



News Release

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Prepared Remarks of IRS Commissioner Doug Shulman before the AICPA, Washington, DC

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WASHINGTON — Today is the day after the elections and of course, political Washington is all abuzz...bloggers are blogging...commentators are commenting... folks on Twitter are tweeting... the pundits are dissecting last night's results.

However, I am not here to wade into those political waters. Rather, I come before you today to talk about something entirely different.

In a few days time – November 11th to be precise – my term as the 47th Commissioner of the Internal Revenue Service officially comes to a close. And looking back, I can say it has been a true honor and one that I wouldn't trade for anything.

I suppose it's quite natural when one has completed a significant task like running the IRS for almost five years to pause ... to reflect on the journey taken ... to mark the milestones met ... and to ponder the lessons learned.

Standing before you today...standing on the shoulders of those who came before me...building on their work and achievements...it is gratifying to share with you the meaningful...and I believe, lasting progress that has been made to our nation's tax system.

People often ask me, "How do you drive change and significantly move the needle in an organization as big as the IRS?" Two of the key factors are to set the right strategy, one which people believe in and you can explain, and then to stay focused.

I'm a believer in a relentless focus on priorities – not getting distracted by too many crises or incoming demands – and making sure that you communicate these priorities clearly inside and outside the institution that you run to ensure there is broad support and engagement among stakeholders.

This is much easier said than done – especially in a government agency – but staying focused and consistent over multiple years is a key to success.

Today, I want to share with you some of the results of almost five years of relentless focus on a handful of strategic priorities we set for the IRS. The priorities are:

- Creating breakthrough strategies to combat international tax evasion;
- Transforming our relationship with corporate taxpayers;
- Transforming the IRS' core technology;
- Rethinking and reimagining the IRS' relationship with paid tax return preparers;
- Leveraging data analytics for continuous improvement;
- Driving efficiency and taxpayer service improvements; and
- Positioning the IRS workforce to make sure we are prepared for tomorrow's challenges.

So, let me begin with our efforts on the international front. Both corporations and individuals operate in the global economy, as corporations seek out new markets and individuals have global exposure through their investments, including retirement accounts.

Yet, this fundamental shift to a more global economy has created a real set of compliance challenges for the IRS. On the individual front, we have made putting a big dent in offshore tax evasion a major priority.

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 and foot the bill.

Over the past five years, we have significantly increased our resources and focus on offshore tax evasion, and the results have been substantial. We upped the ante in a meaningful way with our work on Swiss financial institutions – 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 a chance to come in voluntarily and avoid going to jail. In a typical year, we used to get 100 or so taxpayers who used our voluntary disclosure program. When we first set up our new program in 2009, we thought that figure would rise to maybe 1,000.

So we are very pleased that we've had approximately 38,000 voluntary disclosures from individuals who came in under the special programs.

To date, these individuals have paid back taxes and stiff penalties amounting to more than \$5.5 billion, and the number continues to grow. We are mining the information we have received 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 only, or even primary, consideration here. It's perhaps more 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. We have fundamentally changed the risk calculus of taxpayers who are thinking about hiding their money overseas, and we are well on our way to deterring the next generation of taxpayers from using hidden bank accounts to cheat on their taxes.

We're also transforming our relationship with corporate taxpayers...many of whom operate in a global environment. Even before I became Commissioner, I was aware that the relationship between the IRS and large corporate taxpayers was frequently unconstructive. One of the assumptions built into the dynamic was the so called "adversarial relationship" between the IRS and the taxpayer. This was one of those "givens"...the relationship would never change.

I have always challenged this basic assumption. The historic framework for the nation's tax laws is a system of voluntary compliance. Our tax system is set up in such a way that taxpayers fill out their own returns. This self-assessment system reflects the fact that it is the taxpayer, and not the IRS, who possesses all of the information relevant to tax liability. We then use information reported by the taxpayer to make judgments about issues to pursue, and returns to audit. Inherent in this system is the basic assumption that the taxpayer will be forthcoming and the government does not need to be an "adversary" in most situations.

