected dollars, unanswered phones or unpublished guidance. Service and enforcement need to be viewed as two sides of the same compliance coin, because our system is built on the notion of voluntary compliance. If people think they're not going to get caught if they cheat, or they're just fed up because they can't get the help they need from us to file their taxes, the system will be put at risk. Consider that a one-percent decline in the compliance rate translates into $30 billion in lost revenue for the government. I think Everett Dirksen would have called that real money.

In describing the situation we find ourselves in, it's important not only to point out what the IRS can't do, but also what we can do and are still doing. While the agency is cutting in discretionary areas, we continue to deliver on core functions. A great example is the current tax filing season, which has gone smoothly in terms of tax return processing and the operation of our IT systems. Through April 3rd, the IRS received more than 99 million individual returns, on the way to an expected total of 150 million. We've issued more than 77 million refunds, for more than $217 billion.

One thing I've been trying to get people to understand is that delivering the filing season doesn't happen automatically, and it doesn't happen by accident. It happens because of the talent, expertise and dedication of our workforce. To get ready for this filing season, IRS employees built into our systems the back end of the ACA, the front end of FATCA and the tax extenders legislation, all without missing a beat.

I told employees a year ago during my visits to IRS offices across the country that, if we could pull this off, it would be an amazing testimonial to the skill and dedication of IRS employees. And that's exactly what it is. In the public sector, when things go well it often passes unnoticed. So I view part of my job as trying to make sure the public, the press and the Congress see this achievement for the great accomplishment it is.

Let me give you an illustration of the disconnect between our funding levels and our responsibilities: Last December, just three days after cutting our budget by nearly $350 million, Congress passed legislation requiring the IRS to design and implement two new programs by July 1 of this year. And the punch line is those programs – the ABLE Act and the certification requirement for professional employer organizations – didn't come with any additional funding. But we are a can-do agency, so we will play the hand we're dealt, and do the best we can. That's because we have no choice but to do statutory mandates, even if, because those mandates are often unfunded, implementation comes at the expense of taxpayer service and enforcement.

It’s a strange position for us to be in. The IRS is such a capable agency that Congress keeps giving us new responsibilities. We deliver on those responsibilities and we deliver smooth filing seasons year after year. And then they tell us, “We’ll give you less money and see how you do next year.” Up until now, we have been able to manage.

But I am extremely concerned that the cracks are beginning to show. I’ve said it before, but I think it bears repeating: I never found an organization in my 20 years of private sector experience that said, “I think I’ll take my revenue operation and starve it for funds to see how it does.” But that is what’s happening now to the IRS. And so my view is that I want people to understand this is a real threat to the capacity of the agency over time to meet its mission. People need to know what is at stake.

The problem goes beyond not having enough employees to adequately run current operations. The continuing underfunding of the IRS threatens our ability to properly develop our workforce so that we have a viable operation five to 10 years down the road. As I mentioned, part of the problem is simply having fewer people. The high-water mark of the agency’s workforce in terms of size was in 1992. Since then we have lost more than 30,000 full-time employees, and are at our lowest level since the early 1980s.

The current composition of the IRS workforce also presents a challenge. The problem is simple. Our workforce is maturing at a rapid rate. In fact, the portion of our workforce over 50 years of age has been growing steadily during the last several years – and I personally have helped that trend.

Today more than half of our employees are in that age group. And we estimate that by next year, more than 25 percent of the IRS workforce will be eligible to retire. By 2019, that number will be over 40 percent. Meanwhile, the number of IRS employees under 30 has been steadily declining, and is now less than three percent of our workforce. Essentially, the IRS is facing its own version of the Baby Bust.

The risk to our future workforce is generally overlooked in our funding discussions. And yet this issue is critical to the future of the agency and will only grow in importance in the months and years ahead. As I have noted along the way, my term will end before the full magnitude of this problem is visible to outsiders. But it would be irresponsible to just slide along without beginning to address the situation.

In talking about issues posed by underfunding the agency, one of my biggest concerns involves our inability to fully improve and modernize our information technology infrastructure.

Because of inadequate resources, the IRS is operating with antiquated systems that are increasingly at risk, as we continue to fall behind in upgrading both hardware infrastructure and software. Despite more than a decade of upgrades to the agency’s core business systems, we still have very old technology running alongside our more modern systems.

