WASHINGTON — Thank you and it's great to be back at the National Press Club at a time when the city seems to really come alive again.

Anyone who visits Washington comes away with a sense of permanence and timelessness. All of the granite, marble and limestone that went into building the colonnades and statues that adorn this beautiful city speak to us of the enduring legacy of our great nation…of heritage and hope…tradition and trust…fairness and freedom…character and courage.

Collectively, these monuments also bear testimony to the enormous progress this country has made over the centuries…of men and women who were not afraid to embrace new ideas… and men and women who were not afraid to challenge the past and old ways of thinking.

However, the germination of any idea…the cultivation of a concept…is only the beginning. Then, begins the real work of teasing it into life, and growing it. And that process never ends. It’s one of continuous improvement. As IBM's Thomas Watson said, “Whenever an individual or business decides that success has been attained, progress stops.”

I am a firm believer that true progress in an institution such as the IRS is achieved by standing on the shoulders of those who have preceded us. We build on their work and try to take it to the next level.

This has been my experience as Commissioner of the IRS. I look back to what the IRS was like before the major reorganization took place in 1998 and where we are today…a sustained arc of progress that had a very different beginning.

Looking into the rear-view mirror, there was a time that the IRS was thought of as an organization that seemed mired in the past…one that had not kept pace with advances in technology…one that was slow to adapt to emerging best practices in customer service and compliance…and one that was slow to recognize an increasingly evolving and changing taxpayer base and the broad implications that a global economy had on the tax system.

But standing before you today…standing on the shoulders of those who began reimagining what the Internal Revenue Service could be in the 21st century…it is gratifying to see and share with you the meaningful…and I believe, lasting progress that has been made.
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 individuals, businesses, and non-profits.

People often ask me how do you get an organization as big as the IRS to move forward on key initiatives. 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 relentless and myopic 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. 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.

So today, I wanted to share with you some of the results of four years of relentless focus on a handful of strategic priorities we set for the IRS. The priorities are:

- Creating new capabilities and efficiencies through technology
- Rethinking and reimagining the IRS’s relationship with paid tax return preparers
- Leveraging data analytics for continuous improvement
- Enhancing our taxpayer service capabilities
- Transforming the agency to confront the challenges of a global economy, and
- Positioning the IRS workforce to make sure that we are prepared for tomorrow’s challenges.

Let me begin with our efforts to modernize our technology, and one critical program in particular that’s called the Customer Account Data Engine – or CADE2.

You may have seen video footage from the 1960s, where very earnest looking people load enormous tapes onto mainframe computers to perform what was then a magical feat of automated data processing. Fast forward more than 40 years, and although the tapes are much smaller, and robotic arms move them from place to place, the IRS still operates some of its core systems using the same basic technology. You might ask yourself – why?

The answer is complicated, and has at least three parts.

First – because it works. The IRS was one of the first institutions to deploy data processing on a large scale and some of the original systems were truly engineering marvels. Although they were advanced at the time, there are now a dwindling number of people who understand the old systems, and it is incredibly expensive to train new people on this obsolete technology.

Second – because the IRS has built an elaborate set of newer systems and technologies that compensate for the shortcomings of the legacy systems. This means that some of the key technologies – such as those for telephone routing or exam selection – don’t need to rely on the old systems. It also means we have a very complex, fragile and interrelated set of old and new systems, the untangling of which is very complicated.
Third – because there has been real reluctance to fund IRS technology in a way that is commensurate with its mission. The fact is that the IRS currently spends less than three percent of its budget on long-term enhancements to its IT infrastructure. When compared with large private sector financial institutions – none of which come close to matching the number of customers that the IRS must support – that percentage is shockingly low. The President has proposed a much-needed substantial increase in the IRS technology budget, in large part reflecting our critical mission.

With all of these factors in mind, when I arrived 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 basic taxpayer information, such as your current account balance…whether you have outstanding amounts due…and whether you’ve made any recent payments.

I am pleased to report that this year the IRS successfully migrated from a weekly processing cycle to daily processing. 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 tax return processing 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. It is already benefiting taxpayers this year, and will produce major benefits for the nation’s tax system for years to come.

Our next key long-term priority is an initiative that we started 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. One of the most important tasks millions of Americans have been tackling, and will be tackling over the next two weeks, is preparing an accurate and timely tax return.

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. Despite the fact that paying taxes is one of the largest financial transactions that the average American family has each year, 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 few years 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 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 a hundred or a thousand taxpayers at a time. That’s what I mean by leverage.

To give you a sense of scale, 95 million individual and business income tax returns were prepared by paid preparers in 2011…and that doesn’t include self-prepared returns using software. The taxpayers served by paid preparers accounted for $5.7 trillion of income reported.
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 840,000 return preparers and have begun administering a 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 from IRS-approved providers.

