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S. HRG. 117–585

THE IRS'S FISCAL YEAR 2022 BUDGET

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

JUNE 8, 2021



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PUBLISHING OFFICE

50–980—PDF WASHINGTON : 2023

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THE IRS'S FISCAL YEAR 2022 BUDGET

TUESDAY, JUNE 8, 2021

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10 a.m., via Webex, in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Cantwell, Menendez, Carper, Cardin, Brown, Bennet, Warner, Whitehouse, Hassan, Cortez Masto, Warren, Crapo, Grassley, Thune, Portman, Toomey, Cassidy, Lankford, Daines, Young, and Sasse.

Also present: Democratic staff: Adam Carasso, Senior Tax and Economic Advisor; Joshua Sheinkman, Staff Director; and Tiffany Smith, Chief Tax Counsel. Republican staff: Gregg Richard, Staff Director; Don Snyder, Tax Counsel; and Jeffrey Wrase, Deputy Staff Director and Chief Economist.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. I will give my prepared remarks in a moment. First, a brief comment on this morning's breaking news. This morning there appears to be a massive unauthorized disclosure of taxpayer records. The source of this information is unclear. Given the IRS's responsibility to protect taxpayers' data, it has a responsibility to investigate the source of this disclosure.

In the meantime, as reported by ProPublica, what this data reveals is that the country's wealthiest, who profited immensely during the pandemic, have not been paying their fair share. I will have a proposal to change that.

Now with respect to today's hearing, the Finance Committee welcomes Commissioner Rettig to discuss the President's 2022 budget request for the IRS. The Commissioner knows well that this committee's interest in closing the tax gap, improving enforcement, and fighting the unfairness in our tax laws, is a special priority for this committee.

That starts, in my view, by going after cheating by the big guys at the top. A few key examples, starting with wealthy taxpayers who skip filing their tax returns altogether. According to a 2020 report from the Inspector General for Tax Administration, nearly a million wealthy taxpayers failed to file returns between 2014 and 2015, dodging a total of $46 billion in taxes. Tax season came and went, they disappeared from the radar.

Senator Whitehouse and I insisted on some explanations. Two weeks ago, he and I got a letter from the Internal Revenue Service that said that the agency brought charges against only 200 taxpayers for failing to file a return over a period of 6 years. Something is really out of whack here, colleagues.

On the one hand, you have a fortune going unpaid by wealthy individuals who essentially blow off the responsibility they share with every other American taxpayer. On the other hand, only a couple hundred non-filers are facing charges. You would think that the IRS would be aggressively following up on the affluent non-filers, but the evidence just does not show that that is the case.

Here is a sickening example of high-earners escaping real scrutiny. More than $2 out of every $3 earned by partnerships in this country goes to the top 1 percent of earners. These are sophisticated entities that bring in big revenue. However, the most recent data shows that out of millions of partnership returns filed in 2018, only 140 were audited. If you are a wealthy cheat in a partnership, your odds of getting audited are slightly higher than your odds of getting hit by a meteorite. It is an audit rate of 0.00004 percent.

On the other hand, taxpayers who claim the EITC have been much more likely to get audited. Again, something is just out of whack with respect to enforcement. For the sake of fairness and for the sake of the budget, it makes a lot more sense to go after cheating by the big guys than focusing on working people.

The President's budget proposal has a lot to say on those issues. The funding increases for enforcement personnel and information technology would help to build up the IRS's ability to handle the premier cases, which are tax evasion by the wealthy.

At the same time, it is important to recognize that there is history here. And the history is that the IRS has a history of going after the little guy too often. The budget proposes expanding the information that major financial institutions must report about client accounts. It is absolutely critical that the focus of that information reporting be on the wealthy tax evaders. The budget also includes a proposal that has been a big priority for this committee for a long time: the authority to regulate paid tax preparers. Too many Americans who need help filing their taxes are falling victims of fraudsters and incompetent individuals. Taking a smart approach and creating rules in this area will help lots of people avoid a tax refund nightmare, particularly those of modest income who depend on their refund every spring to make ends meet.

So there is a lot for this committee to discuss. I want to thank Commissioner Rettig for joining us and look forward to the discussion.

And let's now hear from our friend, Senator Crapo.

[The prepared statement of Chairman Wyden appears in the appendix.]

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you, Senator Wyden. And like you, before I begin my formal statement, I want to comment on the ProPublica information that came out today.

Essentially, as the chairman has said, we are seeing information today that appears to be 15 years' worth of leaked, confidential individual tax data from the IRS. We do not know the details of what happened here yet or not, but this information today is very relevant, in my opinion, to some of the proposals that the administration has on the table to expand the IRS's access to data on people; not just to their tax filings, but for individuals and companies to have their data, and financial institutions to have open access to the IRS. And these are issues that are very significant and require resolution.

As to my formal statement, again, Mr. Chairman, I thank you and Commissioner Rettig for joining us today. It is safe to say that we all support efforts to administer our Nation's tax laws and collect taxes that are legally due.

Today we will hear from Commissioner Rettig about proposals to massively increase the budget at the IRS, aimed largely at increased compliance and enforcement efforts.

Commissioner Rettig, you have the chance to provide your perspective on an array of issues, including any updated tax gap analysis your agency is preparing, various compliance or enforcement-related proposals contained in the President's budget, and recently enacted spending programs that the IRS will soon begin implementing.

Focusing on the administration's discretionary funding request for the IRS, I look forward to hearing about how the IRS would spend the $1.2 billion in additional funding in fiscal year 2022, including the specific activities that the funds would go toward, and what the expected outcome from these activities will be.

The President's Fiscal Year 2022 budget proposes not only a significant increase in IRS funding, but also a dedicated mandatory flow of funding for the IRS over a 10-year period based partly on some speculative and questionable assumptions and analysis. Multiyear guaranteed appropriations like this are rare, and it is important to understand whether the circumstances actually warrant it.

It is also important to understand how much additional funding the IRS can efficiently use, as well as the specific implementation plans the IRS has to put any additional funding and receipts to good use. Much has been said about the decline in IRS funding from the 2010 fiscal year. Less has been said about data suggesting the IRS has become at least somewhat more efficient in the aftermath of these declines, such as the fact that the IRS gross revenue collections have increased every year, year over year, since 2010 from $2.34 trillion in 2010 to $3.56 trillion in 2019.

Further, the IRS's cost of collection has decreased every year, year over year, since 2010, from 53 cents in cost per $100 collected in 2010, to 33 cents cost per $100 collected in 2019. Moreover, we need to better understand the actual correlation between the IRS's enforcement budget and the enforcement revenue it collects.

For example, IRS data shows enforcement revenues actually increased between fiscal years 2012 to 2013, from 2013 to 2014, 2015 to 2016, 2016 to 2017, and 2017 to 2018, despite actual enforcement spending decreasing in each of those periods.

Similarly, between fiscal years 2019 and 2020, enforcement revenue declined by $6.4 billion, despite actual enforcement spending increasing by $317 million. Suffice it to say we need to better understand the facts at play here, particularly before we rush to adopt multi-billion-dollar funding increases.

And as we all know, revenue comes from the economy, and revenue collected is far more sensitive to the state of the economy than it is to the size of the IRS budget, or the scope of its enforcement. When the economy grows, revenues rise. And when the economy shrinks or grows sluggishly, revenues fall or grow slowly.

The administration's budget proposes several new reporting, compliance, and enforcement regimes, including a proposal to require near-universal disclosure to the IRS of gross inflows and outflows for both traditional and nontraditional financial accounts for businesses and for individuals, as well as for third-party settlement entities.

I have long been very critical of big data collection activity and oppose turning banks and brokers into government tax collectors. And I have strong concerns about proposed IRS big data requirements.

According to the budget request—and I am quoting—"This requirement would apply to all business and personal accounts from financial institutions, including bank loans and investment accounts, with the exception of accounts below a low, de minimis growth flow threshold of $600, or fair market value of $600."

Commissioner Rettig, you may recall that expanded 1099 information reporting was enacted in the Affordable Care Act to include any payment over $600. And the American people soundly rejected that provision, leading to its rapid repeal a year later.

Absent bipartisanship in developing enhanced compliance and enforcement activities, and public acceptance of their legitimacy, the administration's proposals will not be durable. The key issue for the IRS and for those of us who oversee it is to strike the appropriate balance between rigorous enforcement of the tax laws and heavy-handed, stifling intrusiveness.

I am concerned about the implications of many of the President's budget proposals, including requiring additional and highly burdensome information reporting when some existing reporting is duplicative, and much is still not being utilized to the fullest extent.

Proposals to increase compliance and enforcement can have merit, but there is risk of turning the IRS—and perhaps even private financial institutions—into huge gatherers of information that is not necessary for tax administration and, in my opinion, violates the privacy of Americans.

Also, in regard to compliance, I would be remiss if I did not indicate my continued disappointment in the lack of responsiveness of the IRS and Treasury to my inquiries. You appeared before this committee on April 13th, Commissioner Rettig, and I have yet not received responses from you to questions that I asked for the record.

I also sent you a letter on May 10th with a series of questions about the speculative and questionable tax gap projections that you have recently put forward. I only received a partial response to my questions late yesterday afternoon.

It is somewhat surprising for the administration to request outsized and mandatory funding for the IRS while at the same time not complying with basic transparency and accountability responsibilities.

Commissioner Rettig, I look forward to your testimony, and I do thank you for appearing here before us today.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo.

Commissioner, please proceed.

STATEMENT OF HON. CHARLES P. RETTIG, COMMISSIONER, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Commissioner RETTIG. Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for the opportunity to discuss our proposed budget for Fiscal Year 2022 and our efforts to help taxpayers, especially during the COVID–19 pandemic, and our ongoing efforts to address the tax gap.

Before I begin, I would like to thank Congress for recognizing the efforts of our employees during the pandemic on behalf of the country. We are proud to serve our country and want to provide meaningful services of nature and quality every American deserves.

The problems facing tax administration today are not new. It will take time to overcome the challenges of the past, and without adequate, consistent, timely multiyear funding, the agency will continue to struggle to replace more than 50,000 employees expected to be lost through attrition over the next 6 years, expand and train our workforce, and support implementation of our multiyear integrated business modernization plan, the Taxpayer First Act, as well as continuing to enhance both meaningful service and compliance efforts.

Like all Federal agencies, the IRS is best suited to provide the services Americans deserve and appropriately enforce the tax laws in support of compliant taxpayers when it receives the resources it needs to do so. At a time when the IRS has faced consequential resource challenges, it has also been called upon to take on new significant responsibilities.

I believe that our response to the unprecedented COVID challenges illustrates the importance of every American to the IRS, and the importance of the IRS to every American. During the pandemic, in a bit more than 14 months, IRS and Treasury employees delivered more than $800 billion through more than 474 million payments in three rounds of Economic Impact Payments, including refunds for filing season 2020. And so far, in filing season 2021, the IRS and Treasury have distributed more than $1.3 trillion.

Turning to the 2021 filing season, I am pleased to report that the filing season has generally gone smoothly. On filing day, May 17th, we received a record of 15.36 million returns. Through May 28th, the IRS has processed more than 137 million individual returns, including 101 million refunds totaling more than $281 billion.

We are working through backlogs in returns, but we are current on all returns received by us during calendar year 2020. Our Error Resolution System currently has about 9.4 million returns in proc-

ess, which are principally due to inconsistencies between reconciling amounts of EIPs received for the return recovery rebate, EITC claimants claiming with respect to 2019 versus 2020, and identity theft. We are working through these using mandatory overtime for our employees and exercising every effort that we can.

We are also current in opening mail. We receive between 1 and 1½ million pieces of mail per week. All of the mail is opened within a week of receipt by the Internal Revenue Service.

In 2021, we received more than 150 million phone calls, and at peak we were receiving calls at the rate of 1,500 per second. Between live and automated systems, we answered more than 36 million calls. We have had more than 1.4 billion visits to *IRS.gov*. We are on track with respect to implementation of the statutory requirements for the Advance Child Tax Credit, with the first payments to be received July 15th.

More than 30 million households, and more than 65 million children, will be receiving monthly payments beginning July 15th. We will soon launch the online tools, and we invite members and staff for a demonstration of our CTC online tool which includes a Nonfiler tool that will soon be launched, a CTC update tool that will be launched by the end of June, an eligibility tool, and other relevant information.

We have been doing outreach, including recently distributing more than 30 million letters to potentially eligible individuals. Congress can help us in our efforts by providing direct hiring authority and consistent, timely multiyear funding sufficient for us to provide meaningful services on behalf of every deserving American.

You have referenced the President's Fiscal Year 2022 budget proposal, which has three critical components—the discretionary budget request of $13.2 billion, a 10.4-percent increase above the 2021 enacted level; and two other portions which are intended to build back the IRS: the Program Integrity Allocation Adjustment, and the American Families Plan. These streams, we believe, are important. We are willing, as Treasury is, to meet with members and staff to discuss them. And ultimately, we will do our best with the funding that Congress provides, and we realize, and you realize, that we are a tax administration agency, and we will try our best.

So, Mr. Chairman, Ranking Member, with that I invite questions and thank you for having us appear today.

[The prepared statement of Commissioner Rettig appears in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Rettig. Let me start with a Treasury Inspector General for Tax Administration report that showed that 900,000 high-income taxpayers dodged $46 billion in taxes by failing to file a return between 2014 and 2016.

When we asked about the legal consequences, your office replied in a May 25th letter that the IRS asked the Department of Justice to charge 200 taxpayers for failing to file a return between 2014 and 2020. Everybody else appears to have just gotten away with not paying the taxes that they owed.

Let's start by having you explain why so few persons were charged with failing to file a tax return over the past 6 years, when the Inspector General and others are saying tens of thousands of high-flyers got away with shirking their duty.

Commissioner RETTIG. Every high-income non-filer from tax year 2016 forward is involved in compliance actions with the Internal Revenue Service. The reference that you are referring to is under 7203, which is a misdemeanor for a failure to file an income tax return. And the statistics you have are statistics that we provided.

There have been legislative proposals, even recently, about making a multiyear non-filer matter a felony, as opposed to a misdemeanor. The system is not designed to effectively address misdemeanors. We have limited resources in our Criminal Investigation function. Decisions have to be made based on resources. The same people in Criminal Investigation, who are specular at what they do, who would look at misdemeanor cases, and the majority of misdemeanors in the Department of Justice, if they bring those cases—that is their decision to indict—if they bring those cases, in the majority of those cases, the individual does not receive a period of incarceration. In the majority of the felony cases that are brought, people receive a period of incarceration. The incarceration is not only a deterrent to the individual who ends up in prison, but it is also a deterrent to other similarly situated taxpayers.

The CHAIRMAN. Let's stay——

Commissioner RETTIG. We share your concerns, Senator.

The CHAIRMAN. Let's stay with this question of how the wealthy always seem to be able to skip out on their obligations. In 2018, the IRS audited 140 partnerships. By my math, that is less than 0.00004 percent of the 4 million partnership returns filed that year.

So you have a better chance of being struck by lightning than being audited, if you are a partner in a partnership. And this is exceptionally concerning, given that around 70 percent of all partnership income accrues to the top 1 percent of households.

So this is another example of the tale of two tax codes. You have the nurses in Medford, OR, this morning treating COVID patients. They pay taxes with every paycheck. But if you are a millionaire who can arrange their assets through a sophisticated, complex web of partnerships, you can abuse the system essentially with impunity.

And I would like to know what you are going to do to have a significant reform in this area: enforcement of large partnerships. I think that is key to my proposition—and that will be the heart of my proposal; it is the heart of my proposal—to ensure that the wealthy pay their fair share.

And so, explain to me how you intend to deal with this significant gap in tax fairness.

Commissioner RETTIG. We share your concerns. Our highest rates of attrition are in our most specialized senior examiners. The President's budget, not only under the discretionary budget which has funding for enforcement and services, but under the PIA, as well as the mandatory provisions, specifically provides for increased resources for specialized agents looking at partnerships, wealthy individuals, and corporations. And I believe it was at this hearing in April, if I am not mistaken, where I indicated that, in those arenas, we are outgunned; that the resources outside the Service on a particular case more often than not far exceed the resources we are able to devote. And out of 4.2 million partnership returns—we cannot touch 4.2 million when, Service-wide, I have

6,500 field revenue agents. And I need to deploy those as best I can.

The CHAIRMAN. So just tell us for the record, with the added money for enforcement that is going to get my support, how much of an increased effort will you direct to these very wealthy partnerships where there just has not been the focus and scrutiny that enforcement requires?

Commissioner RETTIG. Our enforcement focus—and I need to address also that the budget also involves funding, and in the discretionary part of the budget, the most significant increase is in taxpayer service and modernization. But speaking to the enforcement point, which is what we are addressing here, our specialized agents whom we are looking to bring onboard—and it is a significant hiring for us, and it is at three separate levels. We are not just hiring under 5-year—if we receive the budget—under 5-year people. We are looking at that category of individuals. We are looking at midcareer people in their 30s and 40s who have a degree of experience. And we are looking for people at my level who also have a degree of experience who can not only instruct our people but can work these cases from the moment they come on board.

But our focus is on—and I have the list; if I have a moment, I can provide it to you, sir. Our focus is on high-net-worth individuals, global high wealth, large pass-throughs, the largest pass-throughs, large corporate compliance, the ultra-large corporate compliance, employment tax field examinations, employment tax correspondence examinations and—I'm finishing—transfer pricing, non-filer virtual currency, Bank Secrecy Act Forms 8300, and abuse of transactions, both promoters and taxpayers.

And that is our list that we are requesting the ability to bring on specialized agents to make a determination on.

The CHAIRMAN. I would like, in writing, additional detail about how you intend to focus in those areas. All right?

Commissioner RETTIG. We will do that.

The CHAIRMAN. I would like to have it within a week, because we are going to have to move pretty quickly on these issues.

Senator Crapo?

Senator CRAPO. Thank you very much, Mr. Chairman. I am going to follow up on the same general topic, but from a different perspective, Commissioner Rettig.

I completely agree that we need to make sure that those who fail to pay taxes due are identified and are forced to pay the tax that they owe, and pay the necessary penalties for tax avoidance.

That being said, the President's budget calls for a new change in the law, allowing the IRS to have what I see as near-universal access to the reporting of Americans' financial account information to the IRS—transactions over $600.

This proposal will carry with it a significant amount of privacy concerns, in my opinion. Like I said, I do not have a problem with helping the IRS get stronger ability to focus and specialize in dealing with these wealthy individuals, partnerships, and corporations who are avoiding tax owed under the law. But I do not think that Americans would support giving up access to their own private financial information to the IRS, or to any government agency, and the information we got today in the ProPublica circumstance is just

evidence of why Americans, I think, are going to be very concerned about giving the IRS direct access to their financial data.

The question I have for you is, do you believe that the American people support having their banks effectively act as IRS agents and report on, quote, "flows of deposits into or withdrawals from their checking and savings accounts that amount to more than $600"?

Commissioner RETTIG. As a tax administrator, it is probably not appropriate for me to comment on what I believe. But you know, we see the media reports going in both directions.

The information reporting does get provided to the Internal Revenue Service in the event of an examination. It is one of the first things, obviously, that agents request. And they can request informally or formally. And in part, I think there is a strong belief that modernized systems and the ability to actually use the information that we have and would receive will help us lessen the burdens on some taxpayers by having us not audit certain taxpayers, and maybe streamline the examinations of others. But as I said, ultimately, we are tax administrators, and we will implement to the best of our ability what Congress approves.

Senator CRAPO. Well, Commissioner, I have been working for years, and I believe Senator Wyden has too, on privacy on the Internet. I think that people have a right to privacy of their data. And I do not mean just financial data, but their activities on the Internet—and the data collection that private-sector companies are collecting on Americans now is phenomenal. And I think Americans are fed up with it.

I think that this proposal to literally increase the IRS's ability to, in my opinion, violate the privacy and access the private financial information of individuals in a manner that is far in excess of what currently exists, is of great concern.

How can the IRS assure Americans that the information it would receive under this proposal would be used for proper purposes? And in light of the ProPublica information report we saw today, how can it protect people from that kind of violation of their own privacy?

Commissioner RETTIG. The IRS is one of the largest data warehouses in the world presently. And the IRS has significant—I cannot speak to the ProPublica article, as I think we have discussed; I cannot speak to anything with respect to specific taxpayers. I can confirm that there is an investigation with respect to the allegations that the source of the information in that article came from the Internal Revenue Service. Upon reviewing the article, the appropriate contacts were made, as you would expect, and the investigators will investigate and ultimately that will be there. But we also have, as you know, a very strong Inspector General in TIGTA, the GAO. We have a Taxpayer Advocate whose purpose that came in through the 1997–1998 IRS Restructuring and Reform Act was to provide oversight and be in-house in the IRS and uncover, if there are issues that need to be uncovered and dealt with.

So you know, we will find out about the ProPublica article, but we do have quite a few systems in place. And I would say for the volume of data that we have and that gets exchanged, I think the IRS has been very successful in protecting that data. But we are not insensitive to your comments.

Senator CRAPO. Well, thank you very much. My time has expired, so I will not ask—I have a number of additional questions that I will submit for the record, but I do want to let you know that I am going to follow up on whatever we received from you yesterday with regard to your analysis of the tax gap. I think that we need to get much deeper into that.

Commissioner RETTIG. And for all members, I am available for one-on-ones. Members of our staff are available for one-on-ones with members, or with your staff. I am available to meet with your staff.

Senator CRAPO. Thank you.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. You just answered my first question when you said that you are investigating this ProPublica release of secret IRS files. I assume that, if your investigation finds a violation of the law, you are going to see that people are prosecuted. Is that right?

Commissioner RETTIG. Absolutely. I share the concerns of every American for the sensitive and private and confidential nature of the information the IRS receives. As you all are well aware, I spent 36 years on the outside. I think that trust and confidence in the Internal Revenue Service are sort of the bedrock of asking people and requiring people to provide financial information. And we have, as I said, turned it over to the appropriate investigators, external and internal.

Senator GRASSLEY. After the April 13th hearing we had, I submitted written questions to you regarding the IRS's administration of the Private Debt Collection program and its implementation of changes enacted under the Taxpayer First Act. However, I have yet to receive a response. When should I expect to receive a response to that letter?

Commissioner RETTIG. Sir, as you know, I am a huge proponent of private debt collectors. I think that they have been a significant help to the Internal Revenue Service, as well as—we often have discussions about whistleblowers and where we are headed. I see whistleblowers as a critical component of the future of the IRS.

The responses to the questions for the record are in clearance. They are outside of my immediate domain, if you will. So I would anticipate soon. We have pushed to get those released to you. And I do not take lightly the concept that, for the ranking member, we released the letter to him last night. I get it that that is not sufficient time to look at a letter for a follow-up. And same with the QFRs, you should have received them before today. I will only comment that internally and in the clearance process, which is outside of the IRS, people are pushing really hard. It is not an excuse, sir, it is an explanation. But the shorthand answer is, soon. And I am trying to be on top of that to get that information to you.

It is not without lack of attention, if you will, sir.

Senator GRASSLEY. Last month, the Inspector General for Tax Administration released an updated report on improper payment rates for refundable tax credits. The report indicates the IRS continues to struggle to meaningfully reduce improper payments for refundable credits. Yet, according to the report, IRS and Treasury

have requested the Office of Management and Budget to exempt refundable credits from improper payment reporting requirements.

This comes at the same time that the current administration is seeking massive expansion of several refundable credits. Why would the IRS and Treasury seek to limit information available to Congress to evaluate these credits and their proposed expansion?

Commissioner RETTIG. I do not think it is limiting information available to Congress. I think it is more in terms of the accounting, the Internal Revenue accounting, and would be pleased to follow up with you. The figures will not go away. Those figures are significant, as you are aware, if you have seen the report. With respect to EITC, the rate is about 25 percent, about $17 billion per year. With CTC it is about 12 percent, $4.5 billion per year.

There have been proposals on the credits to essentially merge credits and make them more administrable by the Internal Revenue Service into something maybe along the orders of a family credit where the IRS can rely on information in its systems.

We do not have, for these refundable credits, information as to, say, the residence of a dependent and such. And it makes it extremely difficult to administer those in the ordinary sense.

So, I will follow up with you in terms of the background for that, but it is not to prevent Congress—I am a huge believer in your oversight, this committee and others, a huge believer in transparency, and equally that you are a meaningful part of tax administration with us on behalf of this country.

So, there is no intent or incentive or desire to withhold information. To the contrary: we need you.

Senator GRASSLEY. I am going to have to submit my other questions for answers in writing, but the important one for you to answer in writing is in regard to Tax Administration saying that there is an improper payment rate of 27.4 percent, the highest rate of any credit, when it comes to the premium tax cut. So, I would like to have you look at that. Thank you.

[The questions appear in the appendix.]

The CHAIRMAN. I thank my colleague.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Commissioner, let me start off by thanking the dedicated employees of the IRS. I hope you will share that with them, especially for their tireless work during the last year to get stimulus checks into the hands of hardworking Americans.

Thanks to the American Rescue Plan, 27 million children nationwide, and more than 1.6 million children in New Jersey, are estimated to benefit from the historic expansion of the Child Tax Credit.

So, Commissioner, given the issues with the stimulus payments last year, how is the agency working to ensure that all taxpayers who are eligible for the Child Tax Credit payments will receive these payments on July the 15th and each month thereafter?

Commissioner RETTIG. Individuals who we have information for will receive the payments commencing July 15th. It will be based on a 2020 return, if not a 2019 return. This week we are in process, and will complete the process by June 16th, of sending out over 30 million, I think the number is actually 36 million, letters to poten-

tially eligible people. It is not saying they are eligible, but it is people we may have information on that might indicate they might be eligible.

We have a very significant outreach program. As I indicated earlier, we are launching one of our online tools this week. We are launching a second online tool in the very near future. We have invited members of this committee, and members of Congress and staff members, for a demonstration of our online tools.

Part of our inquiry and invitation is to get feedback from members of Congress and staff as to the tool. We are very proud. We think Congress will be very proud. But that does not mean that we have all the answers. We have been working with a lot of people, and we also realize that individuals generically, individuals do not always go to *IRS.gov* to get their information, so we are working with literally thousands and thousands of community-based organizations around the country to distribute information. Information will be distributed in multiple languages. A lot of this is information that we learned in the first round of EIP, EIP1, EIP2, EIP3, the outreach that we conducted.

We have been very fortunate to interact with more than 10,000 different organizations around the country that previously were not interacting with the Internal Revenue Service, based on what our core processes were. So, we have quite a bit of outreach.

We will also be providing members of Congress and staff with toolkits and social media that you can use in your districts—you know, both Twitter and relevant types of things.

We need help getting the word out, as we did need help with the EIP1, 2, and 3. We believe that the systems that are going to launch will be as seamless as possible. That is not saying it will be seamless. We have tested. We are testing and, you know, with each round in this type of situation, we learn and get better.

Senator MENENDEZ. I appreciate that, and I will have my staff take advantage of this offer. And we certainly want to be a partner in this regard. You know, the reason I asked is, last year an estimated 41 million taxpayers did not receive the stimulus check because they received an advance on their refund, or they did not file a tax return in advance of the July 15, 2020 tax filing deadline.

In addition, many taxpayers, especially those with young children, received checks that were incorrect and did not properly reflect the number of children in their household. Now I heard you mention an online portal. Are you launching an online portal that allows working families to update their information with enough time to ensure that this money can get into their pockets by July 15th?

Commissioner RETTIG. When the portals launch, they will launch with the statutory requirements. And because, as you know, we have moved the filing season back a month, the same people who work on filing season EIP in the IT context are the same people who work on this. So we got crunched, if you will, a little bit on time. But we will launch with the statutory requirements, and on a monthly basis thereafter, we will update the portals.

And I should also indicate, you know, coming to the comment that everybody does not go to *IRS.gov*, they will be able to walk into an IRS office. We will have paper interactions. People will be

able to update on the phone, once they are authenticated. We will be able to update on the phone, and ultimately people will be able to use their personal online account at *IRS.gov* to do these updates. And ultimately, we will also be in Spanish.

Senator MENENDEZ. Well, that is good to hear. I know you mentioned on the phone. I just want to say that the National Taxpayer Advocate has continually ranked the IRS customer service as one of the most serious problems facing the agency. With the 150 million calls that went to the IRS this year, only 7 percent of the calls reached an IRS employee.

So I am glad that we are going to have that service. But we have to have a service that actually works. There is nothing more frustrating to a taxpayer, to a citizen, to say you can avail yourself of this service, and then when you avail yourself of it, you cannot get someone to answer your question.

Commissioner RETTIG. If I may comment, the level of service, and particularly the phone, is an appropriated item. And as I said, in the President's budget, the President asked for funding for 75 percent. We are supposed to answer 7½ out of 10 calls. That is an item that, if we get that funding, in the normal circumstances, we will be answering 7½ out of 10 calls. The calls currently are about 19 minutes. Historically they were 12 minutes. Our people are proudly interacting with Americans. We are principally the government agency, other than SSA and VA, to interact.

And I have called on people to spend a few more minutes on our folks' calls who are emotional. A lot of people in this country have endured a lot of hardship, and we tend to be the people that they reach out to. So the calls are longer calls, and they increase volume, and have crunched that. But if, for example, instead of 7½, it would go to 8½, that extra 10 percent of calls to be received, we would need an appropriation of another $100 million. And every IRS employee, myself included, wants us to answer 10 out of 10 calls. It is not our choice.

Senator MENENDEZ. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Next is Senator Carper, and I think he is on the web. Senator Carper?

Senator CARPER. Thank you.

The CHAIRMAN. Senator Carper, your connection is not great. Let's try again.

Senator CARPER. There you go. Is that better?

The CHAIRMAN. Yes.

Senator CARPER. Commissioner Rettig, I wanted to thank you and your staff for spending some time with my team and me, as we try to figure out how we are going to pay for major investments in surface transportation—our roads, highways, bridges—and to do so in a way that the burden does not fall inordinately on low-income families.

I thank you very much for trying to help us think outside the box as we do that. So that's just a "thank you," and we look forward to continuing to work with you on that front.

Second, I want to follow on what Senator Menendez was just questioning about, and that's customer service. What was the old cartoon? It was Pogo, the old cartoon was Pogo—it was a long time

ago—and he said, "We have seen the enemy, and it is us." And when it comes to the poor service, the Congress and previous administrations just cut the heck out of the IRS, year after year after year. And we continue to change the tax code; we make it more complex.

We have for years now not provided extra resources and technology. It is no wonder the folks whom we are serving are not satisfied with the service they get. We can do something about that. I hope my colleagues and I will do our job now going forward.

I want to ask a question. How would the IRS budget proposal before us help the agency close the tax gap? And would the tools in the Biden plan complement your efforts in your agency to improve enforcement?

Commissioner RETTIG. The President's proposal has three critical components, each of which has an impact on the tax gap. The discretionary proposal provides for basically taking care of the attrition of the Internal Revenue Service. The PIA and the mandatory provisions have the ability to essentially build back the Internal Revenue Service, to rebuild both our service and enforcement side of the house.

I think the committee is aware that we are down 17,000 enforcement personnel over the last decade, and that the tax complexities have increased significantly. The challenges and duties and responsibilities of the Internal Revenue Service have similarly increased significantly over this same time period.

The complexities of structured transactions, if you will, by taxpayers on the outside, both corporate individuals and pass-through entities, have increased significantly. The filing of partnership returns, I think the most current data, is about 4.2 million partnership returns. And I think, as I have indicated earlier, I only have about 6,500 field revenue agents to deploy in every one of these neighborhoods, which is a compliance challenge.

There are also provisions in the President's budget proposal for additional information reporting, including information reporting in the virtual currency context. We are well aware that there are compliance challenges for folks engaged in virtual currencies. It is a high priority for the Internal Revenue Service and myself, together with others, and we need to make resource decisions among those.

The President's budget is designed to provide considerable assistance to the taxpayer service side of the house, to the modernization side of the house, to the enforcement side of the house, as well as operations support. And it is those four key components that create tax administration for the Internal Revenue Service, for the people of this country, for Congress. And we know we can do it better, but we need appropriate mandatory, multiyear, consistent funding to get there.

It is also critical for us, if we were to get this legislation, that we receive direct hiring authority, which would allow us to quickly onboard the specialized level of individuals that we are looking for at the mid- and toward the end of the normal career who are interested in coming on board.

And so, there is an entire package. And, sir, as we discussed the other day, I am more than willing to meet with you and your staff and others to get into details on what we plan to do.

I will say, the IRS, proudly—employees of the IRS, IRS leadership—have been working on a plan for many months. So if Congress enacts something, do not expect us to wait 6 months to show you what we intend to do. We are pretty close to there.

And I did a June 1st mandate a while ago for our leadership of what I wanted to see in terms of something to ultimately be able to share, and we were ahead of schedule. And I think you will be proud. We need the funding. If we get the legislation, we will show you quickly what we intend to do. But we do not intend to wait 6 months to implement what we hope Congress provides to us. We will be ready.

Senator CARPER. Thanks so much.

Lastly, how will this budget proposal improve access to tax filing services for both low-income and vulnerable taxpayers?

Commissioner RETTIG. Well, you know, the income equality issues—Treasury, and I know there are other Senators who are very interested in this as well. We have worked hard with Treasury on issues involving income equality, income inequality, and there are working groups at Treasury who are focused on this. We are the tax administrators. Our role in that is essentially implementation and administrability of what Congress and the administration might do.

And as far as the voluntary income tax, and prefile, and the rest, you are hitting my sweet spot. The lower-income taxpayers, the vulnerable taxpayers, the taxpayers who are challenged with the English language, are the people whom I think we all have a high degree of moral responsibility to, but it is a privilege to help these folks get it right.

They, by and large, are the ones who are trying to get it right. They get preyed upon by preparers. They may be a little confused, and they are not comfortable with the language, but personally I can say, for most of the IRS employees, we consider it a privilege to be very active in these communities. And we will continue to be so.

Senator CARPER. Oliver Wendell Holmes once said, "Taxes are what we pay for a civilized society." Thank you for what you and your team do at the IRS. We have to make sure that we collect the taxes that are needed, so thank you.

Commissioner RETTIG. Thank you, sir.

The CHAIRMAN. The time of the gentleman has expired.

Senator Cardin?

Senator CARDIN. Thank you, Mr. Chairman.

Commissioner Rettig, it is a pleasure to see you.

This hearing is about your budget. I have been one of the members who has been advocating for increased resources to the IRS for a long time. This budget is certainly a welcome budget, to see the increase in the President's budget for IRS. But I think it is important to point out that, if you look at the historic decline of support for the Internal Revenue Service, we are just making up for what we should have done in the past, and we still have a long way to go in regard to the resources necessary to efficiently collect the taxes of this country.

