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LEGISLATION TO IMPROVE TAX ADMINISTRATION

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

JANUARY 30, 2018

Serial No. 115–OS11

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE
33–793 WASHINGTON : 2019

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CONTENTS

	Page
Advisory of January 30, 2018, announcing the hearing	2

WITNESSES

Representative Jason Smith, 8th District of Missouri	17
Representative Peter Roskam, 6th District of Illinois	17
Representative James Renacci, 16th District of Ohio	24
Representative Tom Rice, 7th District of South Carolina	25
Representative Steve Chabot, 1st District of Ohio	27
Representative Bill Posey, 8th District of Florida	28
Representative Louie Gohmert, 1st District of Texas	31

SUBMISSIONS FOR THE RECORD

Internal Revenue Service Criminal Investigation (IRS CI)	33
Representative Patrick McHenry, 10th District of North Carolina	34
American Institute of Certified Public Accountants (AICPA)	35
American Payroll Association (APA)	43
Nonprofit Data Project of the Aspen Institute	46
National Association of Tax Professionals (NATP)	50
Small Business & Entrepreneurship Council (SBE Council)	59

LEGISLATION TO IMPROVE TAX ADMINISTRATION

TUESDAY, JANUARY 30, 2018

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:01 p.m., in Room 1100, Longworth House Office Building, Hon. Lynn Jenkins [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
Tuesday, January 30, 2018
OS–11

CONTACT: (202) 225–1721

Chairman Jenkins Announces Member Day Hearing on Legislation to Improve Tax Administration

House Ways and Means Oversight Subcommittee Chairman Lynn Jenkins (R–KS), announced today that the Subcommittee will hold a hearing on Member proposals for improvements to the IRS administration of the U.S. tax system. **The hearing will take place on Tuesday, January 30, 2018, in room 1100 of the Longworth House Office Building, beginning at 2:00 p.m.**

Oral testimony at this hearing will be limited to Members of Congress who have either introduced or co-sponsored legislation related to improving the IRS. Members wishing to testify at this hearing should contact the Subcommittee at (202) 225–9263 or *Liz.Navin@mail.house.gov* by no later than noon on Friday, January 26. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*Hearings*." Select the hearing for which you would like to make a submission, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, February 13, 2018**. For questions, or if you encounter technical problems, please call (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at *http://www.waysandmeans.house.gov/*

Chairman JENKINS. The Subcommittee will come to order. Welcome to the Ways and Means Oversight Subcommittee Member Day hearing on legislation to improve tax administration. Today is a unique opportunity for us to hear from colleagues about their legislative ideas and priorities related to reforming the IRS.

Tax administration is an issue that I have been familiar with for my entire professional life. As a CPA I have had many years of experience helping individuals and small businesses navigate the complexities associated with filing their taxes.

I know the relationship between the IRS and taxpayers can be strained, particularly as taxpayers strive to understand their tax liability and the IRS struggles to communicate and provide help. I am looking forward to exploring ways to restore the relationship between taxpayers and the IRS and help the agency better understand and administer the tax code.

Over the last year, through more than 10 formal hearings and Committee events, this Subcommittee has heard from high-level IRS executives, the National Taxpayer Advocate, and agency watchdogs such as GAO and TIGTA on how the IRS is functioning, and where they are succeeding and where some assistance may be necessary. We have also heard from practitioners, public interest groups, small businesses, and individuals about the challenges they face with the IRS.

One of the challenges I would like to highlight today is the dispute resolution process at the IRS. This is an administrative process where the agency seeks to resolve controversies without litigation. If a taxpayer disagrees with an IRS decision or assessment, Congress determined that a review by an independent IRS employee should be available.

Unfortunately, over time, the process set up by the IRS has become less independent, and taxpayers are frustrated. Some express frustration at not being able to plead their case face to face. Others have been completely denied access to independent review. Taxpayers are losing faith that they will receive an independent and fair review of their case.

I am looking forward to working with Ranking Member Lewis to address these concerns and others, as we craft a bill to reform the IRS.

In addition to hearing from my Subcommittee colleagues here behind this dais, I am eager to hear from other non-Subcommittee Members who have spent time and energy on bills to improve the way our tax code is administered. Today's hearing will be structured as follows.

Members will have 5 minutes to discuss their tax administration legislative priorities. I would remind those Members that they are

also able to submit written testimony in support of their legislation.

I want to thank our witnesses and Members of the Subcommittee for taking time to be here today.

And with that I would like to yield to the distinguished Ranking Member, Mr. Lewis, for the purpose of an opening statement.

Mr. LEWIS. Madam Chair, thank you for holding this hearing on proposals to improve the administration of our Federal tax system.

Let me begin by congratulating you on your appointment, and welcome you as our new chair. I enjoyed working with our friend and colleague from Florida, and I look forward to working with you.

Today we will hear suggestions from our colleagues on how to improve IRS operations and taxpayer services. In a Nation as great and diverse as ours, taxpayers have unique perspectives and needs.

Madam Chair, as you know, we have a voluntary tax system that depends on taxpayers understanding their responsibility and receiving timely answers to their questions. Unfortunately, identity theft and tax fraud continue to challenge tax administration. It is particularly important that all taxpayers, especially those who are low-income, disabled, and senior citizens receive fair, quality, in-person services.

Over the past 8 years, Congress cut the agency budget by almost $1 billion. I said it before and I will say it again: You cannot squeeze blood from a turnip. We all know that the agency is in desperate need of more funding and staff. For these reasons, we must strengthen the Internal Revenue Service.

Madam Chair, I would like to share a brief overview of my bill to improve taxpayer service: H.R. 2171, the Taxpayer Protection Act of 2017. The Democratic Members of this Subcommittee joined me in introducing this legislation. My bill would repeal the private debt collection program that costs three times more than it collects, and abuses thousands of low-income taxpayers, by enrolling them in installment agreements that they cannot afford. The program is a shame and a disgrace, and it must end.

My bill will also strengthen low-income taxpayer clinics, fix the offer-in-compromise program, and improve overall funding for taxpayer services.

Finally, I will—it would ensure that taxpayers know whether the professional preparing their return is licensed and in good standing with the IRS. This bill proposes good, sound policy, and I hope our colleagues on both sides of the aisle will support it.

Madam Chair, thank you again, and I ask unanimous consent that my full statement is included in the record. And thank you for holding this hearing. I look forward to the testimony of our colleagues, and I yield back.

Chairman JENKINS. Without objection.

[The prepared statement of Hon. John Lewis follows:]

OPENING STATEMENT OF RANKING MEMBER JOHN LEWIS (D-GA)
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
HEARING ON LEGISLATION TO IMPROVE TAX ADMINISTRATION
January 30, 2018

Madam Chair, thank you for holding this hearing on proposals to improve the administration of our federal tax system. Today, we will hear suggestions from our colleagues on how to improve IRS operations and taxpayer services.

Madam Chair, as you know, we have a voluntary tax system that depends on taxpayers understanding their obligations and receiving timely answers to their questions. In a nation as great and diverse as ours, taxpayers have unique perspectives and needs. Unfortunately, identity theft and tax fraud continue to challenge tax administration. It is particularly important that all taxpayers – especially those who are low-income, disabled, and senior citizens -- receive fair, quality, and in-person services. For these reasons, we must strengthen Internal Revenue Service (IRS) staff and training and arm the agency with adequate tools to fight identity theft and tax fraud.

Without necessary resources, the agency will not be able to implement the ideas discussed today. Over the past eight years, Congress cut the agency's budget by almost one billion dollars. We all understand that the Internal Revenue Service is in desperate need of more funding and staff. These reductions harm both taxpayer services and tax administration. We should adopt many of these good ideas only if the agency receives the additional funding it needs to carry out its duties.

Madam Chair, I would like to share an overview of my bill to improve taxpayer services—H.R. 2171, the Taxpayer Protection Act of 2017. The Democratic Members of this Subcommittee joined me in introducing this legislation. H.R. 2171 reflects many of the values in the Taxpayer Bill of Rights.

H.R. 2171 would repeal the private debt collection program restarted in 2015 by the Majority. The program abuses thousands of low-income taxpayers by enrolling them in installment agreements that they cannot afford. In her most recent report to Congress, the National Taxpayer Advocate states that the program only collected $6.7 million from taxpayers at a cost to the IRS of $20 million, which is three times the amount collected. Nearly 30 percent of the people who made payments under the program had incomes below $20,000, about 40 percent had incomes below 250 percent of the poverty level, and some were Social Security Disability Insurance (SSDI) recipients.

Simply said, Madam Chair, the collection of federal taxes is a core function of government. A for-profit focuses on bonuses and commissions; it cannot and will not ever have the best interest of taxpayers at heart. We have been down this road before. Each and every single time, private debt collection fails. It creates confusion and wastes taxpayer dollars. The program is a shame and a disgrace, and it must end.

In addition, our legislation would allow the IRS to refer taxpayers to Low-Income Taxpayer Clinics for assistance, increase authorized grants to such clinics, and improve overall

funding for taxpayer services. H.R. 2171 also would repeal the partial payment requirement for taxpayers who would like to enter into an offer-in-compromise to settle their tax liabilities. Today, the law requires taxpayers to make a nonrefundable partial payment of 20 percent of the amount of their offer with their application. Our bill would repeal the nonrefundable deposit that prevents taxpayers from settling their debts.

Finally, H.R. 2171 would authorize the agency to regulate tax return preparers and disclose information to the public related to tax return preparer misconduct. The IRS currently receives over 150 million tax returns each year, which mostly paid return preparers submit. Taxpayers should be able to know whether the professional preparing their return is licensed and in good standing with the IRS. As you can see, the Taxpayer Protection Act proposes good, sound policy, and I hope our colleagues on both sides of the aisle will support this bill.

Madam Chair, like you, I care deeply about the agency's ability to provide service to taxpayers. Again, I thank you for holding this hearing, and I look forward to the testimony of our colleagues.

Chairman JENKINS. Thank you, Mr. Lewis. Thank you, Mr. Lewis, without objection.

Other Members' opening statements will be made part of the record.

Now we are going to hear from the Members of the Subcommittee on their priorities to improve tax administration. And with that I will recognize Mr. Schweikert for 5 minutes.

Mr. SCHWEIKERT. Thank you, Madam Chairman. We have actually two pieces of legislation out there, and here is the basic concept. One is often referred to as a third-party verification, but let's use sort of a simple model example.

You qualify for an earned income tax credit. And today we expect the IRS to do an algorithm. We have actually done legislation to delay the payment going out. What would happen if I came to you and said there is a more elegant way to do that, and the person who is actually under—played by the rules and has earned that value could get it almost immediately?

The ability to have the tax return and a couple of the key fields balanced against—we will call them private commercial databases saying, hey, this database over here says this person had $200,000 worth of consumption, but they are telling us they made $30,000 last year. You know that should probably go into the pile to be looked at again.

But if it matches instantly, it is an elegant way to use just a simple, high-high-speed computer match to say, yes, we have good data here, a good request. It—we don't see fraud. Send the person the resources they have earned. It is much more elegant.

And I don't mean to hurt anyone's feelings who is a programmer at the IRS, but it is much more elegant than trying to design an algorithm that, as soon as you understand what the algorithm is looking for, you design the—you put in paperwork to work on—to the outskirts of the algorithm to work around it.

The data is already out there. It doesn't mean you transfer information to a private vendor. You just look for the match. And so it is a red light/green light. It is simple, it is fast. It would be, I believe, dramatically less expensive. And over time we need to accept using technology to make the IRS much faster and much more elegant on these.

The second one I want to share with you is how many of you have ever gotten a loan? You have gone out and gotten an SBA loan or a home mortgage or this and that. You remember filling out the piece of paper saying, "IRS, please tell my lender what my last couple years of tax returns were"—particularly if you are an independent contractor.

Do you know that, if I look on here, the technology today is functionally fill out this 56—or, excuse me, 4506T form, and then fax it. Fax it in. Come on. Let's actually sort of reach into this century and just ask for the 4506T, the income verification for our brothers and sisters who are out there getting a loan, that they can use this thing called the Internet and technology, fill out the form, turn it in. You know there are plenty of ways to make it much safer than a fax.

This legislation, I believe, is Representative McHenry's, so it is already out there. Both of these we already have in bill form. And

it is just the embracing of modern technology and this thing called the Internet to make it more efficient and more simple for Americans.

And with that I yield back, Madam Chairman.

Chairman JENKINS. Thank you, Mr. Schweikert. I will now recognize Mrs. Walorski for 5 minutes.

Mrs. WALORSKI. Thank you, Chairman Jenkins, for holding this hearing.

It is hard to believe that it was just literally over a month ago that President Trump signed the Tax Cuts and Jobs Act into law, yet we have already seen workers getting raises, bonuses, and better benefits, and companies announcing new investments in equipment and facilities right here in the United States.

While this was the most transformative overhaul of the tax code in 32 years, it is easy to overlook the fact that it has been 20 years since Congress took a major look at the structure of the IRS. A lot has changed since then.

In 1999, only 23 percent of individual returns were e-filed. In 2016, that figure was 89 percent. With the growth in e-filing, fraudsters are, unfortunately, becoming more and more sophisticated in their techniques. And yet the IRS's IT infrastructure is woefully lacking. They still rely on systems from the Kennedy Administration. There is a clear, critical, and urgent need for the IRS to fundamentally overhaul its IT systems, but repeated mistakes, big and small, have undermined our trust that they will get it right.

Consider this quote from a September 17th TIGTA report: "The IRS suspended the Enterprise Case Management, or ECM, project due to insufficient funding and staffing. In addition, the IRS determined that the software product selected for ECM could not support an enterprise-wide deployment."