We now have a suite of different strategies, tools and programs we've been applying over the past few years to transform this once unproductive relationship with corporate taxpayers. At first blush they may seem unique and unrelated...with all of their different acronyms and structures. But if you look deep into their genetic blueprint you will see the same goals at their center...transparency and issue resolution. The tools include:

The CAP program, where we work with corporate taxpayers to resolve all issues before a tax return is filed, so that when the taxpayer files a return, there is certainty; fast track appeals process, where we move our administrative appeals process into an audit to try to resolve issues when they arise—rather than taking the issue through an appeals process after an audit is completed; our industry issue resolution program where we produce guidance to taxpayers, mostly in the form of safe harbors, so they need not worry about later controversy, and others.

We also asked taxpayers to be more transparent with us by disclosing their uncertain tax positions, which they book as reserves on their financial statements. The end game is a more productive relationship, which allows us to focus on corporate taxpayers and

issues that pose the greatest compliance risk—and not spend time on taxpayers who pose a lesser risk of non-compliance.

Our strategic priorities also focused on critical foundational operations and infrastructure, without which the IRS could not fulfill its mission. And one of our most critical goals was modernizing our aging technology, and one critical program in particular...our core customer account database, also known as CADE2.

When I arrived at the IRS I initiated a broad review of the IRS technology portfolio. We pruned our portfolio of projects to focus on addressing the single most visible and complex issue that had been holding back the IRS for decades. Since the 1960s, the IRS had conducted its core account processing on a weekly basis. This processing included maintaining basic taxpayer information, such as your current account balance...whether you have outstanding amounts due... and whether you've made any recent payments.

It is enormously gratifying that the IRS successfully migrated from a weekly processing cycle to daily processing this year. This was a multi-year, incredibly complex undertaking that went to the heart of systems that process trillions of dollars in tax revenue. This is an incredibly important milestone for the IRS, one which we first set our sights on in the late 1980s.

The payoffs from this change are quicker refunds for taxpayers, up-to-date information at the fingertips of our customer account representatives, and a platform for more real-time analytics and compliance. It is already benefiting taxpayers this year, and will produce major benefits for the nation's tax system for years to come.

I cannot emphasize enough the importance of continuing to invest in the technology infrastructure supporting the IRS. The IRS is one of the most complex financial institutions in the world, and only through investments in technology will the agency keep up with evolving taxpayer needs.

Our next key long-term priority is an initiative that we started over three years ago to look at how the IRS interacts with paid tax return preparers.

And here's the reason why we took on this challenge. Paying taxes is one of the largest transactions that the average American family has each year.

However, over the past 20-30 years, the way that taxpayers go about filing their taxes has dramatically changed. Today, more than 9 out of 10 taxpayers use a paid tax preparer or tax software. When I arrived at the IRS, there were no basic competency requirements for tax return preparers. In fact, while in most states you need a license to cut someone's hair, just a short time ago almost anyone could prepare a federal tax return for any other person for a fee, regardless of their level of experience or knowledge of the tax law.

Now, as the leader of the IRS, I am always looking for points of leverage – and our tax return preparer initiative is just that. In essence, we shifted from a retail to a wholesale approach. We shifted resources from dealing with taxpayers one-by-one, to dealing with the intermediaries who deal with hundreds or thousands of taxpayers at a time. That's what I mean by leverage.

Given the importance of paid return preparers to the integrity of our tax system, we're now well into 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 850,000 return preparers and have begun administering a new competency test for any preparer who is not a CPA, attorney or enrolled agent. These individuals also have to complete 15 hours of continuing education each year using IRS-approved providers.

Once the majority of preparers are registered and have taken the test, we will launch a public database so taxpayers can ensure that they are using a registered tax return preparer.

Our next major priority is leveraging data analytics in order to continually improve our operations.

