

IRS News Release

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Prepared Remarks of IRS Commissioner Doug Shulman to the Leaders & Legends Series, Johns Hopkins Carey Business School, Baltimore

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WASHINGTON — Let me begin by saying that your reimagining of the traditional MBA program is both innovative and intriguing. You should be congratulated for forging a new path and challenging the status-quo.

I believe in what Robert F. Kennedy said almost 45 years ago: “The future does not belong to those who are content with today...timid and fearful in the face of bold projects and new ideas. Rather, it will belong to those who can blend vision, reason and courage in a personal commitment.”

Indeed, these are words that any leader...or future leader can learn from...where success is measured by looking down the road farther...seeing around the corners sooner... taking on the big challenges... creating a positive vision...and trying to make a real difference in people’s lives.

And although I come today as Commissioner of the Internal Revenue Service, I have had the privilege of having a career that spanned the private and public sectors. I actually started my career in consulting, but then became one of a handful of people who helped launch Teach for America, which places teachers in urban and rural schools across the country.

Since that time, I have also started a business...been a private equity investor...a securities industry service provider and regulator and now... IRS Commissioner.

I’m often asked what it’s like leading the IRS. And that’s understandable. Most people’s views of the IRS are shaped by years of popular culture that portray the agency as this mysterious, monolithic bureaucracy. Not to let facts spoil some favorite mythology, but in reality the IRS is a very different place.

As IRS Commissioner, I am the head of a 100,000 employee financial services institution that processes over \$2.5 trillion annually for over 200 million customers.

But we are a unique financial services institution because we touch every adult American as well as tens-of-millions of businesses and non-profit organizations every year. And their views on government can be shaped by their interactions with us. That’s why efficiency and fairness must be our underlying equilibrium.

The IRS also collects the revenue to run the government, and our vital role in the economy and deficit reduction was only brought into sharper focus by the recent budget debate.

Now, my job is to set the strategic direction for the IRS and work to ensure we get there. That's how I spend most of my proactive time – and I try to stay focused on a handful of priorities.

While it's impossible to boil down all of the pre-requisites for success in leading a large, complex organization, let me share three important ingredients needed for a leader to achieve his or her strategic priorities.

First, you have to get the organization behind you. The men and women you are leading have to understand what you're trying to achieve and how that connects with the organization's mission.

A good example is the role the IRS played in the economic recovery. I would tell our people that no matter what your job is...whether it's answering a taxpayer's question on the phone... issuing a refund...or helping a small business understand eligibility for a tax credit...you're playing a crucial role in helping the American people regain their financial footing.

Second, you have to be clear about what you're doing and communicate it. I believe that a lot of good plans fail because they are not clearly articulated and properly explained.

People inside and outside the organization must understand your game plan and their role in it.

Third, you need a relentless and myopic focus on your priorities... and to not get distracted by too many crises or incoming demands. This is much easier said than done – especially in a government agency – but staying focused and consistent over multiple years is key to success.

With these principles in mind, three years ago we put forth a strategic plan for the IRS that would position the nation's tax system for the next 10 or 20 years and place the IRS on a path of continuous improvement. Today I would like to share with you these strategic priorities that we laid out and discuss where we are... how far we've come...and where we still want to go.

Let me begin with our efforts to combat offshore tax evasion.

During my tenure as Commissioner, I've made putting a significant dent in offshore tax evasion a major priority. In the U.S. and other nations, we view offshore tax evasion as an issue of fundamental fairness. Wealthy people who unlawfully hide their money offshore aren't paying the taxes they owe, while schoolteachers, firefighters and other ordinary citizens who play by the rules are forced to pick up the slack.

Our approach follows a natural course...cleaning up the abuses of the past and then mining and leveraging the data we receive to mount a greater attack on the abuse. A good example is our work on the Swiss bank – UBS – where for the first time in history, a bank secrecy jurisdiction turned over thousands of names and account numbers.

As we increased our enforcement efforts and gained significant momentum, we gave taxpayers their best chance to come in voluntarily and avoid going to jail. Now, in a typical year, we get 100 or so taxpayers who use our voluntary disclosure program. For this program, we thought that figure would rise to maybe 1,000.

