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INTERNAL REVENUE SERVICE
OFFICE OF NATIONAL PUBLIC LIAISON
ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE
2017 PUBLIC MEETING FOR ETAAC

Wednesday, June 28, 2017

9:00 a.m.

The Melrose Georgetown Hotel
2430 Pennsylvania Avenue, N.W.
Washington, D.C. 20037

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- JOHN SAPP, Chair, ETAAC
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- SHANNON BOND
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- TODD EGAAS
- MEL HARDY
- EDWARD KILLEN
- TERRY LEMONS
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- PHILLIP POIRIER
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1 P R O C E E D I N G S

2 MR. HARDY: Good morning, everyone. Welcome. It
3 is a lovely day. No humidity here in D.C., which is
4 rare.

5 My name is Melvin Hardy. I am the director of
6 National Public Liaison. Welcome to the 2017 Public
7 Meeting for the ETAAC.

8 Just a couple housekeeping notes. For those of
9 you who are going to be speaking today, please use the
10 mic. You hit the red button, and cut it off afterward.

11 We, of course, know where all the restrooms are, that
12 sort of thing.

13 So without further ado, I will turn it over to the
14 chair of ETAAC for this year, John Sapp.

15 John?

16 MR. SAPP: Thanks, Mel.

17 I am John Sapp, and I serve as the chair of the
18 ETAAC for this year. We would like to welcome you to
19 the public forum for the presentation of our report for
20 2017.

21 To all those in attendance today from the public
22 and the government sector, the IRS, friends and family,

1 welcome. We appreciate you taking the time this
2 morning to allow us to send our report.

3 ETAAC was chartered by Congress in 1998 to advise
4 the IRS on achieving its goal to receive 80 percent of
5 tax and information returns electronically. This year,
6 we are congratulating the IRS on what is predicted to
7 be achieving that 80 percent mandated benchmark for
8 major tax returns.

9 This is a monumental achievement, and one that
10 benefits the American taxpayer by allowing convenient
11 compliance with their tax-filing obligations, as well
12 as efficient use of taxpayer dollars, in that e-filing
13 is much more efficient than paper filing.

14 So ETAAC is composed of a variety of individuals
15 who are sitting around the table today from the private
16 sector, the financial sector, the tax-preparation
17 industry, the tax software industry, and consumer
18 groups, and State Departments of Revenue --

19 MS. MAGEE: How could we forget?

20 [Laughter.]

21 MR. SAPP: -- my co-chair, Doreen Warren, from the
22 State of Alabama, would like to point out. They do not

1 suffer in silence.

2 That variety allows the IRS to receive a variety
3 of perspectives, obviously, on the tax ecosystem and
4 how the policies and things that are implemented in
5 D.C. actually impact the American taxpayer.

6 We will have a little more detail on that as we go
7 forward today. But at this time, I would like to go
8 ahead and turn it over to Commissioner Koskinen for his
9 opening remarks.

10 COMMISSIONER KOSKINEN: Thanks, John.

11 Welcome to everybody. Let me just begin by
12 thanking all of you for the time and effort. I know as
13 I dropped in to see you yesterday afternoon, I do not
14 know what time you left there, but you were there all
15 day yesterday, working on the important work of the
16 committee.

17 ETAAC is one of several advisory committees we
18 have, which provide the critical function of giving us
19 feedback. As John said, it gives us perspective on
20 what the impact of what we do has on the public, on
21 other government agencies, on other activities. That
22 feedback is critical to us across-the-board, whether it

1 is in our Tax-Exempt and Governmental organizations or
2 in our regular work on filing season and dealing with
3 other organizations.

4 So as I always say, all of you have day jobs and
5 other things to keep you occupied, so your willingness
6 to devote time to this is important to us.

7 ETAAC has been, as John noted, around for a while.

8 It has been focused with us on Electronic Tax
9 Administration and was a logical place for us to
10 provide continuity and continue the effort of the
11 Security Summit that we set up 2 years ago, with many
12 of you around this table.

13 As you will recall, and I delight in reminding
14 people, it was shortly after March 2015, when we got
15 together that summer, that the members of this ad hoc
16 partnership, unique in many ways for the history of the
17 IRS, between the private sector, State tax
18 commissioners, and IRS was going forward, people began
19 to demand that, hey, this is a great idea, you have to
20 make it permanent. You have to figure out a way for it
21 to be able to continue going forward.

22 As we looked at it, and obviously agreed with

1 that, having it fit under the umbrella of ETAAC seemed
2 like the obviously logical place to go, because a
3 critical part of Electronic Tax Administration is
4 securing the data and the information of taxpayers,
5 protecting taxpayers against identity theft and refund
6 fraud.

7 So it is a logical place for those issues to be
8 considered and monitored, and the challenge for us will
9 be to continue to build on really terrific work that
10 has gone on.

11 As you know, the number of taxpayers who have
12 reported themselves as victims of identity theft in
13 filing season 2016 dropped by 50 percent -- 46 percent,
14 to be accurate, I guess -- a stunning number, since we
15 always felt we were doing well if we could just hold
16 our own.

17 My concern for the last filing season that just
18 ended was, would we hold our own? Would it go back up?
19 Would it drop again? While we are still collecting
20 the numbers, it does appear that the number of people
21 reporting themselves as victims of identity theft has
22 fallen again.

1 And it is really the result of, first, a
2 tremendous amount of great work by IRS employees and
3 information technology and otherwise. We have over 200
4 filters now that look for anomalies.

5 But it would not have happened without the
6 cooperation and the partnership, really, of everyone in
7 the private sector who has worked with us, everyone in
8 the States who have banded together to provide greater
9 security for taxpayers from the start when they enter
10 into the system, that have shared information back and
11 forth in real-time as we moved through the year, have
12 continually shared experiences and prodded each other
13 to say, why can't we do this or why don't we take a
14 look at that? And as I say, it has been, for me,
15 fascinating to watch.

16 Competitors in the private sector, States who
17 sometimes, as we kid, when you have 44 State
18 commissioners, it is like herding cats to get them
19 moving all in the right direction. But to see
20 everybody, in effect, leaving their hats at the door
21 and sitting down around a table and figuring out, okay,
22 how do we make progress, it has been fascinating to me

1 to watch the progress made.

2 John and Doreen and I sat down yesterday for a few
3 minutes to chat about where we are and where we are
4 going. One of the issues is, how do we sustain the
5 momentum in this area? And I feel very strongly that
6 it will continue to prosper and will continue to grow,
7 as long as it is meaningful for the members in the
8 partnership, meaningful for the members of ETAAC. And
9 I think it will be, in terms of the ongoing
10 cooperation, the sharing of information, building on
11 the ISAC and other information as we go.

12 So I look forward to my last meeting for an annual
13 report from ETAAC. I look forward from my bunker where
14 I am going.

15 [Laughter.]

16 COMMISSIONER KOSKINEN: As I said, a submarine
17 located somewhere off the East Coast to monitor what
18 goes on.

19 But I particularly appreciate John's work as
20 chairman and Doreen's work as vice chairman leading
21 ETAAC.

22 I have gone through the report and the 22

1 recommendations, scanned a lot of activities and a lot
2 of suggestions. But they are important, and they are
3 valuable to us. And that feedback continues to be
4 important to us, and we continue to value it.

5 So with that, I am delighted to turn it back over
6 to John and we will move forward.

7 MR. SAPP: So we are going organize today in a
8 fashion where we are going to highlight, and I am going
9 ask my subgroup leaders to highlight, some of the
10 issues and some of the commentary that they have in the
11 report, and then we will take a break, as is noted on
12 your agenda. Then after that, we are going to dive
13 into some of the details and the methodology behind how
14 the ETAAC report was presented.