To put it more plainly, the IRS bought the wrong product, and then didn't have enough money to buy the right one. I would be pretty upset if my husband took $20 to get gas for the car, but came back and said, "Honey, I need another $20 because I got a new ice scraper instead. Also, we need to call a tow truck because I ran out of gas."

Unfortunately, this isn't the only failed acquisition. The IRS wasted $12 million on an email system that, as it turned out, they could not use. According to TIGTA, again, they bought it "without first determining project infrastructure needs, integration requirements, business requirements, and whether the subscriptions were technologically feasible." But considering the wasted staff time in rebidding the contract, you are actually talking about a mistake that cost well over $12 million. The staff time and taxpayer dollars could have been devoted to other critical IT projects.

The IRS is run by human beings, and human beings make mistakes. But when a mistake happens, we need to ensure that there is accountability, and that procedures are followed to prevent it from happening again.

The IRS would also benefit from a better strategic vision and long-term planning. Back in 2009 the agency embarked on the return review program, or RRP, a new fraud detection program to replace legacy systems. It came in years behind schedule, and hun-

dreds of millions of dollars over budget. The RRP is a long saga. But I want to highlight one episode in particular.

The IRS put the project into a "strategic pause" in 2014. They cited many reasons, but here is a sampling: "To determine the priority and direction from IRS senior leadership; to articulate and align RRP's role in the broader business vision; to develop a road map for future State capabilities and architecture for RRP; to ensure clear and concise understanding of scope, cost, and schedule with contractors." And finally, "budgetary constraints."

Looking at this list, I wonder how any project could ever be on time or on budget. I see things like this and I can't help but ask, "Are these budgetary constraints real? Are they because people spend so much time spinning their wheels without any direction they just really run out of money?"

Now, the RRP is more or less up and running, and that is a good thing. It will help catch fraud. But the process was a failure. Picture a basketball player on a breakaway. He trips on his own shoelaces, but heaves the ball up while falling and makes the basket. You wouldn't say, "Good job," you would say, "Tie your shoelaces."

Had the underlying planning issues that led to such a cost overrun and long delay with the RRP been fixed—are new projects like CADE too needlessly doomed to the same fate?

Chairman Jenkins, this is the trust gap. It didn't open up overnight, and it won't be closed overnight, either. But we absolutely have to fix it. I believe, if we can instill more accountability, better contracting practices, and better strategic planning, the IRS really can get on the right path. Some of this can be legislative, but some involves a cultural shift. It is up to our next IRS Commissioner, who I hope will make this a priority.

Our Committee is seeking to closely engage the IRS on multiple fronts to better understand these issues, too. Still, I look forward to this Committee's continued work in the overhaul on reforming the IRS. I look forward to hearing our colleagues' ideas today, and I yield back.

Chairman JENKINS. Thank you.

Mr. Bishop, you are now recognized for 5 minutes.

Mr. BISHOP. Thank you, Madam Chairwoman. Thank you for the opportunity to speak today, and I would like to let you know that I appreciate the fact that we are holding hearings about the IRS, a great opportunity to discuss much-needed steps to improve the Service. And I look forward to working with the Committee to do so.

Over the last year or so we have had a number of meetings with various officials at the IRS, and I am continually amazed and shocked to hear about its archaic technology and infrastructure, and how much we need to do to ensure that the IRS is pulled into the 21st century.

That said, it is imperative that this Subcommittee explores ways to improve the IRS's technology and capabilities. Furthermore, when it comes to taxpayers, many of whom still receive paper checks that do not have access to the—we—pardon me a second, pardon me. Let me rewind a little bit here.

When we talk about the IRS and its capabilities, I want to begin with my ongoing suggestion that we need to do whatever we can

to address refunds. And I want to backtrack because, while we get a long way in this discussion about IRS reforms, one of the things that we talk about—that we have not talked about, I believe, enough is about the process of distributing refunds. And during the 2006 filing season the IRS issued 104 million refunds, 19 million of which went out by paper check.

When refunds are issued by paper checks, it is important to note that it costs the government about a dollar per check. But if processed electronically, it costs mere cents. The potential savings are, therefore, abundantly clear.

Furthermore, when it comes to the taxpayer, many receive these paper checks, don't have access to a bank or a credit union, and must resort to payday lenders or other check-cashing organizations, oftentimes who will charge a substantial fee and nullify the benefits of the refund. By enhancing the electronic payments, there will be fewer costs to the government. And, most importantly, taxpayers are able to keep more of their rightfully owed refund.

Madam Chairwoman, electronic payments are simply quicker and more secure. And for those reasons I have been working on legislation to increase the number of tax refunds that are processed electronically. And I hope it can be included in the final package this Subcommittee produces.

I would like to submit by unanimous consent, if I could, Madam Chairwoman, a statement that I have from the Electronic Transaction Association, which is an association representing over 500 companies that offer electronic transaction processing products and services. They encourage Congress to work with the IRS to implement electronic payments for Federal income tax refunds.

And that said, Madam Chairwoman, I would ask by unanimous consent that we submit this into the record.

Chairman JENKINS. Thank you, Mr. Bishop. Without objection.

[The submission for the Record of Hon. Mike Bishop follows:]

ELECTRONIC TRANSACTIONS ASSOCIATION
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Statement of The Electronic Transactions Association

United States House of Representatives
Committee on Ways & Means
Subcommittee on Oversight
Member Day Hearing on Legislation to Improve Tax Administration
January 30, 2018

Chairman Jenkins, Ranking Member Lewis and members of the Committee, The Electronic Transactions Association ("ETA") appreciates the opportunity to submit this statement for the record for the Committee's Member day hearing on legislation to improve tax administration.

ETA is an international trade association representing over 500 companies that offer electronic transaction processing products and services. The purpose of ETA is to help the payments industry by providing leadership through education, advocacy, and the exchange of information. ETA's membership spans the breadth of the payments industry to include payment networks, financial institutions, transaction processors, mobile payments products and services, voice-service providers, payments technologies, software providers, and hardware suppliers. ETA member companies touch, enrich and improve the lives of every consumer by making the global flow of commerce possible.

ETA encourages Congress to work with the IRS to implement electronic payments for federal income tax refunds. As you may know, Federal income tax refunds are - the only significant government payment that is not required to be made electronically (as a result of an exemption included in the Debt Collection and Improvement Act of 1996 "DCIA"). In our electronically focused economy, ETA asks that Congress take important steps to modernize and make more efficient and secure federal income tax refunds.

ETA also feels it is important that Congress take action to encourage and support consumer choice when it comes to receiving their federal income tax refunds. With an increasing number of Americans conducting their financial lives through financial products & services that were not yet available when the DCIA was written, it is important that American taxpayers be given the choice to receive payments in the manner that best fits their financial lives.

Innovative financial products, such as prepaid cards and digital wallets, are particularly important to the approximately 68 million Americans with limited or no access to traditional financial services and products. These products provide them with

a secure, affordable, and convenient option to make payments and receive deposits. Encouraging electronic payment for federal tax refunds would allow more Americans to be brought into main stream financial services and, thus, benefit from the security and convenience it provides. Action on this issue has also become more important than ever given that Congress recently passed a law that will increase income tax refund payments for millions of Americans.

ETA's members are dedicated to providing their customers with convenient, secure, and timely financial services and products that make their lives easier. We believe that it is time that Congress requires the IRS do the same with their customers, the American taxpayer.

ETA would like to thank the Committee for the opportunity to provide a statement for the record on this important topic. If you have any questions about this statement or the issues discussed, please contact Scott Talbott, ETA Senior Vice President of Government Affairs at or stalbott@electran.org.

Mr. BISHOP. On the top of the security, every day we hear that countless hackers and criminals are developing new schemes to steal taxpayer refunds, and are constantly trying to access the IRS's data. In an effort to combat bad actors and collaborate and share best practices to fight off emerging threats, the IRS formed the IRS Security Summit, which is a partnership of the IRS, State revenue agencies, and the private industry. By all accounts, this Summit has been beneficial for the parties involved, and I think we should explore more ways this Congress can further assist this effort.

In closing, I wholeheartedly agree with everyone in the room that the IRS is in dire need of reform. We have had plenty of bipartisan agreement on these issues over the last year, and I think this is a real opportunity to improve the IRS for the American taxpayers and start bridging the gap, the trust gap.

Thank you very much, and I yield back.

Chairman JENKINS. Thank you.

Mr. Reed, you are recognized for 5 minutes.

Mr. REED. Thank you, Madam Chair. And I appreciate the opportunity to have the discussion today with our colleagues in regard to ways to improve the IRS.

And I was listening to my good friend from Indiana, Mrs. Walorski, talking about the status of the computer programming, if you would, in the IRS. And I remember fondly the conversation I had with a prior IRS Commissioner about the discussion in regard to Fortran being the computer code that is utilized in some areas of the IRS in regard to its computer programming situation.

And, for those that may not know what Fortran is—because I look around this room and I see many folks in this hearing room today that were probably born 20 years after the creation of Fortran—it is a 1950s, 1960s computer programming system that is so antiquated, my understanding in the conversations with the former IRS Commissioner, that it is very difficult to even fix that computer code because no one knows what it is. They have all retired or gone to the great beyond.

So this is an area that, hopefully, with technology, as my good friend from Arizona had mentioned, can be improved upon in regard to providing better services to our constituents and to the American public.

But I wanted to focus in particular, Madam Chair, on improvements in the IRS that I truly do believe need to occur in regard to serving populations in rural communities such as yours in Kansas, Ms. Jenkins. And one of the areas that I see, just some simple reforms that maybe the IRS can take heed to, is utilizing technology when it comes to callback features, for example.

When folks call a service organization today, often they will be—hear a recorded message saying if you would like a call back, we can provide a call back to you at the phone number that you enter into the program. That is a simple relief reform that would go so far to help the needs of taxpayers across the country, especially in rural communities.

In our district we have very limited live centers where folks can go into areas like Jamestown, New York, or Elmira, New York, and meet with an actual person to discuss their sensitive IRS matters.

Using these types of phone services that accommodate the interests of our constituents—you know, many are working families, many are working mothers, working fathers that have difficulty trying to travel. Our district, from point to point across the district, is about a 5-hour drive, to be perfectly honest with you. It is very difficult to get to these centers and to have a conversation in regard to the issues before the IRS.

So doing things such as that callback feature, I think, is a simple reform that they could implement.

I also like the concept that is being discussed in regard to a year-round call center. I know the IRS, from information we have received, has kind of an off-season, on-season type of resource allocation. If we could maybe provide those resources on a year-round basis, many of the issues, especially as we go through tax reform, that many of the taxpayers deal with can be headed off—and have access to information sooner, rather than waiting potentially for an on-season staffing level that allows them to talk to real people.

And then, finally, Madam Chair, you know, I think it would be appropriate on these issues in regard to the IRS that maybe we have a dedicated line to people like yourselves, who are CPAs, enrolled agents, and then, therefore, maybe their more technical, advanced questions get the resources immediately responded to by staffing sophistication on the other end of the phone that can address those inquiries, as opposed to folks that may just have some basic questions and information requests that they could potentially get through a direct line. Maybe this would allocate the phone system so that you are not on hold for a significant amount of time, you are actually getting to the resource from the IRS in a timely fashion at the level that maybe your question or inquiry deserves the matching of that resource on the other end of the phone line.

So, for those simple reforms, I would advocate for the continuation of this hearing, and appreciate the Chairman putting this together and hearing from our colleagues and others ideas to improve services for what we all believe needs to be done in the IRS—better service to the people across America.

Chairman JENKINS. Thank you, Mr. Reed.

Mr. LaHood, you are recognized for 5 minutes.

Mr. LAHOOD. Thank you, Chairwoman Jenkins, for holding this Subcommittee hearing today, and to my colleagues for their advocacy and testimony on this important topic.

Ensuring an efficient, accountable, and transparent IRS is key to restoring the relationship between taxpayers and the agency, as well as an effective implementation of the tax code. Items of importance include ensuring a service-first agency, instilling confidence that taxpayer information is protected, and upgrading IRS technology for the 21st century, among other things.

It has been over 20 years since major reforms were made to the IRS. I appreciate the work this Subcommittee has done over the last year, including the Better Way blueprint. As the newest Member of this Subcommittee, I look forward to beginning engaging in this important work.

First, I would like to mention a bill that I am a cosponsor of, H.R. 3541, the Free File Permanence Act of 2017. This legislation

was introduced by my colleague from Illinois, the Chairman of the Health Subcommittee, Peter Roskam. If enacted, this legislation would make permanent the IRS's Free File program. I have held a number of information seminars throughout my district on this subject, and people understand how important it is.

This program is a public-private partnership between the IRS and tax software companies and State departments of revenue that enables low-income and underserved individuals to choose between the best tax preparation products to prepare and electronically file their Federal return for free. This actually saves the Federal Government money in the process.

Ensuring taxpayers have access to the tools and resources they need to simplify the tax process, this is important and a major part of H.R. 1, which was just signed into law.

Second, I would like to raise a different issue that I am working on to address through my own legislation. Currently, by law, the IRS Taxpayer Advocate Service can issue a—issue a taxpayer assistance order for specific case issues. While authorized by the Commissioner, the IRS Taxpayer Advocate Service does not have the same codified authority to issue taxpayer assistance directives for systemic issues.

Ensuring that the IRS Commissioner is responsive in a timely and substantive way to both types of requests is important to assure that areas for improvement within the agency are recognized and addressed.

In the event that the IRS Commissioner does not respond, it is worth considering what else can be done to ensure that the taxpayers' issue is fully reviewed and acknowledged. I look forward to continuing to find the best way to fix this situation, and hope to have bipartisan support on this legislation.

With that, Chairwoman Jenkins, I yield back my time. Thank you.