So, we were very pleased that we had approximately 15,000 voluntary disclosures from individuals who came in under a special program we created, which entailed payment of back taxes and stiff penalties. And since it closed, we've received an additional 4,000 voluntary disclosures from individuals with secret bank accounts from around the world. We've even launched a second disclosure program with much tougher financial penalties – but no jail time – if taxpayers come clean with us. We are now mining the information we have received to date and have launched our next wave of investigations on banks, bankers, intermediaries and taxpayers.

Collecting additional revenue for past misdeeds – as important as that may be – is not the main consideration here. It's equally important that we're bringing U.S. taxpayers back into the system...back into compliance... so they properly report and pay their taxes for years to come.

Our goal in this effort is to fundamentally change the risk calculus of taxpayers – we are well on our way to deterring the next generation of taxpayers from using hidden bank accounts to cheat on their taxes. Through our ongoing efforts, we are demonstrating that the world has become a smaller place... that we will eventually find you if you are hiding assets overseas... and that the average American taxpayer can believe the tax system is fair.

Now, our work in the international arena was about keeping pace and adapting with change on a global scale. However, something was happening on the home front... a systemic change in our own tax system... subtle at first and tectonic later... that would make our tax return preparer initiative a “must have” strategy. Here's the story.

For decades, most taxpayers prepared their own returns with pencil, paper, adding machine and our 1040 instruction book. You could always count on an 11:00 PM news story on April 15th about procrastinating taxpayers lined up at the Post Office.

However, over the past 20-30 years, the reality of tax filing in this country has changed and today more than 8 out of 10 taxpayers use a tax preparer or tax software. Despite the fact that paying taxes is one of the largest financial transactions that the average American family has each year, today there are no basic competency requirements for tax return preparers. In fact, while in most states you need a license to cut someone's hair, today almost any Tom, Dick or Harriet can prepare a federal tax return for any other person for a fee.

Now, even though the IRS is a large institution, we have the mission to provide top quality customer service, as well as effective compliance programs, to 140 million individual Americans as well as tens of millions of businesses and non-profit organizations. As the leader of the IRS, I am always looking for points of leverage – and our return preparer initiative is just that.

In essence, we are in the process of ensuring a basic competency level for tax return preparers and focusing our enforcement efforts on rooting out unscrupulous preparers. We have registered over 700,000 return preparers and next year will start requiring any preparer who is not a CPA, attorney or enrolled agent to take a competency test and annual continuing education. The goal is to ensure that taxpayers receive top quality service from this important industry, which is a key ally in our efforts to boost overall service and compliance.

This brings us to my third priority – more and better use of data. There's general agreement both in the U.S. and around the globe that withholding and third-party information reporting are

powerful tools to improve and maintain taxpayer compliance. Indeed, over 96 percent of income that is subject to substantial information reporting and/or withholding, such as wages, interest, and dividends, is accurately reported on timely tax returns. However, most estimates show that only around 50 percent of income is accurately reported where there is little or no information reporting. Information reporting streamlines the process for the vast majority of honest taxpayers. And at the same time, it makes it more difficult for those trying to game the system.

The IRS has always been an information intensive enterprise. But it's the organization of data and ultimately the knowledge and intelligence we extract from the information we receive that really matters. It can show us the areas of greatest non-compliance...and thereby, contributes to more efficient and effective compliance programs.

We have some recent changes in the law that gave us new tools in our information reporting toolkit. For example, IRS research exposed the huge scope of misreported capital gains and losses largely due to taxpayers not accurately reporting their securities' cost, or "basis." Congress took action and beginning this year, brokers must supply to their investors easy-to-understand basis information to help them file accurate and complete returns. The Joint Committee on Taxation estimates that the new law will yield almost \$6.7 billion in revenues over a 10-year period.

Beginning in 2012, electronic payment processors, including credit and debit card processors, will also be required to make an annual information report to the merchant and the IRS stating the gross amount paid to the merchant during a calendar year. This will help improve voluntary tax compliance by business taxpayers and help us determine whether their returns are correct and complete.