15 During the course of evaluating issues and looking
16 at the auspices of what the issues should be, we met
17 with a lot of IRS folks, a lot of folks from the
18 outside world, and we requested a lot of information
19 and a lot of data. I see some of the IRS folks
20 avoiding eye contact with me.

21 [Laughter.]

22 MR. SAPP: But seriously, thank you for all of

1 your responsiveness, the IRS folks especially. They
2 responded to us very quickly and very candidly in a lot
3 of scenarios. Without that candid relationship and
4 communication that we were able to have, I do not
5 believe we would have been able to come up with what we
6 believe are some excellent recommendations. We will
7 talk through those in just a little bit.

8 I also would be remiss if I did not point out just
9 a couple things. My subgroup Leads that have spent
10 countless hours, and as the Commissioner pointed out,
11 they also have real jobs working on issues, evaluating
12 them, and then putting them in a format that can
13 actually be understood. These guys, I cannot say
14 enough about them, so John Ams, Mark Steber, Joe Sica,
15 and, of course, my vice chair, Doreen Warren, have
16 spent countless hours identifying issues, evaluating
17 solutions in this report. As I said, they all have
18 real jobs.

19 In addition to that, Phil Poirier -- Phil, why
20 don't you raise your hand right there so everybody can
21 see who you are? He has acted as our scholar, our
22 scribe, has incredible knowledge of the tax side, the

1 security side, the consumer side, legal issues. He has
2 made our report understandable. We all owe Phil a debt
3 of gratitude for his long nights and his weekends
4 writing and reediting, texting me Sunday mornings.
5 Phil made this report something that we are all very
6 proud of, and he put it in a format in a way that is,
7 we believe, very understandable. And we are happy to
8 stare at him later, if you do not believe it is.

9 [Laughter.]

10 MR. SAPP: We can try to expound on some of that.

11 Last year, ETAAC's charter, as the Commissioner
12 referenced, was expanded for the first time to include
13 the urgent issue of ID theft and tax refund fraud and
14 cybersecurity. This is a shift from the 80 percent of
15 electronic filing, and promoting just electronic filing
16 of tax returns. It reflects that ever-changing
17 environment of Electronic Tax Administration.

18 So as a result, this year, our committee has
19 focused the majority of its efforts on the prevention
20 of ID theft and refund fraud, all under the auspices of
21 the Security Summit.

22 So one last thing, as the Commissioner already

1 mentioned, in 2015, he and his staff took the
2 extraordinary step of engaging private industry and
3 State Governments' Department of Revenue to form the
4 Security Summit. It was a collaborative effort where
5 all conversations were open. They were honest.
6 Sometimes they were heated. I think the first few
7 months, there was a lot of question of whether it could
8 be sustained just from the sheer level of intensity at
9 some of the conversations that were occurring as to how
10 best we could fight identity theft and refund fraud.

11 There were times when that entire process would
12 have stalled if the Commissioner had not stepped in and
13 said let's find a reason to make this work, instead of
14 let's find a way to avoid the issue.

15 That attitude from our Commissioner, ETAAC would
16 like to express it is gratitude to you, Commissioner
17 Koskinen. Thank you for your sincerity in your
18 motives, the relevance of your vision, the courage in
19 the way you have acted, and integrity in the way you
20 have applied the things that we have decided to do.
21 There would be no Security Summit without your
22 leadership, and we would like to say thank you.

1 COMMISSIONER KOSKINEN: Thank you.

2 MR. SAPP: And it is okay if you would like to
3 applaud the Commissioner.

4 [Applause.]

5 MR. SAPP: It may be your last chance to applaud
6 him.

7 The good news is the IRS continues to get better
8 at its ability to detect ID theft in tax returns before
9 the refund is issued, saving billions of dollars in
10 fraudulent refunds from being misdirected to criminals.

11 For a taxpayer, for example, these ID theft refund
12 fraud initiatives of the Security Summit, especially,
13 mean that she will not have a refund stolen because she
14 or her child have had an ID compromised.

15 So that is the effect on the American taxpayer.
16 Fewer of them have to deal with the scenario where
17 their tax refund is part of the overall challenge of
18 their identity being stolen.

19 Of course, we know we cannot stop there. We
20 cannot rest on our laurels. The taxpayer is under
21 continuous attack by sophisticated criminals and rogue
22 States, all trying to steal their personal data, which

1 can be used to file those false tax returns.

2 It is probably the single biggest issue facing the
3 integrity of the American tax system and, by reference,
4 the taxpayer.

5 As a result, the Security Summit has to keep pace
6 with ever-evolving fraudulent activity aimed at
7 misappropriating those tax refunds.

8 ETAAC's recommendations are intended to contribute
9 to the summit's evolution and, as the Commissioner
10 mentioned, its endurance, so it outlives any individual
11 participant. Of course, Congress' continued support is
12 going to play a critical role in that success.

13 So we have organized our report recommendations
14 into four broad categories. The first is educating and
15 communicating. The second is strengthening cyber
16 defenses. The third is the fraud detection and
17 response. Finally, it is increasing Security Summit
18 participation.

19 Each of these groups and our subgroups at ETAAC
20 are affiliated with a subgroup within the Security
21 Summit, as I mentioned before, in that ETAAC now serves
22 in an advisory capacity to the Security Summit.

1 There are two areas, in particular, that I would
2 like to point out, before I turn it over to Doreen.

3 First, the coalition of States, the IRS, and
4 private industry is one of the most successful stories
5 of the Security Summit, but it also presents one of the
6 most relevant areas to expand and improve the Security
7 Summit, because the tax preparation and filing process
8 impacts so many third parties, from payroll providers
9 who issue the W-2s to the taxpayers to financial
10 institutions who actually deliver the refund to the
11 taxpayer. States, payroll providers, the banks, all of
12 those are essential to the future success and present a
13 potential challenge to the way we can expand the
14 Security Summit.

15 In order to effect that expansion, the IRS, long
16 after the Commissioner is gone, is going to have to
17 continue the attitude of "let's find a way to make this
18 work," as opposed to "let's find a way to avoid the
19 issue." For example, as we consider the challenges
20 behind Information-Sharing by the IRS with the ISAC,
21 which we will talk about in more detail later, or
22 indemnifying banks that want to identify potentially

1 fraudulent refunds back to the IRS, those are just two
2 issues of things that the Security Summit is dealing
3 with today that we need to find a solution to, in order
4 to continue the great work that is being done at the
5 Security Summit.

6 Second, and this is not included in the ETAAC
7 report, but it is something that is on our radar to
8 address in the future, we need to gain a holistic
9 understanding of the impact of fraud-related
10 initiatives on taxpayers and their tax-filing
11 behaviors.

12 For example, the PATH Act, which delayed refunds
13 for a lot of taxpayers until February 15, and it
14 required payroll service providers to file their W-2s
15 with IRS earlier, so that the IRS had additional time
16 to match W-2 data with the tax returns that were being
17 filed, this had some apparent impact on tax-filing
18 season patterns, electronic filing rates and taxpayers,
19 refund delays, additional screening. Understanding
20 these impacts is important.

21 Of course, ETAAC recognizes this tax season could
22 have been impacted by things other than the PATH Act --

1 uncertainty around particular provisions of the Tax
2 Code, like the Affordable Care Act or those types of
3 things, could have also impacted what we saw in the way
4 of not necessarily the overall volume, which was about
5 level with last year, but the pattern of when people
6 filed their tax returns and what made them decide to
7 wait to file.