We have many applications that were running when John F. Kennedy was President. About the only good thing you can say about them is that the code they use has been out of date for so long, it has the unintended effect of creating problems for hackers who may be trying to figure out how the system actually operates.

So that's our case for adequately funding the IRS. But I think we need to broaden the discussion. I'm increasingly convinced the IRS needs to do more and take a different approach, and one that doesn't just rely on resources. Our goal isn't merely to get enough funding to hire back 13,000 people and go backwards in time and perform the way we used to. We are not going to build the IRS back to where it was in 2010. We need to be looking forward to a new, improved way of doing business.

This involves looking at the future in a more comprehensive way, and considering how we can take advantage of the latest technology to move the entire taxpayer experience to a new level – and do it in a way that's cost-effective for the government. In particular, we are focused on how best to use our limited information technology resources. Our goal is for taxpayers to have a more complete online experience for all their transactions with the IRS.

The online experience should give everyone confidence in knowing they can take care of their tax obligations in a fast, secure and consistent manner. This goal is not unrealistic. We're not trying to go to the moon or Mars. We're simply saying people should expect the same level of service when dealing with the IRS in the future as they have now from their financial institution, whether it's a bank, brokerage, or mortgage company.

The idea is that taxpayers would have an account at the IRS where they, or their preparers, can log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually, and there would be much less need for in-person help, either by waiting in line at an IRS assistance center or calling the IRS.

Improving service to taxpayers in this way can also help us on the compliance side of the equation. We need to be faster and smarter. With a more modern system, the IRS could identify problems in tax returns when a return is filed – rather than coming back to taxpayers years after the fact while the meter is running on potential interest and penalties. We want to interact with taxpayers as soon as possible so that those issues can be corrected without costly follow-up contact or labor-intensive audits.

And it's not as if this would all be new. To the extent we've been able to, even within our budget constraints, we've already made some significant improvements in our technology to serve taxpayers.

For example, one of the most popular features on IRS.gov is the "Where's My Refund?" electronic tracking tool. Taxpayers have already used it more than 187.5 million times this year, which is very close to surpassing the total for all of last year.

Another good example is Get Transcript, which was launched last year. This is a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of minutes. So far this year, taxpayers have used this application to obtain more than 15 million copies of previously filed tax information.

But while we already have a few of the building blocks in place, we still need to engage in a full court press in an organized way, to build toward a better online filing experience.

In moving toward this future state, I should mention that the IRS will continue the extremely valuable partnerships we have with the private sector. These partners run the gamut of the tax industry, from professional return preparers to developers of software and other tax products. They are critical to our ability to run a tax system that helps millions of people each year fulfill their tax obligations, and we will look to our partners for assistance as we continue down this road.

I would also point out that as we improve the online filing experience, we recognize the responsibility we have to serve the needs of <u>all</u> taxpayers, whatever their age, income, or station in life. Improving service to taxpayers must include special consideration for those who aren't comfortable in the digital environment, or who cannot afford to conduct their transactions online.

In the end, our ability to improve both online and traditional channels of taxpayer service will depend on future levels of agency funding. But even within our budget constraints, we are going to continue to find some funds to support these efforts to build toward the future, even at the expense of other areas of our activities. Otherwise, if we just wage a guerilla-style fight every year through the continuing funding challenges, focusing only on the present, we'll wake up in five years and be no further ahead than where we are today – in fact, we'll be five years further behind.

So that's our story. The challenges facing the IRS today leave policymakers with a very clear choice. A decision to adequately fund the IRS will give us the tools we need to fulfill our mission and build for the future. A decision to keep underfunding the agency will punish taxpayers, reduce the revenue needed to fund the government, and inject risk into our system of voluntary tax compliance. I will continue urging Congress to make the right decision.

I took this job nearly 16 months ago because I understand the critical role the IRS plays in the lives of taxpayers and in funding the government. I know I speak for the thousands of professional, dedicated employees of the IRS when I say that we are committed to continuing to do all we can to build for the future, in the interest of serving the American taxpayer.

Thank you, and I would be happy to take your questions.