I was listening to your exchange with Senator Menendez in regard to the service issues, and I think we all recognize that you

play a critical role. And your workers are on the front line and need always to have a smile with their service, recognizing the frustration of our constituents may be directed at them.

So I just first want to thank the workers at the IRS and to acknowledge that I hope this is a trend that will continue: to give you the support you need to carry out your mission.

I want to talk a little bit about the Taxpayer First Act, which deals with some of the issues we have already talked about. Your customer service strategy deals with cyber concerns. It deals with protecting taxpayers, and low-income taxpayers. It was put on hold, or sidelined as a result of COVID–19, the implementation on some of these issues.

Can you just give us a realistic target date, if this budget is approved by Congress, as to the implementation of the Taxpayer First Act?

Commissioner RETTIG. Quite frankly, I think that the IRS might be living in a perfect storm. If the budget is to pass—we have brought on a new Director of the Taxpayer First Act office, Heather Maloy. She is instrumental in looking at increasing staffing across all lanes. The Taxpayer First Act provisions are critical for that.

Heather is now in daily meetings with myself in her role. We actually launched yesterday, referring to IRS NEXT. The Taxpayer First Act provisions will be enacted extremely quickly. The best I can do—I am not trying to give you a lawyer answer, but I can tell you that all hands are on deck. What we are seeing and how we are looking at things between funding resources, staffing, modernization, customer service—which we know is important to you; it is very important to us—all of these come together as a multifaceted approach to be able to provide Americans what they deserve. And that is where we are headed.

We are very focused on private-sector interactions with the customer base, if you will. We are trying to replicate or exceed where we can. We are trying to modernize our systems. And part of the President's proposal is a catch-up, if you will, for funding that we did not receive.

As you know, we have only received about 55 percent of the funding that was requested for the integrated business modernization plan. We have had to delay other projects in order to keep that project on target. That part of the President's proposal actually catches us up and allows us to move at a faster pace.

So, if you will, wrapped within the Taxpayer First Act, all lanes are coming together. As I am sure you are aware, we did not get funding under the Taxpayer First Act, so we have been operating essentially without funding to do what we can do. But I will say that we have done quite a bit and, critically, I think most of you are aware that we brought on a taxpayer-experienced officer, Ken Corbin, and I am confident that all of your staff are very familiar with Ken. And importantly, Ken and I actually do randomly selected IRS employee Zoom calls. We send out 150 invitations. About half of those who respond—the first half to respond get a link. Multiple times a week, employees all around the country, from Guam to Puerto Rico to Washington, DC, get on a Zoom call with Ken and me.

Senator CARDIN. So let me take you up on your offer of keeping us informed. As you said, if you could, tell us how the implementation is occurring, and where we are together on expectations of what we can achieve. We know it is a challenge, and if you would keep us informed on that——

Commissioner RETTIG. Absolutely.

Senator CARDIN. I want to cover one other question, if I might, dealing with paid preparers. We talked about this before, the lack of authority, and we have to do something about it. The chairman has been very active and engaged in trying to give the authority to the IRS.

But I have seen the President's budget. You are increasing the fine against ghost preparers. That is great. But can you enforce it? What type of enforcement are we going to have in regard to those who are receiving fees from taxpayers but are not reporting that on the IRS return?

Commissioner RETTIG. Yes. The ghost preparers are individuals who prepare returns but do not sign them, and they do charge. The line on the return is for a paid return preparer. And we do indicate, when we—I cannot explain exactly how we get there. I know how we get there, but in a public forum I should not indicate how we get there. But a word to the ghost preparer community is: we know you are there. We are focused. And we have this option coming up in terms of civil penalties, and there could be criminal penalties. Because these returns tend to have similar errors, and they batch returns with the same errors, they get identified.

So we will get there. We need all the tools we can get in terms of return preparers. And as you are well aware, they are preying on the most vulnerable taxpayers, and not only the lower-income folks but folks who are not comfortable with the English language. And if you sit in one of these cases and you see what happens to these individuals involved, you would be highly motivated to get us all the tools you can on the preparer world.

Senator CARDIN. Thank you.

Mr. Chairman, I think this is an area that you are interested in, and I think we should really follow up on it.

The CHAIRMAN. I very much appreciate your leadership on this, Senator Cardin.

Senator Brown is next.

Senator BROWN. Thank you, Mr. Chairman. Thanks very much for today's hearing, and welcome back, Commissioner. You have spent a lot of time in this committee, so thank you.

Let me start by joining my colleagues in thanking the men and women in the IRS. You have been withstanding drastic budget cuts, a pandemic, and frankly a Congress that has not done its job in providing the resources you need.

As you know, Senator King and I have led efforts to provide you with more funding. I am very happy the President has put forward a proposal to do this. And I echo the words of the Senators I have listened to in the last few minutes—Senators Carper and Cardin, I know others, Senator Menendez also—who talked about this.

One of the most important parts of the American Rescue Plan was the expansion of the Child Tax Credit. As you know, I have asked you about this before. Secretary Yellen is going to begin in

July, given what she is doing with the Child Tax Credit, the monthly payments. We, in the Rescue Plan, also expanded the Earned Income Tax Credit for workers not raising children in the home.

We know that 20 percent of people eligible for the EITC do not claim it—one out of five. Many families, because of the Rescue Plan, will be eligible for the first time. So I want to follow up on Senator Menendez's questions.

Commissioner, how will the IRS use increased funding to better reach and better serve filers eligible for the EITC, and now the CTC, and to increase take-up of the EITC? What are your plans?

Commissioner RETTIG. I will indicate that present indications are that we will spend more than the funding that we have been appropriated with respect to the CTC, given the extent of outreach efforts that we are undertaking and plan to undertake.

This includes meetings around the country that we have already had, a CTC summit with more than 25 representatives of community groups. We have had interactions with a lot of people around the country. We sent out 30 million letters this week. They will be completed by the 16th.

We have three rounds of outreach letters going out to individuals about awareness. We are launching our online tools soon, which include four different tools: *IRS.gov* landing page, the Non-filer tool, the CTC update tool, frequently asked questions that will be posted. And an eligibility tool will be similar to the EITC assistance tool that many of you are familiar with. And in terms of the outreach, we are coordinating with the same community groups and trying to expand that with respect to EIP1, 2, and 3. And we are on the ground throughout the country.

We also, as I may have indicated earlier, will be providing tool kits to every member of Congress, as we did with respect to EIP. We will be providing tool kits to different State agencies, as well as State taxing authorities around the country, and agencies that principally are providing other types of benefits to individuals.

We have a lot of media outlets, and the scope, if you will, of outreach for the IRS has greatly expanded really as a result of EIP1, 2, and 3. This has been fantastic for us in terms of getting into the community.

Senator BROWN. Thank you, Commissioner. There are a number of people on this committee who care about this. I just saw on my screen one of the real leaders in this, Senator Bennet, and he and I and others will continue to talk to you, particularly as the July date approaches.

Let me shift in my last couple of minutes, Mr. Chair, to compliance. My constituents in Ohio, whether they punch a clock or swipe a badge, they have to pay the taxes they legally owe. And when people beat the system, that means that workers doing an honest day's work in small businesses playing by the rules are exploited by the rich guys outrunning the IRS.

Part of the problem is that their income—for IRS, obviously, their income is more complex. We do not have adequate reporting, and the money is harder to follow, making it easier for them to get away with not paying what they owe. You obviously know that.

Tell us, if you would—I mean, the President's proposal benefits honest taxpayers who have to compete with the dishonest cheats. Tell me—tell us, how much revenue would this bring in, without raising taxes by a penny, that we could use to pay for investments in infrastructure and other things, if we were able to get 100-percent compliance? What would it mean?

Commissioner RETTIG. Well, you know, I really leave the computations to the Office of Tax Analysis at Treasury and others, and I think, like you, we have seen figures that range from $1.4 trillion, $700 billion, to hundreds of billions of dollars. What I can indicate, based on my private practice experience and my tenure here at the Internal Revenue Service, is that giving us the appropriate resources will be an absolute game changer for this country, both in terms of services to taxpayers, and enforcement.

And enforcement supports compliant taxpayers, the more that people understand that the IRS is doing its job. And to do our job we need resources, we need consistent, multiyear funding. We need mandatory funding. We need direct hiring authority. We will do our job. We will hire the people we need to hire. But we absolutely have to have the resources to do so.

We will work with Congress. I am more than willing to come up, meet collectively, individually, and walk through it. And I think previously at this hearing I indicated that my anticipation was we should be able to collect—whatever the actual tax gap is—we should be able to collect somewhere between 10 and 20 percent with an understanding that, with the people we bring on board, there will be a curve. We will not be as effective initially when we onboard everybody, but this agency, with the desire of our employees, is very good at what it does, and we respect the rights of taxpayers.

I am incensed at the folks who say that we are going to treat taxpayers on the street unfairly. We are not. And our employees live in the communities that we examine, that we interact with, and we are very proud to do so. So this is not an agency—and I am familiar with the history of Senator Roth's hearings in 1998, and what led to those hearings—this is not that agency.

Our employees—and I think they have shown it with respect to EIP1, 2, and 3 and getting back into the office—our employees are proud to do what they are doing. Give us the resources, and we will make you proud as well.

The CHAIRMAN. Thank you very much. It is an important issue, Senator Brown.

Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman.

Thank you for being here today, Commissioner. Following up on that resource question, I know that the IRS has lost a lot of employees since 2010, tens of thousands of employees since then. And so there is a lot of discussion today about corporations and high-income filers, and you have made statements that some of the budget requests by the administration, I think 4,500 new employees you are proposing, would work on those high-income filers and those investigations.

But you know, we have just had roundtables with some of our small business owners, and I heard a longstanding concern, which

is just that we need more people at the IRS to be answering phone calls about basic things for small businesses.

So what portion of that new hiring do you think would go to those kind of activities?

Commissioner RETTIG. In the President's budget request, the highest in the discretionary, the highest allocation—and I am searching for the number which I have here somewhere—is 13 percent for taxpayer services, which is exactly the folks that you are referring to. And it is about 9 percent for enforcement, and then it is about 36 percent for modernization, which also provides taxpayer services, the ability to interact with us in a seamless and comfortable manner.

So that is all in the discretionary budget for the administration. The PIA is enforcement-oriented because we are down 17,000 enforcement personnel. And when I use the term "enforcement," that is not just front-line revenue agents, revenue officers, but that would include appeals officers, it would include taxpayer advocate representatives, it would include IRS counsel people. It is sort of a package. We cannot just increase one piece of the IRS when the IRS's tax administration is a process.

And at a House hearing recently, I made a comment. Everybody is focused on the IRS, and budget, and staffing, and resources. Keep in mind that in the district courts, the claims courts, the bankruptcy courts, and in criminal prosecutions, the Department of Justice handles those matters for us. They represent the interests of the Internal Revenue Service. And if we get a significant increase in staffing and the Department of Justice, specifically the Tax Division, does not, you should anticipate a bottleneck on us giving them cases that they are unable to handle because of their staffing issues.

They are a significant part of both civil and criminal tax administration in this country. But we are focused on all lanes of the IRS, and significantly in the service lane.

Senator CANTWELL. So is it——

Commissioner RETTIG. I—excuse me. I come from a small business family. I was a small business owner on the outside and, you know, we do not intend to leave anybody behind.

Senator CANTWELL. Great. Well, I am definitely hearing from people that they are feeling left behind, at least in some of the cases where they're affected, so I am appreciating that that largest amount, you are saying 13 percent, would go to that. So if someone could follow up with me just on what you think that would mean as it relates to services, or improvement in services, that would be so helpful.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Portman?

Senator PORTMAN. Thank you, Mr. Chairman.

Commissioner, welcome back.

Commissioner RETTIG. Thank you.

Senator PORTMAN. We had a good conversation with you only about a month and a half ago, and I definitely need to talk about a number of those issues, but in terms of compliance, you and I had a discussion about the need for better taxpayer service.

Senator Cardin and I wrote this bill called the Protecting Taxpayers Act, some of which is now being implemented, and I appreciate that. It is part of the Taxpayer First Act.

But this modernization effort is never-ending. And the challenges are more sophisticated. I want to talk about cryptocurrency for a second.

We talked about digital assets and cryptocurrency back in April when you were before us, and you talked about the low visibility of these taxpayers and the importance of their compliance in closing the tax gap. I talked about how we were working on potential legislation to address that.

I want to ask you a couple of questions about it. I noticed in the budget that you have $41 million to expand cyber-crimes efforts, and $32 million for crypto-related enforcement operations. You have also proposed additional information reporting for businesses that receive crypto assets with a fair market value of more than $10,000.

In addressing the issues related to information reporting on cryptocurrency, do you feel that the IRS has the necessary authority to issue appropriate regulations?

Commissioner RETTIG. I think we need congressional authority. When we get challenged—as you are aware, we get challenged frequently. And to have a clear dictate from Congress on the authority of us to collect that information is critical. And the most recent market cap in that world, in the crypto world, exceeded $2 trillion and more than 8,600 exchanges worldwide. And by design, most crypto virtual currencies are designed to stay off the radar screen. So you know, we will be challenged.

Right now, what we do is we issue John Doe summonses, and it is highly public. We recently did that. We are very active in both the civil and the criminal enforcement world. We do need additional tools, and we absolutely need additional resources.

Senator PORTMAN. Okay. Well, I appreciate that answer. And as you know, we want to work with you. We have circulated some ideas, including with some of the stakeholders, and we want to be sure that we get your input on that as it relates to cryptocurrency and digital assets.

Commissioner RETTIG. We would appreciate the opportunity to work with you.

Senator PORTMAN. Thank you.

On the issue of staffing, I support more resources for the IRS. I have for years, since I was involved in the reform efforts a couple of decades ago. And for my small business constituents back in Ohio, and individuals who are having to struggle with this overcomplicated tax code, you want smart, effective people at the IRS to work with. And the professionalism is important; the training is important.

One of my concerns is, you are asking for a lot of new people, and it takes a lot to train them up. And I see that you have asked for hiring of at least 5,000 new personnel for enforcement alone, but you say it should not exceed a manageable 15 percent per year. Over 10 years, it seems that probably would double the IRS workforce.

So do you have the ability to train these people up and to make them effective? And second, do you have the workforce out there to tap into? In other words, are you having trouble hiring people?

Commissioner RETTIG. We are actually looking at hiring, and I may have indicated earlier, we started developing a plan months ago. We went a little bit at risk, if you will. And so, if we receive legislation, we will be able to implement quickly upon that receipt of the legislation. But our view, and my view is, we are looking at different categories and individuals. We are not looking necessarily, as one might think, for individuals with less than 5 or 10 years of experience on the outside. We are looking for that category, certainly, but we are also looking for the mid-career people, maybe aged 35 to 45.

We are also looking for people at my age category, and those last two categories can come in and hit the ground running, both in terms of managing a team of, if you will, examiners if they are on the enforcement side, as well as being instructors. And we need private-sector people to come in and help us in terms of instructing, particularly in the partnership and virtual currency world, to come in and serve as instructors to the middle and lower—lesser experienced, if you will—folks.

So we have a variety of plans. We also are working on our outreach to different communities; not just the professional communities, but colleges, institutions, and others. We also are working on facilities where we would place facilities for the increase in personnel. And I think the committee may be aware that, proudly, we recently opened a facility in Puerto Rico. And for the first time in a long time, we received more applicants, more qualified applicants, than we posted for that position, and we benefited with the folks there who were also—many of them were also multilingual.

We are also looking at opening facilities in certain underserved communities, and we are already on the ground in those communities. We are going to see what we can do in terms of opening facilities, should we receive legislation.

I give you that as an indication that we are not waiting for legislation. We will be ready.

Senator PORTMAN. But you will need the appropriation of additional funding to be able to follow through on it.

Commissioner RETTIG. Absolutely. Without the funding——

Senator PORTMAN. Well, thank you, Mr. Chairman. I think the oversight responsibilities of this committee are such that it would be good to continue to have this discussion and be sure that, you know, we are on board with regard to the plans.

The CHAIRMAN. We have Senator Thune waiting, and I certainly share your thoughts there.

Senator Thune?

[Pause.]

The CHAIRMAN. Senator Thune? The report was that you were on——

Senator THUNE. I've got you. Sorry. I'm sorry, Mr. Chairman; I did not push the button.

The CHAIRMAN. Go right ahead.

Senator THUNE. Thanks. Commissioner, good morning, and welcome back to the committee. And thanks again for your service.

According to the IRS, overall tax compliance rates have been holding steady around 85 percent since the 1980s. Voluntary tax compliance has been around 82 to 84 percent, and net tax compliance around 85 to 86 percent after late payments and enforcement.

Would you say that the U.S. has a relatively high and stable tax compliance rate——

Commissioner RETTIG. I believe that——

Senator THUNE [continuing]. And how does the U.S. voluntary tax compliance rate compare with other countries, particularly OECD countries, would you say?

Commissioner RETTIG. I do not have the data on the OECD countries, but I do believe that, particularly among sophisticated countries, a compliance rate in the low 80s is meaningful. And keep in mind that the compliance rate is based on the data that we are aware of based on identified noncompliance.

Senator THUNE. So given the number, different numbers being thrown around about the size of the tax gap, I am wondering, like a lot of people are, how we deal with the measure of whether we are narrowing that gap, if we cannot even agree on the size of it.

The latest official IRS estimates show a reduced tax gap compared to prior years in this century, which is a good thing, but the tax gap clearly remains a problem. Let me ask you, what is the agency doing to improve how it estimates the tax gap so we can get a number that is more timely and more accurate?

Commissioner RETTIG. Well, when I got on board—the last tax gap estimate when I got on board was a few years prior to 2019, estimating tax gap information for 2011 and 2013.

Personally, I think it was unacceptable in terms of developing an audit plan moving forward. One, it is already, at this time, about 7 years old. Two, it's an economy that is not a digital world economy. Three, we looked to an economy that did not have a virtual currency, and many other types of monetary type of transactions that were out there. It also did not address inbound transactions, if you will. Foreign-based taxpayers doing business in the United States are completely absent from our computations.

So I gave the challenge to our RAAS unit, which is our research unit. And in the recent testimony, the Acting Director of RAAS testified that he believed that the 2019 tax gap figure was about $646 billion, before you get to the rest of the items.

What we are comfortable saying is, the tax gap is significant. Significant resources will help us put a significant impact, if you will—and I apologize for using that term three times—on the tax gap. And we have said that we believe that we can, with appropriate resources, with modernization, and the implementation of that staffing and training and all that, that we should be able to recover about between 10 and 20 percent of the tax gap on an annual basis.

I think that the desire of every IRS employee is to recover more of that, more than the 20 percent. I think it is fair for Congress to hold us to, if you give us the resources, to provide you with metrics of what we are doing, how we are doing, and the impact it has in terms of taxpayer service, as well as on the enforcement side of the house. And you know, what ultimately should be the

question on measurement is the deterrent factor rather than what we are able to actually capture.

But we are going to issue tax gap reports for 2012, 2013, and 2014 in 2022. We are also going to issue some forecasting into the current years, because this data is important for us to determine what we are doing currently. So having 7-year-old data, personally I thought was somewhat unacceptable to develop work plans today.

And for about 2 years now—and I have been on board less than 3 years—but for about 2 years now our RAAS group has been working very hard and has made a lot of progress, and we hope to be able to share that with you.

So, during 2022, we will issue the next group, if you will. We need to get this data more current. We know you want to know it, and we need to know it. So we are focused. We have been focused on that. And the tax gap is both—service and enforcement have an impact. And voluntary taxpayers need help. If we just increase those rates that you mentioned 1 percent—and you consider IRS brings in about $3.5 trillion each year—a 1-percent increase in voluntary compliance by itself is $35 billion per year.

The CHAIRMAN. I thank my colleague——

Senator THUNE. Mr. Chairman, I would quickly point out before my time expires—I would just say to the Commissioner that I think one of the reasons too is people cannot get through, and I think high-quality customer service will help with voluntary tax compliance. And we get lots of calls from people who wait for hours on the phone. According to the National Taxpayer Advocate, only about 2 out every 100 phone calls were getting through.

So I think that would be a huge improvement as well.

The CHAIRMAN. I thank my colleague.

Senator Lankford is next.

Senator LANKFORD. Mr. Chairman, thank you. Commissionr, it is good to see you again. Thanks for being here and going through so many different questions.

Can I ask a question on just your operations? When will you get operations fully up, post-COVID, for face-to-face meetings, for interactions? What is your time frame at this point?

Commissioner RETTIG. We are open. Our submission processing centers are open. They are actually working multiple shifts. They are working weekends. This is our filing group. Our mail is—we get about 1 to 1.5 million pieces of mail per week. We got 1.2 million pieces of mail last week.

The mail is being opened in less than a week and put into processing. So that is people on the ground doing it, and the quality of the employees that we have is spectacular.

Our interactions—we flipped to a virtual environment, like the rest of the world. We will stay in a teleworking virtual environment somewhat indefinitely. I do have a concern in onboarding people. A lot of people out in the private sector want to have a virtual environment. We need to train. You cannot train—my example, 704(b) regs—remotely when people are multitasking. We need to have people understand what we are training them.

And similarly, the collegiality and learning what it is that we do and what we do not do, we need to have people—I am a little old-school, and I understand that—but in my mind, people need to be

around people to pick up some of that. So we have to hit the right blend. We are working with NTEU significantly on what is the right model for our agency.

And we have different categories of individuals.

You know, we have people who open mail right through to the most sophisticated cybersecurity folks on the planet. And we intend to get this right. But I will say, a silver lining, in March of 2020, our customer service representatives, the folks who answer the phone, only 3 percent were telework-eligible. A hundred percent are currently telework-eligible. And where that came as a benefit is when we had the snowstorms and the cold fronts and had to shut down some of our facilities; those folks could go to work at home. So we have had some benefit.

Senator LANKFORD. I am going to have some follow-up with you on that, on dealing with remote work long-term and the possibility that you could expand your pool of individuals to be able to hire from anywhere across the world. Quite frankly, if they are working for some of our U.S. military and their spouses and other folks, I would love to be able to work with you and be able——

Commissioner RETTIG. We are engaged with military spouses, and they tend to be excellent employees for us——

Senator LANKFORD. So let's discuss that.

I want to ask about this bank reporting proposal that has come out in the President's budget. His proposal is requiring financial institutions, banks, to report any transactions of $600 or more. Obviously, that captures a tremendous number of transactions from banks.

I think a lot of American people already do not know that $10,000 or more is already reported, and this would take that to $600 or more. So my questions are, do you need that level, that granular level of information from banks for the IRS to be able to validate reporting?

Commissioner RETTIG. Similar with what happened when FATCA came in and we got FATCA reporting, we did not have the funding to modernize our systems to handle the reporting that we were receiving. So we remained behind the curve in our ability to use that information.

To the extent that we get additional reporting information here, we absolutely must have funding. And these are somewhat separate lanes, but it is all interconnected, funding to actually process information. And critically, it is not just—everybody is focused on our ability to process information for enforcement and examination leads. It is similarly important for us to be able to process information so we know the taxpayers not to examine, to lessen the burden that we would otherwise place on taxpayers based upon information there.

So, we need modernization. We need analysts. And we need, you know, service representatives on that.

Senator LANKFORD. What would you need budget-wise to just fulfill that? And is that $600 transaction amount something that IRS requested to be included? Where did that number come from?

Commissioner RETTIG. Those proposals are from the administration and from Treasury.

Senator LANKFORD. So, what level of funding would you need to be able to process that level of information? Because that is a lot of information the administration is asking for.

Commissioner RETTIG. Yes, I would have to get you the specifics on that breakout. I do not have the specifics——

Senator LANKFORD. Well, I would assume it is exponentially larger than the $10,000. With the $10,000 transactions turning around now and dropping it to $600, it is going to catch, I cannot even imagine how many more. You are telling me now you do not have the resources to be able to fulfill the $10,000 reports that are coming in. Is that correct?

Commissioner RETTIG. We need resources across all lanes to be effective. Giving us one lane and then—you know, quite frankly, it has been troublesome being on board when we see our Inspector General say IRS is not doing this, this, and this, but we do not have the funding to do that. So we sort of get caught in that. So, all lanes need to be funded. These provisions are interconnected.

Senator LANKFORD. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired.

Senator Casey is next.

Senator CASEY. Thank you, Mr. Chairman. I want to thank the Commissioner for his appearance and for his public service.

I want to thank you as well, Commissioner, for the remarkable and, what can only be described as an enormous effort you have had to undertake, and your team has undertaken in the course of the pandemic. And I have and will continue to advocate for the IRS to have the resources which are so critical to fulfill its responsibilities.

In this committee's April hearing, you projected that the tax gap could be as high as $1 trillion, meaning $1 trillion in taxes going unpaid every year. We know that many of these non-filers are high-income individuals. I have heard from many Pennsylvanians since then, since April, who are concerned, if not outraged, about this gap and would like to see all taxpayers play by the same rules.

The President's 2022 budget request has funding requested to scale up both staffing and operations at the IRS to expand both enforcement and compliance. Can you explain how that additional funding would assist the IRS in going after tax cheats and ensuring that all taxpayers are paying their fair share?

Commissioner RETTIG. You know, I have 17 months left in my term. If Congress gives us the funds, we will implement. We are ahead of the curve to implement legislation that has not yet passed. That should be—and we are willing to come up and show what we have and where we do it. But that should give an indication of the desire—it is not just me, but me and everybody else. We want to be impactful on services. We want people to receive the services they deserve from the Internal Revenue Service. And we are well aware—I came in with the same thing, I think, probably in my confirmation hearing, but certainly through today, I have always said the same thing. And I have said it for 36 years on the outside, that enforcement supports compliant taxpayers; that the bulk of the revenue this country receives comes from compliant taxpayers.

You are well aware that my—I am very proud, but I think I am the first Commissioner whose spouse came to this country as a refugee. My in-laws are not comfortable in the English language. I have a line of sight into vulnerable communities. I come from a mother who was raised in a storeroom to a diner, and I learned as a child how you take a shower with a sink in a diner.

We have lines of sight there. We can improve the conditions for every American. And the people who make an effort to comply need to know that we are there to help them. I think significantly during 2020, I could have come to you and said, "We have a plan for languages." But in September of last year, we launched a language program during the pandemic when we were on our heels in so many different directions. And the 2020 1040 is in English and Spanish.

You can call into our centers and get your information services in more than 350 languages. And there is a Schedule LEP on the 2020 1040 where individuals can check a box and ask the Internal Revenue Service to communicate in a different language. As of March, more than 220,000 individuals checked that box.

Those types of services, to me, are equally important as the enforcement side. I only have 6,500 field revenue agents. We need more. And I am running out of runway, as they say, on the outside in terms of my term. This agency will do the right thing well beyond me, but I, like you, want to help them get there.

People came on board when I did with considerable private practice experience in the lanes that we are going to receive funding to be impactful in, and we are doing our best. So I think you will be proud, but without funding—if you just look at one category, 6,500 field revenue agents, 4.2 million partnership returns, that is before we get to the high-wealth individuals and the corporations and the this and the that.

Senator CASEY. Commissioner, thanks. We look forward to working with you on those human resources, because I think the Congress, both parties, both Houses, are duty-bound to get you the resources, if we believe what we say.

Last—and I know I am out of time. Maybe I will submit this for the record. It might be easier for the committee purposes. But I want to send you a question about tax scams. But I am running out of time, so I will make sure that we send you that question for the record.

Commissioner RETTIG. And I am available to meet with the members one on one, or just to meet with your staff. Place the call. We are here. That is what we do.

[The question appears in the appendix.]

Senator CASEY. Commissioner, thank you very much. Thank you.

The CHAIRMAN. And thank you for your efforts, particularly as chair of the Aging Committee, in going after tax scams, Senator Casey.

Next we have Senator Bennet, who I think is online.

Senator BENNET. Thank you, Mr. Chairman. Can you hear me, Mr. Chairman?

The CHAIRMAN. We can hear you, Senator Bennet.

Senator BENNET. Thank you very much. And thank you, Commissioner, for your testimony today.

And I know others have asked about the Child Tax Credit, which, as you know, the American Rescue Plan significantly expanded. The expansion is based on my bill with Senator Brown, the American Family Act, which will give 96 percent of American families advanced payments of $250 per month per child or $300 per month per child under the age of 6. This expansion will cut childhood poverty nearly in half this year, with even larger effects for kids of color.

I am deeply grateful, I want to first say, Commissioner, for what you and the IRS staff have done to ensure that Americans will receive a monthly CTC payment starting on July 15th. And I am really pleased by Treasury's announcement that 88 percent of children will receive these benefits without further action needed from their families.

I think it is fair to say, Commissioner, that you were a big part of making sure that that could happen, because of the work that you had done before.

I wonder if you could talk a little bit about how the resources in your fiscal year 2022 budget request help IRS ensure payments get to the hardest-to-reach populations. And I also should say that I am thrilled that the Biden administration is committed to extending the State and monthly CTC through at least 2025.

I plan to do everything I can do in my power, along with Senator Brown and many of our colleagues, to make it permanent. In the long term, if extended or made permanent, what additional resources, both ongoing and one-time, should Congress consider giving the IRS to ensure monthly CTC payments are made as smoothly and as systematically as possible to reach all eligible children?

Commissioner RETTIG. The amount of money—if Congress was to pass legislation, we would be able to provide information as to the amount of funding required to operate this on a permanent basis. But we would need to see the legislation to see what the requirements are for us to be able to do so. And we would be able to do so—we would really appreciate, and we do appreciate the fact that, to the extent Congress works with us on legislation, it is very important, I can say from what I have seen in my almost 3 years, that we get involved in terms of helping with respect to the administrability of provisions so that we can provide seamless assistance to the folks.

I will say, with respect to CTC, you should expect, and you should hope, and you should require that we do historic outreach—and we are doing historic outreach. We are capitalizing on the outreach that we did with respect to the three rounds of EIP—EIP1, 2, and 3—I guess affectionately referred to now on the street as the "stimmies." But we learned a lot. We created a lot of partnerships, if you will, with community organizations. Those have served us well.

We have, this week, sent out 30 million letters that will be completed for potentially eligible people. We have four rounds of letters going out. If we need to do more letters, we will do more letters. I made a comment earlier that our present estimate is that we will be spending more money than we were funded with respect to the 6 months because of outreach. This is not an agency that folds up when there is no more money left to spend. We actually delay other

activities so that we can do what you would want us to do. And the outreach is a significant component here.

So, I think you will be proud of the online tools, and I invite you and your staff to a demonstration of those tools.

Senator BENNET. Well, Commissioner, again, one of the partners you got during the previous work you were talking about was my office. I am very grateful for the spirit with which you are approaching this work. So, anything we can do to help, we stand ready to help.

Turning to a different subject in the last minute that I have, Commissioner, I—and I know a number of my colleagues on this committee—are deeply, deeply concerned that some of our Nation's largest, most successful companies like Amazon and their exceedingly well-off owners pay little or no Federal tax. Now many small businesses have lost income, and families have lost jobs during the pandemic. Many of these large companies have seen profits soar to unprecedented heights.

In your view, how much of this problem is caused by loopholes or tax expenditures written into our Nation's tax laws? And how much of it is due to actual evasions, such as companies shifting income overseas? And how will the fiscal year 2022 budget request help IRS address tax evasion by large companies?

Commissioner RETTIG. I think it is a combination. You know, I was on the outside between, you know—well, until I came on board here—but what we saw in terms of transactions and structuring happened when the IRS essentially was on its back from the Roth hearings from 1998 through about 2002, 2003.

I do not think it is a coincidence that structuring got much more aggressive in the planning community. I am not saying that it is appropriate or inappropriate that people tend to take advantage if they see the IRS is vulnerable.

We are not vulnerable when we are on the scene. We are not vulnerable as to the taxpayers that we are able to contact. And in the transfer pricing—I think that is one of the comments that you made—in the transfer pricing arena, we have cases that are exceeding $5 and $10 billion. And if you are the taxpayer in one of those cases, you are going to spend a billion dollars to save, you know, $4 to $9 billion. And keep in mind, IRS has a budget of maybe $12 billion total to run the entire operation.

We need funding to be impactful. We need specialized agents. We need training. We need people from the outside. We need people from the inside. And none of what I have said about hiring people from the outside should be disparaging to the people on the inside. We need a blend of expertise, and we need to be able to be on watch. This country deserves to have the best tax administration agency on the planet. It should appropriately fund the agency.

We need direct hiring authority. We need consistent, multiyear, timely funding, mandatory funding. And I believe, and with your oversight and interactions, I believe you will be proud of what we do to get to the term that people use: "Everyone pays their fair share."

There is a difference between evasion, as you have identified, between evasion and aggressive transactions. But the aggressive transactions, in my estimation—I was not on the planning side on

the outside; I was a controversy lawyer—but they get more aggressive if they think that we are vulnerable. And you know, I've got to tell you, we are not vulnerable to the people we are able to touch, but the taxpayers that we are not able to touch, we are not able to touch. Help us. Help us get there. The desire is there.

Senator BENNET. Thank you, Commissioner.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

I believe Senator Warner is going to go next, and he is on the web.

Senator WARNER. Thank you, Mr. Chairman. I appreciate you holding this hearing.

Commissioner Rettig, first of all let me—and I am sure other members have said this—express my thanks to you and all of your staff. I hope you will convey that. I know it has been a challenging last 15 months, and I have had, and my staff has shared some of the frustrations with closed offices and all. I do think the agency, writ large, has performed well.

You just, in your last impassioned statement to Senator Bennet—I would like to pick up on a couple of those threads. Can you talk a little bit about how much more effective and predictable it would be, and what are the specific benefits that would come from a stable, multiyear funding stream for the agency? How much money is wasted, or how many activities are put on hold because of some of our bad behavior in Congress in terms of continuing resolutions and threats of budget shutdowns?

Commissioner RETTIG. You know, the lack of consistent funding causes the agency—the way the agency adjusts its budget is, it has attrition. And when we do not get funding, we do not replace the people who retire.

We have been stellar in the last 3 years in our ability to hire and move people around internally. And it has made a huge difference. When I got on board, one of the comments that I heard was that we will be able to replace, you know, plan on replacing maybe 25 percent of attritions. That is of an agency that already has, if you will, 17,000 fewer enforcement agents.

How can that be? How can you plan on having tax administration in the greatest country on the planet and only replace 25 percent of the most experienced people you have, when you need those people to train the new people? We had a hiring gap from 2011 to 2018 which means that—you know, I use that in terms of recruitment. I tell people, "There is nobody above you. To the extent you have come on board, you train, and you learn, you can be all you want to be inside our agency." And that is true. And we are very hopeful to get the funding to be able to be impactful to provide both services. And you know, the press seems to just pick up on the enforcement side of the President's budget, but the highest category in the discretionary budget is for services and for modernization—13-percent increase for services, 36-percent for modernization.

