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AMERICAN TAX POLICY INSTITUTE
IRS MODERNIZATION CONFERENCE
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I want to welcome all of you to the IRS modernization conference that takes place, appropriately enough, at the beginning of a new millennium.

I also want to thank the American Tax Policy Institute, the American Bar Association, the American Institute of Certified Public Accountants, the National Association of Enrolled Agents and the Tax Executives Institute, who with the IRS are co-sponsoring this important dialogue.

I must admit that there were a number of skeptics when we embarked on this modernization course. On some days on the job as Commissioner, I think of what the former Dodgers manager Leo Durocher had to say. He said that the secret to managing was to never let the four guys who hated you get together with the five guys who were undecided. So perhaps by assembling so many different groups at this conference we are violating Durocher's advice.

Notwithstanding Leo Durocher, I'm very pleased by the support we're getting from all quarters for the modernization plan. I'm especially grateful for the support we've received from the practitioner community since practitioners are such a critical part of the tax system

You've provided, and continue to provide us with invaluable insights and input as our modernization blueprint was developed and is now being implemented. You are also a major communicator of the modernization program to not only your clients, but also taxpayers at large. One thing I **don't** want to see changed in the future IRS is the excellent relationship we enjoy today. In fact, one of the key responsibilities in each of the new operating divisions will be building strong partnerships with practitioners.

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Now, this two-day conference **is** about change at the IRS. We're talking about change, large and small, painted with a broad brush and also penned in fine detail, with an emphasis on the way the entire organization is changing. But before we get into the specifics of IRS modernization, I think we have to ask ourselves, "Why is the IRS changing and what are we changing to?"

We can best answer those questions by looking back to the IRS Restructuring and Reform Act of 1998 that Congress passed almost unanimously.

The Restructuring Act was truly a landmark in the history of the IRS. It laid out a fundamentally new direction for the agency for the first time since Harry Truman sat in the Oval Office.

With a bill that sweeping and complex, it's easy to get lost in the trees and fail to see the forest. But if one looks at this bill as a whole, including all that preceded it, it's clear that the IRS was given a new direction and a new challenge – namely to measure its success or failure in terms of its effect on the people it serves **as well as** the taxes it collects.

We were being told that we must respect taxpayer rights and provide high quality service to every taxpayer. We must ensure that the taxes that are due are paid. And in an era of tight budget caps we need to do all this very efficiently.

Collectively, these expectations define what we mean by the new IRS. We've translated them into three strategic goals and further into a system of balanced measures that we will use to measure performance throughout the organization. If we achieve all three of these goals at a high level, we will achieve our mission and we will meet the public's expectations.

I want to make an important point about having three goals that I believe has been lost in some of the recent discussions about our new direction. The point is this: We must achieve **all** of our goals to succeed. We cannot succeed if we collect the taxes but do not provide good service and respect taxpayer rights. The reverse is equally true. Customer satisfaction is not achieved by failing to collect taxes that are properly due. Nor can we succeed if we cannot use our limited resources productively, or if we fail to provide employees with the tools and training needed to do a quality job.

Granted, this is a much tougher job than merely focusing on one dimension or one goal. But working in multiple dimensions reflects the way most of the business world works today.

In the business I was in for many years, we had to keep our customers satisfied or they would go to the competition and we would also go out of business. But we also had to make a profit every quarter or our stock would go down and eventually the company would have to close its doors. So we had to get adequate prices for our services from our customers and we had to collect receivables. And if we didn't treat our employees right, they would probably quit and go to our competitors.

And this is true of virtually every successful business I know of, and today, it's increasingly what the public expects from any public institution, like the IRS. So what we're being asked to do is more demanding than our job in the past, but it's in sync with other successful private and government organizations. And in the long run, it's a more satisfying way to run an organization for all stakeholders.

Although modernizing the IRS is not "Mission Impossible," it's also not "Fantasy Island." It's not surprising that there are risks and setbacks. It's not surprising that we're encountering obstacles that must be overcome. It's not surprising that there are people who are confused or have their doubts. And there may even be some who long for what they think are the good old days.

Before even taking office more than two years ago, one thing was very clear to me. Rebuilding a 20th century IRS to meet the public's and the Congress' 21st century expectations would require years of sustained efforts and would involve many risks. Yet today, I'm more convinced than ever that we can succeed. We can build an IRS that scrupulously respects taxpayer rights. We can build an IRS that provides top quality service. And we can build an IRS that collects taxes efficiently and fairly.

Our purpose is not to move some imaginary pendulum one way or the other. That would be relatively easy but not particularly useful or long lasting. Our purpose is to improve the **entire way** the IRS works.

Now, many of you have been working *with* the IRS for years. Some of you have worked *at* the IRS. In fact, some of you were even *Commissioner* of the IRS. And over all of those years, many improvements were made and many very good ideas were developed. The natural question is, "What's different this time?"