8 Those are just some of the issues that we at ETAAC
9 will be looking at in the future.

10 At this time, the State of Idaho, their pride and
11 joy, Doreen Warren, my co-chair, I will turn it over to
12 her for her opening comments.

13 MS. WARREN: Does that work? Can you hear me
14 okay?

15 Thank you, John.

16 Good morning, Commissioner.

17 I would like to reconfirm some of John's
18 statements, and thank you for your leadership and
19 engagement with the States and all stakeholders over
20 the last couple years, even though sometimes we have to
21 remind John that the States are involved.

22 The collaborative environment you established

1 through the Security Summit has truly been an
2 unprecedented initiative. As a State participant in
3 the Security Summit from the very beginning, I have
4 witnessed firsthand the increased collaboration among
5 all the participants.

6 From the first meeting where States were invited
7 to join in the effort to prevent and detect identity
8 theft, tax refund fraud, State participation and
9 inclusion has increased, and it really is appreciated.

10 Historically, States have seen similar impact as
11 the IRS has seen in regard to the impact of identity
12 theft tax refund fraud, and we have dealt with the
13 issues individually as we were protecting State
14 revenues. This resulted in inconsistent requirements
15 imposed on our industry partners, as we identified
16 potential solutions.

17 Through the Security Summit efforts, the IRS,
18 States, and industry, have come together to
19 collaboratively establish a uniform approach to fight
20 fraud and to ensure effective tax administration for
21 the States and for the IRS.

22 When the Security Summit was initially formed, the

1 focus was to address the immediate critical issue
2 relating to identity theft tax refund fraud. Because I
3 come from a project management background, I call that
4 being in a project mode, because we were dealing with
5 that immediate, critical issue.

6 Together, collaboratively, we successfully made
7 positive progress to prevent and detect this fraud by
8 raising the bar for all stakeholders and to establish a
9 level playing field across the tax ecosystem. We have
10 done this by establishing a baseline for consistent
11 authentication requirements, sharing of information,
12 and providing outreach and education.

13 Even though some of the baseline requirements have
14 been established, they are also not prescriptive.
15 Stakeholders still have opportunities and are, in fact,
16 encouraged to develop innovative and creative
17 solutions.

18 Currently, we are transitioning into what we call
19 a sustainable program mode, like the Commissioner
20 talked about, where we need to establish a sustainable,
21 proactive approach to stay ahead of the criminals.

22 Personally, I can say that this effort has been

1 very rewarding. I have recognized the people working
2 with this effort -- the IRS, industry, and the States
3 -- have a passion to do the right thing for the right
4 reasons.

5 Now, as an ETAAC member, we broaden our focus to
6 provide continued input into the development and
7 implementation of the IRS strategies to protect the
8 integrity of the Electronic Tax Administration.

9 We, the ETAAC members, will convey the public's
10 perceptions of the IRS's Electronic Tax Administration
11 activities; offer constructive observations about
12 current or proposed policies, programs, and procedures;
13 and suggest improvements.

14 To that end, like John mentioned, each of the
15 subgroup Leads will provide highlights of some key
16 areas that are addressed in this year's ETAAC annual
17 report to Congress, and we will begin with Mark Steber
18 from Jackson Hewitt, who is serving as the chair of the
19 Sharing Subgroup.

20 MR. STEBER: Thank you, Doreen. I appreciate
21 that.

22 Thank you, Commissioner.

1 Thank you, John.

2 As John and John said --

3 [Laughter.]

4 MR. STEBER: -- and our other subgroup leader
5 John, not to be confused with Joe, said, we have
6 organized our ETAAC report this year in several
7 buckets. I was proud to be one of the subgroup leaders
8 and, in fact, led a great group, which we will talk
9 about in a little while when we get into more detailed
10 analysis on the recommendations, the Information-
11 Sharing Subgroup.

12 Chairman John asked us to highlight one or two of
13 the more significant elements within the section that
14 we covered, not to go into the detailed recommendations
15 to kick off. But as Doreen said, we thought we would
16 highlight one or two or three of the recommendations to
17 get us started. So we will not need to go to your
18 handout material at this time, but keep that
19 convenient.

20 The one that I am proud of that I get to speak to,
21 and that we have several recommendations on within the
22 body of the report, is the establishment and activation

1 of the ISAC, or the Information-Sharing and Analysis
2 Center.

3 Most of you in this room are very familiar with
4 it, but just as a way of little background, it really
5 is the culmination of many of the Security Summit
6 subcommittees' actions and activities. In particular,
7 I would say, the Information-Sharing Subgroup, which
8 was established under the Commissioner's guidance
9 several years ago to start a more fluid sharing of
10 information within the industry, with the Federal
11 Government, with States, with financial partners, with
12 the hopes of reducing and mitigating identity theft
13 refund crime.

14 The ISAC, as we will talk about in a little bit,
15 has several recommendations within it. But as a source
16 of pride, I can safely say it was established this year
17 and has been activated with two parts, really. There
18 is a data-collection and information-processing
19 component, and an equally important part, the
20 partnering members of the ISAC.

21 So as we will see within the body of the report,
22 several of our recommendations are to continue the

1 ISAC, to expand and reinforce some of the great work
2 that it has done, to expand industry participation,
3 State participation, and provision of adequate funding,
4 because we do see the ISAC as one of the chief tools
5 within the subcommittee to help prevent taxpayer refund
6 fraud and abuse.

7 So I am proud to be a part of the Information-
8 Sharing Subgroup, the ISAC, a tremendous contribution
9 to that fight. And we are really well underway with
10 making it a very productive tool for both industry and
11 Federal and State government.

12 Having said that, we will go into more detail
13 after the break, in quite an elaborate amount of
14 detail, in fact, so have a coffee before then.

15 [Laughter.]

16 MR. STEBER: But having said that, the
17 Information-Sharing Subgroup will now pass on over to
18 Joe Sica, who headed up one of the other subgroups on
19 authentication and financial services.

20 MR. SICA: Good morning.

21 Thank you, Mark.

22 I had to sign a waiver not to indicate my usual

1 edgy remarks, and I am kind of restricted to just read
2 my remarks here, so bear with me.

3 My comments this morning are less about specifics
4 of any one recommendation and a little more
5 environmental, if you will, so please bear with me.

6 The Filing Subgroup's main focus revolved around
7 the summit's Authentication and Financial Services
8 Working Groups.

9 The Authentication Working Group's mission is to
10 identify new techniques to detect and prevent ID refund
11 fraud by strengthening existing methods and finding new
12 ways to validate individual taxpayers and tax return
13 information.

14 The Financial Services Working Group explores
15 additional ways to prevent criminals from accessing tax
16 time financial products, deposit accounts, and prepaid
17 debit cards. In addition, the Financial Services
18 Working Group is also seeking to standardize methods
19 for banks to return suspect refund deposits.

20 So without getting into the Filing Subgroup's
21 actual recommendations until a bit later, as Mark
22 pointed out, it is in the context of both the

1 Authentication and Financial Services Working Groups,
2 and actually the entire summit, along with something
3 John and Doreen already touched upon, is that there is,
4 indeed, a very strong theme throughout of the public-
5 private model. It is this culture of collaboration
6 that is the underpinning for all the summit's
7 successes.