We also are working to ensure that we continually analyze data about taxpayer trends, and use that data to improve our compliance operations. I created an office of compliance data analytics – reporting directly to me – that works with our business units to create hypotheses of ways to improve compliance; launches pilots to test those hypotheses; and then changes business operations when the pilot turns out to be fruitful. The goal is to up our game, and take full advantage of the advances in technology and analytics to continually update and modernize the way we do business.

Let me now turn to technology, which was underfunded at the IRS for far too long. Since the late 1980's, the IRS has been trying to move its core account database, which holds basic taxpayer information, such as your current account balance, whether you have outstanding amounts due, and whether you've made any recent payments, from a weekly or bi-weekly batch processing cycle to a daily cycle. The promise is quicker refunds for all taxpayers, up-to-date information at the fingertips of our customer account representatives, and a platform for more real-time analytics and compliance.

We are now on track to deliver this relational account database for the tax filing season commencing in January 2012 – a major milestone for the tax system and the IRS. I also see technology as one of the keys for unlocking a potential new tax structure that could fundamentally change the way taxpayers and tax practitioners prepare and file individual returns. It would deal in real time and avoid audits that may take place three years after a return is filed.

In this long-term vision, the IRS could get all information from third parties before individual taxpayers filed their returns. Taxpayers or their return preparers could then access that information, via the Web, to prepare their tax returns.

Taxpayers or their return preparers could then add any self-reported and supplemental information to the returns, and file it with the IRS. The IRS could embed this third-party information into its pre-screening filters, and could ask the taxpayer to fix the return before we accept it if it contains data that does not match our records. This is a real game-changer as it could help ensure more accurate returns and far less of the troublesome back-end auditing.

If you look at my strategic priorities regarding individual taxpayers, there's a common thread running through them that's a critical part of our mission...it's service. Service is key to our success. After all, the vast majority of Americans voluntarily pay their taxes, and we want to make doing so as easy as possible.

Now, service means a lot of things to a lot of people. For the IRS, it often means making it easier for taxpayers from Baltimore to Boise to resolve their tax issues...no matter how complicated the problem may be.

I mentioned earlier in my remarks our work during the economic downturn. I may be biased, but I think the entire IRS rose to the occasion and did a fantastic job. In a great display of teamwork, the IRS has been doing everything it can to serve and help those taxpayers who have lost their jobs or face financial strain, especially those who have done the right thing in the past and are facing unusual hardships.

We gave our collection agents greater flexibility to work with taxpayers who found themselves financially underwater. We held hundreds of special Saturday open houses...what we call Solution Saturdays...to give struggling taxpayers more opportunity to work directly with IRS employees to resolve issues.

And in our latest effort to help these taxpayers, we announced this February an innovative program called "Fresh Start" that will help them pay back taxes and avoid a tax lien.

However, service is also making it easier for people to file and pay their taxes and navigate a tax code that's longer than War and Peace ...and about as comprehensible as the original Russian version. I believe that we should not be contributing to the confusion. So that's why we launched a major plan to overhaul our notices with a focus on clarity. And our efforts were recently recognized when the Center for Plain Language honored the IRS with the ClearMark Grand Prize Award, citing two of our revised notices for the best clear language of all the documents they reviewed.

We also recognize that we must never stop innovating to meet the service needs of an increasingly diverse taxpayer base and must serve taxpayers where they need it and when they need it. One of our most far reaching innovations... and one of the most successful modernization programs in government... is e-filing. Once just a glimmer in our eyes, the e-filing rate has grown from a mere 30 percent 10 years ago to over 70 percent today. The cost savings are also enormous. For FY 2010, it cost only 17 cents to process an e-filed return – a fraction of the \$3.66 it takes to process a paper return. And with e-file, taxpayers get their refund faster, with fewer data processing errors that can lead to problems later in the process.

Let me give you another good example of innovation. More and more, we are also communicating with taxpayers who may not get their information from traditional sources, such as newspapers and broadcast and cable news. In response to this trend, we unveiled this January “IRS2Go”, our first smartphone application that lets taxpayers check on the status of their refund and obtain other helpful tax information on their iPhone or Android.