First, let me say what's not different. Good recommendations for improvement have been in plentiful supply at the IRS. These came from dozens of internal studies, GAO and IG reports. The Commission co-chaired by Senator Kerrey and Congressman Portman, and on which Fred Goldberg was a member, put these ideas together in a very useful and coherent package. The NPR study sponsored by the Vice President, and on which Bob Wenzel served as co-chair, came up with a long list of very specific proposals. And the Restructuring Act put into law the general direction and authority to implement these ideas.

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So it's not that suddenly someone came up with a better idea. Instead what's different is that the accumulation of all these recommendations, and the work of so many people, culminated in a major law and created the special opportunity for those of us who are here now to implement these ideas. We are not visionaries. We are implementers.

I'm not the only one who concluded that there's a special opportunity to put into operation the many good ideas and best practices that can benefit the IRS. One of the principal reasons that I believe we can succeed is because of the team of senior leaders we've assembled – all of whom agreed to be members of this team because of the opportunity they see to improve the IRS. Let me introduce them to you:

Deputy Commissioner of Operations Bob Wenzel who has 37 years of experience with the IRS, and as I mentioned, played a leadership role on the NPR customer service task force;

Deputy Commissioner of Modernization John LaFaver who most recently was Kansas State Tax Commissioner and has made a career of implementing modern tax administration practices;

National Chief, Appeals Dan Black who was National Director of Appeals at the IRS and began his IRS career almost 30 years ago as a Revenue Agent and has served in senior positions in Districts and Appeals;

Chief of Agency Wide Shared Services William Boswell who was Senior Vice President of Shared Services for BP America;

Chief Counsel Stuart Brown, who has held that position since 1994 and was previously a partner at the law firm of Caplan and Drysdale;

Chief Information Officer Paul Cosgrave who prior to coming to the IRS was Chairman and CEO of the Claremont Technology Group and a partner in Anderson Consulting;

Commissioner of the Wage and Income Division John Dalrymple who was our Chief Operations Officer and began his service at the IRS 25 years ago as a Revenue Officer;

Commissioner of the Small Business/Self Employed Division Joseph Kehoe who was Global Leader, Service Sector Consulting for PricewaterhouseCoopers;

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Commissioner of the Large and Mid-size Business Division Larry Langdon who was Vice President, Tax, Licensing and Customs for Hewlett-Packard;

Chief of Criminal Investigation Mark Matthews who joins the IRS after being in private law practice at Crowell and Moring and who served as Deputy Assistant Attorney General for Criminal Tax at the Justice Department; and

National Taxpayer Advocate Val Oveson who was Chairman of the Utah State Tax Commission;

Commissioner of the Tax Exempt and Government Entities Division Evelyn Petschek who served as IRS Assistant Commissioner for EP/EO and was a partner in the law firm of Patterson, Belknap, Webb and Tyler; and

Chief Communications and Liaison David R. Williams who previously worked in the Treasury Department and the United States Senate.

You've just met the team that will be leading the new IRS. Now, let's talk about a major part of our modernization program – the new organization – that will be standing up. The most basic question is, "Why are you bothering with this major reorganization? Couldn't you make do with the old structure?"

By its very nature, the reorganization deals with the internal structure of the Service. And frankly, that's something that most taxpayers, and even most practitioners, don't know or care that much about. The same could be said about our computer systems. Taxpayers and practitioners don't know or care about the guts of the IRS unless it affects the way the agency deals with them.

What taxpayers and practitioners really care about is how well we serve them. That means taxpayers getting through to the IRS on the phone and getting accurate information. That means resolving cases and issues promptly. That means producing notices and correspondence that don't require a law degree to read. That means dealing with people who understand the taxpayer's business and can make reasonable judgments about how the law applies to the facts of that business.

And practitioners and many informed taxpayers also care a great deal about how well the IRS ensures compliance with the tax laws. They know full well that those who don't comply burden everyone else who does. And that means dealing promptly and effectively with taxpayers who don't or won't pay their taxes that are due.

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Of course, we heard loud and clear that there were and are problems in the IRS. But progress to make any improvements has been painfully slow. In fact, if there are two words that capture the frustrations that many people have about the IRS, it is "too slow." Too slow to fix problems. Too slow to make clearly needed improvements. Too slow to make decisions. Too slow starting new cases. Too slow closing cases.

This is not just perception. It's all too true, and let me tick off a couple of examples. Ninety-percent of our collection efforts are spent on cases that are more than six-months old. In the large case program, we don't typically open an audit until more than two and a-half years have gone by. Despite years of studies and recommendations, we still don't have a good process to let all of our employees know if a power of attorney from a practitioner is on file.

Believe it or not, Bob Wenzel started nine long years on a recommendation to use available information from the post office to update taxpayers' addresses so we don't send mail to the wrong address. We hope that next year – before the tenth year of this odyssey – we can finally approve this seemingly obvious improvement.