8 So, to illustrate, Taxpayer Authentication, if
9 done correctly before filing a return, should keep a
10 large degree of identity theft instances from arriving
11 on the IRS's doorstep. Evidence indicates, so far, as
12 the Commissioner pointed out, that this is occurring.

13 Further, to the degree that identity theft
14 instances do penetrate the IRS and remain initially
15 unidentified -- in other words, refunds are issued --
16 then the financial institutions are the last possible
17 stop to uncover suspect activity before ill-gotten
18 funds disappear with the fraudsters.

19 By way of the External Suspect Leads program,
20 which you will hear about later, evidence again shows
21 that these post-tax refund deposit suspect industry
22 leads are valuable to the IRS for verifying fraud and

1 aid in getting fraudulent refunds returned.

2 So the point there is the Security Summit
3 protection strategy does not occur or work without
4 industry bookending IRS processes. ETAAC strongly
5 believes this public-private partnership is yielding
6 positive results, is moving the needle in the fight
7 against identity theft tax refund fraud, and is highly
8 critical to maintain.

9 Whether government or industry, I think everyone
10 can agree fighting fraud is just good business. But we
11 cannot lose sight, however, that the Security Summit is
12 really a voluntary effort. Neither the States nor
13 industry are required nor obligated to participate.
14 Yet, as I illustrated, we are seeing unprecedented
15 cooperation between the IRS, the State Departments of
16 Revenue, and industry.

17 And as we have pointed out, that is in no small
18 part a direct result of the Commissioner's support in
19 peeling back and redefining the view of how IRS has
20 traditionally interacted with stakeholders by opening
21 up new channels of communication.

22 While managing the many diverse State Department

1 of Revenue views on industry -- many views --

2 [Laughter.]

3 MR. SICA: Did I say many? In an industry that
4 fiercely competes with one another, along with its own
5 internal and external issues in the strange world of
6 politics, even hoping to achieve what should be an
7 apparent important shared goal of fighting fraud is
8 fraught with many, many potholes that can easily derail
9 momentum, especially, as I point out, in a voluntary
10 environment.

11 The simple "play nice with others and share"
12 strategy cannot be underestimated. In fact, any
13 imbalance on those bookends could easily jeopardize
14 much of the progress made to date.

15 So in ETAAC's view, in order not only to maintain
16 the status quo but to actually increase participation
17 in the summit, it will no doubt come down to the IRS
18 internally embracing and further cultivating this
19 culture of collaboration and trusted partner mindset as
20 a core agency business strategy.

21 As Commissioner Koskinen contemplates life after
22 the IRS -- he says he is taking a hammer to his phone

1 and bordering a submarine --

2 [Laughter.]

3 MR. SICA: -- we also contemplate how the new
4 Commissioner plans to preserve this legacy and instill
5 throughout the organization what we believe can only
6 come from the top down.

7 So thank you. Unless the Commissioner wishes to
8 comment, I will hand it off to John Ams of the Society
9 of Accountants, the chair of our Outreach Group.

10 MR. AMS: Thank you, Joe.

11 Good morning, everyone.

12 To provide some context for the Outreach Subgroup,
13 I want to first mention that the representatives on the
14 subgroup come from a variety of different areas, a
15 variety of different stakeholder groups, including tax
16 professionals, small businesses, employers, low-income
17 taxpayers, and VITA clients.

18 Even as the IRS has become more successful in
19 stopping fraudulent returns, we on the subgroup are
20 concerned that the groups I just mentioned and that are
21 represented on the subgroup, they will become the low-
22 hanging fruit. They will become more targeted by the

1 criminals simply because their information may be more
2 available, and that is a concern.

3 So we started our discussions by reviewing
4 existing efforts to provide information about security
5 risks, as well as the information available to provide
6 guidance about what to do.

7 The first existing efforts include the Security
8 Summit "Taxes. Security. Together." awareness campaign.

9 That, certainly, has heightened the need, the
10 awareness of the need to protect data among taxpayers
11 and tax professionals.

12 Along with the "Taxes. Security. Together."
13 campaign, we believe the IRS and the Security Summit
14 partners have made significant strides in alerting the
15 various stakeholder groups of the risk of cybercrime.

16 These efforts deserve our respect, and I do want
17 to thank Terry Lemons and the Communications group for
18 all of the news releases and security alerts, and
19 everything that has gone out. I do believe they have
20 significantly contributed to not only the awareness but
21 the actual decline in cybercrime. So thank you all for
22 that.

1 This morning, I want to discuss one of our
2 recommendations for tax professionals, who obviously
3 have a lot of information that they need to maintain in
4 their files, and they need to maintain confidentiality.

5 What guidance is available from the IRS? After we,
6 with these campaigns, have gotten their attention in
7 terms of you need to do something, what is it we are
8 telling them to do? We believe this is, as I said,
9 particularly important because of the large amounts of
10 data that they have.

11 Even alerted to the risk, it has to be recognized
12 that tax professionals are not Internet or security
13 professionals. Many tax return preparers and
14 electronic return originators simply lack the expertise
15 to adequately secure data and protect their
16 infrastructure.

17 I know that I am often asked about minimum-
18 security standards, best practices, how best to secure
19 confidential data, and what to do. So once the IRS
20 messaging has gotten their attention, we should not
21 miss the opportunity to provide reasonable,
22 understandable, actionable information to address the

1 problem.

2 So our subgroup spent considerable time and effort
3 reviewing the existing IRS publications to see what is
4 available.

5 Unfortunately, too often, the publications provide
6 guidance such as, "A tax professional must be
7 particularly diligent about security matters." It
8 provides no guidance about how to go about being
9 particularly diligent.

10 Or there are various cross-references to other
11 publications that, again, provide general information,
12 but no guidance on what actually to do to prevent
13 computer systems from being vulnerable to the theft of
14 taxpayer data.

15 Let me give one example. Publication 1345 is
16 titled "A Handbook for Authorized IRS e-file Providers
17 for Individual Income Tax Returns." This handbook, in
18 turn, mentions six mandated security standards. These
19 are requirements.

20 One such standard requires that an electronic
21 return originator must, and I am going to quote here
22 from the publication, an ERO "possess a valid and

1 current Extended Validation Secure Socket Layer
2 certificate using SSL 3.0/TLS 1.0 or later and minimum
3 1024-bit RSA/128-bit AES."

4 There will be a test later.

5 [Laughter.]

6 MR. AMS: This is not as actionable as one might
7 hope, given that, again, we are not talking about
8 Internet security professionals.

9 So our subgroup certainly believes there remains
10 an absence of a clear message about minimum standards,
11 actionable steps that any tax professional can take to
12 further secure themselves from the theft of their data.

13 Therefore, one of our recommendations is that the
14 IRS thoroughly review and update these key publications
15 to ensure that we are providing simple, clear, and
16 actionable guidance on how to implement a security
17 program, preferably all of it consolidated into a
18 single source publication, and that we review, update,
19 and improve the content on a regular basis or as
20 needed, as industry best practices change.

21 Thank you.

22 MR. SAPP: Thank you, John.

1 And thank you to our subgroup chairs.

2 As you pointed out, I think the Commissioner said
3 yesterday that we set some kind of record for the
4 number recommendations that we might make.

5 [Laughter.]

6 MR. SAPP: As we consolidate those a little later
7 after our break, I think you will find that there are
8 some extremely substantive recommendations that have
9 not been mentioned yet, so stay tuned.

10 At this time, I will turn it over to the
11 Commissioner. I think he has some recommendations to
12 make himself.

13 COMMISSIONER KOSKINEN: Thanks, John.

14 And thanks to everybody for the reports. And
15 thanks for the kind comments.

16 I think I should quit while I am ahead.

17 [Laughter.]