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, contribute to more efficient and effective compliance programs.

We have built a team of people with analytical expertise and connected them with our business units to continually improve our operations. They are working on multiple fronts, and the results have been impressive. Let me give you just one example of how we are leveraging data analytics, and how many of the strategic initiatives I have discussed come together.

Using better data on return preparers that we gained through our return preparer initiatives and faster processing cycles achieved through our technology modernization, we ran a pilot applying advanced data analytics to link tax returns that showed potentially serious compliance issues to the individuals who prepared them. We identified a number of preparers with apparently inaccurate returns and, depending on the type and severity of the issue, are applying different types of compliance tools.

Based on risk scoring, preparers with problematic returns received one of three treatments: due diligence visits, outbound phone calls, or letters with monitoring. One goal of the pilot was to measure the effectiveness of early intervention.

We estimate that through the treatments in this relatively small pilot, we generated almost \$200 million of savings on improperly claimed EITC and Child Tax Credit/Advanced Child Tax Credit claimed on these returns. In other words, relative to a

control group where no filing season interventions were applied, the IRS found that the early intervention techniques reduced improper claims by about \$200 million. And the cost of the treatment was only about \$2.7 million.

This new test-and-learn methodology is one part of a greater trend of success we are having in implementing new filters to detect fraudulent returns and new processes for handling returns. We are now an organization that is proficient at designing pilots to test new ways of doing business. When we see positive results, we then expand the techniques into our core operations.

So far this year, we have stopped approximately \$19 billion in fraudulent payments from going out the door as compared to \$12.5 billion over the same period last year. And these numbers dwarf the \$2.4 billion that we stopped for all of 2009.

So as you can see, we are getting better at moving more quickly and using data to focus our compliance efforts. This is a key part of an overall strategy that the IRS is pursuing to move the tax system to be more real time. In addition to making internal IRS operations more real time, we've also opened a dialog with the practitioner community about how to engage practitioners and taxpayers in more real time issue resolution. If a taxpayer files a return reporting income from a primary job, but forgets about a part-time job held early in the year, why shouldn't the IRS be able to flag that for the taxpayer and let them fix it up front? The alternative is a notice from the IRS many months after the fact, when records are more difficult to find and interest has accumulated.

We've conducted extensive outreach, including public meetings, and we've heard consistent praise for the concept, with a lot of questions about how it would work. So we are continuing to work with the broader tax community to find ways to advance this idea and help taxpayers address issues much earlier in the process, while recognizing the inherent complexity of the undertaking. This will likely include some very small pilots this upcoming filing season to test the concept.

As you can see we have made great progress in making our compliance efforts more strategic using new tools, data, and capabilities. However, the IRS is not just about compliance. While popular culture generally links the IRS with compliance and enforcement, the truth is that the IRS interacts with the overwhelming majority of the population strictly on a customer service basis. Eighty percent of people file their returns electronically and receive an average \$3,000 refund via direct deposit in 10-15 days. This is their only interaction with us each year, and it turns out that it is a quite pleasant one. And providing quality customer service is a key priority of mine...and every bit as important as enforcement.

Now, every year, the American Customer Satisfaction Index measures customer satisfaction across various industries and government agencies. While we have many measures of customer service at the IRS, this composite index is the main measure we use to track our overall performance.

In 1998, the IRS hit rock bottom with only 32 percent of respondents to the Index survey voicing satisfaction with how we were doing our job. But over time, the IRS pulled out of this downward spiral. Slowly, but surely, we regained taxpayer approval as the IRS improved its services, such as e-file, and began offering new ones through our Web site. All of this hard work paid off. The numbers tell the story.

For 2011, the American Customer Satisfaction Index survey of taxpayers showed satisfaction with the tax filing experience reaching 73 on a scale of 100 among all individual tax filers. That is our highest score since we began participating in the survey in 1994. I am especially proud of our continued progress in this metric, given the new responsibilities handed to the IRS in recent years...the increasing complexity of the tax code...and our continued drive to cut costs.