Those two go to helping underserved communities. They go to helping us answer the phones, to getting chat bots, to having it be an experience like people would have in dealing with the private sector.

We want to be there. The desire is there. The staffing issues that we have are significant. We have 52,000 people to replace in the next 6 years. That is the net figure. That is our experience on the——

Senator WARNER. Let me just ask on that note, on replacement, are there additional—you have talked about the need to get specialized personnel. Are there additional authorities you need beyond the money for you to be able to go out and hire the right people?

Commissioner RETTIG. Absolutely. We must have direct hiring authority. I cannot go into the private sector and try to recruit mid-level, even new, but mid-level or senior-level people to come on board who would be immediately impactful, people who have my experience—maybe not my age, but maybe my age—who can come in and be impactful and run teams of examiners, or teams of lawyers, or teams of appeals officers in the entire compliance side of the house, immediately. To have the experience on the outside, but without direct hiring authority I cannot keep these people interested in coming onboard for a 3-, 6- or 9-month period. They will go elsewhere, or decide they are just going to either retire or do what they are doing.

We need to capitalize on the interest that we are able to generate. There are a lot of people like myself who want to come on board for the good of the country, if you will, but we need to bring them on board when we have that interest. You know, interest wanes with time. And the mid- and senior career people are not coming on board for the economics of it. I did not come on board with the idea to go get my dream job after being Commissioner. I left my dream job with my best friends, and I have frequently said in public, my next job is not going to involve suits——

Senator WARNER. Let me get in one last quick question, which is—and this may have been asked, and if it has, I apologize. I think you made a good point earlier. We have focused on tax evasion, but the other half of that is just plain aggressively pushing the edge, trying to be legal but pushing the edge.

When we think about that tax gap, the $700 billion or $1 trillion, or whatever number, could you give us some guesstimate on how much of that is evasion, and how much of that is overly aggressive behavior?

Commissioner RETTIG. If I look at my experience on the outside, in terms of numbers, the higher-income people are surrounded by highly experienced lawyers, accountants, economists—you know, tax specialists—and all those folks are not typically going to be involved in an evasion, a potential criminal case. Although we do call them on it, and we are active, and we are active in terms of a lot of different arenas that I probably should not go into publicly.

So I would say that the majority is folks who tend to get aggressive in the structuring of transactions, maybe with an eye that the IRS will not be there. It is completely inappropriate to play what is known as the "audit lottery": will the IRS audit this taxpayer? If so, do they step in and say, oh, we made a mistake? Multiple mistakes, multiple years, is a pattern, and that creates a criminal case. And I think people are familiar with that.

You know, keep in mind that the largest criminal tax case in the history of the United States involved professionals, not taxpayers. It was out of the Southern District of New York, and it was at a time when the IRS was perceived to be vulnerable between 1998 and 2000, and it was in 2002.

So, although I come from the practitioner community and I hold practitioners in high regard, it is a very difficult occupation. It never bends. They are also part of tax administration, and they need to do the right thing.

I was at a program early on in my career as Commissioner, in front of more than a thousand colleagues, and I made one comment, and I would repeat that comment to you all today, and to any of them who are watching, and I know that a lot of our employees are watching. And my comment was: when I came on board as Commissioner, I respected pretty much every tax practitioner that I ever interacted with in practice. I get it. It is tough, whether you are a preparer or you are in a different function. And my comment to my colleagues at that time, and my comment today is: when I leave as Commissioner—and I am in my last 17 months—they ought to all hope I have that same respect for them. I expect my colleagues to step up and do the right thing and not take advantage of an IRS that some may perceive to be challenged, with resources or otherwise. And if Congress helps us—and we do need help—if Congress helps us, we will respond appropriately and, I think, make everybody happy.

Senator WARNER. Thank you, Mr. Chairman.

Senator CRAPO [presiding]. Thank you, Senator Warner.

Next is Senator Cortez Masto.

Senator CORTEZ MASTO. Thank you. Commissioner, thank you. I echo comments of my colleagues on the challenges that the IRS has faced, particularly being underfunded. And I know, even in Nevada—I have had Nevadans reach out to me in frustration because they were unable to reach anyone at the IRS. And I think this hearing today is helpful to hopefully have people understand the challenges that you are facing right now, particularly being underfunded.

So my first question to you is, you mentioned to Senator Warner that there are 52,000 positions that you have to replace? Is that correct?

Commissioner RETTIG. 52,000 is our attrition over the next 6 years. So if we do nothing, if we hired zero, we would go from about an 83,000 employee operation, and you would take 52,000 out of that. That is the net number, and thankfully IRS employees have a history of staying onboard about 5 years beyond their eligibility for retirement.

Senator CORTEZ MASTO. Thank you. So I just wanted to understand. So those are not vacant positions? Those are anticipated after people retire and leave, and your need over that next period of 5 years to fill those positions. Correct?

Commissioner RETTIG. I have to replace those just to stay with what we are able to do today

Senator CORTEZ MASTO. Right. No, I just wanted an understanding if they were currently vacant or not. So that is——

Commissioner RETTIG. No, no, no; those are people who are on board today. Sorry.

Senator CORTEZ MASTO. I appreciate that.

So let me ask you this. The Low-Income Taxpayer Clinics provide critical services to working taxpayers who are unable to hire representatives to advocate on their behalf in addressing their Federal tax disputes.

While there are many in my home State that could benefit from these services, the last of these clinics, unfortunately, closed in Nevada. And so my question to you is, can increased funding for the IRS help to ensure broad accessibility to Low-Income Taxpayer Clinics to all eligible taxpayers in States like Nevada, and hopefully open up these clinics to service Nevadans?

Commissioner RETTIG. I am not aware that the last clinic in Nevada closed, but I will look into that. But we need appropriated funding for the clinics. I am a tremendous supporter of the clinics and have done a tremendous amount of Zoom interactions with clinics all around the country.

One of the benefits of Zoom is the ability to do that. But we will look into it. The Low-Income Taxpayer Clinics are critical to the operations of the Internal Revenue Service. They are in the communities that we need to operate in. The IRS could not effectively do tax administration, particularly in these communities, without LITCs, without the VITA sites, without tax counseling for the elderly. It is a critical function, and that is why, in part, the IRS is involved in the operation, if you will, of these programs.

Senator CORTEZ MASTO. I agree, and thank you. And we look forward to working with you. And please let us know your needs, for the very reasons you talked about. They are critical services.

Let me jump to another topic: tax scams. It is an area that I worked on as a former Attorney General. I worked with IRS Enforcement. They were just incredible in helping us address the tax scams that we see across the country.

My question to you is, what are you seeing? And with the limited amount of resources now, and the struggles you are having with the staffing, how are you addressing those needs to really educate the public on the types of scams that are out there so that they can also be aware and prevent themselves from becoming victims?

Commissioner RETTIG. Our partner in the tax scam world, if you will, is the Treasury Inspector General for Tax Administration, TIGTA. And like us, they are very aggressive. We do run undercover operations. I think that is pretty well-known. I am not saying something that is not already public. And we do a lot of outreach.

Every local office of the IRS is engaged in outreach. The majority of these scams that we see tend to go to underserved, more vulnerable communities. And we are very active in those communities, together with community groups, trying to focus on what they are. We try to get on the cutting edge. With the EIPs, the three rounds of EIPs, 1, 2, and 3, we saw the scams with that increase significantly. But we did not reduce resources in oversight of those scam type of operations at all. We did not pause any interactions during the pandemic. And you know we have to make certain decisions, and priority decisions, but certainly that is a huge priority. And we have maintained that.

Senator CORTEZ MASTO. That is great to hear. Commissioner, thank you.

Commissioner RETTIG. Thank you.

Senator CRAPO. Thank you.

Senator Hassan?

Senator HASSAN. Well, thank you, Ranking Member Crapo, and thank you, Commissioner, for your work and for testifying today. And before turning to my questions, I would like to emphasize, as a number of my colleagues have, the importance of the IRS prioritizing delivery of the Child Tax Credit starting in July. Based on issues with roll-outs of other programs over the past years, IRS really needs to ensure that it is able to deliver these benefits in a timely way.

Commissioner, Granite Staters continue to contact my office about the backlog of unprocessed 2019 and 2020 tax returns, which has delayed tax refunds for families who need economic assistance and cash flows.

My office has also been contacted by constituents who tell us that they are going to be denied a mortgage because the mortgage company cannot verify their information with the IRS. These constituents submitted their tax returns months ago, and now they are worried that they will be unable to buy their house or will lose their deposit.

At our April hearing on the filing season, you committed to clearing the backlog this summer by dedicating more employee hours to processing returns. Can you update us on the IRS's progress since April in clearing the backlog? And, when in this summer will you have the backlog cleared?

Commissioner RETTIG. At that hearing I said that we would do it within 60 days, and I think I may have indicated that might have been a lawyer answer, given the curve. We have processed every return received at this point before January 1, 2021, so every return received during 2020. And a lot of those were prior-year returns, not just 2019, but 2016, 2017, 2018. There are people who catch up, if you will.

But we caught up, and we are very proud of that. We also have caught up on our mail. You may remember the mail backlog.

Senator HASSAN. Right.

Commissioner RETTIG. All mail is now being opened within a week of receipt. Some is being opened within 2 weeks. Our four mail processing centers, Austin, Fresno, Kansas City, and Ogden are operating at full speed. We last week received 1.2 million pieces of mail. We tend to receive between 1 and 1.5 million, and we are current in our operations on opening the mail.

Our Error Resolution System, where some of your—and I would like to coordinate a call, maybe later today, or this week, or sometime to discuss one of the issues you discussed, and maybe we can provide some assistance. But the Error Resolution System—we currently have about 9.4 million returns in that process. The top reasons that the issues are being called out is people having difficulty—our difficulty—reconciling what they say they received in EIP1 and 2, with the return recovery rebate.

We have people who used 2019 for their EITC, and we need to verify that. So it is not an automated process that gets called out.

We have people with the Advance Child Tax Credit that does not match what we have as the ACTC. We have math verification issues, and also we have a tremendous amount of folks who failed to file the Form 8962 for the Advance Premium Tax Credit. And, interestingly, the private software even directs you to provide that form.

So we are not able to process. Those are the top five, which leads to 9.4 million. We are operating at full capacity to get those taken care of.

Senator HASSAN. Well then, I will look forward to following up with your office on these particular issues, because we have people who are obviously needing to confirm their information so that they can buy a home.

So let us move on to a topic that I asked you about for the record in April. The American Rescue Plan contained my bipartisan bill with Senator Braun to provide assistance to the Employee Retention Tax Credit to new businesses that were started during the pandemic.

Startups will be eligible to receive this assistance beginning in July. It is obviously crucial that the IRS issue guidance as soon as possible so that new businesses are able to quickly access this assistance next month.

When will the IRS issue updated guidance for the Employee Retention Tax Credit?

Commissioner RETTIG. Let me say that the response to your questions for the record—and I mentioned this one earlier—they are in clearance. And you know, we all would have hoped that you would have received them timely. It is not—we are backed up on a lot of different things, but we are very respectful and try to get those out as quickly as possible. But they are in clearance, and they are outside of our building.

Senator HASSAN. So let's just get to the issues that we have. Businesses that started during the pandemic that need the guidance about how they can claim the Employee Retention Tax Credit——

Commissioner RETTIG. We should get that out—I have to give you a lawyer term, and I apologize, and you can call me on it—promptly. You know, we are working as hard as we can. And I do have, and I sent the response to you on the statistics of what we have received and where we are, and how we are processing.

Senator HASSAN. Okay. They are just looking for guidance, right, because they are trying to decide whether they are hiring, who they can get a credit for, what their cash flow is going to look like.

Commissioner RETTIG. I come from that community.

Senator HASSAN. Yes, I know you do. I know. I am almost out of time, so I am just going to say that I am encouraged that your 2022 budget request mentions the IRS's plan to retire and decommission its legacy systems, including those that use antiquated programming languages, something I have been really focused on on the Emerging Threats and Spending Oversight Subcommittee of Homeland Security, and I will look forward to learning more about your project there. Thank you.

Thank you, Mr. Chairman.

Commissioner RETTIG. Thank you.

Senator CRAPO. Thank you, Senator Hassan.

We have a number of—we have two votes underway right now, Commissioner, which is why you see——

Commissioner RETTIG. I did not take it personally.

Senator CRAPO. I am not aware of any Senators who are back from the vote yet. Are there any? If there are any remotely, would you speak up?

Commissioner RETTIG. I am available for one-on-ones with members and staff.

Senator CRAPO. Understood. We do expect a couple more are on their way, so I will ask a couple of questions that I did not get to ask you during my first round, until one of them gets back.

Commissioner, what I wanted to do is to go through with you some of the tax gap information. As you know, I have sent you two letters on it, and we have already talked about the fact that you are in the process of getting those back. We got one yesterday, but it did not really provide the kind of detail that I was asking for. So I would like to ask you to follow up with more detail on what I asked in my May 10th letter about the tax gap.

And let me get into what that is, right now. When you testified earlier before the committee, you estimated, if I recall correctly, that the gap could be as high as a trillion dollars. Is that——

Commissioner RETTIG. Let me say that your letter—and I think you have seen my response to your letter because you made comments about how others said I said it, and that is why I put the quote in there of what I said. And so you had that right. But yes, a trillion dollars is the number that got picked up.

Senator CRAPO. All right. And then I see Senator Warren is back. Senator Warren, I am just going to finish a statement here, and then I will—I will not ask you to respond to this right now, but I would like you to respond back with more clarity.

When you testified before us, you mentioned that some of the reasons for the increase in the $441-billion tax gap estimate that was 10 years old were inflation, cryptocurrency, and at that time you indicated unreported or concealed income offshore, and in pass-through entities. I just wanted you—and I would like to ask you, not now, but I would like to ask you to parse out how you get to that trillion-dollar figure in terms of where we are losing the collections of lawfully due taxes, so that we can have a better idea about how we can assist you in getting those taxes collected.

[The question appears in the appendix.]

Senator CRAPO. Senator Warren?

Senator WARREN. Thank you, Mr. Acting Chairman. And I agree with that question. It is a good question. We should do that.

So thank you. A decade of budget cuts have hollowed out the IRS, so it just does not have the resources to go after wealthy tax cheats. And that is why I have introduced the Restoring the IRS Act to provide $31.5 billion in mandatory annual funding to allow the IRS to fairly enforce the tax code, to modernize its IT systems, and to improve taxpayer services.

I am glad that President Biden and you, Commissioner Rettig, agree with me on the importance of making big investments in the IRS. But it is crucial to make sure that this money is going to-

wards making our tax enforcement fairer, not reinforcing inequities like the racial wealth gap.

So, Commissioner Rettig, what data and analysis has the IRS developed on how its enforcement activities effect low-income black Americans?

Commissioner RETTIG. Treasury's Office of Tax Policy and Office of Tax Analysis are the ones that handle that. IRS is the tax administration agency, if you will. So we provide data to Treasury.

I can say that Treasury has multiple working groups in this space, and the appropriate thing would be to have Treasury interact with you and give you a heads-up on really what they are looking at, what they have looked at, data they have received. But the IRS itself does not collect data with respect to race, as you know.

Senator WARREN. Okay, so you are not collecting race data right now. But you know I was glad to see President Biden issue an executive order on racial equity back in January, including a call for more data. But I want to see some concrete actions coming out of it, and that includes concrete actions at the IRS.

This is important because the IRS does not just mechanically enforce our tax rules. The IRS has significant discretion, for instance, when it comes to audits. Research shows that the IRS disproportionately targets poor black communities in the South for audits.

We also know that an estimated 20 percent of eligible taxpayers do not receive the Earned Income Tax Credit, which provides social support to low-income working families. Likely, many of these families who are not getting this lifeline are families of color, but we need more analysis to know for sure that is happening.

So, Commissioner Rettig, let me ask: will you commit the IRS to conducting a thorough analysis of the racial impacts of IRS services and enforcement activities?

Commissioner RETTIG. I think I need to dispute your first comment. I think the data are contrary to that, but we can go into that——

Senator WARREN. They are contrary to what?

Commissioner RETTIG. That we disproportionately look at lower-income taxpayers or people of color. The data are contrary to that.

Senator WARREN. So it is not the case? I thought your data showed that there are more audits in poor areas in the South than there are, for example, of rich people in the North.

Commissioner RETTIG. The IRS—the only lower-income individuals audited by the Internal Revenue Service are with respect to the Earned Income Tax Credit, which is about a 1.1-percent rate. And the reason that we even look in that direction—we have a $17.4-billion improper payment rate there—the only reason we look in that is, because of IPERA we are required to report an improper payment rate, and our RAAS group, our research group, are the ones that come up with what that is. And they require us essentially to have a 1-percent audit rate for them to be able to extrapolate off of that to what it would be.

Senator WARREN. Fair enough, on what may be the reason for the audit, but I guess the question—let me just go back to the question that matters the most to me. And that is, will you commit the IRS to conducting thorough analyses of the racial impacts of IRS services and enforcement activities?

Commissioner RETTIG. And I will come back to my original comment, which is, Treasury is doing that.

Senator WARREN. So you think Treasury is collecting enough data? You have no more data collection responsibilities or opportunities? Is that what you are saying to me?

Commissioner RETTIG. Not at all. I'm Bureau of Treasury; I report to the Secretary, and we work with Treasury. And they have the economists and others who do this type of work.

Senator WARREN. So they are the ones who will decide if you collect this data or not?

Commissioner RETTIG. I would assume Treasury would make all the information public, and if not, then, maybe you ask.

Senator WARREN. But the question I am asking, though, is are you collecting these data so we can do the analysis of the——

Commissioner RETTIG. We do not have race data.

Senator WARREN. That is my point. So are you committed to providing the kind of data collection that you can to be able to study the racial impact of the decisions you make?

Commissioner RETTIG. With what we are doing, we give data to Treasury, and Treasury gets other data, and then their Office of Tax Analysis matches that. And I think, I don't mean to play semantics with you, because it might sound like that, but that is where the work is being done. And there is a significant effort. There are a lot of people looking at this within the administration, including at IRS. We are working with Treasury on this. So the answer is, "yes."

Senator WARREN. I just want the IRS to be a good partner in this. The paper I was talking about earlier found that the IRS disproportionately audits poor black communities in the South. It was written by a former IRS economist in 2019. And if this is what a former IRS employee can show with existing publicly available data, it seems to me that the IRS both can and should deploy its own resources to examine racial inequities in its enforcement and other activities, and then move to address those inequities.

You know, I believe in data. And armed with better data, a revitalized IRS can make sure that it is pursuing its audits fairly, and that expanded tax credits and taxpayer services are reaching the American families that most need their help. And I hope we can be partners in this.

Commissioner RETTIG. I share your concerns, and I think, as we have indicated on the phone, we look forward to ongoing communications with you in this space. I do believe that when people write articles, they should write them on actual data. And everybody is invited to look at our 2019 and our 2020 data books that have the actual numbers in there. If you look at the 2019 data book, page 34, Table 17–A, it breaks out exactly the numbers there. And you will see.

If I could go on?

Senator WARREN. It's up to the chairman.

Senator CRAPO. Briefly, please.

Commissioner RETTIG. I apologize. But quite quickly, when we look at what is loosely referred to as the "heat map" on EITC examinations, if you will, which are correspondence examinations where we ask people, "Did this child reside with you for 6

months?", we look at it—and we do not have race data, and I am not discounting what you are saying, and I do not want anybody to think that the IRS is insensitive to this issue. I am not, and we are not. But also, when we look at a heat map personally, we look at it from the perspective of, we need to do more outreach and be more on the ground in these communities, and we need to make sure that people know what they are eligible for, and to get them the payments that we all want them to get.

Our people live in these communities——

Senator WARREN. Mr. Commissioner, I understand. I just hope that "on the ground" does not mean more audits. And when I look at what a former IRS employee has put together with existing publicly available data, I am deeply troubled by the reports there. And I hope that the IRS is not part of the problem, but part of the solution.

Commissioner RETTIG. Page 34, Table 17–A——

Senator CRAPO. We need to move on.

Senator WARREN. We will take a look. Thank you.

Commissioner RETTIG. Thank you.

Senator CRAPO. Next is Senator Young.

[Pause.]

Senator CRAPO. Are you with us, Senator Young?

Senator YOUNG. Can you see me, Mr. Chairman?

Senator CRAPO. Not yet, but I hear you.

Senator YOUNG. Okay; here we go. Okay, I think I am——

Senator CRAPO. All right, we can see you now.

Senator YOUNG. Okay. Thank you, Mr. Chairman.

Mr. Commissioner, in your last hearing in April, you testified that the IRS was up to date on opening its mail. However, that very same day the Taxpayer Advocate Service representative informed my staff that the processing center in Kansas City was still opening mail from June 2020.

Now, my Hoosier constituents continue to be told by the Internal Revenue Service employees that the IRS is currently opening and processing mail from July 2020. What is going on here?

Commissioner RETTIG. That is false.

Senator YOUNG. Who in not telling the truth?

Commissioner RETTIG. The information you are getting from the Taxpayer Advocate Service is not accurate. I would encourage you, if you or your people—and I put this to all the members—get information that does not make sense to you, please reach out to me. Most of you have my cell phone number. My cell phone is available to all of you. We will schedule one-on-one meetings with you.

The IRS has four mail services, and those mail services are processing mail currently within days of receipt. So whatever information the Taxpayer Advocate or local taxpayer advocate is getting to you, they do not have the current information. And I can tell you, we have four services. Austin is opening mail—as of May 29th, was opening mail from May 24th; Fresno, on May 29th, opening mail received May 28th; Kansas City on May 29th, opening mail received May 24th; Ogden, on May 29th, opening mail received May 28th.

We receive between 1 and 1.5 million——

Senator YOUNG. Commissioner, I understand——

Commissioner RETTIG [continuing]. Pieces of mail a week. We process all the mail within a week of receipt. So I apologize that the information is not accurate, but my request, sir, would be to please reach out to me.

Senator YOUNG. I will, indeed. I am going to get to the bottom of this on behalf of my Hoosier constituents, and I thank you for addressing that, sir.

It is curious to me, it is peculiar that the Taxpayer Advocate Service would be so wrong so consistently. If this has been a problem, and if indeed this is a matter of conviction for you, as it seems to be, have you had dialogue with them to ensure that their discrepancies and their inaccuracies can be remedied? They would have no reason to promulgate inaccurate information, presumably.

Commissioner RETTIG. The Taxpayer Advocate is thoroughly engaged with every facet of the Internal Revenue Service. And, as you would imagine, the Taxpayer Advocate herself is significantly engaged with our processing centers and the wage and investment, which is where all the processing happens.

So what gets into the field for Taxpayer Advocate in the local offices I am unaware of. But I am aware that they do have the information. And I am not sure when your folks got that information, but I can tell you—and I would look forward to the opportunity to talk to you on the phone, so maybe we could get additional information and figure out how that happened. But I can tell you that we are current, and this did not just happen yesterday.

Senator YOUNG. We received that information in April, again the same day you testified before this hearing. So we are going to have to get clarity on this. You indicated that the Taxpayer Advocate Service has visibility into all aspects, but it is not getting—some of that information is not finding its way into the field.

Commissioner RETTIG. That would be my impression. They are an independent operation within the Internal Revenue Service, so I do not know how their information flows. But they want to get the right information to you and your people as well. We are all-in trying to make everything as best as possible for taxpayers, for members of Congress, for your staff, and whatnot. So again, I would appreciate the opportunity to follow up. And I would encourage the members to interact directly with the Taxpayer Advocate herself—you know, interact with me and, separately, interact with her.

Senator YOUNG. Okay. Would you, sir, or a member of your team, follow up with the IRS processing center in Kansas City, just to ensure that nothing has been overlooked with respect to the opening of mail and outstanding paper returns from 2019?

Commissioner RETTIG. The 2019 returns are current, if you are referring to Kansas City. If you are referring to the Error Resolution Service, which is out in Kansas City, that is a separate issue from the mail. And I may have indicated earlier that in Errors currently we have about 9.4 million individual returns. And that was the May 28th date. And the majority of those were pulled out for one of five reasons, which are reconciliation of return recovery rebate, which is the EITC reconciliation; additional Child Tax Credit math verifications; missing Form 8962; and whatnot. But we can give you specifics.

But that may be a separate issue than physical mail. Physical mail is current. In the Errors, what we are trying to do is to work with the taxpayers that we need additional information from to free those up. And it is those items we are missing on the return processing, and they cannot be automatically processed, and it gets kicked out to manual, and the manual process is to verify and to reconcile the issues that were there.

And I would appreciate the opportunity maybe that we walk you through that with your people.

Senator YOUNG. Well, I am grateful. I am going to take you up on that opportunity of you, Mr. Commissioner, and my office, and, if necessary, the Taxpayer Advocate Service so we will get some answers for my constituents, because they are being told that their paper 2019 returns have not even been opened or processed yet. That is the bottom line. And——

Commissioner RETTIG. Also, when we talk one-on-one, if your folks could be prepared, assuming you have the authority, with the authorization to give us some specific information, that would help.

Senator YOUNG. If we are lacking in any authorizations, we will——

Commissioner RETTIG. Right. That was a heads-up to try to get that before the call, because there are a lot of things we can resolve when we have that.

Senator YOUNG. Thank you, sir.

Lastly, and I will keep this one tight——

Senator CRAPO. We need to wrap up pretty quickly.

Senator YOUNG. Okay. About half of the U.S. population over the age of 12 was fully vaccinated against COVID–19, and almost 90 percent of vulnerable seniors have received at least one dose. Now that Americans have broad access to COVID–19 vaccines, how is the IRS planning to get employees back in the office and reopen those in-the-field taxpayer assistance centers to help more Americans resolve their tax troubles?

Senator CRAPO. And if you could be brief.

Commissioner RETTIG. We expect to reopen any closed centers that we have staffing for promptly. And the President's budget provides staffing for us to actually reopen all centers, which would be significant.

Senator YOUNG. That would be helpful, as——

Senator CRAPO. Thank you.

And next will be Senator Daines, followed by Senator Whitehouse.

Senator Daines?

Senator DAINES. Great. Thanks, Mr. Chairman. Thanks, Commissioner Rettig, for being here.

I want to start by joining Ranking Member Crapo and others who have been expressing my shock about the leak of individual IRS tax data in the ProPublica article this morning. To see 15 years' worth of confidential individual and business data leaked is most concerning, particularly at a time when the administration is proposing a massive increase in the amount of data the IRS will collect from individuals and businesses.

I am very glad to hear you are investigating the source of the leak, and that you will prosecute any violation of law in this in-

stance, because violations of individual privacy and confidentiality could easily happen to ordinary Americans and small businesses, probably more than anything else. So thank you.

Turning to my question, we had a hearing earlier this year on the tax gap, at which witnesses spoke about how to close it, and we examined whether President Biden's proposals were realistic.

The Congressional Budget Office projects increasing IRS funding by $40 billion would net $63 billion in increased revenue. But the Biden administration estimates that $80 billion in funding would produce an additional $637 billion in additional revenue.

Commissioner Rettig, can you explain why there might be such a really massive difference between the administration's revenue collection estimate and the estimate from CBO?

Commissioner RETTIG. The administration's estimate was performed by the Office of Tax Analysis within Treasury, which are essentially their career economists. And as you were commenting, I was thinking that, from the outside, what we used to try to do is get all the experts in a room and have them work together and figure out who is on target.

The IRS is not involved in forecasting what we can recover. We go after everything to the best of our ability, which includes funding, modernization, staffing, training, and the rest. And we would look forward to the opportunity to do so. We will recover as much as we possibly can both from enhanced taxpayer services—relationships, communications, and whatnot—as well as enforcement, which I mentioned earlier I am a huge advocate of, and for almost 40 years now, inside and outside, I have said that enforcement supports compliant taxpayers.

And similarly, we need to not be examining taxpayers that we should not be. We need to lessen the burden on taxpayers and take the resources we do have and focus them appropriately. And I think that, with the oversight of this committee and other committees in Congress, we have the ability to do so.

I do see all of this as an opportunity, collectively, for us to provide enhanced tax administration to the people of this country at a level, nature, and quality that they deserve. I think we are close to that, and I think that—you know, I understand and share the bipartisan look that the IRS should collect the fair amount of tax from taxpayers. And it should not burden, and unduly burden taxpayers, and we should do the best we can. And I can tell you, from being on the inside, employees think like I do.

Senator DAINES. Yes; it is a thoughtful answer.

Just to follow up on that, former IRS Commissioner Koskinen recently stated that he is not sure that the IRS could use $80 billion effectively. Do you disagree with that statement? And if so, is there a dollar amount that you think would be about the right amount that the IRS could basically digest and use effectively?

Commissioner RETTIG. The IRS, as I indicated earlier—we actually months ago started working on our workforce plans, if you will, moving forward, which include modernization. Just the modernization plan in the house alone could use a substantial amount of money. I think former Commissioner Rossotti recently mentioned that what we spend—about $2 to $2.5 billion in terms of modernization—the largest banks in the world that have a fraction of

the information we do spend $10 to $12 billion per year, and we are doing between $2 and $2.7 billion total.

And so, you know, the modernization side of the house could use a lot of help. And that helps both compliant taxpayers, and it helps us focus, appropriately, on the compliance-challenged taxpayers.

At the appropriate time, I look forward to coming up and—either in front of the committee or our folks briefing staff of the committee—talking about what we see as the workforce plan. We have put a lot of effort into it. You know, I will say—let me go back to the EIPs.

We worked really hard on those. That was a new line of work for us. We did not always get it right, but to the extent we made mistakes, it was because we were trying our best. We are here trying our best as well, and I hope that untimately, Congress and history look at the IRS that, in a very difficult environment, meaning pandemic and otherwise—the people of the IRS performed admirably. People can say what they want about me, but the respect for our employees, I think, is among the highest of any Federal agency.

Senator DAINES. But back to your earlier point, I am concerned that, on the enforcement, we might present undue burdens on law-abiding businesses. And I am not sure that this would actually produce the amount of revenue the administration believes it will. And then lastly—I have to be quick because I am over—can you tell us the steps the IRS would take to make sure it is not putting undue burdens on small businesses who are paying their taxes right, and so forth, as part of their enhanced enforcement efforts?

Commissioner RETTIG. I made a comment earlier. I come from a small business family. Basically, my dad had a truck. I was a participant in small businesses when I was on the outside, before I got to the Internal Revenue Service. I have a very strong line-of-sight into the small business communities, as well as supporting them with appropriate services.

Often they are challenged. They do not have the resources. Their effort is to try to get income, and less of an effort goes into sort of the back end of the house—you know, the accounting and whatnot. Part of our job at IRS is to issue clear, timely, meaningful guidance in terms that people can understand.

It is not appropriate to point to a 700-page regulation maybe at *IRS.gov*, maybe not, and say, "Well, we told you so." But the outreach to the small business communities will be enhanced under the President's proposal. And certainly I have a strong focus, and other people in the IRS share that. And I have said numerous times today that I have a 17-month runway, but people in the IRS share the concerns that I have. And supporting the small business community and not burdening the small business community, particularly during a pandemic, I think should be important for every American.

Senator DAINES. Commissioner Rettig, thanks for your thoughtful answers. I appreciate it.

Senator CRAPO. Thank you.

And next is Senator Whitehouse. Are you with us?

Senator WHITEHOUSE. Yes, I am, Mr. Chairman. Thank you very much. And thanks, Commissioner, for being back with us again.

When you were before us earlier you said that money stashed in foreign accounts could be part of why the tax gap may be more than twice as large as official IRS estimates. There has been some skepticism expressed about that in the committee, and I just wanted to give you a chance to add any clarification or amplification, and ask whether or not you still stand by the point that you made.

Commissioner RETTIG. I still stand by the point I made. Our Director of Research separately testified in a House hearing, built with the same blocks, and before he got to illegal-source income—the transcript is out there—his comment was that the comments of the Commissioner are not unreasonable. And I do stand by that. And we do not know what we do not know, but these are educated guesses.

Senator WHITEHOUSE. So the Treasury Inspector General for Tax Administration noted at a hearing that the IRS had taken virtually no compliance actions to meaningfully enforce the Foreign Account Tax Compliance Act.

What can we do to help improve that record? Are there resources or regulations? What focus do we need to do to——

Commissioner RETTIG. Absolutely. FATCA was passed with the idea that the U.S. Government, the IRS, would receive data with respect to foreign accounts for individuals throughout the world. And unfortunately, we did not get the resources to implement a modernization of our systems to be able to appropriately use the data that we receive under FATCA.

And part of the President's budget provides us with the resources to modernize our systems to get there. And I think it can be instrumental, what we might find, as well as, you know, if we find out that there is no "there" there, that would also be instrumental. And I think everybody should support that effort.

Senator WHITEHOUSE. Do you know if that is a separate line item in the President's budget proposal, or do we have to go in to break it out? I will ask for the record for somebody on your team to let us know whatever we can do to break out the elements of FATCA enforcement.

So on to kleptocracy. The President has issued a memorandum on establishing the fight against corruption as a core United States national security interest. We have just passed good beneficial ownership disclosure laws. Are you comfortable with the Treasury process and the IRS aspects of implementing that rule? Any report you can give? It is really important that Treasury, the DOJ, and the IRS all be happy with where we are. Are you?

Commissioner RETTIG. The IRS will do the best that it can with the resources that it receives to implement the legislation that impacts areas that are in the IRS's domain. And so as to—I am a believer in transparency and full disclosure, and all the rest. And you know, I can confirm and commit to the fact that we will do our best, and certainly try——

Senator WHITEHOUSE. And are you comfortable that you are being heard in the regulatory process of developing the rules to enforce and implement the legislation?

Commissioner RETTIG. We have weekly—excuse me, bi-weekly meetings with the Office of Tax Policy at Treasury that, not only

myself but our leadership team and counsel, are engaged in. So, yes.

Senator WHITEHOUSE. Okay, last question, and you are welcome to take this one for the record. It relates to 501(c)4s. You answered just a few days ago a question that I had about the number of referrals that the IRS has made to the Department of Justice for investigations involving nonprofit organizations. There were about 200 over the last 5 or 6 years.

Could you—again, you can take this for the record. I would like to know if any of those, and if so how many of those, involved potential false statements made by nonprofits regarding political activity. And I would also like to know if you are aware of whether any of them actually were taken to prosecution, what the record was of them being taken up over at DOJ. Would you be able to get me that info?

Commissioner RETTIG. With appropriate safeguards, we will reach out to DOJ and try to get the information for you.

Senator WHITEHOUSE. Great. At this point, I think I am just looking for numbers. So there should not be any problem with it. How many of the 200 involved potential false statements about political activity, and how many were actually taken up by DOJ of the 200.

Commissioner RETTIG. It is not always so easy for us to get information when the lawyers get involved, but—being a lawyer——

Senator WHITEHOUSE. I just want to make it a question for the record. Thank you very much.