Chairman JENKINS. Thank you. I now recognize Mr. Curbelo for 5 minutes.

Mr. CURBELO. Thank you, Madam Chairman, and congratulations on your new role. I am thrilled that we will be working together under your leadership to reform, modernize, and revamp the IRS. And I know that Members on both sides of the aisle will have plenty to contribute to this process.

I want to take the opportunity today to discuss critical legislation I introduced with Representative Danny Davis of Illinois, and—which is very fitting, given what we are discussing today.

Our bill, the Volunteer Income Tax Assistance Permanence Act of 2017, would permanently authorize the Internal Revenue Service to administer the Volunteer Income Tax Assistance matching grant program. With the VITA program, the Federal Government partners with the local community to provide free tax preparation services for individuals with an annual income of less than $54,000, and those with limited proficiency in English. The program is specifically targeted to ensure taxpayers have access to services where they can confidently file returns without fear of being scammed by fraudulent preparers.

Tax return preparer fraud consistently ranks among the IRS's dirty dozen tax scams, and we know this problem all too well in

South Florida. Filing a tax return is enough of a headache, without the added fear of being scammed. The VITA program helps insulate the most vulnerable populations from this threat.

The legislation also ensures that VITA grant recipients maintain strong records of accuracy that will save taxpayers money. The program already boasts a 94 percent accuracy rating, even including returns with a complicated earned income tax credit. When taxpayers use VITA services to file their returns, they can rest assured knowing that their returns will be filed accurately and without the threat of fraud.

The success of the VITA program is evident in its growth. The number of tax returns prepared by the VITA program was 3.8 million in the 2016 tax filing season, up 100 percent from the number of returns prepared in the 2014 season. This program is critical to the residents of South Florida that I am honored to represent, where tax fraud and abuse of low-income filers is rampant, especially among immigrant communities.

According to Branches, a participant in the VITA program in Miami-Dade County, approximately 60 percent of residents qualify for assistance. In 2016, Branches helped residents file 9,845 tax returns at no cost, and secure $11.5 million in refunds. I look forward to visiting a VITA center operated by the United Way in South Florida in the very near future.

Funding for this essential service has received bipartisan support under both Republican and Democratic Administrations. The House and Senate Appropriations Committees have continued to include strong funding for taxpayer services like VITA, regardless of which party is in the majority. The VITA Permanency Act would provide the longevity this program needs because it benefits so many.

H.R. 2901 already has the support of 38 bipartisan Members, including 13 Members of this Committee. I urge my colleagues to join us in supporting the VITA program, which has a proven track record of success in assisting the most vulnerable in our communities.

Thank you very much, Madam Chair, and I yield back.

Chairman JENKINS. Thank you, Mr. Curbelo. I would like to recognize the Ranking Member for a few statements.

Mr. LEWIS. Thank you very much, Madam Chair. I just want to recognize Mr. LaHood. Did he walk out?

Chairman JENKINS. He did.

Mr. LEWIS. He did. But tell him I just wanted to observe that he has become a Member of the Committee, and to welcome him. I enjoyed working with his father over the years, when he was a Member of the Congress.

Chairman JENKINS. Very nice, thank you.

We are now joined by non-Subcommittee Members who have some legislative ideas. We are going to just move right down the line.

We have the Honorable Representatives Smith, Roskam, Renacci, and Rice.

And, with that, we will yield to the Honorable Representative Smith from Missouri for 5 minutes.

STATEMENT OF THE HON. JASON SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. SMITH OF MISSOURI. Thank you, Chairman Jenkins. It is a great honor to be before your Committee.

The passage of the Tax Cuts and Jobs Act in December created a pro-growth tax code for the American taxpayer. And folks across the Nation are starting to see the benefits of the lower rates in their paychecks. Just last week I visited three different employers in Southern Missouri who were either handing out bonuses, increasing hourly wages, or strengthening benefits as a result of the new tax code.

An important next step following such momentous tax reform is to ensure that the agency tasked with administering the tax code, the IRS, works effectively and efficiently for the American taxpayer. The IRS has been rightfully scrutinized over the years for its mismanagement and abuses of the American taxpayer, targeting long wait times and unauthorized spending, just to name a few. We need an IRS which protects and serves the American taxpayer, not one which proactively seeks to harm them.

Simply put, the IRS, in its current form, needs to be ripped out by its roots and turned on the—turned on its head into an entity which serves the American public, not one which only looks to hinder our families, farmers, and small businesses.

In July of last year, I introduced bipartisan legislation with my colleague on the Committee, Representative Terri Sewell, called the Preserving Taxpayer Rights Act. This good-government legislation would put a stop to an IRS which is inefficient, time consuming, and expensive for taxpayers. My bill takes the burden off the backs of taxpayers by allowing them to take certain cases to the IRS Office of Appeals, removes threatening tools of the IRS taking taxpayers to court, and protects their private and sensitive information by preventing outside groups from participating in audits, codifying into law something the President has instructed Treasury to do.

The American taxpayer deserves an IRS that is less burdensome and more transparent. They need an IRS that would work for them, not against them. Madam Chairman, it is my hope that, as you and your colleagues on the Oversight Subcommittee consider legislation to overhaul the IRS, you include the Preserving Taxpayers Rights Act as a mechanism to make the IRS work better for the American taxpayer.

Thank you again for holding this hearing, and I look forward to working with you on this and other issues.

Chairman JENKINS. Thank you, Mr. Smith.

Chairman Roskam, you are recognized for 5 minutes.

STATEMENT OF THE HON. PETER ROSKAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. ROSKAM. Thank you, Madam Chairman, and Ranking Member Lewis. It is an honor for me to be here today, and I deeply appreciate the work of the Subcommittee on which I have served. And I am here to talk about two pieces of legislation for your consideration.

The first is H.R. 3641, the Free File Permanence Act, which is a commonsense bill that makes the free file program permanent. It is a program that is a public-private partnership between the IRS and a group of companies which have agreed to offer commercial, online tax preparation and electronic filing services to consumers. This partnership allows free tax filing for any taxpayer making less than $66,000, removing a financial burden for taxpayers and ensuring that they are receiving quality guidance on how to file their taxes.

As an added bonus, the program actually saves the Federal Government an estimated $13 million a year because electronic filings are less expensive for the IRS to process than paper versions.

H.R. 3641 has 122 cosponsors, including Chairman Jenkins and Representatives DelBene, Walorski, Curbelo, Bishop, and LaHood on this Subcommittee.

Now, the second bill that I want to bring to your attention is one that Ranking Member Lewis is very familiar with, because he and I were partners in uncovering this scandal at the IRS. It is H.R. 1843, the Clyde-Hirsch-Sowers RESPECT Act. And it was during our time when we were leading the Committee together where we uncovered civil asset forfeiture abuse last Congress, and Congressman Crowley is the lead Democrat sponsor on this legislation.

Here is what happens, in a nutshell. If a person deposits $10,000 or more into a financial institution, that institution is required to submit a currency transaction report to the Treasury Department. Avoiding this reporting requirement by purposefully staying below the $10,000 limit is a Federal crime known as structuring. Structuring was made illegal in 1986 to prevent large-scale criminal enterprises, terrorists, and money launderers from hiding their money from authorities by consistently depositing just shy of the $10,000 limit.

Okay, so far so good. It makes perfect sense. But when structuring is believed to have occurred, the IRS can use its civil asset forfeiture authority to seize funds in the bank accounts and force the owner of the funds to prove that they were obtained legally. Unfortunately, this very Subcommittee uncovered multiple instances where the IRS abused this authority, and was stealing legally-earned funds solely because the owners ran afoul of structuring laws.

In some instances, the rightful owners of the money were told by bank tellers that depositing over $10,000 causes a headache of paperwork for the bank, so they deposited under $10,000 to be considerate, of all things.

In another instance, a taxpayer deposited under the limit because their insurance policies didn't cover $10,000 in off-premise losses.

Finally, some taxpayers deposited under the limit simply because they didn't want their private information sent off to the IRS every time they made a deposit. The RESPECT Act limits the IRS's civil asset forfeiture authority. It requires that, in order for—to seize funds the IRS believes have been structured to avoid reporting requirements, the IRS must first show probable cause that those

funds are derived from an illegal source or connected to some other criminal activity. Perfect common sense.

It also provides important procedural protections, including a post-seizure hearing for people whose assets the IRS has seized within 30 days after the seizure, or longer if the asset owner requests an extension.

We have just seen too many of these stories about the IRS seizing assets of honest, law-abiding taxpayers. And codifying these protections is something that I think should be included in any tax administration bill.

The RESPECT Act passed the Ways and Means Committee unanimously, which means that everybody supported it except the newly-arrived Mr. LaHood from Illinois, and we got him when he voted for it on the House floor. It overwhelmingly passed the House. I urge its—both of these bills consideration.

And I thank you, Madam Chairman, for the opportunity and—or the Ranking Member, Mr. Lewis, for your work, in particular, on the RESPECT Act.

I yield back. Thank you.

[The prepared statement of Hon. Peter Roskam follows:]

Roskam Testimony
Ways & Means Subcommittee on Oversight:
Member Day Hearing on Tax Administration Legislation

Thank you Chairman Jenkins and Ranking Member Lewis for the opportunity to testify in front of the Oversight Subcommittee. At the risk of offending my colleagues on the Health Subcommittee, a part of me truly misses my time on Oversight, and I envy the important work that you all are on the front lines of.

I'm here today to discuss two truly bipartisan pieces of legislation that I believe merit inclusion in any tax administration package.

HR 3641, the Free File Permanence Act is a common sense bill that makes the free file program permanent. This program is a public-private partnership between the IRS and a group of companies which have agreed to offer free commercial online tax preparation and electronic filing services to consumers. This partnership allows free tax filing for any taxpayer making less than $66,000, removing a financial burden for taxpayers and ensuring that they are receiving quality guidance on how to file their taxes. As an added bonus, this program actually saves the federal government an estimated $13 million per year because electronic filings are much cheaper for the IRS to process than

paper versions. HR 3641 has 122 cosponsors, including Chairman Jenkins and Representatives DelBene, Walorski, Curbelo, Bishop, and LaHood from this Subcommittee.

The second bill I urge inclusion of in any tax administration package is HR 1843, the Clyde-Hirsch-Sowers RESPECT Act. This bill should be very familiar to Members of this subcommittee as I worked with Ranking Member Lewis to uncover civil asset forfeiture abuse last Congress and Congressman Crowley is the lead Democrat sponsor of this legislation.

If a person deposits $10,000 or more into a financial institution, that institution is required to submit a currency transaction report to the Treasury Department. Avoiding this reporting requirement by purposefully staying below the $10,000 limit is a federal crime known as “structuring”. Structuring was made illegal in 1986 to prevent large scale criminal enterprises, terrorists, and money launderers from hiding their money from authorities by consistently depositing just shy of that $10,000 limit.

When structuring is believed to have occurred, the IRS can use its civil asset forfeiture authority to seize funds in the bank accounts and force the owner of the funds to prove that they were obtained legally. Unfortunately, this subcommittee

uncovered multiple incidents of the IRS abusing this authority and stealing legally earned funds solely because the owners ran afoul of structuring laws. In some instances the rightful owners of the money were told by bank tellers that depositing over $10,000 causes a headache of paperwork for the bank so they deposited under $10,000 to be considerate. In another instance a taxpayer deposited under the limit because their insurance policies did not cover more than $10,000 in off premises losses. Finally some taxpayers deposited under the limit simply because they did not want their private information sent off to the IRS every time they made a deposit.

The RESPECT Act limits the IRS's civil asset forfeiture authority. It requires that in order to seize funds the IRS believes have been structured to avoid reporting requirements, the IRS must first show probable cause that those funds are ***derived from an illegal source*** or ***connected to other criminal activity***. It also provides important procedural protections, including a post-seizure hearing, for people whose assets the IRS has seized within 30 days after the seizure, or longer, if the asset-owner requests an extension.

We have seen too many horror stories about the IRS seizing the assets of honest law abiding taxpayers, and codifying the protections in this bill is a no brainer. The RESPECT Act passed both the Ways & Means Committee –

which means that everyone but the newly arrived Mr. LaHood supported it - and the House Floor by voice votes this Congress. That's when we finally got my colleague from Illinois on the record.

Thank you all again for your time and for considering these two important bills which make vital improvements for taxpayers.

Chairman JENKINS. Thank you.

Mr. Renacci, you are recognized for 5 minutes.

STATEMENT OF THE HON. JAMES RENACCI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. RENACCI. Thank you, Madam Chairwoman and Ranking Member Lewis. I want to thank you for holding this hearing. I believe that reforming the IRS's ability to administrate our tax code is a critical next step to the—following the passage of the Tax Cuts and Jobs Act.

I am pleased to discuss two pieces of legislation today that I believe will help the IRS better serve the American people, the Improper Tax Payment Reduction Act of 2017, and the Stolen Identity Refund Fraud Prevention Act of 2017. I will start with the Improper Tax Payment Reduction Act of 2017.

This legislation addresses improper payments under the Earned Income Tax Credit, which is also known as EITC. The EITC incentivizes work, while providing a refundable tax credit to qualifying taxpayers. Unfortunately, the program is currently riddled with fraud and error. The 2016 report from the Treasury Inspector General estimated that nearly 1 in 4 payments are improper, exceeding $16 billion annually in improper payments. This is unacceptable.

It is our responsibility to ensure that our constituents' hard-earned dollars are being properly spent. My legislation seeks to address this issue in four ways.

First, it clarifies existing law to prevent overstatement of self-employment income.

Next, it encourages information verification when there are reporting discrepancies.

Then it allows excess credit payments in instances where it is impossible to resolve reporting discrepancies after verification requests.