18 COMMISSIONER KOSKINEN: As you can tell just by
19 the summary reports, and if you go through the report
20 and look at the recommendations, they cover a wide
21 range of activities. But the critical part of them is
22 they give us perspectives from outside the IRS.

1 John's comments at the end there, it is the
2 constant feedback that we need. We think we are
3 putting something out that is helpful, and it is good
4 to have somebody come back and say, well, that is a
5 start, but there is more that needs to be done.

6 So it is that constant feedback that this group
7 provides for us that is so valuable as we go forward.
8 So as we review the recommendations, A, we appreciate
9 them; B, wherever we can, we will implement them. To
10 the extent that there are obstacles or things that
11 prevent that, that will be part of our ongoing dialogue
12 with you, because we need to keep you advised and
13 benefit from your collaboration and discussion with us
14 about exactly how to implement them, or, once
15 implemented, whether they are working, whether they
16 need to be modulated or changed as we go.

17 But one of the things, as I was just listening and
18 thinking back about all of this, one of the great
19 things about this ongoing dialogue is it is ongoing and
20 it is a dialogue. We have benefited greatly over the
21 last couple years with the improved ease of
22 communication with the States, with private sector

1 partners, with all sorts of issues.

2 One of the things that intrigued me was when the
3 group decided we needed an Outreach Subcommittee, we
4 needed to reach out to professionals, we needed to
5 reach out to taxpayers. It is not something that
6 originally any of us were focused on. Again, it has
7 turned out to be very valuable, in terms of both
8 alerting people to what the challenges are but then
9 discovering them.

10 We were concerned about the security of preparers,
11 but the first indications of difficulties out there we
12 received were from the partnership, from people saying,
13 hey, there is this problem going on. The first time we
14 heard about the phishing expeditions within a company,
15 where it looks like the email is from the president but
16 it was from somebody in my favorite country, Belarus,
17 asking for W-2s and employee information. We learned
18 about that, again, just in the normal course of our
19 working with our private sector partners.

20 So I think it will continue to prove to be
21 invaluable for both sides of the equation. The great
22 thing about it is it is a win-win for everyone. As

1 noted, we have a lot of private sector competitors. We
2 have a wide range of State tax commissioners. Everyone
3 is interested and has a stake in making sure that the
4 process, the filing season process, the tax preparation
5 process, is as effective and efficient as possible, but
6 most importantly, it is as secure as possible.

7 So we have made great strides, but it will
8 continue to be challenging. The organized crime
9 syndicates that we are dealing with around the world
10 are well-funded and sophisticated. And one of our
11 challenges, we had a long meeting yesterday at the IRS,
12 is to try to figure out how to stay up and maybe even
13 get ahead of the game. But we cannot do that without
14 the cooperation and the continued input of everybody
15 around this table.

16 So it has been a great experience thus far. It
17 all fits into the ETAAC mission of trying to make sure
18 that Electronic Tax Administration works as well as
19 possible for as many people as possible in as many
20 varied ways as necessary.

21 So with that, again, my thanks to all of you for
22 the time. It really is a good report, well-written.

1 And this is unique of our advisory groups, this is a
2 unique group, chartered by Congress. The annual
3 report, as you know, is an annual report to Congress,
4 and I think that will be helpful, because there are any
5 number of Members of Congress concerned about these
6 issues. For them to get the additional background and
7 education they will get from this report will be
8 helpful, as we all go forward.

9 So with that, we would like to recognize members
10 who have served and are now rotating off the ETAAC.

11 First, Jacob Dubreuil.

12 MR. DUBREUIL: Thank you so much.

13 [Applause.]

14 COMMISSIONER KOSKINEN: Coming to a Facebook page
15 near you.

16 Next, Thomas Lorek.

17 MR. LOREK: Thank you.

18 [Applause.]

19 COMMISSIONER KOSKINEN: Julie Magee. Julie has
20 been one of the great leaders on the State side,
21 corralling State membership, but, more importantly,
22 actively participating with us in the creation of the

1 summit and its operations.

2 MS. MAGEE: Thank you, John.

3 [Applause.]

4 MS. MAGEE: Best of luck in retirement. I did not
5 last very long in my retirement. I have a feeling you
6 won't either.

7 [Laughter.]

8 COMMISSIONER KOSKINEN: Deborah Sawyer.

9 [Applause.]

10 COMMISSIONER KOSKINEN: Thanks so much.

11 MR. SAPP: I think we are all in shock and awe,
12 knowing the ability of our folks to overcommunicate
13 sometimes, and their blatant disregard for agendas and
14 time frames, that we are actually ahead of schedule.

15 MR. STEBER: Don't look at me.

16 MR. SAPP: So I think what we will do at this
17 point is just ask from anyone here, are there any
18 questions at this point about the high-level summaries
19 that we have had, or any feedback that you have for any
20 of our subgroup chairs?

21 If not, we might go ahead and start on our
22 detailed presentations of some of our recommendations.

1 We might do one of those and then take our break. Is
2 that fair for everyone? Or would you rather take a
3 break now?

4 Sorry, I am treating this like we are having a
5 committee meeting right now.

6 So why don't we do that? Are there any questions?

7 Does anybody have any feedback or questions so far on
8 the report you have looked at, or on any of the
9 comments that have been made?

10 COMMISSIONER KOSKINEN: Or any other questions? I
11 always tell people this is your last chance to harass
12 the IRS Commissioner. How often is that going to
13 happen?

14 [Laughter.]

15 MR. CRAIG: I would like to ask a question about
16 the IRS's ability to share with the ISAC. I know it is
17 in our recommendations, but I think about the
18 challenges with sharing, from the IRS perspective?

19 COMMISSIONER KOSKINEN: Well, A, the Information-
20 Sharing is critical. We recognize that. We benefit
21 greatly from the information from our partners, and we
22 understand that people would benefit from whatever

1 information we can share.

2 The biggest obstacle, obviously, is the statutory
3 requirement, the fabled 6103(e), that we not reveal
4 taxpayer data. So that is why none of us ever talk
5 about any particular tax case. We are not allowed to
6 actually even indicate whether anybody is under audit,
7 what they have done, wherever they might be.

8 So it is a challenge that we are trying not to
9 hide behind. We are working with counsel to try to
10 figure out in what ways we can provide that information
11 without, in effect, crossing that line of providing
12 individual taxpayer information. So we have our chief
13 counsel engaged.

14 We are looking forward to a dialogue about that,
15 because we recognize we need to provide as much
16 information into the ISAC as we can, to allow people to
17 then identify the patterns going on, to give feedback.

18 One of the key things we understand is, when we get
19 leads from you, you need to understand and get feedback
20 from us on what happened to that lead. Was it helpful?

21 Are there other patterns? Are there things you should
22 be aware of as a result of what we have learned?

1 So it is a challenge for us across-the-board, not
2 just with the ISAC. But we recognize that it is a
3 critical part of the effectiveness of the ISAC,
4 encouraging participation.

5 So we understand the point. We take it seriously.
6 And we are working hard to figure out, are there ways
7 we can provide data in aggregate or in -- there is a
8 word for that that will be revealed later.

9 [Laughter.]

10 COMMISSIONER KOSKINEN: That we can provide it in
11 a way that will be consistent with the need to protect
12 individual taxpayers and their data, but at the same
13 time facilitate the exchange back and forth. The
14 purpose of the exchange, obviously, is for us, jointly,
15 to look at patterns, and what we are learning from
16 this, and what is resonating around the board. It will
17 be a way for us to be even more effective.