[The question appears in the appendix.]

The CHAIRMAN. Thank you.

Commissioner, we are winding down here from a long morning. Just a couple of comments, first with respect to tax enforcement, which has come up repeatedly over the course of the morning. And I know this does not surprise you, my interest is making sure that this is not just another chapter in the tale of two tax codes in America. When a nurse—a nurse is sure to owe a penalty if her W–2 does not match her return, but a millionaire can arrange their assets through a sophisticated, complex web of partnerships and can abuse the system with no risk of detection. That is the status quo today. And that is what I want to change.

So we are going to be talking to you more about enforcement, and you said you would get us some information with respect to your targets. But that is what I am really concerned about, and it undergirds my whole view with respect to the tax code in America.

Then, with respect to, again, the ProPublica information of today, I am going to ask about this repeatedly, because I want it understood that the IRS has a responsibility to protect taxpayer data. And you have confirmed this morning that this matter is being investigated.

And then from the policy side, the big picture is, this data shows that the country's wealthiest, who profited immensely during the pandemic, have not been paying their fair share. And they can essentially line up their lawyers and accountants and their professionals and can defer and postpone and put off paying, and to a great extent live off money borrowed against their assets while not paying any taxes for very long periods of time.

And the nurses and firefighters I represent in Oregon cannot play those games. They pay their taxes with every paycheck.

I am just going to close. We will be talking with you and others in the future, because I am going to have a proposal to fix this broken system and have it ready to be released soon.

With that, the committee also notes that questions for the record have to be delivered by next Tuesday, a week from today. And with that, the committee is adjourned.

[Whereupon, at 12:37 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Thank you, Mr. Chairman, and thank you, Commissioner Rettig, for joining us again today. It is safe to say we all support efforts to administer our Nation's tax laws and collect taxes that are legally due. Today, we will hear from Commissioner Rettig about proposals to massively increase the budget at IRS, aimed largely at increased compliance and enforcement efforts.

Commissioner Rettig, you have the chance to provide your perspective on an array of issues, including any updated tax gap analysis your agency is preparing, various compliance- or enforcement-related proposals contained in the President's budget, and recently enacted spending programs that the IRS will soon begin implementing. Focusing on the administration's discretionary funding request for the IRS, I look forward to hearing about how the IRS would spend the $1.2 billion in additional funding in FY 2022, including the specific activities the funds would go toward and what the expected outcome from these activities will be.

The President's Fiscal Year 2022 budget proposes not only a significant increase in IRS funding, but also a dedicated, mandatory flow of funding for the IRS over a 10-year period, based partly on some speculative and questionable assumptions and analysis. Multiyear, guaranteed appropriations like this are rare, and it is important to understand whether the circumstances actually warrant it. It is also important to understand how much additional funding the IRS can efficiently use, as well as the specific implementation plans the IRS has to put any additional funding it receives to good use.

Much has been said about the decline in IRS funding from the 2010 fiscal year. Less has been said about data suggesting the IRS has become at least somewhat more efficient in the aftermath of these declines, such as the fact that IRS gross revenue collections have increased every year, year over year since 2010, from $2.34 trillion in 2010 to $3.56 trillion in 2019.

Further, the IRS's costs of collection have decreased every year, year over year since 2010, from $0.53 in costs per $100 collected in 2010 to $0.33 in costs per $100 collected in 2019. Moreover, we need to better understand the actual correlation between the IRS's enforcement budget and the enforcement revenue it collects.

For example, IRS data shows that enforcement revenues actually increased between fiscal years 2012–2013, 2013–2014, 2015–2016, 2016–2017, and 2017–2018, despite actual enforcement spending decreasing between each of these periods. Similarly, between fiscal years 2019–2020, enforcement revenues declined by $6.4 billion despite actual enforcement spending increasing by $317 million.

Suffice to say, we need to better understand the facts at play here, particularly before we rush to adopt multi-billion-dollar funding increases. And as we all know, revenue comes from the economy, and revenue collected is far more sensitive to the state of the economy than it is to the size of the IRS budget or scope of its enforcement. When the economy grows, revenues rise; and when the economy shrinks or grows sluggishly, revenues fall or grow slowly.

The administration's budget proposes several new reporting, compliance, and enforcement regimes, including a proposal to require near-universal disclosure to the IRS of gross inflows and outflows for both traditional and non-traditional financial accounts for businesses and for individuals, as well as for third-party settlement en-

tities. I have long been critical of big data collection activities, and oppose turning banks and brokers into government tax collectors. I also have strong concerns about the proposed IRS big data requirements.

According to the budget request, "This requirement would apply to all business and personal accounts from financial institutions, including bank loans and investment accounts, with the exception of accounts below a low de minimis gross flow threshold of $600 or fair market value of $600."

Commissioner Rettig, you may recall that expanded 1099 information reporting was enacted in the Affordable Care Act to include any payment of over $600, and the American people soundly rejected that provision, leading to its rapid repeal a year later. Absent bipartisanship in developing enhanced compliance and enforcement activities and public acceptance of their legitimacy, the administration's proposals will not be durable.

The key issue for the IRS, and for those of us who oversee it, is to strike the appropriate balance between rigorous enforcement of the tax laws and heavy-handed, stifling intrusiveness. I am concerned about the implications of many of the President's budget proposals, including requiring additional, and highly burdensome, information reporting when some existing reporting is duplicative, and much is still not being utilized to the fullest extent.

Proposals to increase compliance and enforcement can have merit, but there is the risk of turning the IRS, and perhaps even private financial institutions, into feared gatherers of information that is not necessary for tax administration. Also, in regard to compliance, I would be remiss if I did not indicate my continued disappointment in the lack of responsiveness of the IRS and Treasury to my inquiries.

You last appeared before this committee on April 13th, and I have not yet received responses from you to questions that I asked for the record. I also sent you a letter on May 10th with a series of questions about the speculative and questionable tax gap projections that you have recently put forward. I only received a partial response to my questions late yesterday afternoon.

It is somewhat surprising for the administration to request outsized and mandatory funding for the IRS, while at the same time not complying with basic transparency and accountability responsibilities.

Commissioner Rettig, I look forward to your testimony, and thank you for appearing today.

PREPARED STATEMENT OF HON. CHARLES P. RETTIG,
COMMISSIONER, INTERNAL REVENUE SERVICE

INTRODUCTION

Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for the opportunity to discuss the IRS budget and provide you with an update on IRS operations.

I am pleased to report the 2021 filing season, which was extended to May 17th, went smoothly in terms of tax return processing and the operation of our information technology (IT) systems. Through May 28, the IRS received more than 149.6 million individual Federal tax returns and issued more than 101.2 million refunds totaling more than $281.4 billion. In 2021, we have had had more than 1.4 billion visits to *IRS.gov* and have received more than 150 million taxpayer phone calls (more than 300 percent of normal; at one point we were receiving calls at the rate of 1,500 per second) and have answered more than 37 million calls through our automated systems and live phone assistors. Although the filing deadline has passed, I would note that the work of the filing season goes on well beyond the deadline—IRS employees continue to process tax returns, including amended returns and returns for which taxpayers had requested an extension beyond May 17th.

At the same time, the IRS is working closely with the Treasury Department to implement the American Rescue Plan Act of 2021 (ARP Act) as quickly as possible to help the Nation's taxpayers. As part of these efforts, we took immediate steps to begin delivery of the third round of Economic Impact Payments (EIP) to millions of Americans within days of the legislation being signed on March 11th. Through June 4th, we have disbursed more than 169 million payments totaling approxi-

mately $395 billion. We have printed and mailed more than 175 million reminder notices, answered more than 30 million EIP calls, issued more than 105 FAQs, and coordinated our outreach efforts with more than 11,000 external partners and 400 Federal and State agencies.

The IRS is also coordinating with Treasury on another important provision, which provides periodic advance payments of the Child Tax Credit (CTC) to eligible Americans. The IRS is working hard to deliver this program quickly, efficiently and on time. We recently announced the advance CTC will be disbursed in monthly payments beginning July 15th. We have already issued nine news releases and started sending more than 30 million outreach letters to inform potentially eligible taxpayers of the advance CTC payment and to promote awareness of the CTC page on *IRS.gov* that will provide additional relevant information. The letter is educating taxpayers who filed a processed 2019 or 2020 return that claimed the CTC about the advance CTC and options for the future. We will soon provide Congressional members with outreach packages so that they build awareness of the advance CTC with their constituents.

Now in my third year as Commissioner, I remain extremely proud of our employees, and I'm excited about the future of our agency. My experiences as Commissioner have strengthened my belief that a fully functioning IRS is critical to the success of our Nation. In Fiscal Year (FY) 2019, the IRS collected $3.56 trillion in taxes and generated almost 96 percent of the funding that supports the Federal Government's operations. As such, in part, the success of our country depends upon a successful IRS. We serve and interact with more Americans than nearly any other public or private organization.

This unprecedented pandemic illustrates the significant role that the IRS plays in the overall health of our country. We have been called to provide economic relief during this national crisis while also fulfilling our routine responsibilities of tax administration.

Decisions significantly impacting the people of this country should not be resource-driven. Like all Federal agencies, the IRS is best suited to provide the services Americans deserve and appropriately enforce the tax laws in support of compliant taxpayers when it receives the resources it needs to do so. At a time when the IRS has faced consequential resource challenges, it has also been called upon to take on new responsibilities impacting almost every American. Our response to the unprecedented COVID–19 challenges illustrates the importance of every American to the IRS and the importance of the IRS to every American.

I am proud that IRS employees have responded admirably to the COVID–19 situation by quickly facilitating financial assistance and administrative relief to hundreds of millions of deserving and needy Americans—including distributing more than $800 billion in Economic Impact Payments together with more than $500 billion in individual refunds since the spring of last year. People at the IRS continually demonstrate just how much they care, and how important the agency is to our country, by their heroic response to events over the past year. At the same time, the IRS remains focused on its core mission, striving to serve taxpayers in a manner that facilitates voluntary compliance by providing meaningful guidance and proper levels of staffing and support at points of significant taxpayer interaction.

Given the events of the past year, we appreciate the $3.1 billion in additional funding we received from Congress to respond to the COVID–19 pandemic and implement the EIPs and other tax changes. In addition, our base FY 2021 funding level (excluding these additional resources) represents a 3.6-percent increase over FY 2020. However, it will take time to overcome the challenges of the past decade, and the agency will continue to struggle to replace employees lost through attrition and expand our workforce, support implementation of our multiyear Integrated Modernization Business Plan as designed, and continue enhancing meaningful service and compliance efforts that will earn the trust and respect of every American and improve our working relationships with taxpayers and others in the tax community.

We respect and proudly serve all taxpayers. We must operate from their perspective, through their eyes, enhancing their experiences while striving to provide clear, meaningful guidance and services, in the language of their choice, wherever possible. In support of compliant taxpayers, we must aggressively pursue non-compliant taxpayers by maintaining robust, visible civil and criminal enforcement efforts. We are making a difference, and we want to continue to successfully pursue our mission on behalf of our great country.

The President's Fiscal Year (FY) 2022 discretionary budget proposal for the IRS provides $13.2 billion, an increase of $1.2 billion, or 10.4 percent, above the 2021 enacted level, to administer the Nation's tax system fairly, collect $3.5 trillion in taxes to fund the government and strengthen tax compliance.

In addition to the base appropriations request, the budget proposes a program integrity allocation adjustment that would provide an additional $417 million in FY 2022, to fund investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program, for a total of $13.6 billion for the agency in FY 2022.

The President's budget proposal supports fair and equitable tax administration for all Americans, including increasing oversight of high-wealth individuals and corporations to ensure compliance and move toward closing the tax gap. It also improves the taxpayer experience by providing new and improved online tools for taxpayers to communicate with the IRS easily and quickly. The budget also supports the IRS's efforts to continue improving telephone and in-person taxpayer customer service, as well as expansion of the agency's outreach and assistance to underserved communities. These increased resources represent a significant investment in tax administration, because the IRS has an overall return on investment (ROI) of about $5 for every $1 invested, excluding significant deterrence effects.

Specific Funding Areas

The FY 2022 budget requests a total program increase of $915.5 million, including the following:

- **Taxpayer First Act (TFA):** $176.1 million for implementing major TFA initiatives, including a Taxpayer Experience Strategy to improve the American taxpayer's experience with the IRS through expanded digital services, increased multilingual services, and an increased presence in hard-to-reach, historically underserved communities. Another major TFA initiative involves enhancing identity proofing and authentication tools, to ensure taxpayers have secure access to online services.
- **Enforcement:** $340 million for continuing to establish enforcement strategies that will ensure a fair tax system, by allowing the IRS eventually to double its compliance efforts on partnerships and high-wealth returns and devote more resources to examining large corporations with balance sheet assets greater than $10 million. Other initiatives supported by this investment include: the Cross Border and Treaty and Transfer Pricing Operations; expansion of oversight efforts against cybercrime; increased use of applied data analytics in enforcement activities; and enhancing taxpayer confidence in the tax-exempt sector.
- **Taxpayer Service:** $318 million to increase taxpayer assistance via the various communication channels taxpayers use to reach us, including phone calls, correspondence, and in-person visits. This investment provides a projected phone level of service (LOS) of 75 percent in FY 2022, assuming phone demand returns to pre-pandemic levels and the IRS is able to provide in-person services at pre-pandemic levels. These funds will also be used to reduce the current projected FY 2022 ending correspondence inventory by about 400,000 pieces.
- **Modernization:** $78.1 million for IT modernization activities. This investment will support IRS efforts to continue implementing its Integrated Modernization Business Plan for upgrading IT systems and retiring legacy applications. With this funding, the IRS will be able to take the next steps on such significant modernization initiatives as Enterprise Case Management, Taxpayer Digital Communications and customer callback on its taxpayer phone lines.

The IRS dedicates itself to improving the taxpayer experience so that taxpayers and their representatives can understand and meet their tax obligations with minimal burden. The IRS's aim is to increase voluntary compliance through simplifying the tax filing, correction, and payment processes. To help achieve this, the IRS will focus on improving education and outreach on taxpayer rights and obligations and enhancing service channels to meet taxpayer needs.

Efforts to Narrow the Tax Gap

We are proud to serve our country and want to provide meaningful services of a nature and quality every American deserves. In support of compliant taxpayers, we must pursue meaningful enforcement efforts, appropriately balanced with our sup-

port of taxpayer service, taxpayer rights, and privacy rights. The IRS continues to develop innovative approaches to understanding, detecting, and resolving potential noncompliance to maintain taxpayer confidence in the tax system.

Section 61 of the Internal Revenue Code generally defines "gross income" as "all income from whatever source derived. . . ." Taxable income is that portion of gross income that is properly subject to taxation under applicable provisions of tax law. The tax gap is defined as the difference between the amount of tax owed by taxpayers for a given year and the amount that is actually paid voluntarily and timely. The tax gap is intended to represent, in dollar terms, the annual amount of tax noncompliance with our tax laws. It does not distinguish between underreporting, nonfiling or underpayment of tax based on a good faith misunderstanding of the tax law, intentional evasion of filing or reporting obligations, domestic or foreign source income, legal or illegal source income, etc.

However, given restrictions in data availability, it is extremely difficult to empirically estimate the level of tax gap associated with all noncompliance activities in the current state of the economy. Our most recently published tax gap estimates for calendar years 2011–2013 are not intended to represent an all-inclusive, current measure of global tax non-compliance by U.S. taxpayers. They are outdated, underinclusive, and are based on limited types of detected information. The 2021 digital world economy is significantly different from the world economy of 2011–2013. Published estimates have traditionally relied on historical audit and collection data for certain identified non-filers, underreporters, and underpayers. For at least the past 18 months, we have been working on updating and enhancing the underlying approach and methodology, improving the currency of the estimates and considering how to better identify and incorporate additional information that may assist us in forecasting emerging compliance issues.

We will soon be implementing new tax gap approaches and methodologies, including more operational audit data and identifying additional sources contributing to more inclusive estimates that are reflective of the actual tax gap. In addition, advancements in artificial intelligence, advanced data, and analytic strategies have enhanced our capabilities to identify areas of noncompliance in ways that were not remotely possible just a few years ago. These new tax gap data and methodologies will assist us in determining and coordinating the deployment of our limited enforcement-related resources, both to minimize burden on compliant taxpayers and to concentrate on reaching noncompliant taxpayers.

While a portion of the unpaid tax obligations that make up the tax gap result from a lack of knowledge or ambiguity and complexity in tax law, willful evasion is also a significant contributing factor. The 2022 budget includes a program integrity allocation adjustment, which includes targeted investments in enforcement activities to help IRS address this evasion.

The tax gap has many underlying causes, including complexity, opaque sources of income and insufficient IRS enforcement. Budget cuts over the past decade have resulted in an agency that lacks the capacity to address sophisticated tax evasion efforts. Appropriations for the IRS have fallen by about 20 percent (adjusted for inflation) since FY 2010. The decline in the overall IRS budget has resulted in a 15 percent decline in the number of full-time employees at the agency since FY 2010.

The effect of personnel lost is most visible in enforcement activities. Among the 33,378 full-time personnel lost between FY 2010 and FY 2020, more than 13,388 were enforcement personnel. These losses included revenue agents and revenue officers who audit tax returns and perform collection activities, as well as special agents who investigate tax-related crimes and other issues.

There's no single solution to achieving a meaningful reduction in the tax gap or one type of taxpayer responsible for it. Reducing the tax gap requires a comprehensive, multifaceted strategy and effective execution from the IRS, coupled with appropriate safeguards and accountability to taxpayers. Investment in our service, enforcement, and compliance efforts is extremely important. Multiyear, consistent, timely, and adequate funding helps us deliver meaningful services to taxpayers, conduct critical enforcement initiatives, and support long term IT modernization efforts that help improve compliance. Greater investment in technology can help us properly assist compliant taxpayers. Modernization of our systems coupled with technological advances in artificial intelligence, data and analytics will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult.

Efforts necessary to raise compliance levels are resource-intensive. We remain committed to ensuring that the tax system is enforced fairly, taxpayers receive the nature and quality of services they deserve, and that no one at any income level feels safe cheating on their taxes. In addition to the need for the IRS to run a balanced enforcement program, the tax gap—and the underlying components—illustrate that we also need to continue focusing on solid, meaningful taxpayer service to help people understand and satisfy their filing and reporting obligations.

THE PRESIDENT'S LONG-TERM PLAN TO IMPROVE TAX ADMINISTRATION

As a part of the American Families Plan, the President recently made a series of proposals that would overhaul tax administration and provide the IRS with the resources and information it needs to address tax evasion over the long term. All told, these reforms will generate an additional $700 billion in tax revenue over the course of a decade, net of the investments made. A key component of this initiative is the provision of a sustained, multiyear stream of funding for tax administration. Receipt of consistent, timely, multiyear funding is critical to the future success of tax administration.

This proposal directs nearly $80 billion to the IRS over a decade to hire new specialized enforcement staff, modernize antiquated information technology, and invest in meaningful taxpayer service—including the implementation of the newly expanded credits including newly expanded Child Tax Credit and Child and Dependent Care Tax Credits aimed at providing support to American families.

Components of the Plan

The proposal to provide the IRS with nearly $80 billion over 10 years has two primary components:

A multiyear program integrity allocation adjustment of $6.7 billion over a decade. It is estimated to generate $38.6 billion in new direct revenue and protect $11.6 billion over 10 years. This ROI is likely understated because it does not reflect the effect that enhanced enforcement has on deterring non-compliance.

Approximately $72.5 billion in mandatory funding over the budget window. A portion of these proposed IRS resources would fund improvements and expansions in enforcement and compliance activities. The proposed mandatory funding would also provide the IRS with resources to enhance its information technology capability—including implementation of the proposed financial information reporting regime described later in this testimony—and to strengthen taxpayer service. The proposal would direct that additional resources go toward enforcement against those with the highest incomes, rather than Americans with actual income of less than $400,000.

Absorbing Additional Resources Over the Next Decade

The proposal includes year-by-year estimates of the additional resources that will be directed toward the agency as well as the specific activities that these resources would support. The plan allocates the mandatory funds over a 10-year period, and the plan design ensures that the IRS is able to absorb and usefully deploy additional resources over the entire 10-year horizon.

The plan provides enforcement resources, including a significant investment in revitalizing the IRS's examination of large corporations, partnerships, and global high-wealth individuals. It also includes funding for other important IRS priorities that support tax administration. It includes nearly $6 billion for IT modernization. Modernization funding will allow the IRS to address core technology challenges and transform IRS provision of meaningful taxpayer services and tax enforcement efforts. It also includes $4.5 billion to implement a new information reporting regime as well as additional resources to protect against imminent threats to the security of the tax system, like cyberattacks.

Additional IT tools will help support a staff capable of deploying new analytical techniques and ensure that enforcement personnel have the most up-to-date tools to support their work to enhance compliance. Investing in developing machine learning capabilities will enable the IRS to leverage the information it collects to better identify tax returns for compliance review.

Initial Hiring Plans and Estimates for Return on Investment

The IRS is committed to appropriately, efficiently and wisely using the resources we receive from Congress. The IRS is developing a hiring plan that will allow us to hire the necessary people with the right skills. We will hire people with a mix of experience; that is, along with people just or recently out of college or graduate

school, we will also hire people at the mid-point and beyond in their careers who would have greater levels of experience and expertise, so that we could greatly accelerate the impact their hiring would have in the enforcement and service areas for which they are selected.

We will hire enforcement staffing to support our base enforcement functions but also hire a balanced mix of staffing, including employees in our research division, our Criminal Investigation division, Chief Counsel, Appeals and the Taxpayer Advocate Service.

THE PRESIDENT'S LEGISLATIVE PROPOSALS

In addition to the multiyear IRS funding plan in the American Families Plan, the budget includes several important proposals that would improve tax administration and provide the IRS with a blueprint to address various facets of the tax gap. These proposals align with the President's plan for sustained, multiyear funding of the IRS. The major tax compliance and administration proposals include the following:

- **Increase oversight of paid tax return preparers.** Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. The proposal would amend title 31, U.S. Code (Money and Finance) to provide the Secretary with explicit authority to regulate all paid preparers of Federal tax returns, including by establishing mandatory minimum competency standards. The proposal would be effective on the date of enactment.
- **Increase penalties on ghost preparers.** So-called ghost preparers are compensated for preparing returns but refuse to identify themselves on the returns purposely to avoid detection. The proposal would increase the penalty amount to the greater of $500 per return or 100 percent of the income derived per return by a ghost preparer. The proposal would also increase the limitations period during which the penalty may be assessed from 3 years to 6 years. The proposal would be effective for returns required to be filed after December 31, 2021.
- **Introduce comprehensive financial account information reporting.** This proposal would create a comprehensive financial account information reporting regime. Financial institutions would report data on financial accounts in an information return. The annual return will report gross inflows and outflows with a breakdown for physical cash, transactions with a foreign account, and transfers to and from another account with the same owner. This requirement would apply to all business and personal accounts from financial institutions, including bank, loan, and investment accounts, with the exception of accounts below a low de minimis gross flow threshold of $600 or fair market value of $600. Other accounts with characteristics similar to financial institution accounts will be covered under this information reporting regime. In particular, payment settlement entities would collect Taxpayer Identification Numbers (TINs) and file a revised Form 1099-K expanded to all payee accounts (subject to the same de minimis threshold), reporting not only gross receipts but also gross purchases, physical cash, as well as payments to and from foreign accounts, and transfer inflows and outflows. Similar reporting requirements would apply to crypto asset exchanges and custodians. Separately, reporting requirements would apply in cases in which taxpayers buy crypto assets from one broker and then transfer them to another broker, and businesses that receive crypto assets in transactions with a fair market value of more than $10,000 would have to report such transactions. The Secretary would be given broad authority to issue regulations necessary to implement this proposal. The proposal would be effective for tax years beginning after December 31, 2022.
- **Expand authority to require electronic filing for forms and returns.** Under this proposal, electronic filing would be required for returns filed by taxpayers reporting larger amounts or that are complex business entities, including: (1) income tax returns of individuals with gross income of $400,000 or more; (2) income, estate, or gift tax returns of all related individuals, estates, and trusts with assets or gross income of $400,000 or more in any of the 3 preceding years; (3) partnership returns for partnerships with assets or any item of income of more than $10 million in any of the 3 preceding years; (4) partnership returns for partnerships with more than 10 partners; (5) returns of real estate investment trusts, real estate mortgage investment conduits, regulated investment companies and all insurance companies; and (6) corporate returns for corporations with $10 million or more in assets or more

than 10 shareholders. Further, electronic filing would be required for the following forms: (1) Forms 8918, "Material Advisor Disclosure Statement"; (2) Forms 8886, "Reportable Transaction Disclosure Statement"; (3) Forms 1042, "Annual Withholding Tax Return for U.S. Source Income of Foreign Persons"; (4) Forms 8038–CP, "Return for Credit Payments to Issuers of Qualified Bonds"; and (5) Forms 8300, "Report of Cash Payments Over $10,000 Received in a Trade or Business." Return preparers that expect to prepare more than 10 corporation income tax returns or partnership returns would be required to file such returns electronically. The Secretary would also be authorized to determine which additional returns, statements, and other documents must be filed in electronic form in order to ensure the efficient administration of the internal revenue laws without regard to the number of returns that a person files during a year.

- **Improve reporting for payments subject to backup withholding.** The proposal would treat all information returns subject to backup withholding similarly. Specifically, the IRS would be permitted to require payees of any reportable payments to furnish their TINs to payors under penalty of perjury. The proposal would be effective for payments made after December 31, 2021.
- **IRS Centralized Services Fund/Working Capital Fund.** The budget includes appropriations language to establish a working capital fund for IRS centralized services. The fund will allow the IRS to achieve cost savings, promote economies of scale, establish more consistent processes and policies, and improve how it delivers facility services, technology, and other centralized services for its business units. For FY 2022, the fund proposes to start with several pilot projects that would test use of the fund, including, potentially, IT development and operations projects, facilities projects, and/or postage funding.

CONCLUSION

Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you again for the opportunity to discuss the IRS budget and update you on IRS operations. The agency remains dedicated to improving service to taxpayers, modernizing its systems, and maintaining the integrity of the tax system, while also protecting the health of its workers and American taxpayers.

We believe we have made great strides over the past year and will continue this progress with the help of Congress, as we move the agency into the future. This concludes my statement, and I would be happy to take your questions.

QUESTIONS SUBMITTED FOR THE RECORD TO HON. CHARLES P. RETTIG

QUESTIONS SUBMITTED BY HON. JOHN BARRASSO

Question. On June 8, 2021, ProPublica published an article titled, "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax." The article states that ProPublica has obtained IRS data on the tax returns of thousands of Americans. This could be the largest breach in the IRS's history, represents a serious breach of privacy, and is a criminal violation of our tax laws. It damages the American taxpayers' confidence that the IRS will keep their personal information confidential.

While I appreciate that the Federal Bureau of Investigation is now investigating the breach, I hope that the IRS will fully cooperate with that investigation. After the recent IRS scandal involving the agency's targeting of conservative groups, thousands of IRS emails were destroyed despite a preservation order and congressional subpoenas. Once again, at the very least, there is a perception that the IRS is being used for political ends. This erodes American taxpayers' confidence in the agency.

The American people have a right to know how and why confidential information was allegedly obtained or leaked from the IRS.

Do you commit to fully cooperate with Congress and Federal investigators on this serious breach of American taxpayer's confidential information?

Answer. The IRS will fully cooperate with each and every congressional and Federal investigation into the ProPublica article. Congress may wish to reach out directly to any investigative organization that may be conducting an investigation.

Question. I believe the Taxpayer Advocate service is an important tool the IRS has to help taxpayers. Dealing with the IRS can be intimidating, confusing, stressful, and never-ending. The Taxpayer Advocate does not have the resources or authority to resolve every problem taxpayers encounter with the IRS. The issues they can help with are limited, but their assistance and guidance can be invaluable.

If the IRS is sincere in its desire to treat taxpayers fairly throughout the process, I believe it is important that the IRS maintain a robust and effective Taxpayer Advocate office.

What needs to be done to enhance the visibility and role of the Taxpayer Advocate's office? Can you detail how the IRS will ensure that the Taxpayer Advocate has the necessary resources to improve their ability to advocate for and provide guidance to taxpayers?

Answer. The IRS works to ensure the visibility of the Taxpayer Advocate Service (TAS) in a variety of ways. Although the TAS is independent in the IRS, key communications are shared through broader IRS communications channels, including *IRS.gov,* news releases, social media, partner outreach, and information shared to local congressional offices.

The mission of the Taxpayer Advocate's office is an important one, and the IRS has a good working relationship with the National Taxpayer Advocate. The TAS exists to assist taxpayers in circumstances of economic hardship or when a case has not been handled properly, while advocating with both the IRS and Congress for systemic changes, taxpayer rights, and improved service.

A key aspect of the Taxpayer First Act (TFA) reorganization was the creation of the Chief Taxpayer Experience Office. The National Taxpayer Advocate and the Taxpayer Experience Officer are holistically focusing on taxpayer service and taxpayer rights from the taxpayer's perspective. This joint effort recognizes the important role of the Taxpayer Advocate's office and should further enhance its visibility within the agency.

The minimum funding levels for TAS provided in the appropriations acts are important to ensuring its independence and that it has the resources necessary to successfully advocate on behalf of taxpayers without the need to request additional funds from the Commissioner.

Question. The IRS traditionally requires handwritten signatures on a wide array of forms. Last year, because of the COIVD–19 situation, the IRS started accepting electronic or digital signatures for a number of these forms.

From a taxpayer's standpoint this was a welcome change. The ability to use a digital signature can somewhat streamline what is frequently a confusing and time-consuming process.

Have you found that accepting digital documents and signatures has streamlined administration on the IRS's side?

Answer. Yes, accepting digital documents and signatures contributed significantly to the IRS's ability to process information during the COVID–19 pandemic. The expanded digital options not only promoted efficiency but also helped preserve health and safety. Digital options for taxpayers, tax professionals, and IRS employees are fundamental to effective tax administration.

Question. Is the IRS considering implementing permanent changes based on this experience? It seems to me that this kind of modernization would help makes the processes more efficient overall.

Answer. While these flexibilities created efficiencies, they do not fully satisfy the standards for electronic signatures as established by the National Institute of Standards and Technology or the IRS Electronic Signature (e-signature) Program. Therefore, rather than making these exceptions permanent, we are currently preparing to extend them through 2023, pending the development of new tools that will satisfy the requirements for electronic signatures and secure document exchange.

QUESTIONS SUBMITTED BY HON. SHERROD BROWN

Question. The IRS is currently accepting applications to serve on the IRS Advisory Council (IRSAC) for 3-year terms beginning in January 2022. Many low- and moderate-income workers and families do not access tax credits that they are eligi-

ble for, and the IRS is currently rolling out critical Earned Income Tax Credit and Child Tax Credit expansions under the American Rescue Plan.

Will you ensure that the IRS prioritizes selecting applicants for the IRSAC who have expertise on tax administration and compliance issues affecting low- and moderate-income families?

Answer. The IRSAC Membership Balance Plan emphasizes the selection of members representing a diverse set of taxpayers. Balance factors identified as important for IRSAC membership are geographic, work sector, and taxpayer diversity.

As you recall, before joining the IRS, I proudly served on the IRSAC, ultimately serving as the IRSAC Chair. You likely also recall my significant priority as Commissioner in the IRS: appropriately serving lower-income and historically underserved communities. Together with various outreach programs and initiatives, the IRSAC is a critical link between the IRS and our efforts to enhance the awareness and education of individuals who may be eligible for the Earned Income Tax Credit, the Advance Child Tax Credit, and other benefits.

The IRS will continue to prioritize the selection of applicants for the IRSAC who have expertise in tax administration and compliance issues affecting low- and moderate-income families. This year, the IRS received applications from some individuals who daily work with low- and moderate-income families through the IRS VITA program. Wherever possible, special consideration is given to these applicants.

Question. IRSAC membership should reflect the full spectrum of racial, ethnic, and gender identities found among the American taxpayers that the IRS serves. IRSAC should also have the expertise needed to provide input on the IRS's implementation of Executive Order 13985 (EO 13985), which asks Federal agencies to pursue equity, meaning "consistent and systematic fair, just, and impartial treatment of all individuals," including those in various underserved communities as outlined by EO 13985.

Will the IRS prioritize selecting a diverse cohort of new members for the IRSAC and applicants with expertise needed to evaluate the racial equity implications of Federal tax policy and administration?

Answer. The IRSAC was established to provide an organized public forum between IRS officials and representatives of the public for discussing relevant tax administration issues. Its duties are to research, analyze and make recommendations to the IRS on a wide range of issues affecting Federal tax administration and IRS operations. Specific subject matter and technical expertise in Federal tax administration issues, Circular 230, information reporting or tax-exempt and government entities are generally required to accomplish the tasks of the IRSAC. Each IRSAC member is appointed to represent the point of view of a customer segment, with the goal of having as great a diversity of views as possible.

The IRS will continue to prioritize the selection of a diverse cohort of new members for the IRSAC, including applicants with expertise needed to evaluate the racial equity implications of Federal tax policy and administration. IRSAC members are selected through a structured application process that seeks individuals with substantial, disparate experiences and diverse backgrounds. Wherever possible, special consideration is given to selecting members who can reflect and represent a diverse set of taxpayers.

QUESTIONS SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. Fire and EMS chiefs have sought relief from tax policies that classify unmarked vehicles issued to fire chiefs as taxable income. These unmarked vehicles are needed to ensure the safety of a fire chief, their family, and home. These vehicles often are covered by policies that prohibit their use for personal reasons. Given these restrictions and need for fire chiefs to respond to emergencies outside normal business hours, fire departments hope they would be included in the same "non-personal use" exemption afforded to unmarked cars issued to law enforcement officers. Simply put, the same vehicle issued to a fire chief and a police chief would have different tax liabilities.

You have previously indicated your agreement with these concerns and a willingness possibly to include unmarked fire and EMS chief vehicles in the "Non-Personal Use" designation. Can you share a status update on the IRS's assessment of the issue?

Answer. As you are aware, an employee's personal use of an employer-provided vehicle is generally treated as a taxable fringe benefit. Personal use includes use of the vehicle to commute to and from work. However, under the code, an employee's authorized personal use of a vehicle that meets the definition of a qualified nonpersonal use vehicle is not treated as a taxable fringe benefit. A qualified nonpersonal use vehicle is any vehicle the employee isn't likely to use more than minimally for personal purposes because of its design. All employee use of a qualified nonpersonal use vehicle is treated as a tax-free working condition benefit.