Finally, it captures information vital to fraud prevention, long before paying out on the EITC.

This is commonsense legislation. It passed out of the House on November 16, 2017, in the first vote by the House on the Tax Cuts and Jobs Act, but it was not ultimately included in the final legislation that came out of conference due to inability to meet the reconciliation rules.

I look forward to seeing the Improper Tax Payment Reduction Act of 2017 included within the tax administration legislation we are discussing today.

The other piece of legislation I want to discuss is the Stolen Identity Refund Prevention Act of 2017. This bill combats tax-related identity theft, while also helping victims. Mr. Lewis was a cosponsor on this legislation.

Not too long ago I was a victim of identity theft. I leveraged this experience to come up with the safeguards to prevent others from going through what I went through.

Five highlights of the legislation include establishing a centralized point of contact at the IRS for victims of identity theft, making it simpler for victims to resolve tax-related identity theft cases.

Requiring—number two, requiring the IRS to notify taxpayers when the IRS discovers unauthorized use of taxpayers' identification information.

Three, requiring the IRS to submit a feasibility study regarding establishment of a program for identity-theft-related tax fraud victims to opt out of electronic filing.

Four, establishing an information-sharing and analysis center to collect, analyze, and share actionable data and information to detect and prevent identity theft.

Five, creating a local law enforcement liaison's role within the IRS to coordinate on identity theft cases with local police and law enforcement.

Last spring this bill reported favorably out of the Ways and Means Committee by voice, and passed the House on suspension by voice. However, it is yet to move forward in the Senate. As such, I look forward to seeing the Stolen Identity Refund Prevention Act of 2017 included within the tax administration legislation we are discussing today.

In conclusion, the IRS needs our help in order to be—more efficiently administer the tax code and better serve our constituents. I look forward to again advancing these two commonsense bills and working on additional reforms in collaboration with the IRS.

I appreciate the Chairwoman, her staff, and my colleagues for working on these important issues with me last year and going forward. I also thank you for allowing me to participate in this hearing today.

I yield back the balance of my time.

Chairman JENKINS. Thank you.

Mr. Rice, you are recognized for 5 minutes.

STATEMENT OF THE HON. TOM RICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. RICE. Thank you, Chairman Jenkins, Ranking Member Lewis. Thank you for holding this hearing and giving me the opportunity to discuss my legislative proposals to improve the Internal Revenue Service.

We need to make the IRS more customer-service-oriented, an agency that protects taxpayer rights, and fairly and efficiently administers our new tax code.

The first legislative proposal I have will help achieve the goal of IRS reform—H.R. 3153, the Electronic Signature Standards Act. This bill, which I introduced in the House on behalf of myself and Representative Ron Kind, would provide a simple, no-cost, private-sector option for small businesses and individual taxpayers to comply with the requirements of our tax system.

The bill would require the IRS to issue guidance establishing uniform standards and procedures for the acceptance of electronic signatures on disclosure authorization and power-of-attorney forms.

Currently, the IRS allows for the use of electronic signatures on an ad hoc basis, accepting electronic signatures on certain forms, while prohibiting their use on other forms. This lack of uniform treatment adds an extra layer of confusion for practitioners that are trying to help taxpayers navigate our tax system, while lim-

iting filing options for taxpayers that increasingly rely on modern-day advancements such as electronic signatures.

The IRS has acknowledged that an e-signature option would reduce unnecessary expenses and time spent obtaining physically-signed forms. Yet the IRS has still not issued uniform guidance for the use of these signatures. Put simply, H.R. 3153 would make the IRS move forward with an additional secure filing option that they already support.

I would also like to discuss a proposal for legislation that I plan on introducing in the coming weeks that would provide taxpayers with more certainty and peace of mind when they need it most. This legislation would provide for an automatic 30-day reset of any IRS filing deadline that occurs in the wake of a major, major disaster declaration for events such as hurricanes or wildfires.

Under current law, the Secretary of Treasury and the IRS have discretion to extend filing deadlines for certain forms of taxpayers dealing with the effects of major natural disasters. While the IRS often provides filing deadline relief to the affected taxpayers, it does—it usually takes days or even weeks for the IRS to reach that decision, leaving taxpayers in limbo. When Hurricane Matthew devastated my district in October 2016, I had many constituents contact me, concerned with how they were going to file their tax forms—more concerned with how they were going to file their tax forms than with dealing with their flooded homes and businesses.

The past few months served as a reminder that, in times of extreme need that occur in the aftermath of natural disasters, the last thing that Americans should be worried about is whether the IRS might fine them for missing a filing deadline.

Ultimately, this proposal would ensure the IRS works for the American taxpayer when they need it most, the exact type of reform we need as we consider how to bring the agency into the 21st century.

I look forward to working with you and this Committee to achieve commonsense taxpayer-friendly reform of the IRS.

Thank you, and I yield back.

Chairman JENKINS. Thank you.

I want to thank all our colleagues that joined us today. We are going to take a recess and go vote, and we will reconvene immediately following the last vote.

[Recess.]

Chairman JENKINS. The Subcommittee will come to order. I welcome everyone back to the Ways and Means Oversight Subcommittee Member Day hearing on legislation to improve tax administration. Today's hearing will continue as before, and Members will be given 5 minutes to discuss their tax administration legislative priorities.

I also remind Members that they will have the ability to submit written testimony in support of their legislation.

And I want to thank our witnesses. And this second panel will include Representatives Chabot, Gohmert, and Posey.

And, with that, I would like to yield Representative Chabot 5 minutes.

STATEMENT OF THE HON. STEVE CHABOT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. CHABOT. Thank you very much. Good afternoon, Chairman Jenkins, Ranking Member Lewis, and Members of the Subcommittee. Thank you for the opportunity to share a few thoughts on ways to improve tax administration at the IRS.

Let me begin by congratulating your Subcommittee for its work on the Tax Cuts and Jobs Act. We hear on a daily basis the positive results this law is already generating for hard-working Americans. From the impact on corporations to how the new withholding tables will affect employees, this law is delivering.

As Chairman of the Committee on Small Business, I want to thank you for keeping small businesses front and center during the debate. Small businesses now have more parity when it comes to the tax code. With monumental tax cuts now in place, Congress must address how the tax code is administered. More specifically, I would like to discuss the treatment of the Nation's true job creators, small businesses.

Two out of every three new private-sector jobs are generated by small businesses. With over 29 million small businesses in the United States, the economy is intricately linked to the health of our smallest firms. Unfortunately, small businesses often face challenges when managing their taxes.

While often operating on the margins, small business owners do not have the resources available to hire an army of tax professionals to calculate their taxes. Rather, they sacrifice time away from growing and creating jobs to address IRS matters. For the economy to continue to record impressive marks, Main Street America must be operating at full strength.

Moreover, the code has not kept pace with technological advancements that are changing how businesses operate and reach customers. As a result of multiple hearings exploring this topic, I introduced H.R. 3717, the Small Business Owners Tax Simplification Act of 2017, with the aim of modernizing the process for the Nation's small businesses, entrepreneurs, and start-ups. H.R. 3717 takes simple, commonsense steps to reform tax administration.

For example, H.R. 3717 realigns estimated tax payment deadlines, which cause confusion because they currently do not fall when calendar quarters actually conclude. To bring further clarity, H.R. 3717 aligns the tax filing thresholds of the Form 1099 Miscellaneous and the Form 1099–K.

Next, the legislation requires the Secretary of the Treasury to set standards for accepting digital signatures. And when a direct deposit refund is in order, pre-notification testing is also required. To address the pace at which small businesses are pursuing the sharing economy, where they utilize technology and web-based applications to reach customers, we examined the important decisions small businesses make when it comes to independent contractors and worker classifications.

Specifically, the legislation allows companies to enter into voluntary withholding agreements and offer voluntary training without impacting classifications. These changes can make a difference. At a hearing that explored this legislation, a witness commented that H.R. 3717 "is a necessary first step, and would bring about

much-needed simplification." Another witness explained, "H.R. 3717 proposes commonsense changes to better meet the needs of the growing number of sharing economy operators and self-employed small business owners."

I respectfully ask the Committee to take into account these provisions as you address tax administration, and we look forward to continuing to work with you on them. We owe it to the small businesses and entrepreneurs and start-ups that define our communities and neighborhoods to simplify tax administration.

We thank you very much.

I think I finished early. And I yield back, and I will be happy to answer any questions.

Chairman JENKINS. Thank you.

Mr. Posey, you are recognized for 5 minutes.

STATEMENT OF THE HON. BILL POSEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. POSEY. Thank you, Madam Chair and Ranking Member.

Chairman JENKINS. Do you want to hit your microphone on?

Mr. POSEY. Thank you, Madam Chair and Ranking Member, for holding this hearing today to discuss proposals to reform the U.S. Internal Revenue Service administration of our tax system.

As tax day approaches, Americans are being reminded why filing taxes is a dreaded experience, especially in the case of seniors whose retirement finances are simple, yet require a very complicated filing process.

My bill, H.R. 2721, the Seniors Tax Simplification Act of 2017, would allow for easier tax form completion for senior taxpayers. The IRS currently prohibits individuals over 65 years old from filing the one-page 1040–EZ form, even if they have a simple return and choose not to itemize deductions. It really doesn't make sense.

Specifically, the EZ form does not include lines for Social Security or other retirement benefits, as well as interest in capital gains on investments.

The Seniors Tax Simplification Act of 2017 will direct the Internal Revenue Service to create a new, basic, easy-to-read form called 1040–SR for senior taxpayers earning Social Security retirement benefits, interest, and capital gains, while extending the commonsense convenience of the 1040–EZ form. The Seniors Tax Simplification Act of 2017 has recently been endorsed by the American Association of Retired Persons and the 60-Plus Association.

I would like to ask unanimous consent to include in the record a January 24th letter of support from AARP and a January 9th letter of support from the 60-Plus Association for the Seniors Tax Simplification Act of 2017. Thank you.

[The submissions for the Record of Hon. Bill Posey follow:]

AARP
Real Possibilities

January 24, 2018

The Honorable Bill Posey
2150 Rayburn House Office Building
Washington, D.C. 20515

Re: H.R. 2721, The Seniors' Tax Simplification Act of 2017

Dear Representative Posey:

On behalf of our nearly 38 million members and all Americans age 50 and older, AARP would like to take this opportunity to express our support for H.R. 2721, the Seniors' Tax Simplification Act of 2017. AARP appreciates your commitment to provide tax filers, especially older Americans who have Social Security income, access to a new and simpler tax form.

The Seniors' Tax Simplification Act of 2017 seeks to address some of the challenges and complications associated with filing federal income taxes by requiring the Internal Revenue Service (IRS) to offer a new filing form, similar to the existing Form 1040EZ, that includes Social Security benefits and distributions from qualified retirement plans. The bill can be further strengthened by including a clear declaration of the new form's purpose and encouraging the IRS to take steps to increase taxpayer awareness of, and has access to, the new form. Many of our members and other Americans age 65 and older would appreciate the creation of such a form, which could simplify the preparation of their federal income taxes.

We thank you for your efforts to make tax filing a simpler task for all Americans, especially for those who are retired and receiving Social Security. If you have questions or need additional information you can call me, or contact Jasmine R. Vasquez of Government Affairs at 202-434-3711 or at jvasquez@aarp.org.

Sincerely,

Joyce A. Rogers

Joyce A. Rogers
Senior Vice President
Government Affairs



60PLUS.ORG
60 PLUS ASSOCIATION

James L. Martin
Founder/Chairman

Rep. Roger Zion (R-IN, 1967-75)
Honorary Chairman

Pat Boone
National Spokesman

January 9, 2018

The Honorable Bill Posey
U.S. House of Representatives
2150 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Posey,

On behalf of over 25,000 senior citizen activists in your district, Florida 8, the 60 Plus Association thanks you for your continued leadership and for introducing the *Seniors Tax Simplification Act of 2017, H.R. 2721*. We continue to stand with you on this important issue and support your efforts.

This legislation is absolutely crucial so seniors will have a form to use that will ease their reporting requirements of those on Social security and one that will allow for simpler and hassle-free tax reporting. We are all aware of the benefits of the 1040 EZ form which allows the IRS to properly calculate either liabilities or refunds. However, as you know, this luxury is not granted to seniors filing since that form does not include a line for pension and Social Security income.

What is important in this legislation is that the "Form 1040SR" will include a line for pension and Social Security income. Seniors deserve and need a new form that is much more user friendly for those over the age of 65.

Your legislation is most definitely in the best interests of seniors and we will alert our senior citizen activists of the importance for this bill as well as encourage them to contact their Member of Congress to join you in sponsoring this much needed piece of legislation.

Again, we sincerely appreciate your leadership on this issue. Seniors can always count on you!

Sincerely,

James L. Martin
Chairman

The 60 Plus Association is a 25-year-old nonpartisan organization working for death tax repeal, saving Social Security and Medicare, affordable prescription drugs, lowering energy costs and other issues featuring a less government, less taxes approach as well as a strict adherence to the Constitution. 60 Plus calls on support from over 7 million activists. 60 Plus has been called, "an increasingly influential senior citizen's group," and recognized as the alternative to the AARP.

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Mr. POSEY. Again, I thank you for the opportunity to testify today. The Seniors Tax Simplification Act is a simple, common-sense solution, which would provide a measure of relief for our senior citizens who deserve a tax filing option that is fair and simpler than allowed under current law.

I know you all want to do something for our seniors, too. I look forward to working with the Committee to modernize our tax administration policies, and I thank you again, and I yield back.

Chairman JENKINS. Thank you. I want to thank all our colleagues who came before us today, those on the Committee and those off the Committee. And with that, I see our final witness.

Mr. Gohmert, you are recognized for 5 minutes.