18 So we recognize that, of all the recommendations,
19 this is one of the ones that is going to be, in some
20 ways, the most challenging, but it is a critical one.

21 MR. SAPP: That is a good question.

22 Anyone else? Any comments?

1 I think what we will do is go ahead and take our
2 break now, and then we will reconvene and go into our
3 detailed reports on our recommendations.

4 Any other comments or questions before we take the
5 break? As the Commissioner said, this may be your last
6 chance.

7 COMMISSIONER KOSKINEN: It is all right. And then
8 I am going to revert to my day job and leave you to
9 your discussion.

10 So thank you again. Good luck to everybody.

11 [Applause.]

12 MR. SAPP: All right. Thank you, Commissioner.

13 [Applause.]

14 [Recessed at 9:50 a.m.]

15 [Reconvened at 10:08 a.m.]

16 MR. SAPP: And welcome back, for the brave souls
17 who are still here.

18 We are about to get into the meat of our ETAAC
19 report.

20 MR. STEBER: Does that mean I start?

21 MR. SAPP: No, let me lay just a little
22 groundwork.

1 I know sometimes you sit in meetings and people
2 say this and they do not really mean it. They say, we
3 would really like this to be interactive. And really
4 what they mean is, if you keep your mouth shut, we will
5 get out here early.

6 [Laughter.]

7 MR. SAPP: That is not what I mean. I do not mean
8 that. This will be great if this would be interactive.
9 We are ahead of schedule, and there is no plan to fill
10 that with just dead air or just talking heads.

11 But we have what I believe are some very meaty
12 recommendations, and we would like feedback on it. We
13 would like commentary on it. We would like to discuss
14 it.

15 So if anyone at the table or anyone in the gallery
16 has a comment or any feedback whatsoever as we go
17 forward, feel free to just raise your hand, and the
18 speaker will recognize you as we go.

19 So I will turn it over to Mark Steber from Jackson
20 Hewitt tax service.

21 MR. STEBER: Thank you, John. I certainly
22 appreciate that.

1 Welcome back, everyone. Gosh, we were taking the
2 over/under bet on whether there would be six or eight
3 of us even just ETAAC members still here, so --

4 MS. PICKERING: Is that an option?

5 [Laughter.]

6 MR. STEBER: No, not an option.

7 So thank you, and welcome back.

8 As we said earlier, and I think now that we have a
9 little bit more time, it is appropriate to say thank
10 you. It is so great to see so many familiar faces and
11 so many folks who helped this report come to fruition.

12 It was the ETAAC group who kind of marshalled some
13 of the topics, but it was a team of many who helped
14 gather information or provide key information or
15 insight.

16 As John and John have said more than once, the
17 ETAAC group is an unusual coalition of former
18 competitors and current competitors, frankly. But the
19 bigger goal of doing the right thing and improving the
20 tax ecosystem, with the Commissioner's guidance, made
21 for a very, very productive coalition.

22 So as John said, now we are going to kind of dig

1 into the meat of the ETAAC report, but not in great
2 granularity. I will dispel that worry, if anyone has
3 it. But we are going to go over each of the major
4 buckets and talk a little bit about what each of the
5 recommendations are in some small detail. We are going
6 to provide a little bit of color commentary.

7 But as the Commissioner said, we have 22 and only
8 4 hours to get through those.

9 [Laughter.]

10 MR. STEBER: So we are going to go through them.
11 And was said, or has been said, we have bucketed them
12 by different topics that are related. The Information-
13 Sharing, which I feel by far is the most important
14 section of the report, includes Information-Sharing
15 Subgroup, the STAR or Strategic Threat and Response
16 Working Group, which is responsible for outlining and
17 looking ahead to key risks and how those might be
18 mitigated.

19 Of course, the ISAC, which I spoke to in my
20 opening comments, which is the culmination of a lot of
21 the Security Summit work, the Information-Sharing and
22 Analysis Center where we or they in partnership with

1 the IRS collect data, look at the data, and feed that
2 data back real-time to help do something that has never
3 been done in the 103 or 104 years of tax
4 administration. We really do try to get in front of
5 these problems and address them, as Joe said, before
6 the money is out the door.

7 So we will talk about those. Information-Sharing
8 will be my section.

9 Before that, though, I would like to, as we get
10 started, introduce the real key people that helped this
11 information section, and each of the subgroup leaders
12 are going to do this. But I would like to recognize by
13 way of name and raise of the hand some of the folks who
14 helped write the Information-Sharing recommendations
15 and, more importantly, put them in some English that
16 hopefully we can all understand.

17 So I will start off with Kathy Pickering of H&R
18 Block. She helped tremendously on the ISAC part.

19 Atilla Taluy, who also helped on several of the
20 sections, even some crossover.

21 Jacob Dubreuil, who we saw this morning, he was
22 instrumental.

1 Doreen Warren, even though she was co-chair,
2 worked tirelessly to help us on a variety of parts
3 related to both the STAR section and some of the
4 security standards.

5 Tom Lorek, who we also saw earlier this morning,
6 he was instrumental in bringing some of the State
7 perspective to our team.

8 Phil Poirier, who I think we are all three going
9 to list as a member of our team, kind of say, "You
10 can't say that. Nobody will even understand what you
11 are saying," and put it into some English perspective.

12 And even, to a degree, John, who is not just an
13 absentee chair. He was a participant in many of the
14 groups and worked in our group, as well.

15 And then finally, by way of thanks, so I can
16 breathe more air out of the room, I would be remiss if
17 I did not thank Wayne Mercado, wherever he is. He was
18 our IRS liaison. Each of the groups had one. He was
19 the person, at least from our perspective, who we say,
20 "Hey, we need this piece of data. Can you get this
21 piece of data?" He would say, "No, that will take a
22 year," and we wouldn't get the data.

1 [Laughter.]

2 MR. STEBER: But he was the one we asked for the
3 data, which we really appreciate Wayne, all kidding
4 aside.

5 So as I said, we are going to break our
6 information section into really three components of
7 three components, not to be too confusing. We have the
8 Information-Sharing recommendations. Really, that is
9 an outcropping of the original Security Summit three
10 groups. There were three main groups when the
11 Commissioner charged us with creating this as an
12 industry: Information-Sharing, Taxpayer Authentication,
13 and STAR.

14 In my section, as it relates to the ETAAC report,
15 I will talk about Information-Sharing and some of what
16 the recommendations imply.

17 The STAR recommendations, which, by way of
18 background, most of us in the room have worked on
19 either one of the two STAR groups, but the STAR group
20 is probably one of the more important of all the
21 subcommittee groups, in my opinion, because it is the
22 one responsible for making us look ahead, for catching

1 the guy in the basement or in the Commissioner's
2 favorite country, Bulgaria or Belarus or wherever he
3 was saying, who are coming up with the next iteration
4 of activities. So one of our recommendations that we
5 will get into is to try to bring the fight into the
6 forefront, to go to where the puck is before the puck
7 gets there, and attack the problem on the frontend.

8 So the STAR group cannot be overemphasized, in
9 terms of their importance for looking ahead, and some
10 of the work that they are doing with security
11 standards.

12 Finally, the ISAC, as we noted, really, the
13 outcropping of a variety of the subgroup activity to
14 collect data, to analyze that data, and then to feed
15 that data back to all the partners who are participants
16 to the ISAC. It will be another area that I will
17 provide some comment on.