According to final Treasury Regulations published in 2008, the following vehicles are treated as qualified nonpersonal use vehicles:

- Clearly marked, through painted insignia or words, police, fire, and public safety vehicles, provided that any personal use of the vehicle (other than commuting) is prohibited by the governmental unit.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized. Any personal use must be authorized by the employer, and must be related to law-enforcement functions, such as being able to report directly from home to an emergency situation. Use of an unmarked vehicle for vacation or recreation trips can't qualify as an authorized use.

Note that a fire chief and a police chief would not necessarily have different tax liabilities relative to their work vehicles. Both clearly marked fire and police vehicles can qualify for the same tax-free treatment as qualified nonpersonal use vehicles. Also, not all police officers or other law enforcement personnel are permitted to make tax-free personal use of unmarked vehicles. Only personal use of such vehicles that is incident to specific law enforcement functions including reporting directly from home to a stakeout or surveillance site, or to an emergency situation, can be treated as tax-free.

We are continuing to study the important issue of whether it is necessary and appropriate to issue regulatory guidance amending the definition of qualified nonpersonal use vehicle to include unmarked fire and EMS chief vehicles under the same or similar standard as unmarked law enforcement vehicles. When the regulations were last amended in 2008, the Department of the Treasury and IRS declined to adopt commenters' suggestions to eliminate some of the requirements pertaining to qualified nonpersonal use vehicles, including the requirements that the vehicles be clearly marked and specially equipped. In declining to adopt these suggestions, we stated "[i]f the vehicle is not required to be specially equipped or clearly marked, the vehicle will function easily as a personal use vehicle and is not readily distinguishable from vehicles routinely used for personal purposes." T.D. 9483, 75 F.R. 27934, 27935.

We note that the tax treatment of unmarked law enforcement vehicles as qualified nonpersonal use vehicles is, in part, an acknowledgment of the fact that, for both safety and practical reasons, law enforcement personnel who engage in undercover work or conduct surveillance require the use of an unmarked vehicle that is equipped for police work. As we consider any expansion of the regulatory framework to include unmarked fire and EMS vehicles, we welcome additional information as to how unmarked vehicles are used for fire and EMS chief purposes, including how the qualified nonpersonal use vehicle exclusion would apply to voluntary fire departments and what kind of specialized equipment is required to be installed in fire and EMS vehicles to allow the personnel to effectively do their jobs. Please be assured that we are diligently revisiting this issue as it applies to unmarked fire and EMS chief vehicles.

Question. The President's budget request for the IRS includes a plan to hire thousands of new employees. Typically, when establishing multiyear agreements to find office space, agencies will use the GSA leasing process, both to establish certainty and to ensure fair competition and cost effectiveness.

How does the IRS plan to house or locate newly hired employees across the Nation quickly and efficiently? Is the agency considering alternatives to traditionally acquired GSA office space?

Answer. The IRS plan to house new hires is a layered approach including (1) using existing underutilized space, (2) leveraging existing telework programs to move out-of-office employees to shared workstations and free up space for new hires, (3) using existing shared conference and/or training space, and (4) acquiring space using traditional and non-traditional methods where applicable.

QUESTION SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. My office has heard reports of increased tax scams over the past year. These scammers seek to take advantage of countless Americans, including vulnerable seniors, and often reference Economic Impact Payments or other tax benefits related to COVID–19.

How would this proposed budget help the IRS address tax scams and protect taxpayers, including these new COVID-related tax scams?

Answer. The IRS takes tax scams seriously, especially when those scams attempt to abuse resources and benefits designed to help people during the COVID–19 pandemic. The IRS set up intentional screening of Forms 7200, Advance Payment of Employer Credits Due to COVID–19, and was able to block $133 million in refunds from being issued to scammers.

Increasing the IRS's budget would allow for more resources to reach taxpayers regarding tax scams. We will be able to hire additional front-line employees such as revenue agents, revenue officers and contact representatives. Revenue agents and revenue officers make face-to-face contacts with taxpayers, their representatives, and third parties in the field. During those contacts, they are available to answer questions about tax scams. Hiring additional contact representatives will increase the number of taxpayer telephone calls we are able to answer, increasing our opportunities to answer questions and to educate taxpayers on tax scams.

Proposed budget increases will also allow the IRS to keep pace with rapid changes in technology and acquire the best available tools to identify and stop schemes as early as possible, protecting vulnerable segments of the U.S. population, including seniors, from fraud.

The *IRS.gov* webpage on scams *(https://www.irs.gov/newsroom/tax-scams-consumer-alerts)* provides reporting information, including contact information for the Treasury Inspector General for Tax Administration (TIGTA) and the email address phishing@IRS.gov. We provide alerts and information to taxpayers about scams to be aware of through such publications as the annual Dirty Dozen listing.

As the law enforcement arm of the IRS, the Criminal Investigation (IRS–CI) division plays a leading role in protecting taxpayers and the integrity of the tax system against scams and illegal activity. This includes combating fraud related to Advance Child Tax Credit, Economic Impact Payments, Paycheck Protection Program, and Employee Retention Credit. Since the CARES ACT, IRS–CI has investigated more than 550 tax and money laundering cases nationwide totaling upwards of $820 million in fraud. These investigations covered a broad range of criminal activity including fraudulently obtained loans, credits, and payments meant for American workers, families, and small businesses.

Additional funding would allow us to significantly increase our investigative technology and data analytics capabilities and hire more employees to prevent, identify, and aggressively investigate criminals engaged in illegal activity. This includes significantly increasing our capabilities to pursue the illicit use of digital assets and cryptocurrencies to commit tax and financial crimes. More information on how IRS–CI would utilize increased funding on technology, data analytics, and personnel can be found in pages 18–20, 24–25, 63–67 and 137–139 of the IRS FY22 budget request.

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. In your April 13th appearance before the committee, you indicated that it was realistic that the current tax gap equals $1 trillion per year, and gave several possible reasons for that number. While I have previously asked for additional details on how you arrived at the $1 trillion figure, I have not received a clear, direct response.

The most recent official tax gap estimates relate to tax years 2011–2013, and were released in 2019. The published gross tax gap for those years is $441 billion.

To get from $441 billion official estimate for 2011–2013 to your hypothesized estimate of $1 trillion for today involves, according to what you have said: inflation in the value of the dollar; the rise of cryptocurrency; and unreported or concealed income offshore and in pass-through entities—none of which were included in the official estimate.

How much of the roughly $600 billion difference between the $1 trillion tax gap you hypothesize and the 2011–2013 value of $441 billion is attributable to each of those factors: one, inflation in the value of the dollar; two, the rise of cryptocurrency; three, unreported or concealed income offshore; and, four, unreported or concealed income in pass-through entities?

Answer. The tax gap represents, in dollar terms, the annual amount of tax noncompliance with our tax laws. It does not distinguish between intentional and unintentional noncompliance with tax laws. Further, it does not report obligations, domestic or foreign, legal or illegal source income, etc. In addition, because our published estimates are based on available information there are acknowledged gaps that prevent it from serving as an all-inclusive measure of global tax noncompliance by U.S. taxpayers.

The 2011–2013 estimates apply to returns filed for tax years 2011–2013 and subsequently audited. They therefore cannot fully represent the compliance landscape in 2021. The 2021 digital world economy is significantly different from the world economy of 2011–2013 and therefore it would be incorrect to think that these estimates fully capture the current scope of the tax gap. At the May 11, 2021 hearing on the tax gap before the Senate Finance Committee, Subcommittee on Taxation and IRS Oversight, Barry Johnson, Acting Chief of RAAS, testified that simply using asset and price growth information to adjust the 2011–2013 gross tax gap estimates would yield an initial estimated adjusted gross tax gap for Tax Year 2019 of approximately $600 billion.

Further, an IRS research team working with others used operational audit data to review sophisticated tax evasion by certain taxpayers though the use of offshore bank accounts and/or complex pass-through business structures. This information is not fully captured by our legacy tax gap estimation methodology. IRS researchers estimated evasion limited to the use of offshore bank accounts and/or complex pass-through business structures contributed an additional $33 billion to the 2011–2013 tax gap. Adjusting this estimate would increase the Tax Year 2019 tax gap by an additional $46 billion. With this increase, Mr. Johnson estimated the overall gross tax gap for Tax Year 2019 is approximately $646 billion.

This estimate does not account for factors including the rise of cryptocurrency, additional undetected income offshore or concealed in pass-through entities not identified in the referenced research, additional areas of noncompliance including conservation easements, or illegal source income (which is not included in the tax gap estimate). Cryptocurrency alone has grown to a world-wide market of $2 trillion. Reporting compliance falls far short of what would be expected given the number of users, transactions, and value that virtual currency exchanges publicize on an annual basis. Recognizing compliance challenges, the IRS has focused significant enforcement resources over the past 2 years in the virtual currency environment.

In addition to most taxable virtual currency transactions, the tax gap estimate for tax years 2011–2013 also doesn't fully reflect noncompliance related to various undetected international or foreign-based taxable transactions and activities, illegal source income (which is taxable and is pursued by the IRS often in coordination with other Federal and State agencies), and other types of undetected, concealed taxable income. Previous Tax Gap estimates only generally measured international activities by domestic tax return filers but not from taxpayers with addresses abroad, foreign businesses and others. The IRS is generally aware of significant noncompliance associated with the foregoing but does not currently have an estimate of how much it would impact the tax gap; however, we are committed to conducting the research necessary to produce estimates in the future.

Finally, Mr. Johnson noted that it has been well publicized that IRS audits have significantly declined. RAAS research consistently finds that audits have a deterrent effect and noted that the recent decline in audits is likely to have the opposite effect, leading to an increase in the tax gap.

In consideration of the foregoing points, it would not be unreasonable to believe that the actual tax gap could approach and possibly exceed $1 trillion per year.

To address some of the above challenges, Mr. Johnson confirmed that for at least the past 18 months, RAAS has been working on updating and enhancing the underlying tax gap methodology, the goal of improving the currency of the estimates by considering how to identify and incorporate additional information and emerging compliance issues.

Question. In his May 11th testimony before the Subcommittee on Taxation and IRS Oversight, Acting IRS RAAS Chief Barry Johnson indicated that, on a preliminary basis, the IRS believes the 2019 tax gap is $646 billion.

I believe you sited this figure in your testimony before the committee. I have a few questions related to this.

(a) Can you confirm whether or not $1 trillion is your estimate of the current tax gap? If not, whose estimate was/is it?

(b) If so, please break down by dollar amounts what accounts for the more than $350-billion difference between Acting RAAS Chief Johnson's 2019 estimate and your current estimate?

(c) If the 2019 estimate is as preliminary as Acting RAAS Chief Johnson testified, and in light of the fact that the IRS only intends to publish an updated official 2014–2016 tax gap in 2022 (with 2019 to obviously come after this), how is it possible for you to even arrive at an estimate of the current tax gap?

Answer. See the response to question 1. The tax gap represents, in dollar terms, the annual amount of tax noncompliance with our tax laws. It does not distinguish between underreporting, non-filing, or underpayment of tax based on a good faith misunderstanding of the tax law, intentional evasion of filing or reporting obligations, domestic or foreign source income, legal or illegal source income, etc. However, our published estimates are based on limited types of information and are not intended to represent an all-inclusive measure of global tax non-compliance by U.S. taxpayers. The potential current tax gap is an extrapolation of the RAAS estimate for 2019 of about $646 billion and is also based on a specific awareness of much of what is, and is not, included in our most recent "official" tax gap estimate for tax years 2011–2013.

Question. The IRS has been tasked with delivering Advance Child Tax Credits for 2021.

When you last appeared before the committee, you noted the IRS was working to ensure that the information portal for parents to provide additional information or opt out of receiving advance credits for 2021 would be fully operational, with robust outreach underway, before the checks would be sent out.

More recently, we have heard that advance payments will start to be sent on July 15th, notwithstanding that the portal will have only limited functionality. At that point, the IRS will use systems and processes that it has never used before and there will not have been robust outreach. We have also heard that the IRS is currently unprepared to handle the likely significant volume of taxpayer outreach it will receive with respect to the credit.

Given that, are you concerned that we are going to see a significant number of advance payments issued that are inaccurate and even unwanted, and that this could lead to families seeing unexpected tax obligations or smaller than expected tax refunds during next year's filing season?

Answer. Per the American Rescue Plan Act of 2021 (American Rescue Plan), we determined eligibility using information from the taxpayer's 2020 tax return (or 2019 tax return if a return was not filed for 2020). This includes information entered into the Non-filer tool. We implemented a robust communication strategy to inform taxpayers about the Advance Child Tax Credit (CTC) payments and how they can unenroll from these payments or report changes that impact their advance payment amount.

We hosted Advance CTC Free Tax Prep Days and CTC outreach events in select cities across the country in June and July to supplement our ongoing communications. During these events, IRS employees, key community stakeholders, and volunteers helped eligible families file a 2020 tax return, if needed, to begin receiving their monthly Advance CTC payments. More events are planned for the future.

Communications, outreach, and assistance will continue through the 2022 filing season. To provide the latest information, we developed a special Advance CTC 2021 page on *IRS.gov* to provide the most up-to-date information about the credit and the advance payments. The site includes direct links to the CTC Update Portal as well as two other online tools (the Non-filer Sign-up Tool and the Child Tax Credit Eligibility Assistant), a set of frequently asked questions, and other useful resources.

The IRS launched new online tools designed to help taxpayers determine eligibility and manage Advance CTC payments. The Non-filer Sign-up Tool helps fami-

lies not normally required to file an income tax return to quickly register for the CTC. The new CTC Eligibility Assistant allows families to answer a series of questions to determine whether they qualify for the advance credit. The CTC Update Portal allows families to verify their eligibility for the payments and if they choose to, unenroll from receiving the monthly payments so they can receive a lump sum when they file their tax return next year. If needed, families have the option to update their bank account information and receive their monthly Advance CTC payment through direct deposit quickly and easily. Families also have the option to quickly and easily update their mailing address using the portal. This feature will help any family that chooses to receive their payment by paper check avoid mailing delays or even having a check returned as undeliverable. More functionality will be added later this year to the CTC Update Portal.

Question. How many fully trained customer service reps are currently available who are focusing on this issue? How many additional CSRs will be ready and working as of July 15th? And what is the ultimate number expected to be working on this issue, and when will they all be fully trained and ready to go?

Answer. The IRS has fully trained approximately 3,800 Customer Service Representatives (CSRs) to handle Advance CTC payment calls. We estimate the expected daily phone line need will be approximately 1,800 CSRs. Having 3,800 fully trained CSRs, which is 2,000 beyond our expected need, will allow us to apply additional resources as necessary. While there are no plans to train additional CSRs at this time, the training is less than two hours, and we can quickly skill up additional CSRs at any given moment if required.

Question. Does the IRS currently have all necessary and vetted strategic and operational plans in place to accommodate opening the funding floodgates to the degree proposed by President Biden's budget request? If not, what plans remain outstanding?

Answer. Almost 75 percent of the IRS's funding request in the FY 2022 President's budget and the IRS's portion of the American Families Plan is labor which, in addition to technology, is a key component to increasing tax enforcement and overall tax administration. We are developing and deploying focused strategies to ensure we are well-positioned to recruit, hire, train, support and retain the highly skilled, agile workforce needed to achieve the IRS mission. We have started the following activities to prepare for increased staffing from either the FY 2022 President's budget or American Families Plan funding:

- In the 3rd quarter of FY 2021, all IRS business organizations used the OPM 5-Step Workforce Planning Model to develop a holistic view of FY 2022 (planned) hiring projections. We are analyzing the data to inform a comprehensive IRS FY22 Recruitment and Hiring Strategy.
- To prepare for anticipated hiring needs, we are deploying deliberate rebranding, marketing, and recruitment strategies through social media, student and graduate programs, and collaboration with unemployment offices, educational institutions, and Federal employment programs. We are also developing internal and external hiring strategies to navigate challenges in an extremely competitive hiring market.
- To support increased hiring efforts, we are implementing internal operating plans to increase hiring capabilities, optimize efficiencies, streamline onboarding, and obtain contractor support (where applicable).
- To support onboarding and employee development, we are implementing a comprehensive training strategy, as outlined in the Taxpayer First Act report to Congress. This strategy will instill the importance of taxpayer service in all employees, develop employee skill sets, improve morale, increase productivity, enhance knowledge transfer between employees, and foster innovation.
- We are also investing in several efforts to enhance the IRS employee experience through enhanced technology solutions, thoughtful human capital solutions, and workforce strategies informed by "Future of Work" efforts aimed at transforming the IRS workplace, optimizing operations, and modernizing employee, partner, and taxpayer experiences to position the IRS as an "employer of choice."

In addition to increasing staff, we are also busy planning for where these people will sit and augmenting the information technology (IT) infrastructure to support the new hires across the IRS network.

The FY22 President's budget seeks to reduce the tax gap, improve level of service, implement improvements as outlined in our Taxpayer First Act report to Congress,

continue to modernize our IT technology as outlined in our IT Modernization Business Plan, and begin to replace our vehicle fleet with electric vehicles. With the American Families Plan Tax Compliance Agenda, the administration proposes an ambitious program to foster a tax system where Americans pay the taxes they owe. The proposal has four transformational elements:

- Provide the IRS the resources it needs to address sophisticated tax evasion.
- Provide the IRS with more complete financial information and resources to intake and analyze the data.
- Overhaul outdated technology to help the IRS identify tax evasion and serve customers.
- Regulate paid tax preparers and increase penalties for those who commit or abet evasion.

Question. What specific steps would the IRS take to ensure that additional funding of this magnitude is used in a productive as opposed to a reactive manner—for example, to develop modernized systems and streamlined and efficient process as opposed to simply maintaining outdated infrastructure and further enshrine red tape?

Answer. Greater investments in technology can help us properly assist compliant taxpayers. Modernization of our systems coupled with technological advances in artificial intelligence, data and analytics will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult. The President's budget requests $144 million to build the technology components of three program increases included in the President's budget—Taxpayer Experience Strategy, Ensure Fairness of the Tax System, and Improve Live Assistance.

In April 2019, we released the Integrated Modernization Business Plan (Modernization Plan). The 6-year plan outlines the major components necessary to transform IRS technology and enhance the taxpayer experience. We have implemented the Modernization Plan over the years delivering meaningful taxpayer and IRS business benefits across four modernization pillars—Taxpayer Experience, Core Taxpayer Services and Enforcement, Modernized IRS Operations, and Cybersecurity and Data Protection.

While the current Modernization Plan has been successful in improving the taxpayer experience and launching transformative IT initiatives, it is constrained by both time and funding. The American Rescue Plan modernization funds will allow us to accelerate existing Modernization Plan initiatives, address most initiatives scheduled to begin in "Phase 2," and introduce new initiatives based on emerging needs and technologies. However, given our significant modernization needs, ongoing funding is still necessary to keep pace with cyber threats, technology advances, compliance trends, and taxpayer service needs.

The American Families Plan requests $7,171 million to modernize IRS systems and maintain the new systems. It includes funding to complete and go beyond the current IRS Modernization Plan, including funds for expanding Case Selection and Anomaly Detection to leverage information to improve identification of potential non-compliance, detect issues earlier, reduce the tax gap, generate revenue, and enable employees to work cases more efficiently.

We are building a comprehensive modernization portfolio that we will continue to effectively manage independent of the funding source or origin. The proposed IRS budget will provide consistent funding for us to boost voluntary compliance and narrow the tax gap. This investment will support our efforts to increase the size of our workforce, increase audit, collection, and criminal investigation coverage, introduce new financial account information reporting, and address core technology challenges by upgrading IT systems and retiring legacy applications.

We will continue to be transparent in reporting on our modernization progress and evolution in the quarterly Omnibus IT Investment Report and the Annual Key Insights Report (AKIR).

Question. Particularly in light of the apparent, historical breach of sensitive taxpayer information that just came to light, I have several additional questions about the bank reporting proposal in the President's budget:

First, how would the IRS utilize the information it received from this proposal?

Answer. Information reporting received by the IRS is typically used in our compliance activities within our Examination and Collection functions.

Question. Second, is this type of information already available in another place, for example, through the BSA/AML regime, and if so what is preventing the IRS from utilizing such information?

Answer. The information related to the proposed reporting requirement is not currently available. The new proposed reporting requirement would impact financial institutions that are not governed by the Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) program. The IRS is delegated authority for enforcement and regulation of BSA compliance with respect to Non-Banking Financial Institutions (NBFI) and banks and credit unions that do not have a Federal Regulator per 31 CFR section 1010.810 Enforcement.

Question. Third, how long would it take before IRS is in a position to make sense of the information it would receive under this proposal, and what technological hurdles must one assume are overcome to reach this outcome?

Answer. The time depends on how quickly the IRS can acquire the technology and specialists, such as data scientists, data analysts, and cybersecurity experts.

Question. Fourth, how can the IRS assure Americans that the information it would receive under this proposal would be used for proper purposes and what specifically would be done to safeguard it from improper use, disclosure or theft?

Answer. Protecting taxpayer information is a fundamental IRS principle. Every employee takes annual training on unauthorized disclosure of taxpayer information. This training clearly defines when a disclosure is authorized and clarifies the consequences of an unauthorized disclosure under section 6103 of the Internal Revenue Code. Those consequences include potential termination of employment, fines, and imprisonment.

The IRS has strong protections in place to safeguard taxpayer information. TIGTA regularly audits employee access to taxpayer information. The IRS provides an annual report to the Joint Committee on Taxation that describes all disclosures of taxpayer information during the year and the statutory authorization for each disclosure. The Government Accountability Office also provides oversight on the protection of taxpayer information.

Question. As you have testified more than once, our tax system is founded upon the principle of voluntary compliance, and without voluntary compliance it simply could not work. This view is shared by wide swathes of stakeholders, including my colleagues, the broader community of tax professionals, and all taxpayers more generally.

Voluntary compliance requires, among many things, trust. Taxpayers must trust that the IRS will do "the right thing" and also that the sometimes extremely personal and sensitive information they provide taxing authorities is safe from abuse of any kind (*e.g.,* targeting, leak, etc.).

In your view, how much harm does the apparent release of upwards of 15 years of sensitive taxpayer information of all kinds do to the trust that Americans have in the IRS?

Answer. Historically, the IRS has been extremely effective in protecting the taxpayer data we collect because of the various levels of security, oversight and training discussed in response to the question above. It is among our highest duties, and one we take personally and seriously. We strive every day to live up to the level of trust that the public has bestowed upon us. The IRS has and will continue to fully cooperate with each and every congressional and Federal investigation into the ProPublica article. We will immediately take action to respond to any risks identified through an investigation.

Question. The administration is proposing significant tax increases on U.S.-based multinationals by doubling the GILTI minimum tax rate and other changes that would apply the rules more harshly to U.S. companies. One such change is applying GILTI on a "jurisdiction-by-jurisdiction basis." Based on the limited information provided in the Greenbook, this change would require taxpayers to calculate their effective tax rate and available foreign tax credits separately for each country, imposing significant new compliance burdens on taxpayers and the IRS. For some companies this could mean hundreds of separate calculations, where currently, GILTI allows an aggregate approach to avoid this kind of complexity. What additional costs and resources would be required to administer the proposed GILTI regime, including personnel and programming costs, developing necessary forms and instructions, and

hiring and training personnel to handle the review and audit of companies' effective tax rate calculations by jurisdiction?

Answer. In general, the implementation of legislative enactments, including changes such as the proposed changes to Global Intangible Low-Taxed Income (GILTI), require IRS resources—including personnel, technology, and systems—to effectuate and enforce the change to the tax code. We have a framework for adapting to changes in tax law. This framework includes developing formal and informal guidance; updating tax forms, instructions, and educational materials; training our employees; ensuring stakeholder outreach; and developing a compliance strategy. Also, our implementation efforts proceed in a manner that is informed by our taxpayers' experience, responsive to stakeholder feedback, and maintains the appropriate balance between compliance burden and risk.

Depending on the extent of legislative changes overall, these efforts would require additional IRS resources or reallocation of existing resources in terms of people, systems, and technology. Specifically with respect to the proposal to apply GILTI on a jurisdictional basis, we do not yet have complete information to develop detailed direct or indirect cost estimates related to the change; however, we will closely monitor and continue to assess the proposals as they are considered by Congress. While potentially less costly than the initial adoption of GILTI, the proposed modification could require revisions to the foreign tax credits rules and expense allocation and apportionment. Consequently, we would need to apply the framework described above for addressing tax law changes. From the taxpayer's perspective, we would likely anticipate additional guidance and changes to several forms, including Forms 5471, 8992, 1116, 1118, and 8975.

Question. The administration has also proposed an entirely new regime, called the Stopping Harmful Inversions and Ending Low-Tax Developments or "SHIELD." The proposal seems to acknowledge that U.S. companies would once again be driven to invert or could become attractive targets for foreign acquisition. Similar to the GILTI proposal, the SHIELD proposal would require U.S. companies that make payments to any foreign-related parties to calculate the effective tax rates of all members included in its financial reporting group. Based on the limited information provided in the Greenbook, this provision would require taxpayers to calculate the effective tax rate separately for each member, imposing significant new compliance burdens on both taxpayers and the IRS. What additional costs and resources would be required to administer the proposed SHIELD regime, including personnel and programming costs, developing necessary forms and instructions, and hiring and training personnel to handle the review and audit of companies' effective tax rate calculations by jurisdiction?

Answer. Like any change to the Internal Revenue Code, Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) would require additional IRS resources to implement and administer the new code provision.

At this point, we do not have complete information on the proposal to develop detailed cost estimates related to the potential adoption of SHIELD; however, we will closely monitor and continue to assess the proposals as they are considered by Congress.

As with any new legislation, such as the 2017 tax legislation, SHIELD would require development of new forms, instructions, and formal guidance, thus requiring additional personnel, systems, and IT resources. Moreover, because of the potential need to develop personnel, systems, and IT resources relating to, for example, foreign financial accounting standards, we anticipate the need for additional new resources. Consequently, the IRS would need to apply the framework described above for addressing tax law changes. Because the Greenbook proposes to replace the Base Erosion and Anti-Abuse Tax (BEAT) with SHIELD and eliminate Foreign Derived Intangible Income (FDII), the IRS could reallocate resources from those regimes to SHIELD. Additionally, from a taxpayer perspective, repeal of BEAT and FDII could, to some extent, reduce the taxpayer compliance burden, at least for those taxpayers that are subject to BEAT but would not be subject to SHIELD.

Question. The Taxpayer First Act included a provision (section 2201) to modernize the disclosure of taxpayer information for third-party income verification. Third-party income verification, as you know, is a critical step in ensuring that a consumer is qualified for a mortgage. The modification of this process, which is being funded completely by transaction fees charged to users of the system (mostly residential lenders), requires the solution to be fully automated and accomplished in as close to real time as practicable. My understanding is that the typical way of pro-

viding real time access to information is via application programming interfaces, or APIs. It has come to my attention that the solution that the IRS has developed requires a convoluted, multistep process that will not provide the real time access intended by Congress when the law was passed. Could you explain how the designed process fulfills the intent of Congress for a real time automated process?

Answer. In accordance with National Institute of Standards and Technology guidance, the IRS is required to verify the identity of the taxpayer to prevent the unauthorized release of Federal Tax Information. For the Income Verification Express Service (IVES) Target State, this verification is done through the creation of an IRS Online Account that will allow the taxpayer to electronically sign the Form 4506 request submitted by the IVES Participant. Once the taxpayer signs the Form 4506 electronically, the IVES fully automated process will begin. It is expected that the automated process will reduce the delivery time of the transcript to the IVES Participant from the current time frame of within 3 business days to close to real time.

Question. Please provide names, affiliations, and terms of service of anyone external to the IRS who was made an IRS employee through the Intragovernmental Personnel act of 1970 (5 U.S.C. 3371–3376) and who worked through the Joint Statistical Research Program of the Statistics of Income Division of the IRS on projects in any period within the past 15 years involving confidential taxpayer information, including work performed at IRS facilities and/or on IRS computers.

Answer. See below. Note, the Joint Statistical Research Program did not begin until 2012.

Last Name	First Name	Affiliation	Status	Active	Inactive/ Expired
Abraham	Katharine	University of Maryland	IPA		YES
Agarwal	Ashish	University of Texas at Austin	IPA/Student Volunteer		YES
Alm	James	Tulane University	IPA	YES	
Altshuler	Rosanne	Rutgers University	IPA	YES	
Armstrong	Daphne	University of North Carolina	Student Volunteer	YES	
Balsam	Steven	Temple University	IPA		YES
Bass	Steven	Investment Company Institute	IPA	YES	
Battles	Joseph	University of Chicago	Student Volunteer	YES	
Belnap	Andrew	University of North Carolina	IPA/Student Volunteer	YES	
Boller	Lysle	Duke University	Student Volunteer	YES	
Bourne	Jennifer	Carleton College	IPA	YES	
Brady	Peter	Investment Company Institute	IPA	YES	
Burd	Samuel ''Drew''	University of Chicago	IPA	YES	
Campbell	Richard	University of Illinois at Chicago	Student Volunteer	YES	
Chen	Shannon	University of Arizona	IPA	YES	
Conway	Karen	University of New Hampshire	IPA	YES	
Dadey	Reigne	University of Chicago	Student Volunteer	YES	
Denes	Matthew	Carnegie Mellon University	IPA	YES	
Dunbar	Amy	University of Connecticut	IPA	YES	

Last Name	First Name	Affiliation	Status	Active	Inactive/ Expired
Duxbury	Andrew	James Madison University	IPA	YES	
Dvis-Djerassi	Asher	University of Michigan	Student Volunteer	YES	
Favreault	Melissa	Urban/Brookings Tax Policy Center	IPA	YES	
Feenberg	Daniel	National Bureau of Economic Research	IPA		YES
Galle	Brian	Georgetown University	IPA	YES	
Garin	Andrew	University of Illinois at Urbana-Champaign	IPA	YES	
Gelman	Michael	Claremont McKenna College	IPA	YES	
Ghilarducci	Teresa	New School for Social Research	IPA	YES	
Grozovsky	Max	Dartmouth College	IPA	YES	
Gurley-Calvez	Tami	University of West Virginia	IPA		YES
Haidorfer	Anton	Center for Housing Risk Research	IPA	YES	
Harris	Erica	Villanova University	IPA		YES
Harris	Timothy	Illinois State Univ	IPA	YES	
Hartley	Caitlin	Carnegie Mellon University	IPA	YES	
Heckman	James	University of Chicago	IPA		YES
Henry	Erin	University of Arkansas	IPA	YES	
Hoopes	Jeff	University of North Carolina	IPA		YES
Horton	Emily	University of Michigan	Student Volunteer	YES	
Houck	Oskar	University of Chicago	IPA	YES	
Hoxby	Caroline	Stanford University	IPA	YES	
Isaac	Elliott	Tulane University	IPA	YES	
Iselin	John	University of Maryland	IPA/Student Volunteer	YES	
Jackson	Emilie	Stanford/National Bureau of Economic Research	IPA	YES	
Kaas	Tobey	University of Minnesota	Student Volunteer	YES	
Kancherla	Sreeraahul	University of California, Berkeley	Student Volunteer	YES	
Koustas	Dmitri	University of Chicago	IPA	YES	
Manoli	Dayanand	Georgetown University	IPA	YES	
Marx	Benjamin	University of Illinois—Urbana	IPA	YES	
May	Thomas	University of Minnesota	Student Volunteer	YES	

Last Name	First Name	Affiliation	Status	Active	Inactive/ Expired
McClelland	Robert	Urban/Brookings Tax Policy Center	IPA		YES
McGrattan	Ellen	University of Minnesota	IPA	YES	
McPherson	Carl	University of California, Berkeley	Student Volunteer	YES	
Meiselman	Ben	University of MD Baltimore County	IPA		YES
Menzer	Tyler	University of Iowa	Student Volunteer	YES	
Moffitt	Robert	Johns Hopkins University	IPA	YES	
Mullaney	Michele	University of North Carolina	IPA	YES	
Nessa	Michelle	Michigan State University	IPA	YES	
Neupane	Krishna	George Mason University	Student Volunteer		YES
Novgorodsky	David	University of Chicago	Student Volunteer		YES
Nunns	James	Urban/Brookings Tax Policy Center	IPA		YES
Organ	Paul	University of Michigan	Student Volunteer	YES	
Patel	Elena	University of Utah	IPA	YES	
Plesko	George	University of Connecticut	IPA	YES	
Prisinzano	Richard	Penn-Wharton Budget Model	IPA	YES	
Quinby	Laura	Boston College	IPA	YES	
Rao	Nirupama	University of Michigan	IPA	YES	
Reck	Daniel	London School of Economics	IPA	YES	
Richmond	Jordan	Princeton University	Student Volunteer	YES	
Risch	Max	Carnegie Mellon University	IPA	YES	
Robbins	Jacob	University of Illinois at Chicago	IPA	YES	
Rork	Jonathan	Reed College	IPA	YES	
Rosenberg	Joseph	Congressional Budget Office	IPA		YES
Sacerdote	Bruce	Dartmouth College	IPA	YES	
Sacher	Maxwell	Carnegie Mellon University	IPA	YES	
Sanzenbacher	Geoffrey	Boston College	IPA	YES	
Setzler	Bradley	University of Chicago	IPA		YES
Shaheen	Joseph	George Mason University	Student Volunteer		YES
Siliciano	Robert	Boston College	IPA	YES	
Slemrod	Joel	University of Michigan	IPA		YES
Smith	Karen	Urban/Brookings Tax Policy Center	IPA	YES	

Last Name	First Name	Affiliation	Status	Active	Inactive/ Expired
Soltes	Eugene	Harvard University	IPA	YES	
Song	Zhiyan (Jane)	University of Georgia	IPA	YES	
Stallworth	Phillip	Urban/Brookings Tax Policy Center	IPA		YES
Standridge	Kevin	Duke University	Student Volunteer	YES	
Strauss	Robert	Carnegie Mellon University	IPA	YES	
Stuart	Ellen	University of Michigan	Student Volunteer	YES	
Stuart	Bryan	George Washington University	IPA/Student Volunteer		YES
Suarez Serrato	Juan Carlos	Duke University	IPA	YES	
Towery	Erin	University of Georgia	IPA	YES	
Tsoutsoura	Margarita	Cornell University	IPA	YES	
Utke	Steven	University of Connecticut	IPA	YES	
Vernon	Mary	University of Wisconsin	Student Volunteer	YES	
Waldock	Katherine	Georgetown University	IPA		YES
Webb	Anthony	New School for Social Research	IPA	YES	
Wettstein	Gal	Boston College	IPA	YES	
Wilde	Jaron	University of Iowa	IPA/Student Volunteer		YES
Wilking	Eleanor	Cornell University	IPA	YES	
Williams	Braden	University of Texas at Austin	IPA	YES	
Yagan	Danny	University of California, Berkeley	IPA	YES	
Zahn	Matt	Johns Hopkins University	Student Volunteer	YES	
Zidar	Owen	Princeton University	IPA	YES	
Zinsser	Dawn	University of Michigan	IPA		YES
Zwick	Eric	University of Chicago	IPA	YES	

Question. Please provide a clear and complete description of all protocols and protections to guard private and confidential taxpayer data from being shared externally by researchers, from within IRS and those hired from outside the IRS but who had or have been made IRS employees through the Intragovernmental Personnel Act of 1970 (5 U.S.C. 3371–3376).