STATEMENT OF THE HON. LOUIE GOHMERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. GOHMERT. I will try to be as brief as possible. I have just one thing I wanted to bring to your attention today.

I know, in prior elections, and especially in 2016, the idea was brought forward by a number of candidates that we should do away with the Internal Revenue Service.

And some years back I was having a conversation with a guy I dearly love, a brilliant man, Arthur Laffer. Dr. Laffer, of course, was the economic advisor for Ronald Reagan. And we were discussing the IRS and all the power they had, the potential for abuse, and how wonderful it would be if there were not an agency, an entity in our U.S. Federal Government, that had their power.

It seems that the IRS is the one agency that can legally just push the Constitution aside and come after folks. You are guilty until proven innocent. You have to pay taxes before you can contest them, even if the IRS is wrong. We have seen people—and there have been testimonies I have seen before I ever came to Congress—from people who were targeted by vengeful IRS agents.

And I said, "Look, I would love to get rid of the IRS, Art, but, as a former felony judge, I know there are going to be people that will cheat. You are going to have to have somebody that will check and make sure—keep everybody honest."

And I don't know, if you get rid of the IRS, how do we do that, make sure that people have an incentive to stay honest?

And I know in the last election he talked about a flat tax would enable you to get rid of the IRS. But let's say we keep the current tax system. Dr. Laffer said the problem with the IRS is they have too much power. They can decide who they are going to audit, they can decide how thoroughly they are going to audit them, if they are going to demand more and more and more, if they are going to just keep pushing the envelope and what you are required to produce. And they can decide, once they have audited you, how—what they are going to do with the next step.

Do they think there was criminal conduct? If so, do they pursue it as a criminal case? Do they feel they should even take your homestead that virtually nobody else can. They get to decide what happens from there. Do they pursue it as a criminal violation and give it to a prosecutor? From a pecuniary standpoint, what do they do?

And he said, "There is the problem. No one entity should ever have all of that power."

And so here—and I appreciate you both being here. I know you all are busy as can be. And Madam Chair, I appreciate your attentiveness, as well as that of the Ranking Member, Mr. Lewis.

But he said, "What you do is get rid of the IRS, and you create a small agency of CPAs. All they do is audit. And they never, ever get to choose who they audit. Each audit is chosen at random." And so, just because you are audited one year doesn't mean you won't randomly come up another year.

So they don't get to abuse, they don't get to single people out because of politics or one thing or another. They are handed the name and address of who is to be audited, they do their audit as good CPAs. When they finish the audit, they turn in the results, and that is the end of what they can do.

Then you have someone else make a decision. Is this criminal? Is this civil? What should be the ramifications? But it takes all of that just arbitrary power, the potential, the temptation to abuse somebody—and I just think that is what we ought to pursue. And I know it is a big step to get rid of a department, but that is really so serious, I would appreciate the Committee's considering that.

And I yield back.

Chairman JENKINS. Thank you, Mr. Gohmert.

And again, I want to thank all of our Committee and non-Committee Members that came before us today. There were a lot of good legislative solutions proposed, and I look forward to working together to include some of those in a bill to make reforms to the IRS.

Please be advised that Members have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

And with that, the Subcommittee stands adjourned.

[Whereupon, at 3:36 p.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

Chairwoman Jenkins, thank you for holding this hearing on improving tax administration and for allowing members the opportunity to provide feedback.

As you are aware, the IRS is home to our nation's sixth largest law enforcement agency – IRS Criminal Investigation (CI). This division is solely responsible for the enforcement of criminal violations of our nation's tax laws and share jurisdiction over violations of money laundering and bank secrecy laws. They are also an indispensable tool used to investigate terror financing cases and they often work jointly with many of our country's other federal law enforcement agencies.

In fiscal year 2016, IRS CI initiated nearly 3,400 cases and achieved a remarkable conviction rate of over 92 percent. As a former United States Attorney, I have had the privilege of working with many CI special agents and personally know the value of their unmatched financial investigatory abilities.

As you know, the core function of IRS is to collect taxes and provide taxpayer services. This division of IRS serves a fundamentally unique role in the enforcement of criminal, not civil, violations. Indeed, they are a unique and vital component and we should be sure they are properly supported. Allowing the division to have a more direct line of communication with the IRS Commissioner is a needed first step. The internal bureaucracy can have an impact on cases CI agents pursue, and strengthening the relationship between the division and the IRS Commissioner would help to ensure that necessary investigations move forward.

Along with giving the division a more direct line of communication with IRS Commissioner, a dedicated and predictable funding stream would assist the division by giving certainty that would help in long-term planning. The division currently has approximately 550 fewer agents now than they did in 2010, however the crimes they investigate continue to rise. Indeed, as terror financing and money laundering schemes become more complex, and as identity theft becomes a common occurrence, we should be empowering the division as they continue to battle these schemes head-on.

Unfortunately, IRS's mismanagement of CI and their inability to prioritize CI's needs has caused a troubling drop in the number of CI special agents and staff. The lack of adequate funding, combined with internal red tape has, led to a reduction in the number of CI's investigations and convictions at a time when offenses such as identity theft, money laundering, tax-related fraud, and terror financing are all on the rise.

As the Committee continues working to improve our tax administration, we must place a premium on the world-class financial investigations CI carries out each day. Again, thank you for taking the time to seek input on this important issue.

Rep. Patrick McHenry
STATEMENT FOR THE RECORD

Member Day Hearing on Legislation to Improve Tax Administration
January 30, 2018

Thank you, Chairman Jenkins and Ranking Member Lewis, for the opportunity to submit a written statement for the record.

Today I write in support of my bill, H.R. 3860 "IRS Data Verification Modernization Act of 2017," which would provide a much-needed technology update to the way that the IRS verifies American taxpayers' income.

Currently, Americans file what is called a 4506-T form with the IRS, which grants the IRS permission to send summarized tax returns to lenders processing loan applications, including: mortgages, credit cards, and small business loans.

Unfortunately, this little form can take two to eight business days for the IRS to process.

Why does it take so long?

Believe it or not, the IRS still processes this form manually. The IRS requires the form to be submitted via mail or fax machine at one of five Income Verification Express Service offices where it is manually processed and sent back with a response to the lender. There is no electronic way to submit these forms and there is no automated process in place to streamline what should be a straightforward, secure process.

While the idea of someone sitting by a fax machine waiting for these requests to arrive seems almost comical, the reality is that this little form creates a significant delay to our financial system and adds an unnecessary element of risk as to whether this paper process is well organized and secure. Meanwhile, hardworking Americans have to wait even longer to close on their dream homes, get a credit card they need for gas and groceries, or to continue funding their small businesses.

Our bill is simple. It requires the IRS to automate their process for income verification by building an application programming interface, or "API." An API is a common technology solution that provides a more secure, real-time way for income verification to take place.

In closing, I want to thank Rep. Blumenauer for joining me as an original cosponsor of this bipartisan, bicameral legislation, as well as Rep. Schweikert for his continued support.



WRITTEN STATEMENT

OF

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

SUBMITTED FOR THE RECORD OF THE

JANUARY 30, 2018

HEARING OF

THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT

ON

LEGISLATION TO IMPROVE TAX ADMINISTRATION

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INTRODUCTION

The American Institute of CPAs (AICPA) applauds the leadership taken by the House Ways and Means Oversight Subcommittee to consider legislative solutions related to reforming the Internal Revenue Service (IRS or "Service"). We are committed to supporting Congress in its efforts to ensure a service-oriented, modernized tax administration that earns the respect and appreciation of individuals, businesses, exempt organizations, as well as their advisers.

As taxpayers face a period of uncertainty regarding the sweeping tax law changes of Pub. L. No. 115-97, it is critical that the IRS is a modern-functioning agency that will issue immediate guidance on priority issues,[1] focus on the needs of taxpayers and tax preparers,[2] and implement the legislation in an effective and efficient manner.

In this statement, we provide a series of recommendations that will strengthen tax administration and improve compliance programs while protecting the public. An effective tax administration system should include proper governance and oversight, proficient taxpayer services and a practitioner-focused services unit, which can collectively improve the taxpayer experience while streamlining the tax administration system. Furthermore, the regulation of tax return preparers and the limited use of contingency fees are necessary to promote voluntary compliance and protect taxpayer rights.

RECOMMENDATIONS

1. IRS Governance & Oversight

As practitioners with vast experience working with the IRS, we have incorporated the lessons learned and built upon the foundation established by the Report of the National Commission on Restructuring the IRS ("Restructuring Commission" or "commission") and outline below governance and oversight recommendations to shape the agency of the future that everyone desires.

Governance Objectives. Successful governance of the IRS will include strong leadership, accountability, and transparent policies working collectively towards needed change. In order to hold the IRS accountable, the agency's governance, management and oversight structure must:[3]

- Develop and maintain a shared vision among all personnel and stakeholders with continuity;
- Set and maintain consistent priorities and strategic direction;

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[1] See AICPA letter, "Request for Immediate Guidance Regarding Pub. L. No. 115-97," January 29, 2018.
[2] See AICPA statement, "What the Taxpayers Want or Need from the IRS to Comply with the Tax Laws," May 17, 2016.
[3] The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 8.

- Impose accountability on senior management;
- Develop appropriate measures of success;
- Ensure that the budget and technology support priorities and strategic direction; and
- Coordinate oversight and identify problems at an early stage.

Congressional Oversight. Congressional oversight is a critical process in ensuring executive branch compliance with laws, evaluating performance, and providing the transparency necessary to maintain the public's trust. We recommend re-establishing the annual joint hearing review[4] to focus on the following priorities: (1) strategic and business plans; (2) taxpayer service and compliance; (3) technology and modernization; and (4) filing season.

As once required by statute,[5] the Joint Committee on Taxation should provide a bi-annual report on the overall state of the Federal tax system.[6] However, the statute stipulates that the report is *only required if the necessary resources are appropriated* to carry out the requirement. Such a report would contribute to stability at the IRS and assist it in achieving its mission. Therefore, we urge Congress to appropriate the necessary funds for the report.

IRS Oversight Board. The IRS Oversight Board was intended to provide experience, independence and stability to assist the IRS in moving forward in a focused direction. However, the board received criticism for being "ineffective" and "missing in action" in achieving its stated mission,[7] and suspended operations due to an insufficient number of members to constitute a quorum.

We recommend that Congress require a Government Accountability Office (GAO) review of the private sector board and determine if it is an essential component to providing the trust and continuity that will allow the IRS to become a respected, service-oriented organization. The GAO could provide recommendations to ensure the board has sufficient authority to (1) hold the IRS accountable for successfully fulfilling its mission; (2) oversee the implementation of key recommendations from advisory groups; and (3) ensure the IRS remains independent and non-partisan.

Human Resources. Congress should enable and encourage the IRS to utilize the full range of available authorities to hire and compensate qualified and experienced professionals from the private sector, as needed, to improve the Service's ability to meet its mission. It is also crucial for the IRS to designate a senior-level executive dedicated to overseeing and collaborating with the practitioner community in creating a practitioner services unit (see discussion below).

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[4] P.L. 105-206, sec. 4002, expanded IRC section 8022(c) regarding reporting by the Joint Committee on Taxation. P.L. 108-311 (10/4/04) modified this provision by removing the specifics required for the annual report and eliminating the joint review after 2004 (also see IRC section 8021(f)). A statutory change is needed to reinstate the required joint review.
[5] *Id.*
[6] IRC section 8022(3).
[7] Morningstar, Inc., *The IRS Has No Independent Oversight This Tax Season*, April 18, 2016.

2. IRS Taxpayer Service

To instill trust in the tax administration system, we recommend taxpayer service goals based on the following two guiding principles:

- The IRS should only initiate contact with a taxpayer if the IRS is prepared to devote the resources necessary for a proper and timely resolution of the matter.
- Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions. [8]

Resources necessary. Appropriate hiring, adequate training, skillful management, and the necessary technological tools are essential for the IRS to meet its responsibilities. The leaders of the IRS must have the experience and skills to motivate their workforce and lead them to the realization of the desired vision. Organizational alignment from Congress, the President, the Commissioner, and through the ranks of the IRS, is necessary to delivering the promised goals.

Furthermore, to enable the IRS to achieve the improvements required for a 21st century tax administration system, the IRS needs a modern technological infrastructure. Currently, the IRS has two of the oldest information systems in the federal government making the information technology function one of the biggest constraints overall for the IRS.[9] Without modern infrastructure, the IRS is unable to timely and efficiently meet the needs of taxpayers and practitioners.

Customer satisfaction. Measurement tools are required to achieve customer satisfaction goals, including fairness in enforcement. The IRS made significant progress in measuring taxpayers' opinions in the years following the issuance of the Restructuring Commission. However, in recent years, the Service has stopped reporting on customer satisfaction surveys and analysis. We recommend that customer satisfaction surveys, gauging performance at all levels within the IRS, continue as an appropriate success measure. Congress should utilize the survey results during the oversight and appropriations processes to ensure the Service is continually meeting the needs of taxpayers.

A service-focused approach, with taxpayer education in mind, will require the IRS to take into consideration the needs of both tax practitioners and un-represented taxpayers, and the varying methods needed to interact with them.

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[8] Verbatim quote of the two guiding principles, The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 23.

[9] National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 31-32. The report references a 2016 GAO report (GAO-16-468) which found that some of technology the IRS still relies on was first placed in use 56 years ago.

3. IRS Practitioner Services Unit

The IRS should create a new dedicated "executive-level" practitioner services unit that would centralize and modernize its approach to all practitioners. Over time, the IRS has established a number of functional departments. These individuals are dispersed across the IRS and are not coordinated in a manner that enables practitioners to timely access critical information (such as their clients' account status or the availability of dispute resolution opportunities). Nor do the current teams or processes systematically solicit, gather or evaluate practitioner feedback. Enhancing the relationship between the IRS and practitioners would benefit both the IRS and the millions of taxpayers served by the practitioner community.