We have also been ushering in a new relationship with corporate taxpayers with a major focus on creating forums and venues where we can resolve issues faster and provide more certainty.

The impetus for this new approach stems from the simple shared belief that at the end of the day, taxpayers and tax authorities pretty much want the same thing. They want a balanced tax administration system that provides:

- Certainty regarding a taxpayer’s tax obligations sooner rather than later;
- Consistent treatment across taxpayers; and
- An efficient use of government and taxpayer resources by focusing on the issues and taxpayers that pose the greatest risk of tax noncompliance.

There are several interlocking pieces that will help advance this transformation. It requires more transparency on both sides; a re-tooling of our audit approach; and a commitment to resolving issues quickly and clarifying uncertainty in the law.

We now have a number of innovative, forward-thinking programs and forums, such as our Industry Issue Resolution program, Compliance Assurance Program, Fast Track Settlement and our Uncertain Tax Positions reporting requirement that are focused as a package on the goals of faster issue resolution and greater certainty for those taxpayers who want to be transparent. They are our leading edge initiatives in our evolving relationship with corporate taxpayers.

Now, after all that I’ve described...all of our service and compliance strategic priorities, programs and initiatives...one fact rises to the top... people are our most valuable asset. They’re the real currency of any large organization. And one of my core beliefs is that if we’re going to serve taxpayers well, we must have engaged and motivated employees who understand how they’re contributing to the organization’s strategy.

While I spent my first 90 days as Commissioner listening and learning, during that time I also launched what I called the Workforce of Tomorrow Task Force with the stated objective of making the IRS the best place to work in government.

We put together a framework of priority items – from speeding up hiring, to training people, to getting rid of managerial burden. We dealt with the big issues like culture, but also everyday things like cell phones, BlackBerries and wireless cards to give employees the tools to get the job done.

I am heartened to see that the work we started three years ago has penetrated our 100,000 person organization. From 2008 to 2010, we jumped from 8th place to 3rd place among large agencies in the Best Places to Work in the Federal Government survey. This was due to significantly higher scores in three core areas: job satisfaction, satisfaction with the overall

organization, and how willing you would be to recommend the organization as a good place to work. While we still have a lot of work ahead of us, we are making significant strides in being a people-focused organization.

On top of the proactive agenda I've just outlined, in recent years the IRS has been called on more and more to play a vital role in key policy objectives set forth by Congress and the Administration. I call this final category of work "incoming priorities," and it is must-do work that is critical to the country's future.

The IRS is now recognized as a highly efficient and effective mechanism to carry out important and high profile government initiatives. Our portfolio of duties was greatly expanded during the recession when we were called upon to help revive the economy. For example, about one-third of the Recovery Act, or \$288 billion, ran through the tax system and the IRS.

That includes everything from the Making Work Pay credit, which gave 95 percent of Americans a tax break, to an expanded net operating loss carryback that enabled us to push over \$33 billion out to businesses when the credit markets were frozen. And we have recently been asked to play a significant role in the Affordable Care Act, because much of the "money flows" in that piece of legislation are effectuated through the tax system.

The lesson learned here is that the IRS cannot afford to be rigid and calcified. We must be agile and nimble enough to react quickly to whatever the future may hold.

So three years ago we set out with a focus on six strategic priorities: offshore tax evasion, data capture and analytics, tax return preparers, taxpayer service and issue resolution, our technology, and our people. The economic downturn and new policy directions added two other major initiatives to our agenda. By staying focused, we have made significant headway in all of these areas and have made lasting positive changes in our nation's tax system which will position it well to serve the American people for years to come.

I called this speech, "leading around the corners" because so much of my job is not just meeting today's challenges...but positioning the agency for the next 10 to 20 years and being ready for what lies around the corner... and leading this great organization and its dedicated public servants into the future.

And as I look around me today, I see a new generation of men and women ready to take on the mantle of leadership; whether it's in business, education and I hope... government service. Your own future brims with opportunity and promise... and I wish you all the best.

So let me leave you with these words of John Quincy Adams that still ring true today: "If your actions inspire others to dream more, learn more, do more and become more, you are a leader."