Answer. The IRS utilizes a wide variety of security controls and data loss prevention tools to prevent sensitive data from being shared inappropriately. In addition, the Office of Management and Budget (OMB) Circular A–130, Managing Information as a Strategic Resource, and IRS policy require IRS personnel (including contractors, interns, volunteers, Intragovernmental Personnel Act (IPA) employees, etc.) to complete training and a background check before gaining access to sensitive data. IRS personnel must complete all required training (IRS annual and role-based privacy, information protection, and disclosure training requirements, Unauthorized Access (UNAX) awareness briefings, records management briefings, and all other specialized privacy training) and a background investigation before access to Sen-

sitive But Unclassified (SBU) data (including personally identifiable information (PII) and Federal Tax Information) may be granted.

As a baseline, all IPA employees are required to meet the same standards applicable to IRS employees and contractors, including standard background checks and the annual completion of all data security training, including UNAX training. UNAX training explicitly notes the penalties for violations of any UNAX requirements. IPA employees can only access data using IRS issued laptops, which connect to IRS systems through the IRS VPN and are subject to standard IRS cybersecurity protections and protocols. All access to various IRS data systems requires management approval through a centralized access control system. Access to PII data is controlled through a separate access request and granted on a limited basis. PII access requests require elevated managerial approval only after demonstrating that such access is integral to the project. All database accesses are captured in system audit logs following Federal Information Security Modernization Act standards. Historically, Joint Statistical Research Program (JSRP) participants have been required to perform all work in IRS facilities. As a temporary response to the pandemic evacuation order, a limited number of exceptions allowing remote access were made for JSRP project teams whose work was deemed time critical. In these cases, protocols identical to those that apply to IRS employees were followed.

In addition, JSRP project proposals are reviewed by IRS Research, Applied Analytics and Statistics (RAAS) staff and leadership, the Treasury Office of Tax Analysis, and relevant IRS business functions prior to acceptance. On approval of a JSRP project, the project is assigned to a senior employee in RAAS who is responsible for project oversight. This role includes reviewing project progress to ensure that the work conforms to the approved proposal, reviewing all output to ensure IRS statistical disclosure standards are met, and coordinating subject matter review of any research discussion of IRS processes, as needed, with relevant business functions.

QUESTIONS SUBMITTED BY HON. STEVE DAINES

Question. There are several hundred abusive syndication deals either being audited or in litigation, involving billions in improper deductions costing the Treasury more than $20 billion in revenue. Can you detail the progress IRS has made? We are now in the 5th year of a coordinated effort in combating this problem. So, of the billions in lost revenue, how much has the IRS been able to recoup through enforcement or settlement?

Answer. Efforts necessary to raise compliance levels are resource intensive. We remain committed to ensuring that the tax system is enforced fairly, taxpayers receive the nature and quality of services they deserve, and that no one at any income level feels safe cheating on their taxes.

We are committed to putting an end to abusive Syndicated Conservation Easement (SCE) transactions. We continue to commit significant examination and investigative resources to vigorously audit and investigate the entities and individuals involved in this scheme, including those who promoted the transaction and those who failed to properly disclose their participation as required. We have made progress with at least 18 percent of the tax year 2016–2018 identified SCE transaction cases in appeal and/or litigation. The remaining population is in Examination, and all potential enforcement tools are being utilized, including applicable appropriate penalties, fraud considerations and criminal investigations. The IRS is also vigorously pursuing promoters of the SCE transaction.

The full life cycle of an examination is lengthy. As the examination closes, taxpayers can agree to the examination adjustments or dispute the adjustments and go to Appeals, the United States Tax Court, or appropriate United States District Court. Revenue is not recouped until either (1) the taxpayer agrees to the adjustments, (2) the taxpayer choses to enter into, and finalizes, a Chief Counsel settlement, or (3) all litigation and appeals are completed.

To date, either through settlement, concession, or the opinion of or decision entered by the Tax Court in unsettled litigation cases, approximately $343 million in adjustments to claimed section 170 deductions in SCE cases have been agreed to by the taxpayer or determined by the Tax Court. This amount does not include penalties on the tax resulting from these adjustments. Chief Counsel expects an increase to this amount once additional settlements are finalized and as litigation proceeds.

The Office of Chief Counsel is responsible for the majority of SCE litigation and has successfully pursued these abusive transactions in the United States Tax Court. Chief Counsel expects its inventory of abusive SCE cases to continue to rise as Examination pursues all available compliance options.

To date, the promoters and investors in these SCE shelters have chosen to litigate their cases. The IRS has prevailed in Federal appellate court on issues related to grossly inflated easement values and the conservation easement's failure to comply with the requirements for qualified conservation contributions under section 170. The IRS has also succeeded in thwarting attacks on the validity of the regulations under section 170. There are taxpayer appeals on this issue currently pending in the Federal appellate courts. The IRS has also successfully challenged SCE transactions for violations of section 170. In calendar year 2020, we received 13 opinions from the Tax Court and numerous orders holding in the government's favor. Many of these opinions and orders were issued to address motions for partial summary judgment and do not resolve the cases in their entirety since the valuation of the easement, for purposes of the 40-percent gross valuation misstatement penalty, must be litigated.

The Office of Chief Counsel offered to settle certain SCE cases docketed in the United States Tax Court with the taxpayer fully conceding the section 170 deduction, the IRS allowing certain out-of-pocket expenses, and the application of a reduced accuracy-related penalty. For more information about the settlement, see Chief Counsel Notice 2021–001, Settlement of Syndicated Conservation Easement Transactions in Cases Docketed Before the U.S. Tax Court Additional Information.

While Chief Counsel is working through the settlements, many taxpayers are undeterred and are opting for litigation, clogging up the Tax Court with litigation. In 2020, there were a total of 107 petitions filed involving SCE transactions. So far in 2021, there have been 54 such petitions filed. The Office of Chief Counsel anticipates that 2021 petitions will outnumber those from 2020.

In addition to the volume of docketed cases, these cases are expensive and time consuming to litigate, often involving voluminous discovery and expert reports. At a minimum, these cases require valuation expert testimony to support the 40-percent gross valuation misstatement penalty, and could require other experts, such as mining experts. The time between the completion of the audit and a decision from the Tax Court in a litigated case can be lengthy. For example, it is not uncommon for cases in litigation to take multiple years to resolve, not including any potential appeal from a Tax Court decision. Cases docketed in Tax Court involve tax years 2009 through 2017.

IRS Criminal Investigation (IRS–CI) is not involved in the civil collection process, but IRS–CI is integral to calculating court ordered restitution at sentencing. To date there have been no SCE defendants sentenced. As a result, restitution has not been ordered.

Question. Could you provide an overview of the number of IRS exams, appeals, and litigation of syndicated conservation easement transactions?

Answer. Efforts necessary to raise compliance levels are resource-intensive. We remain committed to ensuring that the tax system is enforced fairly, taxpayers receive the nature and quality of services they deserve, and that no one at any income level feels safe cheating on their taxes. The IRS has conducted or is in the process of conducting examinations for the following tax years:

- Tax Year 2016: 249 pass-through entities claiming total charitable contributions in the amount of $5.9 billion.
- Tax Year 2017: 245 pass-through entities claiming total charitable contributions in the amount of $6.8 billion.
- Tax Year 2018: 297 pass-through entities claiming total charitable contributions in the amount of $9.2 billion.
- Tax Year 2019: The IRS has identified 179 pass-through entities claiming total charitable contributions in the amount of $5.7 billion. For tax year 2019, the IRS is in the process of beginning the examinations and completing the identification of any remaining 2019 entities that may have claimed charitable contribution deductions. These numbers are expected to increase as additional analysis is completed.

As of June 1, 2021, we have asserted penalties under Internal Revenue Code (IRC) section 6695A for substantial and gross valuation misstatements attributable to incorrect appraisals in the amount of $3,639,500. We have also asserted penalties

under IRC section 6707A for failure to include reportable transaction information with return in the amount of $210,000.

The Office of Chief Counsel has 213 cases docketed in the United States Tax Court, with several on appeal. There are three refund suits pending in United States district courts. Referrals to the Office of Professional Responsibility are made, when applicable.

In coordination with the IRS civil business operating divisions, IRS–CI is pursuing criminal violations related to abusive SCEs. As of June 30, 2021, three individuals were charged via Information/Criminal Complaint or Indictment and there are 24 active investigations. Links to the cases involving the charged individuals can be found in the links below:

https://www.justice.gov/usao-wdnc/pr/atlanta-tax-professionals-plead-guilty-promoting-syndicated-conservation-easement-tax.

https://www.justice.gov/opa/pr/georgia-cpa-indicted-promoting-syndicated-conservation-easement-tax-scheme-involving.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. The President's budget calls for unprecedented amounts of funding for IRS enforcement to tackle the tax gap. Nina Olson, the former Taxpayer Advocate, recently expressed some misgivings about the recent increased focus on the tax gap. In testimony before this committee, Ms. Olson noted that the tax gap wasn't necessarily equal to tax evasion and that the distinction was important because, "if you treat every single taxpayer the same way, you really risk converting compliant taxpayers into non-compliant taxpayers because they feel like they have been treated badly, poorly." Are you concerned that a new focus on enforcement could alienate honest taxpayers who want to pay what they owe? Would you also agree enforcement mustn't come at the expense of customer service and a respect for taxpayer rights?

Answer. The tax gap is defined as the difference between the amount of tax owed by taxpayers for a given year and the amount that is actually paid voluntarily and timely. The tax gap represents, in dollar terms, the annual amount of tax noncompliance with our tax laws. It does not distinguish between underreporting, nonfiling, or underpayment of tax based on a good faith misunderstanding of the tax law, intentional evasion of filing or reporting obligations, domestic or foreign source income, legal or illegal source income, etc.

We strive to serve those taxpayers who are trying to comply with the tax laws but need assistance with their return or a tax issue. We must earn the trust and respect of every American by providing meaningful support and assistance on behalf of compliant taxpayers while effectively pursuing non-compliant taxpayers. We remain committed to ensuring that the tax system is enforced fairly, all taxpayers receive the nature and quality of services they deserve, and that no one at any income level feels safe cheating on their taxes. Due to funding and the need to protect our employees during the pandemic, we have recently been unable to satisfy our goal. The FY 2022 budget contains $318 million to increase the level of service on our phones as well as in-person visits. Greater investments in technology can help us properly assist compliant taxpayers. Modernization of our systems coupled with technological advances in artificial intelligence, data and analytics will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult.

We are proud to serve our country and want to provide meaningful services of a nature and quality every American deserves. Receipt of consistent, timely, multiyear funding is critical to the future success of tax administration. In support of compliant taxpayers, we must also pursue meaningful enforcement efforts, appropriately balanced with our support of taxpayer service, taxpayer rights and privacy rights. Working with Congress and the administration, we will increase the services that we provide while protecting taxpayer rights.

Question. TIGTA has identified the premium tax credit as a high-risk program. In fiscal year 2019, the IRS estimated the premium credit to have an improper payment rate of 27.4 percent, the highest rate of any credit. Yet, for fiscal year 2020 the IRS did not calculate an improper payment rate for the program. The decision not to report an improper payment rate on the premium credit is highly suspect. The premium credit was greatly expanded in the administration's COVID relief bill

and the President's budget would extend its expansion. Can you commit to me that going forward the IRS will report the improper payment rate for the premium credit so Congress can fully evaluate the effect of its expansion on improper payments?

Answer. The IRS's Tax Gap Estimate Program and Enterprise Risk Management program better equip the IRS to analyze and address noncompliance throughout the Federal tax system. This includes monitoring refundable credits claimed on tax returns, including the Net Premium Tax Credit.

The IRS determines the error rate for IRS programs that are susceptible to improper payments and reports these to the Department of the Treasury (Treasury). Treasury reports improper payment rates via its annual Agency Financial Report (AFR). In 2019, the IRS conducted a risk assessment over the Net Premium Tax Credit program and determined the program was susceptible to improper payments. Per the Payment Integrity Information Act of 2019 and OMB Circular A–123, Appendix C, Treasury was not required to report an estimated improper payment error rate via its AFR until the year after conducting the risk assessment or beginning with fiscal year 2020. This was noted in the TIGTA audit report 2020–40–025. However, in 2019, the IRS estimated a Net Premium Tax Credit improper payment rate as a corrective action from a Government Accountability Office (GAO) report.

Furthermore, as determined by both GAO and TIGTA, refundable tax credit errors are not IRS internal control weaknesses, financial management deficiencies, or reporting failures. As a result, refundable tax credit errors are not improper payments that we can improve with better controls, management, or reporting.

In FY 2020, OMB issued a memorandum on June 17, 2020, Risk Based Financial Audits and Reporting Activities in Response to COVID–19, instructing agencies to leverage Enterprise Risk Management to prioritize work. With the enormous responsibility both the IRS and Treasury had in ensuring COVID–19 relief got distributed, Treasury notified OMB that it was delaying reporting the Net Premium Tax Credit improper payment estimate to focus resources toward COVID–19 activities.

With ongoing implementation of COVID–19 relief activities, Treasury notified OMB of a delay to FY 2021 reporting as well. However, the IRS continues to work with the Centers for Medicare and Medicaid Services (CMS) on a joint methodology for estimating premium tax credit improper payments. While the IRS administers the Net Premium Tax Credit through the tax system, CMS administers the advance payments of the tax credit. Compatible methodologies for Advance Premium Tax Credit and Net Premium Tax Credit will ensure a complete and comprehensive picture of payment errors.

Question. The premium tax credit is fairly unique as until recently it was the only existing advanceable credit. In this respect it's the credit most analogous to the recently enacted Advance Child Tax Credit program. Given IRS's experience with improper payments in the premium credit program, would you expect the new advance feature of the Child Tax Credit to result in an increase in its already high improper payment rate?

Answer. Per the American Rescue Plan, we determined eligibility using information from the taxpayer's 2020 tax return (or 2019 tax return if a return was not filed for 2020). This includes information entered on the Non-filer tool. We implemented a robust communication strategy to inform taxpayers about the Advance Child Tax Credit (CTC) payments and how they can unenroll from advance payments or report changes that impact their advance payment amount.

Taxpayers must reconcile their Child Tax Credit when they file their 2021 tax return. They will need to compare: (1) the total amount of the Advance CTC payments received during 2021; with (2) the amount of the CTC that they can properly claim on their 2021 tax return.

Excess CTC Amount: If the amount of CTC exceeds the total amount of Advance CTC payments, taxpayers can claim the remaining amount of CTC on their 2021 tax return.

Excess Advance CTC Payment Amount: If they receive a total amount of Advance CTC payments that exceeds the amount of CTC that they can properly claim on your 2021 tax year, they may need to repay to the IRS some or all of that excess payment depending on whether they qualify for repayment protection.

In January 2022, the IRS will send Letter 6419 to provide the total amount of Advance CTC payments that were disbursed to the taxpayer during 2021. Tax-

payers can refer to this letter when they file their 2021 tax return during the 2022 tax filing season.

Although we can't guarantee the improper payment rate will not increase under the new system, there is no reason to believe that the advancement feature alone will increase improper payments. Also, we are taking every step possible to address overclaims, including education and outreach to taxpayers and tax preparers. Through our efforts, we explain RTC availability and eligibility requirements. When there is non-compliance, the IRS uses enforcement tools, including audits, to recover RTCs paid in error or prevent their issuance in the first place.

The payment integrity provisions of the Protecting Americans from Tax Hikes Act of 2015 and provisions in the Tax Cuts and Jobs Act of 2017 have helped the IRS combat RTC noncompliance. However, we need more assistance from Congress to significantly reduce RTC overclaims. The administration's past or current budget includes the following legislative proposals:

- *Provide the IRS with greater flexibility to address correctable errors.* This proposal would expand the instances in which the IRS could correct a taxpayer's return, including cases where: (1) the information provided by the taxpayer does not match the information contained in government databases or Form W–2, or from other third-party databases as the Secretary of the Treasury determines by regulation; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with their return certain documentation that is required to be included on or attached to the return. This proposal would make it easier for the IRS to correct obvious taxpayer errors, directly improving tax compliance and reducing Earned Income Tax Credit and other RTC overclaims without intrusive and resource-intensive audits.
- *Provide the IRS increased oversight of paid tax return preparers.* This proposal would grant the IRS the authority to require minimum standards for an estimated 400,000 paid tax return preparers currently without credentials, which would reduce the number of unscrupulous preparers filing erroneous and fraudulent tax returns. In administering RTCs, we have two primary goals—increasing anticipation for those entitled to the credits and reducing errors that lead to improper payments. We take our role in administering RTCs seriously. We're constantly considering new ways to ensure eligible taxpayers claim the credits and ineligible taxpayers do not. Our strategy is to block overclaims early in the filing process. The IRS addresses overclaims through its compliance programs, as well as through expansive outreach and education efforts to taxpayers and preparers. Additional information about our corrective actions and barriers are discussed in the Fiscal Year 2020 Agency Financial Report.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

FUNDING LEVELS

Question. Can you please provide additional information regarding the more than $1-billion funding increase that the IRS is seeking for FY 2022?

What exactly will these funds be used for?

Answer. The FY 2022 budget requests $915.5 million in program increases including: $176.1 million for continuing the implementation of the Taxpayer First Act; $340.3 million for establishing enforcement strategies that will ensure a fair tax system; $318.0 million to increase live assistance including telephone level of service, correspondence, and in-person visits; $78.1 million for IT modernization activities; and $3.0 million to lease and maintain a fleet of electric vehicles.

In addition to the base appropriations request of $13.2 billion, the budget proposes a $417-million discretionary program integrity allocation adjustment (PIAA) in FY 2022 to fund investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program. The budget proposes $287.5 million for the Enforcement account and $129.4 million for the Operations Support account. If funded throughout the 10-year program, these investments will generate $38.6 billion in new direct revenue and protect $11.6 billion over 10 years, while costing a total of $6.7 billion. This return on investment (ROI) is likely understated

because it does not reflect the effect that enhanced enforcement has on deterring non-compliance.

Question. Regarding the proposed $80-billion request over the 10-year budget window, I understand that a significant portion of these funds would go towards enforcement and compliance activities and implementation of the proposed financial information reporting regime.

What portion of funds will go towards improving customer service?

Answer. We remain committed to ensuring that the tax system is enforced fairly, all taxpayers receive the nature and quality of services they deserve, and that no one at any income level feels safe cheating on their taxes. The President's budget requests $318 million to increase live assistance including telephone level of service, correspondence, and in-person visits. It also requests $149 million to implement a Taxpayer Experience Strategy which includes expanding digital service (such as digitizing more forms and expanding payment options), expanding the Automated Callback service, and developing strategies to reach underserved communities. These customer-focused initiatives complement the enforcement requests that are part of the FY 2022 President's budget and the AFP. The $89-billion American Families proposal also includes $253 million for research that includes efforts to understand the taxpayer experience, $373 million for Wage and Investment and Taxpayer Advocate to assist with the expected increases in cases associated with increased enforcement, $2,809 million to improve telephone and in-person assistance, and $3,979 million for administering a permanent Advance CTC payment.

Question. What portion of funds will go towards the modernization of existing systems?

Answer. Greater investments in technology can help us properly assist compliant taxpayers. Modernization of our systems coupled with technological advances in artificial intelligence, data and analytics will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult. The President's budget requests $144 million to build the technology components of three program increases included in the President's budget: Taxpayer Experience Strategy, Ensure Fairness of the Tax System, and Improve Live Assistance.

Modernizing IRS systems is a key component of the American Families Plan request. It includes $7,171 million to modernize IRS systems and maintain the new systems. It includes funding to complete and go beyond the current IRS Modernization Plan. It also includes funds for expanding Case Selection and Anomaly Detection to leverage information to improve identification of potential non-compliance, detect issues earlier, reduce the tax gap, generate revenue, and enable employees to work cases more efficiently.

Question. It's my understanding that the IRS has over 200 "open" recommendations from GAO, with at least 15 "priority" recommendations not yet addressed.

What portion of the budget request will go towards addressing outstanding recommendations from GAO and TIGTA?

Answer. The IRS determines and sets due dates for corrective actions associated with recommendations it accepts from GAO and TIGTA based on the nature of each recommendation, and in consideration of the estimated level of complexity, time, and resources required to implement each recommendation. Other factors may also impact the implementation time frames, including whether the recommendation requires further research and analysis, whether coordination with other entities or stakeholders is required, and whether guidance, regulation, or legislation is needed. The IRS communicates to both TIGTA and GAO its planned corrective actions to recommendations with which it agrees and inputs those actions into a database. Progress in completing corrective actions is monitored on an ongoing basis, with status updates provided to IRS senior leadership and to TIGTA and GAO. Any delays to the completion of corrective actions are also communicated to the aforesaid stakeholders.

Under my direction, the IRS began placing additional focus and effort in FY 2019 to address GAO Priority Open Recommendations and we regularly apprise GAO of our progress. Of the 40 recommendations cited by GAO in their 2019, 2020, and 2021 letters, we have closed 16, and two more have been submitted to GAO for review and closure. Five have planned completion dates in the future, five are from recent reports for which corrective actions are still being determined, and nine are being reworked by the IRS and GAO. The remaining three are under review by the IRS. Because of the range of factors associated with attaining closure of each rec-

ommendation, we do not have a total estimate of the budgetary resources that would be required to close all of the outstanding recommendations from GAO and TIGTA. However, if we are provided with additional funding, we anticipate accelerating the completion of corrective actions that may have been deferred or delayed for budgetary reasons. It would also allow us to consider shorter timeframes for the enactment of future recommendations from GAO and TIGTA.

FINANCIAL ACCOUNT REPORTING PROPOSAL

Question. I understand that the Greenbook and the President's FY 2022 budget articulate a new reporting requirement on financial accounts. This would require financial institutions to report data on financial accounts with a de minimis gross flow threshold of $600.

It's my understanding that financial institutions are already required to provide various 1099s and comply with reporting requirements under the Bank Secrecy Act, including the filing of a currency transaction report for every deposit or withdrawal of more than $10,000, as well as suspicious activity reports (or SARs).

Can you provide additional information regarding what information the IRS already collects?

Answer. Current regulations require financial institutions to file information reporting for specific types of income such as interest, dividends, proceeds from broker and barter exchange transactions, and pension or retirement distributions. In addition to the currency transaction report and suspicious activity reports, Bank Secrecy Act (BSA) legislation requires the following information reporting.

- Form 8300, Report of Cash payments Over $10,000 Received in a Trade or Business is required to be filed by a trade or business that receives more than $10,000 in cash or cash equivalents.
- Financial Crimes Enforcement Network (FinCEN) Form 114, Foreign Bank Account Reporting is required to be filed by a U.S. person that has financial interest, signature, or other authority over certain foreign financial accounts, the aggregate value of which exceeded $10,000 at any time during the calendar year.
- Designation of Exempt Persons is a form which relinquishes the Currency Transaction Reports (CTR) filing requirement by the financial institutions.

IRS Criminal Investigation (IRS–CI) has access to all BSA information maintained by the FinCEN, including Suspicious Activity Reports (SARs), CTRs, Forms 8300, Reports of International Transportation of Currency or Monetary Instruments, Registration of Money Services Business, and others. During investigations with a tax nexus, IRS–CI has access to information reports filed with the IRS by financial institutions, such as Forms 1099 reporting interest and dividend income. Additionally, IRS–CI has the authority to issue summonses and serve subpoenas (in grand jury investigations) for financial information in established investigations.

Question. What information mismatches do you identify in what you currently collect?

Answer. The IRS utilizes the various Forms 1099 and Form W–2 to determine if a taxpayer underreported income or overreported withholdings. However, FinCEN does not receive information that can be reconciled or matched to other tax returns. FinCEN compares data sources such as CTRs and SARs to identify irregularities or inconsistencies in filings. FinCEN is prohibited from using title 26 information to conduct BSA title 31 examinations without special approval.

Question. What exact information are you lacking?

Answer. We are lacking comprehensive information reporting on the inflows and outflows of financial accounts, which will increase the visibility of gross receipts and deductible expenses to the IRS. Increased visibility of business income will enhance the effectiveness of IRS enforcement measures and encourage voluntary compliance.

The combination of additional third-party information reporting for cryptocurrency transactions and account inflows and outflows from financial institutions would provide insight on areas where the IRS does not have information today. This additional information will improve our ability to effectively administer the tax code leading to higher rates of compliance—especially those whose sources of income are not currently subject to information reporting. Given the IRS's past experience with information reporting, this is an effective means of increasing the compliance rate.

Critical to the success of any new information reporting regimes is providing budget support for the IRS to acquire the tools and analysts necessary to use the information effectively. These tools include modernized systems intaking, storing, and analyzing data we have and may receive to identify potential cases for examination leading to improved enforcement outcomes, and hiring additional experts to improve our ability to best use these tools. Modernization of our systems coupled with receipt of meaningful information reporting will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult.

Question. Does the IRS have access to FinCEN information or any other relevant account information already provided to banking or financial regulators?

Answer. IRS has access to BSA data collected by FinCEN.

Question. In our hearing on June 8th, you stated "Well, similar with what happened with when FATCA came in and we got FATCA reporting, we did not get the funding to modernize our systems to handle the reporting that we were receiving. So we remain behind the curve on our ability to use that information."[1]

Are you currently not able to utilize all of the FATCA information that you collect?

If that's the case, do you believe that more granular information is needed?

If yes, how do you know?

Do you believe it makes sense to provide the IRS with more information—massive amounts of taxpayer information—if the IRS cannot use or process the information that it already receives?

Answer. Our ability to utilize FATCA information, including conducting data analysis of, as well as comparisons between, Forms 8938 filed by U.S. account holders and Forms 8966 (or FATCA reports) filed by or on behalf of foreign financial institutions (FFIs) has been adversely impacted by the following factors:

- Forms 8938 and 8966 apply divergent reporting thresholds, foreign currency conversion standards, and exceptions and alternatives to reporting that significantly complicate analysis and use of FATCA data and preclude straightforward form-to-form matching as a means to identify non-compliance. These data do not lend themselves to the automated matching models of the Automated Under Reporter system, but rather require resource-intensive review and comparison of the data. Moreover, current law (including intergovernmental agreements with other countries that provide FATCA information to the United States) does not require that FFIs report their Global Intermediary Identification Numbers (GIINs) to their U.S. account holders, and similarly current regulations do not require U.S. account holders to report the GIINs of the FFIs with whom they maintain reportable accounts on their Form 8938 filings because of concerns that it might be difficult for individuals to obtain GIINs without such reporting from FFIs. Similarly, guidance has allowed for the deferral of taxpayer identification number (TIN) reporting by FFIs on Forms 8966 in many instances through the 2019 tax year. The absence of these reporting requirements significantly increases the resource load on the IRS, both in terms of information technology and employees, in making optimal and timely use of data relevant to FATCA enforcement. Accordingly, enhanced TIN reporting and reporting of GIINs by individual account holders would improve the ability to utilize the data currently being received.
- IRS information technology limitations have made it difficult to conduct queries and analysis of data relevant to FATCA enforcement. By way of example, development of new capabilities for the primary database intended to house data from Forms 8938 and 8966 was halted in 2018 due to budget and resource constraints prior to deployment of functionality that would have made it easier to query, extract, and analyze FATCA data. An interim reporting solution has produced more limited and less usable output. More effectual utilization of FATCA data currently requires highly specialized and trained IRS employees who must develop complex code.
- Both information technology and human resource limitations have caused delays in the time it takes to make FATCA data available for analysis and use. Moreover, taken together, the constraints set forth above have precluded the development of fully automated data matching capabilities.

[1] See *https://plus.cq.com/doc/congressionaltranscripts-6250581?2.*

Further, after the data are available for use, resource constraints in our compliance functions have impacted the magnitude of compliance activities we are able to conduct regarding both the individual and financial institution populations.

Question. Under the proposal, this new requirement would apply to all business and personal accounts from financial institutions, with the exception of accounts below a de minimis gross flow threshold of $600 or fair market value of $600.

Are you concerned about the pure volume of data that this would produce, not all of which could be useful?

Do you have any concerns about the amount of personal taxpayer information that would be flowing into the IRS?

Can you assure the American people that their information will not leak out?

Are you confident the IRS could use, track, and process all of this information?

Could you please provide specific information regarding the level of funding necessary to process this level of information?

Answer. The 2022 President's budget provides for modernizing many IRS systems, which would make it easier for us to address a new reporting requirement on financial accounts but did not include funding for this project. The administration's American Families Plan did include a rough, order of magnitude estimate of $4.5 billion over 10 years for financial account information reporting capability. As the requirements for this capability are further developed, our estimate may change accordingly.

IMPROPER PAYMENTS: EARNED-INCOME TAX CREDIT AND CHILD TAX CREDIT

Question. The President's FY 2022 budget and corresponding Greenbook call for extensions and expansions of the Earned-Income Tax Credit (EITC) and Child Tax Credit (CTC), including making permanent the EITC childless worker expansions included in the American Rescue Plan, extending the expanded CTC for an additional 5 years, and making the CTC permanently refundable.

In a Treasury Inspector General for Tax Administration (TIGTA) report from May 10th of this year, TIGTA noted that "the IRS has made little progress in reducing the improper payments associated with the refundable tax credit programs that it administers."[2] For example, for FY2020, the IRS estimated 24 percent of EITC payments were improper, totaling $16.0 billion.

In the hearing on June 8th, you told my colleague Senator Grassley that, with regard to improper payments, "Those figures are significant, as you're aware if you've seen the report. With respect to EITCs, the rate is about 25 percent, about $17 billion per year. CTC, it's about 15 percent, 4.5–12 percent, excuse me, $4.5 billion per year."[3] You are correct that this is not an insignificant amount of funds.

Given this, do you believe it prudent to expand these refundable tax credits at a time when the IRS has struggled to address error rates and improper payments?

What is the IRS doing to mitigate improper payments within these recently expanded programs?

Answer. The IRS stands ready to deliver and serve the American taxpayers, much like we did when implementing major provisions of the Coronavirus Aid, Relief, and Economic Security Act and the COVID-Related Tax Relief Act of 2020. As an administrative agency, the IRS will work to deliver all that the law requires. We leveraged our experience successfully delivering three rounds of Economic Impact Payments (EIPs) under similar circumstances. We recognize the importance of enforcing tax laws, properly distributing tax credits and payments, and collecting the revenue necessary to fund essential programs and services for our country.

Per the American Rescue Plan, we determined eligibility using information from the taxpayer's 2020 tax return (or 2019 tax return if a return was not filed for 2020). This includes information entered into the Non-filer tool. We implemented a robust communication strategy to inform taxpayers about the Advance CTC payments and how they can unenroll from advance payments or report changes that impact their advance payment amount.

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[2] *See https://www.treasury.gov/tigta/auditreports/2021reports/202140036fr.pdf.*
[3] *See https://plus.cq.com/doc/congressionaltranscripts-6250581?2.*

Taxpayers must reconcile their Child Tax Credit when they file their 2021 tax return. They will need to compare: (1) the total amount of the Advance Child Tax Credit (CTC) payments received during 2021; with (2) the amount of the CTC that they can properly claim on your 2021 tax return.

Excess CTC Amount: If the amount of CTC exceeds the total amount of Advance CTC payments, taxpayers can claim the remaining amount of CTC on their 2021 tax return.

Excess Advance CTC Payment Amount: If they receive a total amount of Advance CTC payments that exceeds the amount of CTC that they can properly claim on their 2021 tax year, they may need to repay to the IRS some or all of that excess payment depending on whether they qualify for repayment protection.

In January 2022, the IRS will send Letter 6419 to provide the total amount of Advance CTC payments that were disbursed to the taxpayer during 2021. Taxpayers can refer to this letter when they file their 2021 tax return during the 2022 tax filing season.

Refundable Tax Credits (RTCs) provide benefits to millions of taxpayers. However, the nature of the RTCs themselves, as well as a lack of information needed to verify taxpayer eligibility at the time of filing, makes it challenging to administer them through our voluntary tax system. It is important to note that improper payments are not necessarily fraudulent. The complexity of RTC eligibility criteria, particularly those pieces that are difficult for IRS to verify, are a significant contributor to RTC improper payments. For example, IRS' inability to verify whether a taxpayer is eligible for an RTC is considered an improper payment even if that taxpayer ultimately is eligible for the RTC. The improper payment rate also does not take into account post-return recoveries of improper payments.

Although we can't guarantee the improper payment rate will not increase under the new system, we are taking every step possible to address overclaims, including education and outreach to taxpayers and tax preparers. Through our efforts, we explain RTC availability and eligibility requirements. When there is noncompliance, the IRS uses enforcement tools, including audits, to recover RTCs paid in error or prevent their issuance in the first place.

The payment integrity provisions of the Protecting Americans from Tax Hikes Act of 2015 and provisions in the Tax Cuts and Jobs Act of 2017 have helped the IRS combat RTC noncompliance. However, we need more assistance from Congress to significantly reduce RTC overclaims. The administration's past or current Budget includes the following legislative proposals:

- *Provide the IRS with greater flexibility to address correctable errors.*
  This proposal would expand the instances in which the IRS could correct a taxpayer's return, including cases where: (1) the information provided by the taxpayer does not match the information contained in government databases or Form W–2, or from other third-party databases as the Secretary of the Treasury determines by regulation; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with his or her return certain documentation that is required to be included on or attached to the return. This proposal would make it easier for the IRS to correct obvious taxpayer errors, directly improving tax compliance and reducing Earned Income Tax Credit and other RTC overclaims without intrusive and resource-intensive audits.
- *Provide the IRS increased oversight of paid tax return preparers.*
  This proposal would grant the IRS the authority to require minimum standards for an estimated 400,000 paid tax return preparers currently without credentials, which would reduce the number of unscrupulous preparers filing erroneous and fraudulent tax returns. In administering RTCs, we have two primary goals: increasing anticipation for those entitled to the credits and reducing errors that lead to improper payments. We take our role in administering RTCs seriously. We're constantly considering new ways to ensure eligible taxpayers claim the credits and ineligible taxpayers do not. Our strategy is to block overclaims early in the filing process. The IRS addresses overclaims through its compliance programs, as well as through expansive outreach and education efforts to taxpayers and preparers. Additional information about our corrective actions and barriers are discussed in the Fiscal Year 2020 Agency Financial Report.