A dedicated practitioner services unit would allow the IRS to rationalize, enhance, and place under common management the many current, disparate practitioner-impacting programs, processes, and tools. Moreover, by centralizing these programs, IRS employees would have a consolidated approach to timely resolving issues. This coordination and improved access of information would prevent unnecessary delays and inefficiencies (such as requiring practitioners to submit the same information multiple times to multiple IRS employees). Finally, to ensure success of the practitioner services unit, it is essential for these services to approximate comparable private sector services and allow practitioners to resolve account issues for their clients in a timely and efficient manner.

Online tax professional account. The IRS should provide tax practitioners with a tax professional account as part of the IRS's online portal with account access to all of their clients' information (both individual and business accounts) where the practitioner has a valid power of attorney (POA) on file. Additionally, the secure tax professional account should allow the IRS to communicate directly to practitioners the information necessary to improve taxpayer awareness and allow practitioner correspondence with timely acknowledgement of receipt.

Furthermore, a centralized login system allowing for single sign-on authentication of the practitioner and immediate access to all client data, as opposed to practitioner authentication before accessing each client's account, is an indispensable efficiency for the IRS and practitioners alike.

Secure platform. The development of the online portal should include a comprehensive, agile platform that protects users' identities and their data, detects threats and immediately responds to potential security breaches. In order to enhance taxpayer protection, practitioners who want access to taxpayer accounts should consent to guidelines such as Circular 230 or other similarly approved requirements. Professional tax practitioners can become particularly active and safe users of online services if the IRS invests early in providing a digital mechanism for POA and disclosure authorization and creates practitioner accounts *contemporaneously* with individual online accounts.

To continue to improve efficiency, the IRS should also focus its attention on replacing the Centralized Authorization File with a consolidated online solution utilizing electronic signatures and an algorithmic-driven approval process that is as close to real time as possible.

Robust practitioner hotlines. IRS should provide practitioners with a robust practitioner priority hotline (or hotlines) with higher-skilled employees. These employees should have the experience and training to understand and address more complex technical and procedural issues. This expertise would allow the IRS to focus its training on a particular technical area allowing designated employees to resemble its counterparts in the private sector. The IRS should also consider hiring experienced people, such as, graduate students or retired practitioners seeking part-time or seasonal employment.

Designated customer service representatives. Under the practitioner services unit, the IRS should assign customer service representatives (also known as a single point of contact) to each geographic area to address unusual or complex issues that practitioners were unable to resolve through the priority hotlines. We recommend allocating the number of representatives based on the number of practitioners in a specific geographic area.

4. Regulation of Tax Return Preparers

The AICPA has always been a steadfast supporter of the goals of enhancing compliance and elevating ethical conduct. We support the use of a preparer tax identification number (PTIN) for all signing tax preparers, and subjecting all tax preparers to Circular 230. To help protect the interests of taxpayers, the AICPA thinks Congress should provide the IRS with a focused and well-defined approach to the regulation of tax return preparers with Congressional oversight.

Subjection of all tax preparers to Circular 230. Requiring tax return preparers to follow the Circular 230 standards of conduct as delineated in the *Internal Revenue Service Return Preparer Review* report is essential.[10] In the report, the IRS proposed requiring:

> . . . all signing and nonsigning[11] tax return preparers to comply with the standard of conduct in Part 10 of Title 31 of the Code of Federal Regulations and reprinted in Treasury Department Circular 230. The authority of attorneys, certified public accountants, enrolled agents, enrolled actuaries and enrolled retirement plan agents to practice before the IRS will not change from the authority they have under current Treasury Department Circular 230.
>
> The remaining tax return preparers will be authorized to prepare returns and to represent a client before the IRS during an examination of any return that the tax return preparer prepared for the client as they are currently permitted under the limited practice provisions in section 10.7(viii) of Treasury Department Circular 230. The conduct of the tax return preparer in connection with the preparation of the return and any representation of the

[10] *Internal Revenue Service Return Preparer Review;* December 2009; page 37.
[11] See AICPA comment letter, "Chairman's Mark of a Bill to Prevent Identity Theft and Tax Refund Fraud," September 15, 2016, position on "Limitation on IRS's Authority to Require a PTIN," page 6.

> client during an examination will be subject to standard of conduct in Treasury Department Circular 230. Further, inquiries into possible misconduct and disciplinary proceedings relating to tax return preparer misconduct will be conducted under Treasury Department Circular 230.

Defined parameters for examination and continuing education. Congress should mandate that the IRS enact a testing and continuing education program similar to the registered tax return preparer program in effect prior to *Loving v. IRS* that would apply exclusively to "unenrolled preparers." The one-time basic 1040 "entrance" examination to ensure competency in individual income tax return preparation and the requirement for unenrolled preparers to satisfy 15 hours of annual continuing education were both appropriate and necessary to protect taxpayers from incompetence and misconduct, while not raising the bar so high that there are an insufficient number of preparers to assist taxpayers wanting and needing such assistance. Specific parameters and limitations regarding an examination and continuing education are also appropriate to ensure a tax return program does not expand beyond Congress's goals of protecting the public from incompetent and unscrupulous tax return preparers.

Limitation on IRS's Authority to Require a PTIN. Congress should limit the IRS's authority to require a PTIN. In order to protect the interests of the public, the IRS should track (through the use of the PTIN) all individuals that sign a tax return. However, in order to prevent potential overregulation and duplicative filing obligations, Congress should exclude non-signers from the requirement to obtain a PTIN if those non-signers are supervised by an attorney, CPA, or enrolled agent; and (ii) the supervising professional signs the tax returns or claims for refund prepared by the individual. Such an exclusion from the current PTIN system would recognize the inherent regulatory regime within which CPAs and other Circular 230 legacy practitioners already practice, as well as the fact that CPA firms must stand, as a matter of licensure, behind the work done by the members and employees of their firms.

Authorization to Revoke PTINs. The IRS could more effectively utilize their current PTIN system to protect the public from incompetent and fraudulent tax return preparers. We, therefore, recommend that Congress grant the IRS specific authority to revoke a PTIN to efficiently prevent unqualified and unscrupulous preparers from continuing to file inaccurate and fraudulent tax returns.

GAO Study on IRS's Exchange of Information with State Taxing Authorities. The AICPA supports directing a GAO study on the impact of increasing the exchange of information relating to return preparers between the IRS and state taxing authorities. Such exchange of information (for example, a list of revoked PTINs and the reasons for the revocations) would improve tax administration by reducing duplicate government resource expenditures and increasing taxpayer compliance.

Mitigation of Marketplace Confusion. Congress should also require the IRS to take steps to mitigate marketplace confusion. For example, prior to *Loving v. IRS*, the IRS recognized the potential for marketplace confusion when it required subjecting the currently-unenrolled

community to the guidance in Notice 2011-45, 2011-25 IRB 886, with regard to advertising restrictions.

5. Contingent Fees

Finally, the AICPA opposes any expansion of the use of contingent fee arrangements which are not in the best interest of the public. The AICPA's Code of Professional Conduct and State Boards of Accountancy have rules addressing the appropriate use of contingent fees in tax practice and allow for contingency fees on a limited basis. Allowing tax preparers a financial interest in a tax return (in other words, a contingent fee arrangement), encourages tax preparers to take positions that increase their fee rather than positions supported by the law. The AICPA is available to work with Congress and the IRS in addressing adequate use of contingent fees.

CONCLUDING REMARKS

The AICPA appreciates the opportunity to submit a statement for the record. We look forward to working with the Subcommittee as you continue to improve taxpayer services through a modernized tax administration system and improved compliance programs.

The AICPA is the world's largest member association representing the accounting profession with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. Our members advise clients on federal, state, local and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

AMERICAN
PAYROLL
ASSOCIATION

February 9, 2018

The Honorable Lynn Jenkins
Chair, Ways and Means Oversight Subcommittee
U.S. House of Representatives
http://waysandmeans.house.gov

Re: Improvements to the IRS's Administration of the U.S. Tax System

Dear Representative Jenkins:

Thank you for the opportunity to provide the U.S. House of Representatives with information regarding improving the IRS's administration of the U.S. tax system. The American Payroll Association (APA) is a professional organization serving the interests of more than 20,000 payroll professionals nationwide. Our primary mission is to educate members about the laws and regulations that impact payroll operations, including tax administration. Our advocacy goals center on reduced administrative burden for government, employers, and individuals workers. With 68.5 percent of tax collections coming from wage withholding and employer taxes, the IRS's implementation of U.S. tax policy is extremely important to APA.

APA's recommendations are based on two overarching approaches for Congress to consider. First, APA suggests that Congress require the IRS to develop an agency-wide business plan and that funds be allocated specific to that plan with regularly scheduled reports to Congress on plan implementation measures. Second, the IRS should have a multiyear investment strategy for infrastructure projects.

Historically, in the budget process and in proposed bills, funds have been allocated to pay for specific tasks or projects. The desire to do this comes from an interest in ensuring that the IRS acts in the best interest of taxpayers by spending money on taxpayer services and preventing the agency from spending on undesirable activities. The difficulty with this process is that it causes the IRS to shift its focus each time a new budget passes, which stymies the agency from providing long term, quality taxpayer services.

A business plan would clearly define the goals of the IRS and include specific, measurable opportunities to successfully accomplish those goals, identify the current team of employees and hiring needs, as well as provide financial forecasting. Some of this information is already available as part of the IRS's existing activities. Specific measures can emphasize the taxpayer bill of rights without the negative impact of blocking agency enforcement action or spending on failed systems and services. The plan can be adjusted over time to the extent of shifts in Congressionally established tax policy, technology changes, and taxpayer service needs.

To date, testimony and reports provided to Congress have focused on whether the IRS is following federally-established guidelines regarding technology. This communication among federal agencies is part of the problem. The IRS is limited in its ability to accept stakeholder recommendations because the agency cannot deviate from already established notions about risk and accuracy. Even if the IRS is able to modernize its systems, without flexibility even these modernized systems will be antiquated in a few years and the cycle will continue. APA recommends that Congress review the federal guidelines to determine whether they make sense and whether they can be flexible.

APA also believes that Congress should change its focus regarding individual taxpayer services. Most of the revenue collected by the IRS comes from employers and tax practitioners, yet the IRS is pushed to design and implement electronic systems and procedures first for individual taxpayers and then employers and tax practitioners. The result is technology systems and processes that do not always operate well.

For example, when the IRS developed an authentication process for its e-services following the guidelines established by the National Institute of Standards and Technology, user identity involved a mobile phone in the name of the individual user. This process for authentication was then required for employers only to discover that employer-provided mobile phones were not registered in the name of individuals (e.g., the payroll professional managing tax filing is given a mobile phone registered to the company through its IT department). Some employers will not allow employees to use their own mobile phones for company business. Therefore, the authentication process is difficult to use.

To address this shortcoming, the IRS created a number of work-arounds involving a combination of telephone service, trips to tax centers, and 10-day mail service. For payroll professionals performing services for multiple employers (i.e., payroll service companies, tax practitioners), authentication requires proof of identity and power to provide the services to customers, a much more complicated authentication process. This complication expands when an employee leaves a company and the employer needs to remove them from IRS e-services and allow access by another employee. If the IRS was able to design and implement authentication focusing on employers and practitioners first, APA believes significant administrative burden would have been avoided.

The same type of problem exists for the updated IRS website, in which the design and information provided are based on the needs of individual taxpayers, while payroll professionals are wondering how to find the information they need to comply with the tax code. APA believes that systems and services designed for employers also will work for individuals.

In fairness to the IRS, political pressure to focus technology on individual taxpayers and then businesses comes from political leaders. This can be seen in the patchwork of proposed bills put before the Ways and Means Oversight Subcommittee for consideration. Congress has the unique ability to move the IRS into a business plan based on the greatest percentage of collections. Individual taxpayers are extremely important to tax administration, but edge cases and legislative band aids should not drive the agency.

For example, a call-back service sounds like a great idea to be more responsive to all taxpayers. However, implementation is not so simple. This type of service requires modern hardware and software systems, including an authentication process to protect against identity theft and tax fraud. Rather than separate legislation, Congress should ask the IRS to determine the feasibility of a call-back service as part of the agency's investment plan for infrastructure projects.

To create and implement a business plan and significantly improve technology requires adequate agency funding. For this reason, APA urges Congress to increase the IRS's budget. While we have criticized the agency's logic, the IRS plays a critical role in enforcing federal tax law to secure financing for a myriad of federal programs, including national defense, highway building and maintenance, veterans' benefits, medical research, and disaster relief. A healthy dialogue on improving tax administration does not diminish, but increases, the value of the IRS and the vital role it plays.

APA is encouraging Congress to allow an even greater role for stakeholders in working with the IRS to create and implement a business plan and improve technology for all taxpayers. We urge you to take the necessary steps to provide flexibility and funding for this purpose.

Sincerely,

Rebecca Harshberger

Rebecca Harshberger, CPP
American Payroll Association
Cochair, IRS Issues
Subcommittee

Stephanie Salavejus

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Subcommittee

Alice P. Jacobsohn

Alice P. Jacobsohn, Esq.
American Payroll Association
Senior Manager, Government
Relations

Statement on Tax Administration
Submitted to

The United States House Ways and Means Committee
Oversight Subcommittee
February 13, 2018

On behalf of:

Nonprofit Data Project of the Aspen Institute
GuideStar
C. Eugene Steuerle[1]
Elizabeth T. Boris, Ph.D.[2]

Thank you for providing us with this opportunity to discuss ways to improve tax administration for exempt organizations.[3]

We write to share several technical recommendations which we believe will increase transparency, advance efficiency and improve tax administration for exempt organizations, while saving taxpayer money.