Speaking of which, it is incumbent upon all of us in government to be as efficient as possible and spend taxpayer dollars wisely. We have to be good stewards of these dollars.

Starting with fiscal year 2009 and running through our budget of next year, we will achieve nearly \$1 billion in budget savings and efficiencies. And they come from a variety of sources, such as closing down paper return processing centers no longer needed because of increased electronic filing...offering voluntary buyouts to many of our employees...cutting back on non-case related travel and conferences.

And I would be remiss if I didn't mention our focused efforts to make the IRS the Best Place to Work in Government. We can only serve the nation's taxpayers well if we have engaged employees who are respected and challenged and whose managers support them... help them do their jobs... and hold them accountable. In 2008, I created the Workforce of Tomorrow task force, which has spawned many important workplace initiatives. This remains one of our top priorities, and we will continue doing everything we can to improve our work environment.

It's heartening to see that we have been making headway on workplace improvements. We know this because the IRS has showed remarkable improvement in the Best Places to Work in Federal Government survey. In two years we moved from a ranking of 127th to a ranking of 65th out of the 240 participating agencies. And we moved from eighth to third out of 15 large agencies in that survey's employee engagement index.

Now, on top of the proactive agenda I've just outlined, 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's must-do work that's critical to the country's future.

The IRS is now recognized as a highly efficient and effective institution to carry out important and high profile government initiatives. Our portfolio of duties was greatly expanded during the economic crisis when we were called upon to help revive the economy. For example, about one-third of the Recovery Act, or approximately \$300 billion, ran through the tax system and the IRS.

That includes things like an expanded net operating loss carryback that enabled us to push out tens of billions of dollars to businesses when the credit markets were frozen in 2009.

And we have recently been asked to play a major role in implementing and executing the tax provisions of the Affordable Care Act. For instance, we are working closely with the state and federal health insurance exchanges, as we will provide hundreds of billions of dollars in tax credits through the exchanges to help people afford health insurance. I am very proud of the role we're playing to help people gain access to affordable health insurance.

I've spent most of my time today looking at our past successes so I would be remiss if I didn't take a few minutes to talk about the future...and this is a bit of a cautionary tale. As much as we have been praised for our work on implementing the Recovery Act and the Affordable Care Act... for example... we can't take these successes for granted going forward.

In today's super heated partisan atmosphere, it's easy to vilify the tax man...it's easy to turn the IRS into a scapegoat for all that ails us...it's easy to cut the IRS' budget versus that of a popular program or agency.

But given the IRS' importance to the economy and the functioning of our government, it is my sincere desire that cool heads will continue to prevail in any debates over the IRS...those with the long-term vision who see the necessity and great value a consistently well-funded IRS brings to our great nation.

It is also my desire that Congress keep a keen eye on tax legislation that adds to complexity and is difficult for taxpayers to comprehend and for us to administer. You can create the most elegant piece of policy in the world but if we can't administer it or taxpayers don't understand how to take advantage of it, the value of that policy plummets.

So let me end by saying that it has been an honor to serve as IRS Commissioner during such exciting but challenging times.

I believe that during the past five years the IRS team has made lasting contributions to the tax system and taxpayers. We challenged and changed the old dynamic in many ways. We weren't afraid to take on the sacred cows. We achieved true progress by standing on the shoulders of those who preceded us. We built on their work and took it to the next level.

I believe that we leave the IRS a better place. And this is due to the men and women who are the IRS...from our senior executives...to our front-line managers....to the person who answers the phone ...to the tens of thousands of employees you never see but who are part of the fabric America's tax system and this great institution.

Our success is also due to deep engagement with the private sector and key stakeholders. Indeed, we need to be in constant dialogue with those that we have an effect on in order to do our job well.

And with those words, let me say thank you again. I wish you all well and I hope our paths cross again in the future. Thanks for listening today, and I would be happy to take some questions.