QUESTIONS SUBMITTED BY HON. ROBERT MENENDEZ

Question. *The Washington Post* reported last May that thousands of Americans received incorrect Economic Impact Payments. They identified taxpayers who received checks that did not correctly reflect the number of dependent children under the age of 17 or a dependent that was born in 2019.

How has the IRS improved its systems and information reporting to ensure that thousands of Americans who are eligible to receive the Advance Child Tax Credit (CTC) are able to do so on July 15th and every month thereafter? How has the agency improved its systems to ensure that these amounts reflect the correct number of dependents in their household?

Answer. Per the American Rescue Plan, we determined eligibility using information from the taxpayer's 2020 tax return (or 2019 tax return if a return was not filed for 2020). This includes information entered into the Non-filer tool. If eligible, taxpayers will receive the Advance CTC payments automatically without needing to take any additional action.

For tax year 2021, the CTC is increased from $2,000 per qualifying child to $3,600 for children ages 5 and under at the end of 2021, and $3,000 for children ages 6 through 17 at the end of 2021.

The CTC Update Portal allows families to verify their eligibility for the payments and if they choose to, unenroll from receiving the monthly payments so they can receive a lump sum when they file their tax return next year. If needed, families have the option to update their bank account information and receive their monthly Advance CTC payment through direct deposit quickly and easily. Families also have the option to quickly and easily update their mailing address using the portal. This feature will help any family that chooses to receive their payment by paper check avoid mailing delays or even having a check returned as undeliverable. More functionality will be added later this year to the CTC Update Portal.

Question. You responded to my question about outreach around the Advance CTC by stating that the IRS was working with thousands of organizations to provide historic outreach for the Advance CTC, including outreach in Spanish, based off of the agency's Economic Impact Payment outreach.

Could you please provide my office with documentation regarding this outreach? I am specifically interested in the nationwide organizations that the IRS is working with to provide this outreach, the organizations the IRS is working with in New Jersey, and the various languages the IRS is providing this outreach in.

Answer. Throughout 2021, the IRS has conducted a multipronged national outreach effort related to COVID–19 pandemic relief for taxpayers. These efforts included the third round of Economic Impact Payments (EIP3), the 2020 Recovery Rebate Credit (RRC), the Earned Income Tax Credit (EITC) and the CTC.

We asked partners and organizations to "help us help others" by providing information on EIP3, RRC, EITC and CTC to clients and audiences, posting information on their web pages and social media, and to act as a trusted partner. One example is allowing homeless persons to use a trusted partner's physical address to receive the EIP3. If an organization agreed, we performed a series of checks to determine if the organization could be considered a trusted partner. Approximately 7,300 organizations were contacted to provide information to more than 6.9 million underserved or displaced individuals. More than 350 organizations agreed to become trusted partners.

For the Advance CTC, we developed a comprehensive outreach plan, implementing a far-reaching education and awareness campaign to ensure taxpayers understand the benefits of the credit and how it will work. IRS outreach encompasses four key components.

- Leverage existing and establish new communication and outreach outlets. Expand existing relationships and build new ones to enhance efforts to inform and educate this targeted audience.
- Focus on multilingual partners and organizations and seek new relationships with multilingual groups and organizations. Many IRS products to be translated into several languages including English, Spanish, Russian, Chinese Traditional, Chinese Simplified, Korean, Vietnamese, and Haitian Creole.
- Coordinate outreach with tax practitioners/preparers and equip them to help taxpayers understand the details of the Advance CTC.

- Collaborate with State revenue departments, Federal Government agencies (including Treasury, the Department of Education, the Department of Health and Human Services (HHS), the Department of Agriculture (Supplemental Nutrition Assistance Program), and other child-focused agencies), and other groups with potential reach into these communities like organizations that work with schools and teachers

Outreach Partners and Organizations

As soon as the American Rescue Plan was enacted in March, we began enlisting current partners and bringing on new ones to help the agency inform the taxpaying public about the Advance Child Tax Credit. We fostered relationships with tens of thousands of organizations, tax practitioner groups, State and local governments, community groups, and a host of other businesses across the country. The charts below represent a small sample of the lists we have compiled and continue to compile to deliver information to American families.

Partner Lists—Specific Segments

Partners for Reaching Specific Audience Segments
(high-level view; others will be added)

Homeless/Transitional living (including non-filers)	**Underserved**	**Military/Veterans**	**Seniors with qualifying children**
• United States Interagency Council on Homelessness • National Low-Income Housing Coalition • Foundation Communities • Men of Valor (newly released prisoners) • Shelters for abused women, men, children	• 211.org (200 counties nationwide assisting low-income residents) • AARP HQ and State offices • Local/Regional Grocery stores (example: La Superior Mercado's) • Chambers of Commerce • United Way	• American Legion, VFW & DAV • Department of Veterans Affairs • State Veterans Affairs • Code of Support Foundation (serving all members of the military, veterans and families) • Wounded Warrior Project • Coalition to Salute America's Heroes • Fisher House Foundation	• AARP • United Way

Partner Lists—Specific Segments—Continued

Partners for Reaching Specific Audience Segments
(high-level view; others will be added)

Parent/Teacher	Diverse	Low income (inc. non-filers)	Colleges and Universities
• National PTA • National Foster Parent Association • National Education Association • American Federation of School Administrators • American Association of Teachers of Spanish and Portuguese • National Association of Parents • National Association of Independent Schools	• Black Economic Alliance • Black Futures Lab • Color of Change • National Council of Asian Pacific Americans • Native American Finance Officers Association • Center for Community Change and Community Change Action • Congressional Black Caucus • Congressional Hispanic Caucus • Congressional Asian Pacific American Caucus	• No Kid Hungry • Feeding America • California Association of Food banks, Food Bank for New York City, and other local and regional food banks • Action Against Hunger • Bread for the World Institute • Freedom from Hunger • The Hunger Project • Heifer International • Meals on Wheels • Food for the Hungry • World Central Kitchen • So Others Might Eat	• Large colleges and universities and their Small Business Development Centers • HBCUs
Tax Professionals and Organizations	**Advisory Committees**	**HR and Payroll Organizations**	**Government Agencies**
• CERCA/Tax Industry partners • Tax practitioner organizations: 500+ • Individual unaffiliated tax practitioners • Latino Tax Pros • AAA–CPA • National Conference of CPA Practitioners • AICPA Tax Section • American Bar Association Tax Section • National Society of Accountants (NSA) • NAEA • NATP • NSTP • TEI National Association of State Boards of Accountancy (NASBA)	• IRSAC • ETAAC • Taxpayer Advocacy Panel	• American Payroll Association • National Payroll Reporting Consortium (NPRC) • Independent Payroll Providers Association (IPPA) • Society for Human Resources Management (SHRM)	• 241 government organizations across the country • Federal, State, and Local Government partners: 224 • 541 congressional offices, with a total staff of approximate 33,530 in the Legislative Branch • HUD • HHS • Department of Education • Department of Agriculture (SNAP) • Department of Transportation (State level) • City Councils • U.S. Conference of Mayors

Partner Lists—Specific Segments—Continued

Partners for Reaching Specific Audience Segments
(high-level view; others will be added)

Private Companies/ Large Employers/ Employee Organizations/ Financial Institutions	Faith-Based Organizations	Think Tanks	Children's Hospitals and Charities
• 75 with potential to reach over 100 million taxpayers • 105 large industry and association partners potentially reaching 41.8 million individuals • IRS Security Summit Financial Institution partners • Retailers • Grocery Stores • Pharmacies • Gig economy companies	• Jewish Federations of North America • Catholic Charities USA • Civitan International • Habitat for Humanity International • Jewish Founders Network • Lutheran Services in America • Volunteers of America • YMCA and YWCA • Southern Baptist Convention • American Baptist Churches • United Methodist Church • Presbyterian Church in America • Seventh-day Adventist Church • United Church of Christ • The Church of Jesus Christ of Latter-Day Saints • Church of the Nazarene • Theological Seminaries	• Roosevelt Institute • Earth Institute • Kaiser Family Foundation	• St. Jude's • Shriners • Make-a-Wish • Save the Children U.S.

Outreach Events

The IRS, in conjunction with Volunteer Income Tax Assistance (VITA) partner sites, is hosting Advance CTC outreach events to offer free tax preparation services to eligible individuals who haven't filed a 2020 tax return or were not aware of a filing requirement. Events were held in 12 cities on June 25th, June 26th, July 9th, and July 10th. More are planned for the future.

New Jersey Outreach

The IRS has connected with and provided educational materials to more than 50 partners and organizations in New Jersey, including nine multilingual partners. We contacted and provided information to faith-based organizations, community groups, retailers, media outlets, support services groups, and others across the State.

Examples include:

- Center for Family Services
- Women's Rights Information Center
- Catholic Charities of the Archdiocese of Newark
- New Brunswick Housing Authority
- Trenton Area Soup Kitchen
- New Jersey 211
- Family Focused Treatment Association

- Family Promise
- Subaru of America
- Wakefern
- AARP New Jersey
- The Boys and Girls Clubs of Monmouth
- Latin American Economic Development Association, Inc. in Camden

Question. You stated during your testimony to Senator Bennet that the IRS did not have enough funding to conduct the historic outreach related to economic impact payments and that the agency does not have the necessary funding to conduct the necessary outreach for the advanced CTC.

How much more funding would the agency need to conduct proper outreach on the advanced CTC?

What metrics will the agency use to ensure that the payments are reaching all eligible taxpayers? How will the agency troubleshoot its efforts if it realizes that its efforts are not successful?

Answer. We are doing everything we can with the resources immediately available to reach as many potential recipients of the Advance CTC as possible. Part of this includes a sweeping outreach and communications effort to raise awareness around the CTC, with a special focus on those people who normally aren't required to file a tax return. We are working closely with partners and organizations from coast to coast—including non-profit organizations, churches, community groups and others—to help people get the assistance they need as well as providing special tools on *IRS.gov*.

As I testified, we are reaching beyond traditional groups in the tax community. This involves thousands of organizations on the ground, and we're building on our experiences from delivering Economic Impact Payments (EIPs) in 2020 and 2021 to reach people who don't normally file tax returns.

The IRS and partners in non-profit organizations, churches, community groups and others hosted events in 12 cities in June and July to help people who don't normally file a Federal tax return to register for the monthly Advance CTC payments. More of these events are in the works.

In addition, the IRS is working with partners inside and outside the tax community to share information as widely as possible to people who may be eligible for CTC and EIPs. This effort includes various community and online events. The IRS and Treasury are also partnering with a variety of agencies across the government on this effort, including the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, HHS, Small Business Administration, and Social Security Administration, as well as State and local governments.

We encourage our partners to use available online tools and toolkits to help non-filers, low-income families and other underserved groups sign up to receive the Advance CTC. To help reach more people, much of the information is available in multiple languages.

Key metrics we will be watching are the number of people using our different *IRS.gov* online tools. This will help us determine how many non-filers are coming in and how many people are accessing our CTC Update Portal to manage their payments.

Going forward, we will continue to assess the success of these outreach efforts and determine what additional staffing or budget resources are needed in the future.

Question. You responded to my question about telephone customer service at the IRS by informing me that this is an appropriated item. You also stated that the agency's target rate was 75 percent.

Could you please provide us the requested and allocated budgets for telephone customer service at the IRS for the last ten fiscal years? At the same time, could you please provide us with the telephone service rates for the last 10 fiscal years?

Answer. Note: The funding levels below represent actual expenditures (not allocations) for 2011–2020. Numbers have been rounded.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Phone Full Time Equivalent	*9,000*	*8,000*	*8,000*	*7,000*	*6,000*	*8,000*	*8,000*	*8,000*	*7,000*	*7,000*
Expended Funds for Telephone Service	*$ 611M*	*$ 567M*	*$ 536M*	*$ 495M*	*$ 463M*	*$ 573M*	*$ 552M*	*$ 609M*	*$ 572M*	*$ 587M*
FY LOS	*70.10%*	*67.60%*	*60.50%*	*64.40%*	*38.10%*	*53.40%*	*77.10%*	*75.90%*	*65.40%*	*53.10%*

Question. The National Taxpayer Advocate has listed—for years—telephone customer service in its annual "purple book" of the 10 most serious problems encountered by taxpayers each year. The National Taxpayer Advocate recommends implementing estimated wait times and automated callback features in order to better serve taxpayers.

How much more in appropriations would the IRS need to improve its telephone customer service rates, as suggested by the National Taxpayer Advocate?

Answer. An investment of approximately $287 million with an increase in full-time employees of approximately 4,000 will allow us to increase the telephone level of service (LOS) and significantly reduce the correspondence inventory. The IRS toll-free telephone customer service operation is a key part of our service delivery. This investment provides a projected LOS of 75 percent in FY 2022, assuming phone demand returns to pre-pandemic levels and the IRS can provide in-person services at pre-pandemic levels. These funds will also be used to reduce the current projected FY 2022 ending correspondence inventory by about 400,000. The FY 2022 projection is down from a projected FY 2021 ending correspondence level of about 1.4 million. Providing quality taxpayer service is crucial to ensuring voluntary compliance.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. It is critical that the IRS is able to adapt as technology evolves, and I'm optimistic about the potential for modernization to improve both the experience for taxpayers and the ability of the IRS to carry out its mission. As we've discussed, Senator Cardin and I recognized these challenges and introduced the Protecting Taxpayers Act to aid the IRS in modernizing. The IRS budget requests $305 million, an increase of $78 million over last year, for business systems modernization and expands the Secretary's authority to require electronic filing of certain returns.

During the pandemic, the IRS provided temporary relief to enable electronic signature for certain filings and some forms, including section 83(b) elections, entity classification (Form 8832), and time extensions due to hardship (Form 1127). These e-signatures create efficiencies for both taxpayers and the IRS by digitizing—providing faster filing speeds and easier processing at the IRS, with limited risk of fraud.

This change was made due to the unique challenges of the pandemic and is only temporary. The IRS should seize this opportunity to modernize and continue to allow e-signatures for IRS filings and forms on a permanent basis—an easy step towards a modernized IRS.

Do you plan to extend the ability for taxpayers to use e-signatures for these filings, some of which do not have forms, on a permanent basis?

If so, will you commit to continuing the temporary relief until a more permanent solution is developed and adopted?

If not, how will the IRS prioritize its transition to electronic modernization? Are there specific issues that arose by allowing e-signatures which would prevent further adoption?

Answer. In January 2021, the IRS established a cross-functional team to evaluate the long-term viability, benefits, and risks of the temporary relief and develop recommendations as to whether these temporary policies should be extended and the number of specific forms available for electronic signatures expanded. Although these flexibilities were well received by both taxpayers and employees, they do not fully satisfy the standards for electronic signatures as established by the National Institute of Standards and Technology or the IRS Electronic Signature (e-signature)

Program.[4] Therefore, rather than making these exceptions permanent, we are currently preparing to extend them through 2023, pending the development of new tools that will satisfy the requirements for electronic signatures and secure document exchange.

How does the IRS plan to work with relevant stakeholders as partners in modernizing the agency, and how would it suggest interested parties engage the agency to help advance its modernization effort?

Answer. We work regularly with a wide variety of public and private stakeholders who serve as partners in providing ideas to modernize the agency and provide many opportunities to engage the IRS. We also facilitate ongoing dialogue and collaboration with our partners through regular outreach activities and communications. The Internal Revenue Service Advisory Council and Electronic Tax Administration Advisory Committee provide an organized public forum for IRS officials and public representatives to discuss tax administration issues. The Nationwide Tax Forums, the IRS's annual marquee outreach event, offer continuing education opportunities from IRS leadership and association partners to more than 10,000 tax professionals per year, and provide an opportunity to collect feedback and input from diverse stakeholders. In addition, several organizations within the IRS work closely with various partners across the country. We develop and build relationships with organizations outside traditional tax communities, including partners who work with underserved communities to assist the homeless, the underserved and underrepresented, and those with limited English-speaking proficiencies, as well as partners who assist those in the military.

The Taxpayer Experience Strategy, developed in accordance with the Taxpayer First Act, focuses on moving the IRS even further toward more customer-focused operations and creating an environment where critical leadership decisions are driven by customer and employee insights. The Taxpayer Experience Strategy's Community of Partners focus area builds on our longstanding and successful partnerships and recommends developing new ones to create a network that finds innovative and modernized ways to reach taxpayers, improve service and reduce taxpayer burden.

As the IRS moves forward, the platform provided by advisory committees and stakeholder forums will continue to offer opportunities for input on tax administration policy, programs, and initiatives, delivering significant and relevant advice in addressing ongoing modernization.

In addition to advisory committees and stakeholder forums, we also request feedback from the public through multiple surveys on the *IRS.gov* website, automated web applications, and through surveys of in-person and telephone services. We encourage users to continue participating in these forums and surveys and will continue to use stakeholder feedback to improve our services and shape future plans. The IRS Taxpayer Experience Office will work with both internal and external partners to continue to identify methods of communicating ideas for improvement and modernization of the services offered.

Question. At the hearing, we discussed IRS staffing and the plans to expand the workforce. I asked about the ability of the IRS to train both new and high-skilled staff and whether there is a workforce available to tap into for these hiring needs. I was glad to hear that the IRS is building on its outreach strategies for hiring. You noted that one of the primary reasons for this need for hiring is due to the decline in IRS funding over the past decade, especially considering 70 percent of the IRS budget is for labor. The lost staff included revenue agents and revenue officers, who audit tax returns and perform collection activities, as well as special agents who investigate tax-related crimes and other issues.

As I understand it, the lost capacity has not solely been in the number of people conducting audits, but in the ability to keep pace with increasingly sophisticated tax avoidance strategies being employed in the private sector. This suggests the IRS needs more than just additional staff, but also requires training and new ways of addressing evolving tax avoidance strategies.

What is involved and how long does it take to fully train a new hire to be an effective enforcement agent, whether in an auditing or criminal investigation role?

Answer. It takes approximately 3 to 5 years to fully train a new hire to be an effective enforcement agent in auditing complex mid-size and large businesses. Such audits are handled by our Large Business and International (LB&I) Division. This

[4] *See* IRS Internal Revenue Manual 10.10.1.

training process is comprised of the following factors: prior tax and industry experience (5 years minimum); acclimation to government operations—work environment, practices, and procedures; completion of LB&I formal training (52-Week Core Curriculum); and completion of specialists training (as applicable) and essential on-the-job experience and development.

The 52-Week Core LB&I Curriculum has 4 Learning Phases: (1) **Orientation**—New Hire Administration, IRS Organization Overview, LB&I Division Overview; (2) **Flexible Blended Learning**—Online Learning with Virtual and Personal On-the-Job Instructor Assistance—101 Sessions on Administrative, Technical, and Procedural Matters; (3) **Audit Techniques Virtual Classroom Training**—Virtual Classroom Case Study Based Learning using a facilitative delivery approach (augmenting and enhancing the previously covered Flexible Blended Learning delivery); and (4) **On-the-Job Training**—Working fundamental corporate training cases on a just-in-time basis—commensurate with learning progression previously noted.

Upon completing the initial 52-week core curriculum, additional on-the-job learning is executed as follows:

Revenue Agents

- Securing experience on more fundamental corporate exams moving to increasing levels of complexity and/or specific focused exams (*i.e.,* campaigns, claims, etc.).
- Attending local workshops and informal training sessions delivered by the Team Manager, On-the-Job Instructor, and/or Senior Revenue Agents.

Specialists

- Core Specialists Training over a 1–3 year period (the length varies based on area of specialty—Cross Borders (International), Transfer Pricing, Financial Products, Engineering, Computer Audit, Foreign Payments Practices, Individual International Compliance, etc.).
- Training case assignments with in-depth emphasis on specialist related issues and examination practices.

Beyond This Training, Field Experience Is Secured Through

- Working a series of increasing complex cases and issues.
- Attending 40 hours of Continuing Professional Education annually.
- Attending specialized issue training as developed and delivered.
- Attending designated community network calls on specialized issue developments.

Question. Outside of staffing, what is necessary to ensure that the IRS is at the cutting edge of tax enforcement, and keeping pace with evolving tax avoidance strategies?

Answer. Our ability to reach the cutting edge of tax enforcement and keep pace with evolving tax avoidance strategies requires four elements: timely access to accurate and relevant data; capacity to develop and use advanced technological tools and techniques to identify compliance risk; highly skilled employees; and relevant and high-quality training.

Staffing has been addressed in prior IRS input, so this response will focus on data access, technology, and training.

Data access. Identifying and responding to compliance risks requires good data. Our ability to access timely, accurate and relevant data will benefit greatly from an expansion of electronic return filing and other methods of "native digital" data intake. In some areas, legislative changes will be necessary to facilitate this expansion. Additionally, both the IRS and taxpayers will benefit from augmented capacity to validate the accuracy and completeness of data in real time—*i.e.,* before we accept tax and information returns for processing. Improving and speeding data validation and error resolution would reduce costs for the IRS and taxpayers alike.

Technology. The data needed to identify compliance risks is both voluminous and complex. Advanced technological tools and techniques are essential to the task of making the best use of this data. Upgrades to information technology infrastructure and analytical tools will speed the development, testing, validation, and deployment of increasingly sophisticated workload selection methods that promise to do a better job of identifying compliance risks while reducing the proportion of "false positives." Judicious use of external experts in data science and data analytics can accelerate the IRS's own learning curve. Increasing use of technology will also serve

to automate processes that are currently done manually, thereby improving efficiency and reducing costs.

Training. Augmented, high-quality training is necessary to properly utilize improved access to data, better technology, and a highly skilled workforce. For current and new IRS employees to be efficient and effective, they must be equipped with the training necessary to administer complex tax laws in an ever-changing environment. This requires ongoing investment in identifying and developing training curricula, knowledge management tools and continuing professional education, including external training opportunities. To stay at the leading edge of emerging tax avoidance strategies, increased availability of external and improved internal training resources would provide just-in-time information and data rather than chasing schemes and strategies years after their widespread implementation.

QUESTIONS SUBMITTED BY HON. JOHN THUNE

Question. When did you and your staff first learn about the IRS data breach of confidential taxpayer information to the media outlet ProPublica?

Answer. I first became aware of a potential "insider threat" violation upon reading the first ProPublica published article on the morning of June 8, 2021.

Question. What administration officials and agencies did you consult with about the apparent leak of personal taxpayer information before testifying before the Senate Finance Committee hearing on June 8, 2021?

Answer. On June 8, 2021, within an hour after ProPublica published its article, I contacted Russell George, the Treasury Inspector General for Tax Administration (TIGTA). I asked him to open an investigation to find out if an IRS employee was the source of the tax return information. He immediately confirmed receipt of our referral.

On June 8th, the Department of the Treasury indicated they also referred this matter to the Treasury Inspector General, the FBI, and the U.S. Attorney's Office for the District of Columbia. Each of these offices has independent authority to investigate.

Question. What steps has the IRS taken to ensure such a breach of confidential taxpayer information does not happen again?

Answer. Protecting taxpayer information is a fundamental IRS principle. Every employee takes annual training on unauthorized disclosure of taxpayer information. This training clearly defines when a disclosure is authorized and clarifies the consequences of an unauthorized disclosure under section 6103 of the Internal Revenue Code (Code). Those consequences include potential termination of employment, fines and imprisonment.

The IRS has strong protections in place to safeguard taxpayer information. TIGTA regularly audits employee access to taxpayer information. The IRS provides an annual report to the Joint Committee on Taxation that describes all disclosures of taxpayer information during the year and the statutory authorization for each disclosure. The Government Accountability Office also provides oversight on the protection of taxpayer information.

Historically, the IRS has been very effective in protecting the taxpayer data we collect because of the various levels of oversight and training. At this time, the source of the information is currently unknown. We will immediately take action to respond to any risks identified through an investigation.

Question. What are the criminal penalties for IRS employees, including employees made possible by the Intragovernmental Personnel Act of 1970, who share confidential taxpayer information or tax returns with those unauthorized to view the information?

Answer. The criminal penalties for the willful unauthorized disclosure of returns or return information are outlined in section 7213 of the code, which provides that a willful unauthorized disclosure "shall be a felony punishable upon conviction by a fine in any amount not exceeding $5,000, or imprisonment of not more than 5 years, or both, together with the costs of prosecution, and if such offense is committed by any officer or employee of the United States, he shall, in addition to any other punishment, be dismissed from office or discharged from employment upon

conviction for such offense." The criminal penalty applies to any IRS employee, including employees made possible by the Intragovernmental Personnel Act of 1970.

Question. Would you agree that the release of confidential taxpayer information is an egregious violation of public trust in the IRS?

Answer. Absolutely. Any unauthorized disclosure of confidential government information is illegal. We take such disclosures seriously; we have and will continue to pursue all available measures. However, the source of the information is currently unknown.

Question. Will you commit to updating me about the IRS's investigation into the unauthorized release of taxpayer information?

Answer. TIGTA has sole jurisdiction over potential "insider threat" violations should this information have originated from an IRS employee. Since TIGTA is independent from the IRS, you may wish to send your request to Russell George, the Treasury Inspector General for Tax Administration.

Question. The Biden administration proposed requiring banks to report annual account inflows and outflows to the IRS. Should the IRS gain access to such information, is it possible that private bank and financial information of taxpayers could be released from the IRS?

Answer. Protecting taxpayer information is a fundamental IRS principle. Every employee takes annual training on unauthorized disclosure of taxpayer information. This training clearly defines when a disclosure is authorized and clarifies the consequences of an unauthorized disclosure under section 6103 of the Internal Revenue Code. Those consequences include potential termination of employment, fines, and imprisonment.

The IRS has strong protections in place to safeguard taxpayer information. TIGTA regularly audits employee access to taxpayer information. The IRS provides an annual report to the Joint Committee on Taxation describing all disclosures of taxpayer information during the year and the statutory authorization for each disclosure. The Government Accountability Office also provides oversight on the protection of taxpayer information.

Historically, the IRS has been extremely effective in protecting the taxpayer data it collects because of the various levels of processes, procedures, oversight, and training. This duty is one we take very seriously. Every day, we strive to live up to the level of trust the public has given us.

Question. Has the IRS conducted an analysis of any new compliance measures that taxpayers would face under the administration's bank reporting proposal? If so, can you describe the new compliance burdens and any related costs to taxpayers?

Answer. This question should be addressed to Treasury's Office of Tax Policy.

Question. The administration estimates that increasing IRS funding by $80 billion over 10 years would yield $700 billion. But the nonpartisan Congressional Budget Office estimates that increasing IRS funds by $40 billion over 10 years would increase revenues by $103 billion, resulting in a net $63 billion decrease in the deficit.

How does the administration's revenue projections from increased IRS enforcement differ so significantly from the nonpartisan CBO's projections?

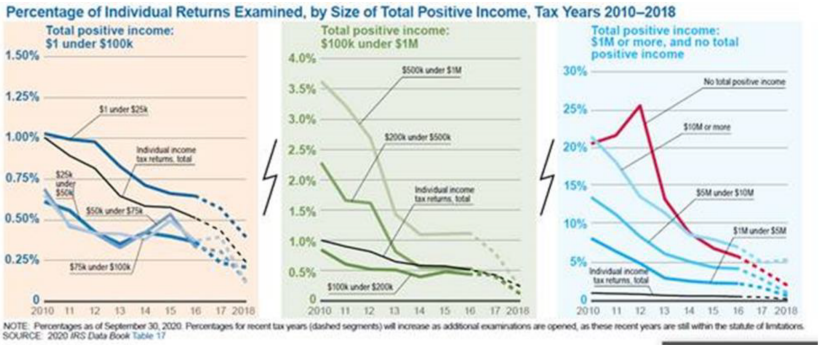
Answer. IRS estimated that revenue from a 10-year investment of approximately $80 billion will generate $316 billion in direct enforcement and protected revenue. Treasury's Office of Tax Analysis estimated that adding an additional reporting requirement for financial accounts would account for the additional $463 billion, for a total net revenue of approximately $700 billion. Although the cost to administer this new reporting requirement is included in the $80 billion, the additional savings is largely attributable to predicted improvement in voluntary compliance, which rises when third parties provide financial information to the IRS.

The CBO analysis is more directly comparable to the estimate of $316 billion in enforcement and protected revenue. The latter analysis implies around $4 returned to the Treasury for every $1 spent on enforcement activity, whereas the CBO analysis implies $2.6 for every $1 spent. Most recently, CBO estimated that the administration's proposal to increase funding for the IRS by $80 billion over the 2022–2031 period would increase revenues by approximately $200 billion over those 10 years.

CBO, in its analysis, states that their starting point for their estimates was the IRS Return on Investment (ROI) for new enforcement initiatives, and the peak ROI,

i.e., the ROI when the new hires are fully trained, ranges from $5 to $9 for every $1 spent in recent years.[5] When the IRS prepares ROI for these initiatives, it uses historical data to build up an expected return for the proposed set of enforcement activities. In this analysis, the IRS lowers the historical productivity by 10 percent–20 percent to account for the marginality—the presumption that additional enforcement cases could yield lower revenue because the most egregious cases are selected first. By further reducing these already conservatively prepared ROIs, the CBO moved the predictions even further below the historical rates of returns for enforcement actions.

Over the last 10 years, IRS enforcement has declined significantly. The following table from the IRS Data Book illustrates this. There is a very large pool of enforcement actions available to us, but we cannot address all of them at our current staffing level. The significant increases proposed would reverse some of these trends, but not in a way that can be easily extrapolated past actual experience.



We are confident that the methods used to estimate ROI for this investment are sound and, if anything, are already conservative. We disagree with the CBO's assertion that there would be a dramatic fall-off in revenue as we restore enforcement.

Question. As a follow-up to my question at the hearing, how does the U.S. voluntary tax compliance rate compare with other countries, particularly OECD countries?

Answer. Because the tax regimes of OECD countries vary widely, they are not easily comparable. For example, many of the OECD countries include a value-added tax (VAT) as part of their tax regime, while the United States does not. In the UK, payments for both National Insurance and VAT are included in their tax gap estimates. In their 2020 release, HM Revenue and Customs reports an estimated gap of 4.7 percent, that is analogous to the net tax gap reported in the IRS tax gap report (computed as the gross tax gap less enforced and other late payments). This equates to a net compliance rate of 95.3 percent as compared to the net compliance rate of 85.8 percent we reported in "Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011–2013." The UK does not include a measure of the voluntary compliance rate, *i.e.,* a compliance rate without accounting for enforced and other late payments, in their report.

QUESTIONS SUBMITTED BY HON. MARK R. WARNER

Question. The Form 6166 is a letter printed on U.S. Department of Treasury stationary that certifies that a person or company is a U.S. resident for purposes of the income tax laws of the U.S. for the fiscal year indicated on the form. Companies need Form 6166 to claim income tax treaty and other tax benefits while doing business in foreign countries. Many U.S. tax treaty partners require this proof of U.S. residence from the IRS when a person or business entity is claiming income tax treaty benefits. Form 6166 is also used to claim exemption from VAT (Value-Added Tax) imposed by a foreign country. Taxpayers generally submit IRS Form 8802 in the latter part of the year preceding the fiscal year the Form 6166 is applicable for,

[5] *https://www.cbo.gov/publication/57444.*

and the Forms 6166 historically have been received within 60 to 90 days from the date of submitting the Form 8802. I understand that the IRS has been facing a backlog in a variety of areas as you have seen increased responsibilities from recent legislation. Specifically, I have heard from companies who operate globally and have filed their Form 8802 but have not yet received their Form 6166. It is my understanding that these forms are usually turned around in about 60 to 90 days, but companies are now facing wait times almost twice that. I am concerned about the impact this delay is having on American companies and their ability to conduct business abroad. Without this form, companies could be subject to double taxation or increased tax withholdings as well as prevented from receiving vendor payments.

Are you aware of this delay in sending out Form 6166, and can you provide me with a timeline for when the IRS will be able to address the backlog? For a company who has filed Form 8802 at the beginning of the year, what is their expected turnaround time?

Answer. United States Certification (US Cert) program continues to experience delays due to the pandemic. The inventory level as of June 26, 2021 was approximately 23,000. This is an increase of nearly 9,000 (+64 percent) compared to the similar week ending in FY 2019, but a reduction of almost 12,000 (−34 percent) compared to the similar week ending in FY 2020. The processing site was closed for an extended period of time in FY 2020 due to the pandemic and did not begin processing inventory again until mid-July.

A contributing factor to the delay in processing this inventory is the delay in processing tax returns. IRS instructions for Form 8802, Application for United States Residency Certification, advise the customer it may take less time to process the application if they submit a copy of their recently filed return. However, we find that this rarely occurs. If the return is not processed, and we do not have a copy of the return, we have to contact the customer to obtain a signed copy of the return. The application is held in inventory pending the customer's response before the certification(s) can be issued.

Telework has been implemented for US Cert employees, which has allowed us to continue processing this inventory during the pandemic, weather related incidents, and civil disturbances. Employees are working overtime, and we continue to pursue approval of a long-term electronic solution, including the capability of automation for this program.

QUESTIONS SUBMITTED BY HON. ELIZABETH WARREN

Question. A May 2020 report by the Treasury Inspector General for Tax Administration found that the IRS did not work the cases of nearly 900,000 high-income individuals who did not file their taxes from 2014–2016, with estimated owed tax of $45.7 billion.[6]

In the year since the report was released, how has the IRS addressed these nearly 900,000 cases? Has the agency started to work any of these cases?

Answer. We are committed to ensuring our enforcement efforts are fair across the board and that no one at any income level thinks they are safe cheating on their taxes. Tax cheats undermine the integrity of our tax system and addressing high-income non-filers (HINFs) is a major enforcement priority for us. We have selected 100 percent of the HINFs for tax years 2016, 2017 and 2018 to receive delinquency notices and, should the HINF not respond, to be placed into a taxpayer delinquency investigation (TDI).

Of the approximately 879,000 HINFs identified by TIGTA in its May 2020 report, 510,000 (approximately 58 percent) were selected and pursued under one of the downstream collection enforcement efforts. We entered 42,601 of the remaining 369,000 cases into the TDI inventory but could not pursue them because other cases took priority. The other 326,399 cases were mostly tax year 2015 HINFs who were never entered into the TDI inventory. At that time, we had paused our normal non-filer process to realign resources. Ultimately, enforcement decisions are often resource-driven, and we must allocate available enforcement resources among numerous enforcement priorities.

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[6] Treasury Inspector General for Tax Administration, "High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service" (May 29, 2020), *https://www.treasury.gov/tigta/auditreports/2020reports/202030015fr.pdf.*

In FY 2020 we initiated "issue based" Revenue Officer Compliance Sweeps (ROCS) across the country to work these HINF cases. We reassigned experienced revenue officers (ROs) to perform these compliance sweeps, working in-person with the affected taxpayers (and, if applicable, their representatives). To increase the impact, we promoted our strategy through the national media to improve future voluntary compliance. We also routinely discuss these efforts at national, regional and local conferences throughout the country.