18 As we go through them, I have three sections on
19 each of mine. When I talk about the specific
20 recommendation, I will give you a little bit of
21 background on why we thought that topic was important.

22 I will try to paraphrase and read what the

1 recommendation is. And then I will say what we are
2 trying to do with that recommendation, so there will be
3 some color.

4 This is where you can start to refer to your
5 handout materials. I will actually be handling
6 recommendations Nos. 4 through 11, which start on page
7 23. We are going to start with the broad bucket of
8 strengthening and, importantly, the information-sharing
9 activity and analytics and capabilities.

10 Then I will talk through the continuing and
11 enhanced security, enabling the Security Summit
12 proactivity, which are 8 through 11. So 4 through 7 is
13 where I will start. Eight through 11 is where I will
14 finish.

15 We will review, as I say, the reason for each one
16 of them, why we thought it was important. Because even
17 though we got to the 22, I think we started out with
18 103, so we have kind of condensed and consolidated
19 those down into what was really the meat of what we
20 felt were important for the IRS.

21 Oh, you are looking at your watch. So moving
22 along.

1 Yes, sir?

2 MR. BEEBE: Do you mind I make a comment?

3 MR. STEBER: Please.

4 MR. BEEBE: Good morning, everyone. It is Mike
5 Beebe. I am the director of RICS, and the Security
6 Summit Lead.

7 I just want to take an opportunity and thank the
8 ETAAC for the report. We look forward to working with
9 you on many of the recommendations.

10 Pretty much on this side of the row here are the
11 IRS Security Summit Leads. I do want to introduce
12 them. We have Carol Campbell here. We have Mike
13 Anthony, who, Mark, you have mentioned in regards to
14 the STAR team. Edward Killen, who is the Information-
15 Sharing team. And then Todd Egaas is the ISAC. And
16 Terry, of course, is the Communications team.

17 Also, here we have Tamara Powell and Theresa
18 Rossi-Franzke, who are with RICS, and really are the
19 Co-Leads also operationally for the Information-Sharing
20 team, the Authentication team, and the Financial
21 Services team. So much of the coordination and
22 implementation from those teams are done through RICS.

1 I just wanted to make a comment in regards to, as
2 you walk through the recommendations, we will certainly
3 be looking at them. Many of them will be worked in the
4 summit. Some of them will be worked outside of the
5 summit within the IRS. So I just want to make that
6 aware.

7 And I know as we work coming into the summer, and
8 the teams have their work group meetings, they will be
9 planning. So I think the cadence of this works very
10 well, because you are presenting it to us. We will be
11 putting into place things for the next filing season.
12 The workgroups will be working on them and, as Joe
13 said, with the States and industry voluntarily working
14 through those.

15 So there is a lot here. Obviously, the teams will
16 be prioritizing, trying to implement as much as
17 possible.

18 As I look at them, there may be some related
19 costs, so those are things that we also need to be
20 considering, both for States, industry, and the IRS.

21 So again, I just wanted to take an opportunity to
22 say thank you for inviting us, and we look forward to

1 the recommendations.

2 I will say this, and I want to add to what the
3 Commissioner said, the Security Summit, again, has been
4 a remarkable success over the last 2 years. He
5 mentioned that we have seen a reduction of 46 percent.

6 It has continued this filing season. We hope in the
7 next couple weeks to report out what those numbers are.

8 So we continue to see a decline. But one of the
9 things that we need to continue to be vigilant about,
10 these recommendations provide us the pathway of some of
11 the things that we need to be working on, but also in
12 the ISAC are things that we do not necessarily see as
13 we planned heading into the filing season, some of the
14 things that we put in place. The ISAC really helps us
15 in real-time, because as we saw this filing season,
16 there were things that we did not necessarily plan for
17 that were happening, because the fraudsters are in the
18 backrooms planning for things. So the ISAC, again,
19 provides us that opportunity to be able to, in real-
20 time, identify those schemes and identify those
21 patterns.

22 So we look forward to continue to work both with

1 industry and the States in building out a more robust
2 ISAC for even the next filing season.

3 So again, it just wanted to take the opportunity.
4 The Leads here will, of course, be evaluating and
5 working with the industry and the States heading
6 forward into the Security Summit.

7 So thank you.

8 MR. STEBER: Thank you, Mike.

9 John, any comments?

10 MR. AMS: No.

11 MR. STEBER: Good.

12 [Laughter.]

13 MR. STEBER: We will now proceed through with some
14 of the recommendations. As John said, we want this to
15 be interactive, but I will certainly reserve time at
16 the end of the section for any questions that anyone
17 wants to ask. But if you see a point that you want to
18 make, please just let us know, and we will continue on.

19 MR. SAPP: I will just add, at the end of this
20 session, we will not be bolting as fast as we can. So
21 we may defer some questions until after we can have
22 conversations off-line. We will be available. I will

1 be available, if you have questions after the fact. We
2 are available for nonpublic questions also.

3 MR. STEBER: So plenty of room for questions. But
4 as we go through this, you will not have any. There
5 are pretty well clearly written, so I will be surprised
6 if John or Phil get any questions.

7 So starting with the first recommendation related
8 to the Information-Sharing, STAR, and ISAC group is
9 recommendation No. 4. If you are wondering why we are
10 starting with No. 4 instead of No. 1, again, we parsed
11 these in terms of what I will consider importance.

12 So No. 4 is really about documentation of the
13 process of the current environment. We had much
14 progress in the last 2 years with the Security Summit,
15 the Information-Sharing Subgroup, other groups working
16 with our partners, the States. So right now, we
17 collect a lot of information as an industry. We
18 forward a lot of that information to the IRS, to other
19 States. And so, with the ISAC coming online this year,
20 we are collecting more information.

21 So it is our recommendation that the IRS, working
22 with their partners, should document the current

1 Security Summit's process, including leads. And leads
2 are simply the identification of an issue or a tax item
3 of interest or exposure or risk. So when I say the
4 term lead, we call it leads reporting or leads
5 identification. Then we turn these leads, which are
6 really just information of interest, to document the
7 current leads, the leads feedback loop, the alerts, the
8 rapid response process, and all the active participants
9 and information that is collected, so that it is
10 concisely documented on what is being done, who gets
11 that information, and how that information is used.

12 The purpose for that is simply that by detailed
13 process documentation, analysis of how it works, and
14 who is collecting what and where it goes, the overall
15 process can be evaluated, and perhaps enhanced
16 improvements for perhaps for duplicative efforts,
17 centralization of activity.

18 For example, the ISAC collects a lot of
19 information. The Information-Sharing Subgroup collects
20 a lot of information. There may be an opportunity to
21 improve upon what we have now.

22 So an overall documentation of how the current

1 processes are working with a mind to looking toward
2 where those can be enhanced, improved, duplicative
3 efforts eliminated, an overall improved speed, and
4 perhaps even some reduction of information that is not
5 properly benefiting the system.

6 So documentation of the overall process is our
7 first recommendation, related broader than just the
8 ISAC, but the ISAC and the information-sharing process.

9 Our next recommendation was recommendation No. 5,
10 greater participation in the information-sharing
11 process and in the ISAC process.

12 Historically, 2 years ago, many industry
13 participants, States, signed on to a memo of
14 understanding for the Security Summit. Most of those
15 signatories are participating, but we would recommend
16 that the IRS encourage and enable greater participation
17 in the Information-Sharing Subgroup and analysis, or
18 the ISAC.