The nonprofit sector is an invaluable resource in our society. Not only does the sector help millions of individuals in need, it represents five percent of the nation's gross domestic product (GDP) and is a major source of jobs. According to the Bureau of Labor Statistics, nonprofits account for over 10% of all private sector employment.

One of the best sources of information on nonprofits is the Form 990, which most nonprofit organizations are required to file annually with the IRS and make publicly available upon request. Current law already requires very large nonprofit organizations (those that file at least 250 returns during the calendar year and have over $10 million in assets) and very small nonprofit organizations (those with gross receipts of less than $50,000 annually) to file their tax returns electronically. Those in between are not subject to this requirement.

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[1] All opinions expressed herein are solely the author's and should not be attributed to any of the individuals or organizations with which he is associated.

[2] All opinions expressed herein are solely the author's and should not be attributed to any of the individuals or organizations with which she is associated.

[3] The Nonprofit Data Project of the Aspen Institute's Program on Philanthropy and Social Innovation convenes leading figures in the field of nonprofit research to assess and improve the state of the nation's nonprofit data.

GuideStar is the world's largest source of information on the nonprofit sector.

Eugene Steuerle is the Richard B. Fischer Chair and Institute Fellow at the Urban Institute.

Elizabeth Boris, Ph.D. is the Institute Fellow at the Center on Nonprofits and Philanthropy at the Urban Institute.

Until recently, the IRS made 990 forms available to the public by providing images of them in TIF format (Tagged Image File) via DVDs. A year's worth of 990s, both e-filed and paper-filed, cost over $2,000. Once purchased, the image-based 990s had to be re-processed to render them searchable, a practice that was not only expensive and inefficient, but also delayed access to the information and increased the potential for errors and omissions.

In June 2016, the IRS - in response to a federal lawsuit - began releasing electronically-filed Form 990s as open, machine-readable data for free to Amazon Web Services. Today, this covers over 60% of the Form 990 series. The remaining 990s are still paper-filed and are not released as open data.

The tax administration benefits of universal e-filing and open nonprofit data include:

- **Increased Transparency:** Nonprofit leaders, donors, businesses, policymakers and the public can make better decisions, understand trends in the field and gauge where some nonprofits stand in comparison to their peers.

- **Improved Efficiency/Cost-Reductions:** Electronic filing lowers the cost of processing returns, saving the IRS and taxpayer money, while also enabling the agency to use resources more efficiently.

- **Reduction of Fraud:** E-filing makes it easier to detect and locate potential problems through computer analysis. More timely and accessible data will not only help the IRS and state charity officials address compliance concerns (as the National Association of State Charity Officials has noted), but it will also boost the public's ability to monitor charities. Furthermore, the Advisory Committee on Tax Exempt and Government Entities (ACT) observed in its 2015 report that the IRS utilized less than half of the information from the Form 990 for data analytics functions, due to the constraints of manually entering data from paper forms. Electronic filing by all nonprofits will result in more information being available for electronic review, and thus higher utilization of 990 data for tax compliance and analytical purposes.
- **Improved Accuracy/ Reduced Errors:** E-filed returns, as opposed to paper-filed returns, reduce inaccurate calculations and cut down on mistakes. Fewer errors and better front-end identification of such errors also reduce taxpayer burden in the filing process.

- **More Innovation/ Business Opportunities:** Entrepreneurs and innovators will have data available to develop new, useful "apps" and products that can help solve problems in our communities and contribute to the economy.

- **Improved Information for the Public:** The development of tools that use, aggregate and combine Form 990 data with other datasets can provide a wealth of information, such as pinpointing nonprofit trends, tracking the flow of philanthropic giving relative to need, and determining how the nonprofit sector impacts local economies.

We also note that mandatory electronic filing of the Form 990, coupled with the release of machine-readable data by the IRS, is a non-controversial, revenue-neutral provision (as rated by the Joint Committee on Taxation) that has been embraced by lawmakers on both sides of the aisle. It has been included in the:

- CHARITY Act of 2017, introduced by Reps. Mike Kelly and Earl Blumenauer;
- Tax Reform Act of 2014, introduced by the former Chair of the House Ways and Means Committee, Rep. David Camp;
- CHARITY Act of 2017, introduced by Senators John Thune and Bob Casey and co- sponsored by Senators Ron Wyden, Pat Roberts, and others;
- Taxpayer Bill of Rights Enhancement Act of 2017, sponsored by Senators Thune and Grassley;
- Taxpayer Protection Act of 2016, marked up by the Senate Finance Committee in April 2016; and,
- Presidential budgets, from FY 2014-2017.

NEED TO ADDRESS TECHNICAL/COMMUNICATIONS GAPS:

Furthermore, in light of the IRS's historic release of open, machine-readable e-filed Form 990 data on Amazon Web Services (AWS), we recommend that the IRS address several technical and communications gaps so that the full potential of these data can be realized.

The steps, outlined below, would vastly improve the overall 990/AWS ecosystem and further advance the accessibility of information to the public.

- **Continue to encourage electronic filing.** The IRS should continue to actively promote the availability of electronic filing, as well as consider other appropriate incentives for e-filing. For example, the Department of Treasury should eliminate the minimum $10 million asset threshold on mandatory electronic filing, thus increasing the number of nonprofits subject to the mandatory e-filing requirement.

- **Appoint a 990/AWS technical liaison within the IRS.** The public would benefit from an IRS point person, or mechanism, for handling technical questions regarding the Form 990 data on AWS. Currently, there is no procedure, or contact, for addressing questions as they arise. This is not only inefficient and frustrating for tax-exempt stakeholders, but it deprives the Service of a feedback loop that could be used to make upgrades and corrections that are particularly important during the early stages of this new undertaking.

- **Make technical corrections to the AWS dataset, including addressing need for Form 990 "metadata."** The Extensible Markup Language (XML) files on AWS have proved to be a challenge for even high-level data scientists. Though the initial release of the files took place over one year ago, data scientists are still working to address such problems as multiple versions of the forms and the lack of documentation or "metadata." In fact, the Aspen Institute has been convening a group of data scientists who are working collaboratively to address these challenges as the tasks are too great for any one individual or group.

One of the challenges this group has encountered, for example, is the inaccessibility of the IRS Form 990 XML schema. According to Dr. David Borenstein, Ph.D., former Director of Data Science at Charity Navigator and now an independent data consultant, the schema in an XML document is equivalent to the header row in a spreadsheet: the document is nearly useless without them. "Spreadsheets require a column definition, or "header" row, in order to be useful. Without this row, the viewer can only guess at the meaning of each column. XML has an equivalent concept, called a schema definition. The schema definition is strictly necessary for the accurate interpretation of XML documents."

Recently, the schema were moved to an IRS Secure Object Repository (SOR) that requires individuals to engage in a complex registration process prior to accessing the schema. This process – essentially registering as an authorized e-file provider for the IRS – requires applicants to make available their Social Security Number and Adjusted Gross Income, as well as pass a detailed "suitability check." The whole process appears to take months to complete.

Given that the Form 990 is a public document, we would like to know why those simply wishing to access Form 990 schema must endure a lengthy, intrusive and inapt registration process. We are greatly concerned that a registration process that involves sensitive information will have a chilling effect on the use of 990 data by the public. Communication between the IRS and the nonprofit data community on such issues as improving public access to Form 990 schema would be helpful.

- **Create a Regular 990/AWS release schedule and web page**. A lack of communication has left many tax-exempt stakeholders in the dark when it comes to the regularity and timing of the release of electronically-filed 990s to AWS. The creation of a 990 data release schedule would allow the public to plan ahead. In addition to a release schedule, the IRS should consider using the format of the Exempt Organizations Business Master File page on the IRS website to create a page pertaining to the e-filed 990s. This page would recap the particulars of the release such as record counts, posting date, provide contact information for communications, as well as serve other functions.

CONCLUSION:

We thank the Oversight Subcommittee for this opportunity to improve tax administration. Mandatory Form 990 e-filing coupled with the release of the forms as open, machine-readable data will benefit the public and the nonprofit sector, while strengthening law enforcement and enhancing accountability. We also believe that addressing the technical/communications gaps outlined above will increase the availability, quality, and utility of the Form 990 and, importantly, build stronger avenues for dialogue between the IRS and the nonprofit sector. Please contact the Nonprofit Data Project of the Aspen Institute with any questions.

Nonprofit Data Project of the Aspen Institute
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NATP

January 26, 2018

The Honorable Kevin Brady, Chairman
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RE: Ensuring a Modern-Functioning IRS for the 21st Century

On behalf the members of the National Association of Tax Professionals, our organization is committed to supporting Congress in its efforts to ensure a service-oriented, modernized tax administration system that earns the respect and appreciation of individuals, businesses, exempt organizations, as well as their advisers. Since our members advise millions of taxpayers on tax-related matters, assist them with compliance responsibilities, and represent them before the Internal Revenue Service (IRS), we are uniquely poised to being part of the solution.

In collaboration with other professional organizations and former agency executives, we submit the enclosed "Ensuring a Modern-Functioning IRS for the 21st Century" framework for your consideration.

In summary, we offer the following recommendations:

- Any effort to modernize the business practices and technology of the IRS should build on the foundation established by the Report of the National Commission on Restructuring the Internal Revenue Service released June 25, 1997.
- As part of Congressional oversight, we recommend re-establishing the annual joint hearing review. The Joint Committee on Taxation should provide a bi-annual report on the overall state of the Federal tax system.
- The GAO should review the IRS Oversight Board and determine if it is an essential component to allow the IRS to become a respected, service-oriented organization.
- We recommend enabling and encouraging the IRS to utilize the full range of available authorities to hire and compensate qualified and experienced professionals from the private sector, as needed, to improve the Service's ability to meet its mission.

- The legislative and executive branches should determine the appropriate level of service and compliance they want the IRS accountable to provide and then dedicate appropriate resources for the agency to meet those goals.
- Customer satisfaction surveys are valuable and should continue as an appropriate success measure for the agency.
- The IRS should provide the needed face-to-face interaction to accommodate those taxpayers who cannot afford or choose not to use the online account features.
- It is crucial for the IRS to designate a new dedicated "executive-level" practitioner services unit. Under this service unit, the IRS should provide tax practitioners with a tax professional account with immediate account access to all of their clients' information. The secure account must also include single sign-on authentication. The IRS should also offer robust practitioner priority hotlines with higher-skilled employees capable of addressing complex technical and procedural issues that practitioners are unable to resolve through the priority hotlines.

Simply put, it is time for change. We are committed to focusing on solutions and how, together, we ensure the IRS becomes the modern-functioning agency that is desired by all. We appreciate your consideration of our views and welcome an opportunity to meet with you to answer any questions, provide feedback or discuss how we can continue to support your efforts in improving our tax administration system.

Sincerely,

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cc: Members of the House Ways and Means Subcommittee on Oversight

Ensuring a Modern-Functioning IRS for the 21st Century

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April 3, 2017

Ensuring a Modern-Functioning IRS for the 21st Century

Statement of Purpose

As we approach the 20th anniversary of the Report of the National Commission on Restructuring the Internal Revenue Service ("Restructuring Commission" or "commission"), we recommend that any effort to modernize the Internal Revenue Service (IRS or "Service") and its technology infrastructure should build on the foundation established by the Restructuring Commission. The similarities between the condition of the IRS today and the circumstances that motivated the creation of the Restructuring Commission are striking.

The current degradation of the IRS taxpayer services is unacceptable. The percentage of calls from taxpayers the IRS answered between 2004 and 2016 has dropped from 87% to 53%. Comparing 2004 to 2016, the number of calls the IRS received from taxpayers increased from 71 million to 104 million, yet the number of calls answered by telephone assistors declined from 36 million to 26 million.[1] The National Taxpayer Advocate Nina Olson observed that "taxpayers are receiving the worst levels of taxpayer service since at least 2001, when the IRS implemented its current performance measures. In fact, the levels of service are the lowest I have witnessed in my 40 years of working in the field of taxation."[2]

As tax practitioners, we advise millions of taxpayers on tax matters, assist them with compliance responsibilities, and represent them before the IRS. We understand what is working and not working with tax administration from both taxpayer and practitioner perspectives. As one of the IRS's most significant stakeholders,[3] we are both poised and committed to being part of the solution.

Vision Statement

The following vision statement is a quote from the original report of the Restructuring Commission issued on June 25, 1997.[4] We believe this statement is as valid today as it was then, and is the basis of our efforts to provide recommendations on how to make the IRS an evolutionary and respected federal agency of the 21st Century.

> *…This Vision embraces an efficient, service oriented institution dedicated to collecting the proper amount of tax through the use of taxpayer education, modern customer service practices, and effective law enforcement techniques. The*

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[1] National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 16.
[2] National Taxpayer Advocate, written statement on "The National Taxpayer Advocate's 2014 Annual Report to Congress" before the Subcommittee on Government Operations Committee on Oversight and Government Reform
U.S. House of Representatives, on April 15, 2015.
[3] 60% of all e-filed returns in 2016 were prepared by a tax professional, according to the Filing Season Statistic for Week Ending Dec.2, 2016.
[4] The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service,* June 25, 1997, page 8.

> *motivated, skilled employees of this new IRS would receive the proper training, incentives, authority, tools, and management oversight to get the job done. This new IRS would be able to help people comply with a simplified tax code, while managing its data collection and taxpayer accounts according to methods and standards employed in the best private and public sector organizations. Finally, taxpayers would have adequate protections when the agency exercised its powers in an improper fashion…*

IRS Governance & Oversight

As practitioners with vast experience working with the IRS, we have incorporated the lessons learned from the Restructuring Commission and outline below governance and oversight recommendations to shape the agency of the future that everyone desires.