Why we are reorganizing? A key reason is that our slow progress to make improvements is due in large part to the twin barriers of organization structure and obsolete computer systems. And unfortunately, one barrier reinforces the other like a chain link fence.

Of course, no one set out to create this obstacle course. The traditional IRS structure represents the way many businesses were organized for many years – around internal technical disciplines and geographical locations. In our case, they were Exam, Collection, taxpayer services, districts, regions and national office. Think back to when there were the "Big 8" accounting firms. They were mostly organized the same way – audit, tax and consulting – each under a local office head.

When you think about it, the way the IRS and other large firms were structured a half-century ago was the only way they could be organized. In those days, computers were in their infancy. Faxes and e-mail were science fiction. And long-distance calls were still mostly made through operators who may or may not have looked like Lily Tomlin.

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However, over time the IRS structure had evolved to a very complex matrix. Before our reorganization began to be implemented, there were 43 heads of office reporting through regional or intermediate offices and an operations unit in headquarters that had nine assistant commissioners. This all came together only at the very top at the Commissioner/Deputy Commissioner level. This complex matrix made it especially hard to implement change.

In the last two decades, most large businesses, especially those that were knowledge-based, such as professional service firms, moved away from a geographic structure to a customer-focused one. These companies made this transition for two important reasons.

First, the technology revolution of the past 30-40 years was the great enabler. Reorganizing and managing a large organization by customer-service lines simply wasn't possible 40 years ago. Without computer networks, faxes, e-mail and low-cost long distance phone service, the only way to manage was to be physically close by. Technology shrank distances and made it possible to create new forms of organization.

Second, if technology was the great enabler, getting closer to the customer and understanding the customer's needs were the great drivers of change. If you think about it, the IRS fits hand in glove with this scenario. We have the most to gain from being customer focused. Everyone is a customer of the IRS, giving us one of the world's most diverse sets of customers. It's obvious the service and compliance issues of a middle-income wage earner are vastly different from those of a large corporation.

So in modernizing our organization, the IRS is learning from the best practices of other large organizations that serve many different kinds of customers. We will put in place management that's accountable and is better informed of what's really going on in the field. It will understand specific taxpayers and be capable and empowered to improve the way we serve them and be more effective in identifying and addressing compliance problems.

Through this structure, we can attack the slowness problem. We can provide faster solutions to problems, faster decisions and improve our ability to deploy new technology.

We will also build into the organization the basic quality principle that it's faster, more efficient and better for everyone to prevent a problem than to solve it. In making cars, for example, it's very expensive to issue a recall. It's cheaper to fix a defect before the car leaves the factory. It's best of all to improve the design and manufacturing process so no defect occurs in the first place.

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That's why we've built into all of the business divisions the principle of working with taxpayers before they file their returns. Let's get it right the first time. And should we have to intervene through the collection or exam process, we want to identify and act on these problems as quickly as possible.

I believe this should prove to be a big plus for practitioners. We want to work with you to solve your clients' problems early in the process with increased options and choices for issue resolution. If we're successful, this should make your job easier and help you to better serve your clients.

We want to be fast, but we also want to be consistent. Another important facet of the organizational design is to promote nationwide consistency in the way we do business with taxpayers, and the way we do business internally.

One way we can achieve consistency is by replacing our 43 separate units with four operating divisions, each of which will have full responsibility nationwide for a major group of taxpayers.

At the top, we've established clear mechanisms for establishing and coordinating everything that goes into the IRM that these ODs will use to administer the tax system.

This process will be greatly simplified by two factors. One, there are only four divisions that need to coordinate. Two, much of the tax code is not applicable to the taxpayers in all of the divisions. For example, the Wage and Income Division has the responsibility for 75 percent of the nation's taxpayers. However, 82 percent of the tax code doesn't generally apply to them.

Let me close with a paradox – a modernization paradox – for you to think about.

On the one hand, major changes to the IRS are taking place. Hence the name of this conference, "The New IRS Stands Up." And we're changing the IRS for the best of reasons – to improve dramatically the way we do business with you across the board.

Here's the paradox. You will also hear that in spite of this massive reorganization, nothing has changed. The phone numbers have not changed and the Revenue Agent handling your case will be the same. IRS office locations don't change. So, where's the beef? Where's the change?

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Here's the answer. The new organization structure is not the real change that will occur at the IRS. It merely **enables** us to change. It enables us to put into place the leadership teams I introduced, and the tens of thousands of IRS employees they will lead. It enables us to give them the authority, tools and responsibility to make a difference. Over time, they – not the structure – will produce the real change in the IRS – the visible, tangible changes in service, compliance and productivity – that you and taxpayers across the nation so much deserve and will finally see. And that's no paradox. That's a promise we plan to keep. Thank you.

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