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 CADE2, we applied 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.

The early results of this effort are encouraging, but we'll need to remain focused on testing different techniques to continually improve our ability to accurately assess the compliance risks and determine what types of compliance activities are most effective. Based on what we learn, we will continuously make adjustments and improve the program.

In addition to finding and stopping more fraud this filing season, there are other benefits to combining the expertise and knowledge of our data analytics…return preparer…audit…and technology teams. Bringing them together enables us to improve our ability to understand trends in non-compliance on a number of fronts, and be able to identify and react to emerging compliance issues faster.

The example I gave you is just one of many where we are using advanced data analytics to significantly up our game.

But the IRS is not just about compliance. While popular culture generally links 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. And providing quality customer service is a key priority of mine…and every bit as important as enforcement.

We provide numerous options to assist taxpayers in preparing and filing their taxes – from tax forms and publications…to electronic filing services…to toll-free telephone, in-person, and Web options for getting in touch with the IRS on specific issues.
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 had hit rock bottom. It reached an all-time low with only 32 percent of respondents to the American Customer Satisfaction 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, it 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.

However, as a leader I believe that we must never stop innovating to meet the service needs of an increasingly diverse taxpayer base, and we 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 for individuals has grown from 16 percent 15 years ago to over 77 percent last year. In addition to a better customer experience, the cost savings are enormous. It costs only about 15 cents to process an e-filed return – a fraction of the approximately $3.50 it costs to process a paper return. And with e-file, taxpayers get their refunds faster, with fewer data processing errors that can lead to problems later in the process.

Let me give you another good example of innovation in the service area. More and more, we are communicating with taxpayers who may not get their information from traditional sources, such as newspapers and national news. In response to this trend, last year, we unveiled “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. You can expect us to continue to innovate in the service arena in the years to come.

Let me now talk about how the IRS is managing its responsibilities in an increasingly global environment. In a world where products are routinely sold after intellectual property is generated in one or more countries…where logistics and engineering are carried out in other countries…where risks are managed in a variety of places…and where components are sourced from multiple jurisdictions, figuring out what U.S. corporate income tax may be appropriate when the products go to market can be a challenge to say the least.

Both corporations and individuals operate in the global economy. For example, many individuals have global exposure through their investments and 401Ks. Yet, this fundamental shift to a more
global economy has created a real set of 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.

Over the past four 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. For this program, we thought that figure would rise to maybe 1,000.

So, we are very pleased that through the end of 2011, we’ve had approximately 33,000 voluntary disclosures from individuals who came in under several special programs we started in 2009. To date, these individuals have paid back taxes and stiff penalties amounting to more than $4.4 billion, and the number continues to grow. 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 only consideration here. It is 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.

Now, we are also upping our game in the large business arena, particularly as it relates to international tax issues. We are shifting our international approach to be more strategic, and to view taxpayers through the prism of their business objectives and tax planning strategies. Indeed, our compliance strategy is starting to mirror the corporation’s tax planning strategy.

The end game is a way of organizing our international compliance programs to: identify the highest compliance risks among our taxpayer base…work cases as effectively and efficiently as possible…not waste our and taxpayers’ time on issues that do not pose compliance risk…and find appropriate ways to resolve cases as soon as possible.

We are also moving from information sharing to more coordinated action among government tax authorities on a global basis. I’m the chairman of the main global body of tax authorities, which is comprised of my counterparts from 43 nations, including those from all G20 nations. We have stepped up our coordinated efforts on offshore tax evasion by individuals, and have embarked on a project to conduct joint audits of certain multinational companies – which should reduce administrative burden on a company and help increase compliance.
Now, after all that I’ve described…all of our service and compliance strategic priorities …one fact rises to the top…people are our most valuable asset and focusing on them is a strategic imperative. One of my core beliefs is that if we’re going to serve taxpayers well, we must have engaged and motivated employees.

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 an emphasis on key factors including engagement, accountability, career paths and management to position the agency for excellence in the future.

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 employees being asked to travel for work, but not having the technology they need to get the job done efficiently while they are out of the office.

I am heartened to see that the work we started four years ago has penetrated our 100,000 person organization. From 2008 to 2011, we jumped from 8th place to 3rd place among the fifteen large agencies with over 20,000 employees in the Best Places to Work in the Federal Government survey. 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’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 recession 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 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 out tens of billions of dollars 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 four years ago, we set out with a clear strategy and intense focus on six strategic priorities: technology modernization, tax return preparers, data analytics, taxpayer service, offshore tax evasion, and our people. The economic downturn and new policy directions added two other major initiatives to our agenda. But 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.
Thank you for listening, and I would be happy to take some questions.