Governance Objectives. Successful governance of the IRS will include strong leadership, accountability, and transparent policies working collectively towards needed change. In order to hold the IRS accountable, the agency's governance, management and oversight structure must:[5]

- Develop and maintain a shared vision among all personnel and stakeholders with continuity;
- Set and maintain consistent priorities and strategic direction;
- Impose accountability on senior management;
- Develop appropriate measures of success;
- Ensure that the budget and technology support priorities and strategic direction; and
- Coordinate oversight and identify problems at an early stage.

Congressional Oversight. Congressional oversight is a critical process in ensuring executive branch compliance with laws, evaluating performance, and providing the transparency necessary to maintain the public's trust. We recommend **re-establishing the annual joint hearing review**[6] to focus on the following priorities: (1) strategic and business plans; (2) taxpayer service and compliance; (3) technology and modernization; and (4) filing season.

As once required by statute,[7] the Joint Committee on Taxation should provide a **bi-annual report on the overall state of the Federal tax system**.[8] However, the statute stipulates that the report is *only required if the necessary resources are appropriated* to carry out the requirement. We believe that such a report would contribute to stability at the IRS and assist the agency in achieving its mission. Therefore, we urge Congress to **appropriate the necessary funds for the report**.

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[5] *Supra*, page 9.
[6] P.L. 105-206, sec. 4002, expanded IRC section 8022(c) regarding reporting by the Joint Committee on Taxation.
P.L. 108-311 (10/4/04) modified this provision by removing the specifics required for the annual report and eliminating the joint review after 2004 (also see IRC section 8021(f)). A statutory change is needed to reinstate the required joint review.
[7] *Id*.
[8] IRC section 8022(3).

IRS Oversight Board. The IRS Oversight Board was intended to provide experience, independence and stability to assist the IRS in moving forward in a focused direction. However, the board received criticism for being "ineffective" and "missing in action" in achieving its stated mission,[9] and suspended operations due to an insufficient number of members to constitute a quorum.

We recommend that Congress require a Government Accountability Office (GAO) **review of the private sector board** and determine if it is an essential component to providing the trust and continuity that will allow the IRS to become a respected, service-oriented organization. The GAO could provide recommendations to make certain the board has sufficient authority to (1) hold the IRS accountable for successfully fulfilling its mission; (2) oversee the implementation of key recommendations from advisory groups; and (3) ensure the IRS remains independent and non-partisan.

Human Resources. Congress should enable and encourage the IRS to utilize the full range of available authorities to **hire and compensate qualified and experienced professionals** from the private sector, as needed, to improve the Service's ability to meet its mission. It is also crucial for the IRS to designate a senior-level executive dedicated to overseeing and collaborating with the practitioner community in creating a practitioner services unit (see discussion below).

IRS Taxpayer Service

Congress and the administration should determine the appropriate level of service desired and needed by taxpayers. Agreed upon measures of success are necessary to improve both customer service and voluntary compliance.

To instill trust in the tax administration system, we recommend taxpayer service goals based on the following two guiding principles:

- The IRS should only initiate contact with a taxpayer if the IRS is prepared to devote the resources necessary for a proper and timely resolution of the matter.
- Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions.[10]

Resources necessary. Appropriate hiring, adequate training, skillful management, and the necessary technological tools are essential for the IRS to meet its responsibilities. The leaders of the IRS must have the experience and skills to motivate their workforce and lead them to the realization of the desired vision. Organizational alignment from Congress, the President, the Commissioner, and through the ranks of the IRS, is necessary to delivering the promised goals. The legislative and executive branches should **determine the appropriate level of service and**

[9] Morningstar, Inc., *The IRS Has No Independent Oversight This Tax Season*, April 18, 2016.
[10] Verbatim quote of the two guiding principles, The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 23.

compliance they want the IRS accountable to provide and then **dedicate appropriate resources for the agency to meet those goals**.

Furthermore, to enable the IRS to achieve the improvements required for a 21st century tax administration system, the IRS needs a modern technological infrastructure. Currently, the IRS has two of the oldest information systems in the federal government making the information technology functions one of the biggest constraints overall for the IRS.[11] Without modern infrastructure, the IRS is unable to timely and efficiently meet the needs of taxpayers and practitioners.

Customer satisfaction. Measurement tools are required to achieve customer satisfaction goals, including fairness in enforcement. The IRS made significant progress in measuring taxpayers' opinions in the years following the issuance of the Restructuring Commission. However, in recent years, the Service has stopped reporting on customer satisfaction surveys and analysis. We recommend that **customer satisfaction surveys**, gauging performance at all levels within the IRS, continue as an appropriate success measure. Congress should utilize the survey results during the oversight and appropriations processes to ensure the agency is continually meeting the needs of taxpayers.

A service-focused approach, with taxpayer education in mind, will require the IRS to take into consideration the needs of both tax practitioners and un-represented taxpayers, and the varying methods needed to interact with them. For example, the IRS may need to hone its traditional account services to provide the needed face-to-face interaction to accommodate those taxpayers who cannot afford or choose not to use the online account features.[12]

IRS Practitioner Services Unit

The IRS should create a new **dedicated "executive-level" practitioner services unit** that would centralize and modernize its approach to all practitioners. Over time, the IRS has established a number of functional departments. These individuals are dispersed across the IRS and are not coordinated in a way that enables practitioners to timely access critical information (such as, their clients' account status or the availability of dispute resolution opportunities). Nor do the current teams or processes systematically solicit, gather or evaluate practitioner feedback. Enhancing the relationship between the IRS and practitioners would benefit both the IRS and the millions of taxpayers served by the practitioner community. [13]

A dedicated practitioner services unit would allow the IRS to rationalize, enhance, and place under common management the many current, disparate practitioner-impacting programs, processes, and

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[11] National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 31-32. The report references a 2016 GAO report (GAO-16-468) which found that some of technology the IRS still relies on was first placed in use 56 years ago.

[12] Currently the IRS is focusing on technological service by relying heavily upon the Web-First Strategy Conjoint survey which ignores those taxpayers who are not online or who are unwilling to participate in online surveys. National Taxpayer Advocate, *Annual Report to Congress 2016, Executive Summary: Preface, Special Focus and Highlights*, 2016, page 20.

[13] The IRS's Office of National Public Liaison (NPL) has enhanced the communications between the IRS and national *stakeholder organizations* with an interest in tax administration. The new unit would focus on centralizing and modernizing its overall approach (technology, programs, processes, communications and tools) to *practitioners*.

tools. Moreover, by centralizing these programs, IRS employees would have a **consolidated approach to timely resolving issues.** This coordination and improved access of information would prevent unnecessary delays and inefficiencies (such as, requiring practitioners to submit the same information multiple times to multiple IRS employees). Finally, to ensure success of the practitioner services unit, it is essential for these services to **approximate comparable private sector services** and allow practitioners to resolve account issues for their clients in a timely and efficient manner.

Online tax professional account. The IRS should provide tax practitioners with a tax professional account as part of the IRS's **online portal with account access to all of their clients' information** (both individual and business accounts) where the practitioner has a valid power of attorney (POA) on file. Additionally, the secure tax professional account should allow the IRS to communicate directly to practitioners the information necessary to improve taxpayer awareness and allow **practitioner correspondence** with timely acknowledgement of receipt.

Furthermore, a **centralized login system** allowing for single sign-on authentication of the practitioner and immediate access to all client data, as opposed to practitioner authentication before accessing each client's account, is an indispensable efficiency for the IRS and practitioners alike.

Secure platform. The development of the online portal should include a comprehensive, agile platform that protects users' identities and their data, detects threats and immediately responds to potential security breaches. In order to enhance taxpayer protection, practitioners who want access to taxpayer accounts should consent to guidelines such as Circular 230 or other similarly approved requirements.[14] Professional tax practitioners can become particularly active and safe users of online services if the IRS invests early in providing a **digital mechanism for POA and disclosure authorization** and creates practitioner accounts *contemporaneously* with individual online accounts.

To continue to improve efficiency, we also recommend that the IRS focus its attention on replacing the Centralized Authorization File (CAF) with a **consolidated online solution utilizing electronic signatures and an algorithmic-driven approval process** that is as close to real time as possible.

Robust practitioner hotlines. IRS should provide practitioners with a **robust practitioner priority hotline** (or hotlines) with higher-skilled employees. These employees should have the experience and training to understand and address more complex technical and procedural issues. This expertise would allow the IRS to focus its training to a particular technical area allowing designated employees to resemble its counterparts in the private sector. The IRS should also consider hiring experienced people such as graduate students or retired practitioners seeking part-time or seasonal employment.

Designated customer service representatives. Under the practitioner services unit, the IRS should assign **customer service representatives** (also known as a single point of contact) to each

[14] At the time of drafting this document, Circular 230 is under the process of review. Circular 230 is a document containing the statute and regulations detailing a tax professional's duties and obligations while practicing before the IRS; authorizing specific sanctions for violations of the duties and obligations; and, describing the procedures that apply to administrative proceedings for discipline.

geographic area to address unusual or complex issues that practitioners were unable to resolve through the priority hotlines. We recommend allocating the number of representatives based on the number of practitioners in a specific geographic area.

Summary

The current level of IRS taxpayer services is simply unacceptable. By ensuring an appropriate governance and oversight structure which focuses on taxpayer service and creating an executive- level practitioner services unit, we will increase the likelihood that the agency serves the needs of taxpayers and practitioners in a timely and efficient manner.

To summarize, we offer the following recommendations:

- Re-establish the annual joint hearing review;
- Require the Joint Committee on Taxation to provide a bi-annual report;
- Require a GAO review of the private sector board;
- Enable the hiring of qualified and experienced professionals at the IRS;
- Determine the appropriate level of service and compliance the IRS is accountable to and dedicate appropriate resources for the agency to meet those goals;
- Gauge performance with customer satisfaction surveys; and
- Establish a dedicated "executive-level" practitioner services unit that provides for centralized and modernized services to timely resolve issues.

We are committed to a service-oriented, modernized tax administration system that earns the respect and appreciation of all taxpayers and stakeholders.



Member Day Hearing on Legislation to Improve Tax Administration

January 30, 2018

Statement for the Record
Karen Kerrigan
President & CEO
Small Business & Entrepreneurship Council

Committee on Ways and Means
Subcommittee on Oversight
U.S. House of Representatives

The Honorable Lynn Jenkins
Chairman

The Honorable John Lewis
Ranking Member

301 Maple Avenue West ● Suite 100 ● Vienna, VA 22180

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Protecting Small Business, Promoting Entrepreneurship

Chairman Jenkins and Ranking Member Lewis, thank you for hosting this "Member Day" hearing to review and learn about legislation that will improve the administration of the U.S. tax system. Improving the efficiency of the tax system will be beneficial for small businesses, entrepreneurs and the self-employed. The Small Business & Entrepreneurship Council (SBE Council) is supportive of several of the ideas outlined by your colleagues at the hearing.

SBE Council is a national, nonprofit advocacy, research and education organization that works to protect small business and promote entrepreneurship. For nearly 25 years, our members, staff and advisors have worked to advance policies and initiatives to strengthen the ecosystem for startups and small business growth. As someone who has served on the Taxpayer Advisory Panel, I know firsthand that the Internal Revenue Service (IRS) is always in search of practical ideas to improve their operations, compliance for taxpayers and overall efficiency. With that in mind, I am submitting this statement for the record to voice SBE Council's strong support for the legislation that Representative Steve Chabot, Chairman of the House Small Business Committee, outlined at the Member Day hearing.

The Small Business Owners' Tax Simplification Act of 2017 (H.R. 3717) would make a significant and positive difference for small businesses and entrepreneurs. This bipartisan bill is the work product of House Small Business Committee members. SBE Council provided ideas and feedback during H.R. 3717's development, and our Entrepreneur-in-Residence testified in support of the bill before the House Small Business Committee.

As Ways and Means Committee members well know, the tax system is not fully modernized. Improving efficiency would make life easier for many Americans and save money for taxpayers. Certainly, the IRS has come a long way in making improvements and using technology to support the administration of our tax system. Still, legislative fixes are needed to improve taxpayer experience and to bring more common sense to compliance. Some thresholds in the tax code have not been updated since the 1950s, and various provisions have not kept pace with technological advancements and the modern economy. Other policies just never made sense from their very start.

H.R. 3717 would institute simple fixes that reduce costs, complexity, uncertainty for small businesses, and improve administration within the agency.

As proposed currently in H.R. 3717, several provisions would help to streamline administration within the IRS while making the tax system work better for small businesses and entrepreneurs. These provisions include: changing the estimated tax due dates to align with calendar deadlines to make payments truly quarterly; allowing voluntary withholding agreements and training services between contractors and "gig" entrepreneurs without impacting worker classification; as well as uniform standards for the use of electronic signatures. Another provision will modernize thresholds for self-employment income and Form 1099-Misc filings (the latter of which aligns with 1099k reporting requirements), which means paperwork reduction for both small businesses and the IRS.

SBE Council believes H.R. 3717 in total will simplify and modernize the tax system for entrepreneurs and small businesses, which would build upon some of the changes and important reforms in the "Tax Cuts and Jobs Act." H.R. 3717 adds tremendous value to the overall goal of reducing complexity for taxpayers, while at the same time improving tax administration for the IRS. This is a win-win-win for taxpayers, small businesses and those who are responsible for making sure the tax code is administered fairly and effectively.

Thank you for the opportunity to provide this Statement for the Record. Please do not hesitate to contact me if you have questions regarding my written statement.

Respectfully submitted,

Karen Kerrigan, President & CEO, SBE Council

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