We conducted a ROCS on 684 high-priority cases in parts of five States between November 2019 and February 2020. Many of these cases involved high-income taxpayers, both non-filers and those with associated balances due, as part of the overall high priority taxpayer case population. In February 2020, we conducted a ROCS focused on egregious high-income delinquent filers. That effort resulted in 157 taxpayers contacted during a 2-week effort of RO field visits: 36 percent of these taxpayers had multiple years of high income; 95 percent of these taxpayers had income of $1 million dollars or more in at least 1 year between 2016 and 2018; and 43 percent had an associated balance due along with unfiled returns.

Due to COVID, we significantly limited in-person field activities for our ROs beginning in March 2020, but continued to direct the assignment and work of HINF and balance due cases in Field Collection through telephone/remote contacts.

In 2021, we conducted 40 virtual ROCS between February and June, during which we initiated virtual contacts with high priority taxpayers, including HINFs and those with associated balances due, in 33 States. Thirteen of these ROCS were specifically focused on addressing HINFs in 21 States. In August 2021, we initiated a second series of ROCS to further address egregious HINFs. During this series of ROCS, we plan to work more than 700 egregious HINF cases nationwide, approximately 300 of which have associated balances due totaling over $113 million.

Question. What changes has the IRS made to ensure non-filing high-income individual cases are worked?

Answer. HINF cases are prioritized during our non-filer identification process when we open new cases. All HINFs for tax years 2016 through 2018 were selected, and received a notice if they did not file a return. Taxpayers who fail to respond to the notice become part of our queue for assignment to revenue officers. We plan to continue to select all HINFs in the future. The Director for IRS Collection Inventory, Delivery, and Selection issued a directive to ensure that 100 percent of HINF cases for return delinquency are selected and put into our work stream. Additionally, our automated substitute for return case selection process was updated to prioritize high liability cases and our field case management system continues to prioritize HINF inventory as a high priority for field collection case selection.

Question. Would mandatory funding and new third-party reporting from financial institutions help the IRS to work these and other cases of nonfiling high-income individuals?

Answer. Third-party reporting enables our ROs to more effectively and efficiently address HINF cases by making it easier for ROs to identify these taxpayers' sources of income, assess proper amounts of tax under authority of IRC 6020(b), and appropriately refer taxpayers for examination/audit.

Question. Testifying before the Senate Finance Committee in April, you noted that people have estimated that "with resources the IRS could probably bring in 10 percent, 15 percent, 20 percent" of the $1-trillion annual tax gap, but "a modernized IRS could actually beat that."

How do you define a "modernized IRS," and what kind of investments are needed to modernize the IRS so it can close the tax gap to this degree?

Answer. In our Taxpayer First Act report to Congress, we described an aspirational vision, building on work already underway. This vision includes high-quality, personalized service to help taxpayers understand and comply with their filing and reporting obligations; well-trained employees providing excellent taxpayer service; and a streamlined organizational structure making it easier for taxpayers and employees to navigate the agency and get the help they need when they need it. A positive taxpayer experience increases trust in government and promotes voluntary tax compliance. Similarly, the advanced analytics strategies described in the report and employed to improve taxpayer services operations would also improve our workload selection and the effectiveness of our compliance actions. However, without the commitment of significant multiyear funding, we cannot make the taxpayer improve-

ments necessary to maintain trust and confidence in the Federal Government and its tax collection system.

Better service alone will not reduce the tax gap. Investments in IRS staffing ensures adequate compliance coverage, which not only directly reduces the tax gap but also has a potentially even larger deterrent effect as the greater public is more aware that IRS tax compliance is being applied fairly across taxpayer segments.

Increased third-party information reporting will also drive tax gap reductions as is demonstrated by compliance rates exceeding 95 percent on income for which we receive substantial third-party information reporting (*e.g.,* interest and dividends, pensions and annuities, unemployment and Social Security payments, and State income tax refunds). Better use of artificial intelligence and data analytics will deliver greater accuracy in identifying potential compliance risks which will help the IRS adapt more quickly to changes in the compliance environment.

Modernizing IRS systems will increase efficiency of IRS operations and productivity of the average revenue agent or special agent. Additionally, modernization funding would enable enhancements to information return processing and those systems that identify, select, and ultimately enable compliance activities. The Integrated Modernization Business Plan, delivered in April 2019, was developed to establish the underlying infrastructure required to modernize the IRS. Strong technology infrastructure is critical to delivering on the IRS's vision and consistent, dependable multiyear funding is critical for us to deliver the modernized IRS that American taxpayers deserve.

Question. Recent reporting from ProPublica showed what we already know—the ultrarich pay little to nothing in taxes, and far less than average Americans.

How would the administration's tax proposals help ensure that the ultrarich pay their fair share?

Answer. This question should be addressed to Treasury's Office of Tax Policy.

Question. In response to questioning, you indicated support for Congress granting the IRS additional authority to collect information on crypto assets.

Describe the consequences of a lack of reporting requirements for cryptocurrency exchanges to ensure tax compliance, including how the absence of such requirements has impacted the gap between the amount of taxes collected versus the amount owed each year.

Answer. Research demonstrates that misreporting tax information is 55 percent when income amounts are subject to little or no information reporting, compared to only 5 percent where substantial information reporting exists. Taxpayers are less likely to accurately report and pay taxes on income that is not independently reported to the IRS by a third party.

Cryptocurrency transactions are inherently devoid of the identity of the person conducting the transaction and rely instead on one or more pseudonyms in lieu of identifying information. We currently cannot easily identify taxpayers who engage in virtual currency transactions due to a lack of reporting requirements. An information reporting regime requiring reporting to the IRS on cryptocurrency transactions would benefit tax compliance by helping to close the information gap with respect to these assets.

Existing information reporting rules do not specifically address how certain transactions involving cryptocurrency must be reported to the party who disposes of the cryptocurrency in exchange for cash, account credit, services, stored-value cards, or other property (including a different type of cryptocurrency). In addition to improving income reporting compliance, information return reporting allows IRS Document Matching Programs, such as Automated Underreporter, to conduct time- and cost-efficient compliance activities.

Question. Do you believe that the lack of reporting requirements, particularly relative to stock brokerages, make cryptocurrencies appealing for individuals engaging in illicit financial activities or tax avoidance?

Answer. Generally, disparate reporting requirements may result in bad actors moving assets from entities with reporting requirements (*e.g.,* stock brokerages) to entities with limited or no reporting requirements. The peer-to-peer nature of cryptocurrencies compounded by the pseudo-anonymous nature of publicly available transactional information and lack of reporting requirement makes cryptocurrencies appealing for individuals engaging in illicit financial activities or tax avoidance.

Question. The Internal Revenue Service has a longstanding commitment to racial and ethnic diversity in its staffing, substantially outpacing the diversity of the national civilian workforce (see IRS Databook 2019, 72).

According to the IRS Internal Revenue Manual, IRS's Research, Applied Analytics and Statistics Division (RAAS) group "combines advanced analytics, dynamic testing, reporting, and prototyping with appropriate scientific rigor and deep IRS domain expertise to deliver valid and actionable insights using diverse sources of data," and contains eight data labs, including a data exploration lab and a policy and program impact lab.[7]

Given the public reporting of the race and ethnicity of IRS personnel, would you agree that racial equity issues in other areas of IRS policies and practices merit data gathering and analysis?

Are any of RAAS data labs studying the disparate racial impacts of IRS procedures using matching and imputation techniques? If not, why not?

Answer. Tax returns do not ask taxpayers to report information on race and/or ethnicity; therefore, these factors are never considered in any aspect of our tax administration activities. There is a concern that the public may not be comfortable with the IRS having information on individual taxpayers' race and ethnicity, and that discomfort could erode the current voluntary compliance rate.

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Politically active groups often report different amounts of political spending to the IRS than they do to campaign finance regulators like the FEC. In some cases, they tell the IRS they will not engage in any political activity but then go on to report election spending to the FEC. However, the Department of Justice will not investigate absent an IRS referral.

Of the more than 200 total criminal referrals the IRS made to the DOJ involving 501(c) organizations during FY 2015 through May 2021, have any involved false statements made by such nonprofits about their political activity? If so, how many of those referred cases were authorized by the DOJ tax division for prosecution?

Answer. From FY 2015 to the present, the IRS Exempt Organization function referred 5 cases to IRS–CI, which in turn would determine whether to pursue the cases with the Department of Justice (DOJ). None of these cases relate to a failure to properly disclose political election campaign activity.

None of the criminal referrals involving 501(c) organizations that IRS–CI made to DOJ involved false statements about the organizations' political activity. The investigations that were referred involved evasion of income, using the organization to shelter income, or diverting money for personal benefit. Numerous investigations involved embezzlement from 501(c) organizations, using the organizations to launder proceeds from drug activities or fraud, and using the organizations to perpetrate scams.

Question. It has now been over a decade since Congress passed the Foreign Account Tax Compliance Act (FATCA) to allow the IRS to lift the veil on secret offshore accounts. While the IRS has done much to implement that law, the Treasury Inspector General for Tax Administration noted in testimony before the Senate Finance Taxation and IRS Oversight Subcommittee that "the IRS has taken virtually no compliance actions to meaningfully enforce" FATCA.

In the President's FY22 budget request, how much is allocated for the enforcement and implementation of FATCA? Is this amount sufficient to implement and enforce the law?

Answer. Since the 2018 TIGTA report (2018–30–040), we have continued and initiated new FATCA compliance activities. For example, we have developed campaigns that use automated risk assessment processes to identify potential tax noncompliance related to taxpayers' failures to report the proper income and tax and/or failure to properly submit required information returns associated with these offshore accounts. The automated risk assessment processes also identify potential tax noncompliance related to foreign financial institutions' (FFIs') failures to appropriately report taxpayer accounts by comparing information reported on Form 8966,

[7] IRS Internal Revenue Manual § 1.1.18.1, *https://www.irs.gov/irm/part1/irm_01-001-018.*

FATCA Report, with what is reported on Form 8938, Statement of Specified Foreign Financial Assets. FATCA data is also associated with individual exam cases involving offshore related issues; utilized to ensure proper FFI certifications and remove FFIs from the registered list, as appropriate; and reconciled in other compliance activities on an ad hoc basis. Our business operating divisions address noncompliance and errors through a variety of treatment streams, such as soft letters, examinations, and termination of an entity's FATCA status. While we have significantly increased our compliance efforts in recent years, compliance efforts continue to be limited by technological and human resource limitations in light of budgetary constraints.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. First, I would like to take the opportunity to thank you for our conversation during the hearing regarding the IRS's processing of my constituents' tax returns. I appreciate your offer to work with me and my staff on the ongoing issues faced by my constituents, particularly related to the processing of 2019 Federal tax returns. I commend your staff for their prompt attentiveness to this issue following the hearing and look forward to continuing our collaboration on behalf of Hoosier taxpayers.

Like many of my colleagues, I am concerned about the tax gap and want to ensure we close the gap in a targeted, effective manner. I hope that we can work toward bipartisan solutions to achieve improved tax compliance.

In order to identify the best policy solutions for the tax gap, it is important for us to understand the nature and source of that gap, the ways in which our complex tax code contributes to that gap, and the reforms needed within the IRS to improve efficiency and restore public confidence. A prominent topic of conversation during the hearing was your characterization of and thoughts on addressing the tax gap. During the hearing titled, "The 2021 Filing Season and 21st Century IRS," before the Senate Finance Committee on April 13, 2021, you estimated the tax gap could approach $1 trillion per year. This greatly exceeded prior IRS and third party estimates of the tax gap.

Can you please explain in detail how you calculated this estimate?

Answer. The tax gap represents, in dollar terms, the annual amount of tax noncompliance with our tax laws. It does not distinguish between intentional and unintentional noncompliance with tax laws. Further, it does not report obligations, domestic or foreign, legal or illegal source income, etc. In addition, because our published estimates are based on available information, there are acknowledged gaps that prevent it from serving as an all-inclusive measure of global tax noncompliance by U.S. taxpayers.

The 2011–2013 estimates apply to returns filed for tax years 2011–2013 and subsequently audited. They therefore cannot fully represent the compliance landscape in 2021. The 2021 digital world economy is significantly different from the world economy of 2011–2013 and therefore it would be incorrect to think that these estimates fully capture the current scope of the tax gap. At the May 11, 2021 hearing on the tax gap before the Senate Finance Committee, Subcommittee on Taxation and IRS Oversight, Barry Johnson, Acting Chief of RAAS, testified that simply using asset and price growth information to adjust the 2011–2013 gross tax gap estimates would yield an initial estimated adjusted gross tax gap for Tax Year 2019 of approximately $600 billion.

Further, an IRS research team working with others used operational audit data to review sophisticated tax evasion by certain taxpayers though the use of offshore bank accounts and/or complex pass-through business structures. This information is not fully captured by our legacy tax gap estimation methodology. IRS researchers estimated evasion limited to the use of offshore bank accounts and/or complex pass-through business structures contributed an additional $33 billion to the 2011–2013 tax gap. Adjusting this estimate would increase the Tax Year 2019 tax gap by an additional $46 billion. With this increase, Mr. Johnson estimated the overall gross tax gap for Tax Year 2019 is approximately $646 billion.

This estimate does not account for factors including the rise of cryptocurrency, additional undetected income offshore or concealed in pass-through entities not identified in the referenced research, additional areas of noncompliance including conservation easements, or illegal source income (which is not included in the tax gap

estimate). Cryptocurrency alone has grown to a world-wide market of $2 trillion. Reporting compliance falls far short of what would be expected given the number of users, transactions, and value that virtual currency exchanges publicize on an annual basis. Recognizing compliance challenges, the IRS has focused significant enforcement resources over the past 2 years in the virtual currency environment.

In addition to most taxable virtual currency transactions, the Tax Gap estimate for tax years 2011–2013 also doesn't fully reflect noncompliance related to various undetected international or foreign-based taxable transactions and activities, illegal source income (which is taxable and is pursued by the IRS often in coordination with other Federal and State agencies), and other types of undetected, concealed taxable income. Previous Tax Gap estimates only generally measured international activities by domestic tax return filers but not from taxpayers with addresses abroad, foreign businesses and others. The IRS is generally aware of significant noncompliance associated with the foregoing but does not currently have an estimate of how much it would impact the tax gap; however, we are committed to conducting the research necessary to produce estimates in the future.

Finally, Mr. Johnson noted that it has been well publicized that IRS audits have significantly declined. RAAS research consistently finds that audits have a deterrent effect and noted that the recent decline in audits is likely to have the opposite effect, leading to an increase in the tax gap.

In consideration of the foregoing points, it would not be unreasonable to believe that the actual tax gap could approach and possibly exceed $1 trillion per year.

To address some of the above challenges, Mr. Johnson confirmed that for at least the past 18 months, RAAS has been working on updating and enhancing the underlying tax gap methodology, the goal of improving the currency of the estimates by considering how to identify and incorporate additional information and emerging compliance issues.

Question. You had indicated in the April 13th hearing that increased enforcement could recapture at most 20 percent of the gap, but we know that relying on audits to chase down complex tax evasion is costly and unreliable. More promisingly, you had referenced the potential of a modernized IRS to collect taxes due more efficiently.

What structural reforms are necessary for the IRS to more effectively fulfill its mission?

Answer. To provide America's taxpayers top-quality service and enable them to voluntarily meet their tax responsibilities while enforcing the law with integrity and fairness to all, we are modernizing our organizational structure to better align operations with our mission, increase agency-wide collaboration, and remove operational silos. An important first step was the appointment of our first Taxpayer Experience Officer earlier this year and the establishment of the Taxpayer Experience Office. We are in the process of evaluating the steps needed to establish more integrated service operations under our Relationships and Services Division and consolidated enforcement operations under our Compliance Division.

Question. What, if any, barriers currently exist that are preventing the IRS from implementing these structural reforms?

Answer. The IRS Restructuring and Reform Act of 1998 (RRA 1998) directed us to restructure the IRS by eliminating or substantially modifying the three-tier geographic structure (national, regional, and district) that was in place at that time and replacing it with an organizational structure featuring operating units to serve particular groups of taxpayers with similar needs. Recognizing this barrier, the writers of the Taxpayer First Act had the foresight to include the following language:

> Beginning 1 year after the date on which a comprehensive plan to modify the organization of the IRS is submitted to Congress, the provision removes the RRA98 requirement of an organizational structure that features operating units serving particular groups of taxpayers with similar needs.

Therefore, this legislative barrier to moving forward with our restructuring efforts will expire in January 2022.

Question. Do you believe that steps to reduce complexity would incentivize more voluntary compliance from taxpayers without throwing billions more of taxpayer dollars at this issue with limited results?

Answer. Tax law complexity contributes to taxpayer errors when filing their tax returns and increases the taxpayer compliance burden. The complexity also requires IRS resources to deliver quality assistance to taxpayers, to correspond with taxpayers on errors on their returns and, in some situations, to take enforcement actions.

Question. How strong are current whistleblower protections for those who seek to report noncompliance?

Answer. Protections for whistleblowers who seek to report noncompliance are found in section 7623(d) of the Code. Subsection (1) of section 7623(d) states:

> No employer, or any officer, employee, contractor, subcontractor, or agent of such employer, may discharge, demote, suspend, threaten, harass, or . . . discriminate against an employee in terms and conditions of employment . . . in reprisal for any lawful act done by the employee—
>
> (a) to provide information, cause information to be provided, or otherwise assist in an investigation regarding underpayment of tax or any conduct which the employee reasonably believes constitutes a violation of the internal revenue laws . . . , or
>
> (b) to testify, participate in, or otherwise assist in any administrative or judicial action taken by the Internal Revenue Service relating to an alleged underpayment of tax or any violation of the internal revenue laws. . . .

A person alleging discharge or reprisal under the anti-retaliation provisions must file a complaint within 180 days after the date on which the violation occurs. Enforcement actions under section 7623(d) are handled by the Department of Labor. If not resolved within 180 days, whistleblowers can bring an action at law or equity in the appropriate district court of the United States. Compensatory damages include reinstatement, 200 percent of back pay and 100 percent of lost benefits and compensation for any special damages sustained.

Question. In your opinion, would enhanced protections help encourage individuals to come forward?

Answer. Historically, most whistleblowers that file Form 211 whistleblower claims with the IRS have severed relationships with their employers and have no desire for reinstatement. However, the Department of Labor enforces section 7623(d) and may have views on whether enhanced protections in 7623(d) might encourage whistleblowers to come forward.

Question. President Biden's recently released Fiscal Year 2022 budget included an increase of over $13 billion in funding for the IRS.

Do you believe that efforts to expand the size and scope of the IRS should be predicated on ensuring that taxpayer protections are respected?

Answer. The IRS has strong protections in place to safeguard taxpayer information. TIGTA regularly audits employee access to taxpayer information. The IRS provides an annual report to the Joint Committee on Taxation that describes all disclosures of taxpayer information during the year and the statutory authorization for each disclosure. The Government Accountability Office also provides oversight on the protection of taxpayer information.

Question. I am interested in the Treasury Inspector General for Tax Administration's 2020 audit of the IRS. Included in the report is a description that the IRS—at the height of the pandemic and facing record backlogs—was unable to function properly due to printer issues that persisted for months. Unbelievably, the primary reason given by the IRS is that many of these devices were simply out of ink or the waste cartridge was full.

Of course, the pandemic was a challenge to operations everywhere, but this seems like a problem that should not occur. In Indiana, many of my constituents are still waiting on the IRS's processing of their 2019 tax returns, and the possibility that these delays are in part due to printers being out of ink is troublesome.

On the heels of the Inspector General's report, I am very concerned about discussions of expanding the IRS's scope or funding without addressing the agency's underlying issues.

Do you believe that expanding the power and scope of the IRS without increased oversight and taxpayer protections could lead to further abuses, putting at risk not only taxpayers' dollars but also their privacy?

Answer. The IRS has strong protections in place to safeguard taxpayer information. TIGTA regularly audits employee access to taxpayer information. The IRS provides an annual report to the Joint Committee on Taxation that describes all disclosures of taxpayer information during the year and the statutory authorization for each disclosure. The Government Accountability Office also provides oversight on the protection of taxpayer information. We welcome oversight by the Congress.

Question. On the topic of taxpayer privacy, I believe that it is of utmost importance that the IRS safeguard confidential taxpayer information against unauthorized disclosures. Taxpayers must have faith that their sensitive financial information will be protected by the IRS and not exploited for political or other gain. To that end, I recently joined my Senate Finance Committee Republican colleagues in sending a letter to the Inspector General for Tax Administration regarding the June 8, 2021, ProPublica article titled, "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax."[8] That article strongly suggests that the taxpayer information described therein originated from within the IRS, which, if true, constitutes a serious breach of privacy and is a criminal violation of our tax laws. My Senate colleagues and I requested that Inspector General George immediately investigate this apparent leak.

Do you believe that maintaining confidentiality of taxpayer information is paramount to ensuring taxpayers fully and completely report their income and earnings to the IRS?

Answer. Yes; taxpayers have a right to privacy and confidentiality. The expectations for confidentiality are outlined in section 6103 of the code, and the penalties for failing to meet these requirements are severe. The IRS fosters a culture of privacy and confidentiality that ensures personnel limit information collected to what is relevant and necessary to administer the tax laws, and to share it only with those who have both a need to know and the ability to receive the information as allowed by the individual or law.

Question. If taxpayers do not trust the IRS to safeguard their financial information, do you anticipate this would only exacerbate the tax gap as taxpayers may be more reluctant to fully report their income and activities?

Answer. While we anticipate most taxpayers will continue to meet their tax obligations, some could use lack of trust as a reason to not fully report their income.

Question. What taxpayer protections have you implemented during your tenure at the IRS, and, particularly in light of the ProPublica data release, what do you think still needs to be done?

Answer. Protecting taxpayer information has been and will continue to be on the forefront of all that we do at the IRS. During my tenure at the IRS, we have leveraged congressionally provided funds to implement a multi-layered defense strategy. We continuously identify and implement the most current cybersecurity protections available. With regard to the ProPublica data release, we do not yet know the source of the information and, therefore, we cannot make any recommendations at this time.

Question. Do you commit to ensuring the IRS cooperates fully and promptly with any investigation into the ProPublica data release, including but not limited to investigations by the U.S. Department of Justice and the Inspector General for Tax Administration, and do you commit to taking immediate action to remedy any shortcomings identified by any such investigation?

Answer. Yes, the IRS will fully cooperate with each and every congressional and Federal investigation into the ProPublica article.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

Colleagues, I'll have prepared remarks in a moment. First, a brief comment on the breaking news. This morning there is what appears to be a massive, unauthorized disclosure of taxpayer records. The source of this information is unclear. Given the IRS's responsibility to protect taxpayer data, it has a responsibility to investigate the source of this disclosure.

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[8] *https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax.*

In the meantime, as reported by ProPublica, what this data reveals is that the country's wealthiest—who profited immensely during the pandemic—have not been paying their fair share. I'll have a proposal to change that.

Moving to the subject of today's hearing, the Finance Committee welcomes Commissioner Rettig this morning to discuss the President's 2022 budget request for the IRS. Commissioner Rettig knows well this committee's interest in closing the tax gap, improving enforcement, and fighting the unfairness in our tax laws. That starts, in my view, by going after cheating by the big guys at the top.

A few key examples, starting with wealthy taxpayers who skip filing tax returns altogether. According to a 2020 report from the Inspector General for Tax Administration, nearly a million wealthy taxpayers failed to file returns between 2014 and 2016, dodging a total of $46 billion in taxes. Tax season came and went, and they disappeared from the radar.

Senator Whitehouse and I wanted some explanation. Two weeks ago, he and I got a letter from the IRS that said that the agency sought charges against only 200 taxpayers for failing to file a return over a period of 6 years.

Something here is totally out of whack. On the one hand, you've got a fortune going unpaid by wealthy individuals blowing off the responsibility they share with every other American taxpayer. On the other hand, only a couple hundred non-filers are facing charges. You would think the IRS would be aggressively following up those affluent non-filers, but the evidence shows that doesn't seem to be the case.

Here's a second example of high-earners escaping real scrutiny. More than 2 out of every 3 dollars earned by partnerships in this country go to the top 1 percent of earners. These are sophisticated entities that bring in big revenue. However, the most recent data shows that out of millions of partnership returns filed in 2018, only 140 were audited.

If you're a wealthy tax cheat in a partnership, your odds of getting audited are slightly higher than your odds of getting hit by a meteorite. It's an audit rate of 0.00004 percent. On the other hand, taxpayers who claim the EITC are much, much likelier to get audited. Again, something is out of whack when it comes to enforcement.

For the sake of fairness—and for the sake of the budget—it makes a lot more sense to go after cheating by the big guys than focus on working people. The President's budget proposal has a lot to say on these issues. With funding increases for enforcement personnel and IT, it would help to build up the IRS's ability to handle the most important cases: tax evasion by the wealthy.

At the same time, it's important to recognize that the IRS has a history of going after the little guy too often. The budget proposes expanding the information that major financial institutions must report about some client accounts. It's absolutely critical that the focus of that reporting be on the wealthy tax evaders.

The budget also includes a proposal that's been a big priority for this committee for a long time, the authority to regulate paid tax preparers. Too many Americans who need help filing their taxes are falling victim to fraudsters and incompetent individuals. Taking a smart approach to creating rules in this area will help a lot of people avoid a tax refund nightmare, particularly people of modest incomes who depend on their refund every spring to make ends meet.

There's a lot more for the committee to discuss today. I want to thank Commissioner Rettig for joining us, and I look forward to the discussion.

COMMUNICATION

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Statement of Michael Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to address this issue. These comments echo our submission on the 2021 filing season. We will discuss funding post-pandemic, distributing the child tax credit, tax reform and tax administration after reform.

As the pandemic recedes (there are only so many possible vectors for the virus remaining), the IRS can begin to bring people back to work. Contractors, including former revenue agents, can be helpful in clearing the backlog. Such relationships should continue so that the portion of the tax gap due to non-compliance can be closed. As more well off individuals face enforcement, others will do a better job of paying what they owe under the law.

IRS funding is not adequate at present to meet the immediate challenge. The recent change in government should bring about more of a willingness to spend the necessary funds. We welcome the President's proposals in this area, at least for now, although our proposed Asset Value-Added Tax will end the need to increase audit resources. As with clearing the backlog, hiring back or contracting with former revenue agents will provide a quick bang for the buck in doing auditing, and it decreases the pool of former agents who help their clients avoid taxation.

The second issue is distributing the increased child tax credit to eligible families. For middle-income taxpayers whose increased credits are less than their annual tax obligation, a simple change in withholding tables is adequate. Procedures are already in place to deliver refundable credits to larger families. For the coming year, they merely need to be expanded to all families with children. This fact was likely already included in Mr. Rettig's testimony. If not, I am sure he can easily confirm that this is the case.

Employers can work with their bankers to increase funds for payroll throughout the year while requiring less money for their quarterly tax payments (or estimated taxes) to the IRS. The main issue is working out those situations where employers owe less than they payout. This is especially true for labor intensive industries and even more so for low wage employers. A higher minimum wage would make negative quarterly tax bills less likely. Indeed, no one should have to subsist mainly on their child tax payments.

A further challenge is fraud. I am not speaking of fictional dependents, but of hiring more employees than workload demands in order to reduce tax payments. Once the American Relief Act expires, any permanent increase to and refundability of the child tax credit (and ideally an even more generous credit) will require permanent tax reform. At that point, the issue of possible fraud must be addressed. Even without comprehensive reform, corrective legislative language will be necessary.

Senior committee members and staff are likely familiar with the Center's proposals for tax reform which, as usual, are included as an attachment. A summary of individual policy changes has been added. As the reader has likely surmised, tax reform is the third issue.

Allow me to highlight six points.

First, the difference between changing quarterly withholding and enacting a subtraction VAT is six of one and a half dozen of the other.

The reason for this is that the proposed subtraction VAT is based on the notion that employers would be responsible for paying and reconciling the taxes now filed by employees. This would add little additional burden to employers (especially the self-employed) but end the burden of filing for all but the highest salaried employees.

The second is that this debate has gone on so long that the numbers have changed. What used to be proposed at $75,000 per year should now be delivered at $85,000. Proposals should always be indexed.

Third, for the sake of parity, the minimum wage should be set to $10 per hour immediately, with a phase in to $12 per hour to restore wages to the level of productivity found in 1965. $15 should be treated as either a bargaining chip or as the inflationary position to reach the same buying power $12 wage would provide now.

Fourth, enacting an asset VAT allows for higher tiered subtraction VAT (as proposed by Lawrence B. Lindsey) to replace some or all taxation of higher incomes at progressive, rather than proportional rates. The only advantages of keeping filing in place for high income individuals (rather than households) are that keeping the highest salary rate and the Asset VAT rate the same will reduce the incentive to game income streams to avoid taxes and to allow higher income individuals to purchase tax prepayment bonds, thus reducing the national debt sooner than later.

Fifth, the biggest untold subsidy in the tax code is the exception mutual funds enjoy from pay capital gains and dividend taxes. This needs to end. Shifting from personal income tax collection of capital gains and revenues (and payouts from mutual funds), ends the logic for this exception. It is time to *tax transactions, not people!*

Sixth is that in reality, explicit and implicit value-added taxes are already in force.

Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes.

Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax prepayment bonds. See the second attachment for details on this.

Thank you, again, for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

Attachment—Tax Reform, Center for Fiscal Equity, March 5, 2021

Individual payroll taxes. These are optional taxes for Old-Age and Survivors Insurance after age 60 for widows or 62 for retirees. We say optional because the collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. Higher incomes for most seniors would result if an employer contribution funded by the Subtraction VAT described below were credited on an equal dollar basis to all workers. If employee taxes are retained, the ceiling should be lowered to $85,000 to reduce benefits paid to wealthier individuals and a $16,000 floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Wage Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of $85,000 per year, will range from 6.5% to 26%. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction. Transferring OASDI employer funding from existing payroll taxes would increase the rate but would allow it to decline over time. So would peace.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes, dividend taxes, and the estate tax. It will apply to asset sales, dividend distributions, exercised options, rental income, inherited and gifted assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with

any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S–VAT surtaxes.

This tax will end Tax Gap issues owed by high income individuals. A 26% rate is between the GOP 24% rate (including ACA–SM and Pease surtaxes) and the Democratic 28% rate. It's time to quit playing football with tax rates to attract side bets. A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero.

The mutual fund exemption will be repealed. It is the biggest tax shelter is the use of money market funds to accumulate capital gains and income without taxation. This practice must end if salary surtaxes no longer include non-salaried income. 75% of such funds are held by the top 10% of households as measured by the 2019 Survey of Consumer Finance by the Federal Reserve. I suspect the other 20% are held by high income retirees. The working class will not be harmed. Applying the Pareto Rule to higher income households leaves the top 1450 households with 30% of wealth. The proof of this proposition is the shareholders list of Berkshire Hathaway.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes. S–VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee-ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not. S–VAT funded retirement accounts will be equal-dollar credited for every worker. They also have the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S–VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I–VAT). Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability. I–VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A–VAT and I–VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low-income Tax Gap.

I–VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.5% to 13%).

As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Adoption of S–VAT and I–VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C–VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

Summary

This plan can be summarized as a list of specific actions:

1. Increase the standard deduction to workers making salaried income of $425,001 and over, shifting business filing to a separate tax on employers and eliminating all credits and deductions—starting at 6.5%, going up to 26%, in $85,000 brackets.
2. Shift special rate taxes on capital income and gains from the income tax to an asset VAT. Expand the exclusion for sales to an ESOP to cooperatives and include sales of common and preferred stock. Mark option exercise and the first sale after inheritance, gift or donation to market.
3. End personal filing for incomes under $425,000.
4. Employers distribute the child tax credit with wages as an offset to their quarterly tax filing (ending annual filings).
5. Employers collect and pay lower tier income taxes, starting at $85,000 at 6.5%, with an increase to 13% for all salary payments over $170,000 going up 6.5% for every $85,000 up to $340,000.
6. Shift payment of HI, DI, SM (ACA) payroll taxes employee taxes to employers, remove caps on employer payroll taxes and credit them to workers on an equal dollar basis.
7. Employer paid taxes could as easily be called a subtraction VAT, abolishing corporate income taxes. These should not be zero rated at the border.
8. Expand current state/federal intergovernmental subtraction VAT to a full GST with limited exclusions (food would be taxed) and add a federal portion, which would also be collected by the states. Make these taxes zero rated at the border. Rate should be 19.5% and replace employer OASI contributions. Credit workers on an equal dollar basis.
9. Change employee OASI of 6.5% from $18,000 to $85,000 income.

Attachment—Tax Administration, Treasury Budget, February 12, 2020

Shifting to a single system for all business taxation, particularly enacting invoice value-added taxes to collect revenue and employer-based subtraction value-added taxes to distribute benefits to workers will end the need for filing for most, if not all, households. Any remaining high salary surtax would be free of any deductions and credits and could as easily be collected by enacting higher tiers to a subtraction VAT.

Subtraction VAT collection will closely duplicate the collection of payroll and income taxes—as well as employment taxes—but without households having to file an annual reconciliation except to verify the number of dependents receiving benefits.

Tax reform will simplify tax administration on all levels. Firms will submit electronic receipts for I–VAT and C–VAT credit, leaving a compliance trail. S–VAT payments to providers, wages and child credits to verify that what is paid and what is claimed match and that children are not double credited from separate employers.

A–VAT transactions are recorded by brokers, employers for option exercise and closing agents for real property. With ADP, reporting burdens are equal to those in any VAT system for I–VAT and A–VAT and current payroll and income tax reporting by employers.

Employees with children will annually verify information provided by employers and IRS, responding by a postcard if reports do not match, triggering collection actions. The cliche will thus be made real.

High salary employees who use corporations to reduce salary surtax and pay I–VAT and S–VAT for personal staff. Distributions from such corporations to owners are considered salary, not dividends.

Transaction based A–VAT payments end the complexity and tax avoidance experienced with income tax collection. Tax units with income under $84,000 or only one employer need not file high salary surtax returns. Separate gift and inheritance tax returns will no longer be required.

State governments will collect federal and state I–VAT, C–VAT, S–VAT payments, audit collection systems, real property A–VAT and conduct enforcement actions. IRS collects individual payroll and salary surtax payments, performs electronic data matching and receive payments and ADP data from states. SEC collects A–VAT receipts.

I–VAT gives all citizens the responsibility to fund the government. C–VAT invoices encourage lower carbon consumption, mass transit, research and infrastructure development. A–VAT taxation will slow market volatility and encourage employee ownership, while preserving family businesses and farms. Very little IRS Administration will be required once reform is fully implemented. All IRS employees could fit in a bathtub with room for Grover Norquist.