19 A clearer path is the start of that, so that
20 perhaps members who are not currently participating
21 will understand how to become a member of any of the
22 security subgroups or of the ISAC. They will see the

1 benefits of participation, of the sharing of
2 information. That will lend itself to greater
3 information-sharing, greater information-providing, and
4 an even more robust functionality of the ISAC.

5 So greater participation with the current and
6 evolutionary ISAC system, with a clearer understanding
7 of how you get in, what the benefits are, and,
8 associated with that, a vetting process, so we know who
9 is asking to get in, and, again, it is not the
10 Commissioner's country of choice trying to be a part of
11 it.

12 But greater participation, greater clarity on how
13 you get in and get out, is our next recommendation.

14 No. 6, we have chatted a little bit about this in
15 one of the questions earlier this morning: Reduce the
16 barriers to information-sharing. As we have talked and
17 we have worked over the year in the ETAAC and from even
18 some of the other groups, Information-Sharing, in
19 particular, we know there are limitations and
20 restrictions to IRS sharing of data, State ability to
21 share data, what data can be provided back. 6103 is
22 the one with the big hurdles.

1 So our next recommendation, No. 6, is that the IRS
2 should identify, analyze, and work to mitigate barriers
3 that preclude IRS information-sharing with the ISAC.

4 What we found is that there is certainly some
5 legislative restriction. There is perhaps some
6 regulatory restriction. There may be some interpretive
7 restriction. But there are also policy and historical
8 practice limits on what information can be shared in
9 and out of the ISAC for refund protections.

10 These restrictions should be looked at by a
11 variety of members, perhaps by general counsel, to see
12 where they can possibly be tweaked, interpreted, or
13 modified, as necessary, so that there will be more of a
14 free flow of information and the use of that
15 information, again, all protected and all anonymized,
16 as the Commissioner was saying.

17 But there is a great deal more information that is
18 currently available that is not being used for a
19 variety of purposes. We think a little bit of that
20 might be stuck in the historical past, as opposed to
21 where we are in the situations that we confront now.

22 So reduce barriers and look for ways to tweak the

1 current rules to enhance our ability to leverage that
2 data for the protection of taxpayer refunds.

3 The last one that we have is recommendation No. 7
4 -- and I say last one, don't get your hopes up. The
5 last one related to the ISAC.

6 This one is a pretty simple one, but it is also
7 one of the more important ones. It is simply to fund
8 the ISAC for the future.

9 As we know, the ISAC is new. It was established
10 this year after a great deal of work, but it is not
11 fully established in perpetuity and funded.

12 So our recommendation No. 7 is that the Congress
13 and IRS should adequately fund the ISAC operations,
14 both currently and in perpetuity. It is a pretty
15 simple one, really. It is going to take money, but the
16 savings will make the cost a fraction of what the
17 overall cost would be, absent the ISAC being
18 established and funded.

19 So recommendation No. 7, fund the ISAC. We have
20 some pretty good metrics now that it has been up for
21 the current season, and that will need to be made more
22 permanent.

1 No. 8, where we kind of get off the ISAC, or the
2 information-sharing, and we move in to the STAR, the
3 Strategic Threat and Response area, No. 8 is to simply
4 continue the good work the STAR group has been doing,
5 their efforts and direction.

6 The STAR group is now 2 years old. It has been
7 working well, and some of the folks recognized this
8 morning know a great deal more about what it is doing
9 and where it is going. But the ETAAC is very impressed
10 on the direction, the pace, and the focus of the STAR
11 group, especially as it relates to national standards
12 on cybersecurity for the tax ecosystem, where, it is
13 sometimes hard to believe, none of these real standards
14 existed before. And the standards that we do have are
15 kind of embodied in what John said this morning which,
16 again, only Phil or maybe one or two of others of you
17 understand that.

18 So our recommendation No. 8 is that the STAR
19 working group should continue its current direction and
20 collaborative approach to implement the National
21 Institute of Standards and Technology, or NIST,
22 Cybersecurity Framework.

1 For those of you who are familiar with it, the
2 STAR group has been working with setting these
3 standards in a collaborative approach because, as we
4 also know, there are so many members -- large and
5 small, do-it-yourself software creators, banks, payroll
6 providers. A lot of different voices at the table, so
7 it has been a very daunting task to come up with a
8 single standard that protects us all, at the same time
9 being able to be adhered by all.

10 So again, our recommendation is the STAR group and
11 the IRS direction has been going well, that they
12 continue that collaborative approach by listening to
13 the many voices, the many players, and moving toward
14 one single standard that we can all get behind, even if
15 we have to tweak it for our individual, unique
16 businesses.

17 I think it is important to call out that this
18 recommendation is also consistent with the direction of
19 the White House's recent executive order, which is
20 titled, "Strengthening Cybersecurity of Federal
21 Networks and Critical Infrastructure," which was just
22 issued last May. So clearly, the White House sees what

1 we see and is working towards the same recommendation.

2 So continue the STAR group efforts, pace, and
3 direction, and the single-standard focus that they are
4 doing.

5 There are several other elements to what they are
6 doing, including validation. In the report, we cover a
7 lot of the challenges that they have, and oversight.
8 But that one direction, so we do not have 42 States'
9 rules, a Federal set of rules, industry that cannot
10 adhere to all of those different rules, it is more
11 dangerous not to have the one standard than it is to
12 try to fit something for all of us.

13 No. 9, expand and extend participation of the STAR
14 expertise activity to other groups. What this simply
15 means is that the STAR activity and the standard-
16 setting and the critical infrastructure importance that
17 they have been doing might be leverageable to more than
18 just the memo of understanding security participants
19 that we currently have.

20 So we would ask that the STAR group look to extend
21 and share some of their expertise, and look to identify
22 and pursue opportunities to leverage that to other

1 participants in the Security Summit working groups,
2 and, where appropriate, other members.

3 For example, I know there is this W-2 pilot
4 program. The STAR group, with some of their expertise,
5 could probably lend some expertise on how to improve
6 that, because the STAR group now knows how some of
7 those nuances are very important to be recognized
8 before a policy or a program is rolled out.

9 So lend and extend the STAR group expertise to
10 other groups is our recommendation No. 9.

11 Only two more to go.

12 The next one, No. 10, similar to the other
13 Information-Sharing and STAR activity and ISAC
14 activity, the use of the Truncated Taxpayer
15 Identification Number consideration.

16 There is lots of data on all of those Federal and
17 State forms. Preparers and businesses are required to
18 hold onto those documents for years. A simple example
19 is that the Social Security number is on so many forms.

20 We recommend that the IRS should evaluate and
21 change, where appropriate, the current regulations and
22 increase the permitted use of Truncated Taxpayer

1 Identification Numbers on IRS documents.

2 The purpose in times past to have the Social
3 Security number or EFIN or PTIN number on all of those
4 documents are to tie ownership back to the party that
5 is associated with that transaction. That certainly
6 makes sense. But we think it is time to perhaps
7 consider protecting data beyond the mere association
8 with the data through the preparer or the operation in
9 hand. So the risk now probably outweighs the benefit
10 of keeping every single number on every single form
11 that is required to be held for many years and, in some
12 cases, even longer than responsibly adequate.

13 So keeping records to tie back to that operation
14 is important, but the use of the Truncated Taxpayer
15 Identification Number with the little stars on the
16 customer copy or the retained copy, actually, probably
17 makes some sense. So we would ask that there be some
18 consideration for the use of the Truncated Taxpayer
19 Identification Number.

20 The last one under Information-Sharing, and this
21 one is kind of where we started, and I think cannot be
22 overemphasized as an important recommendation, although

1 it is little more nebulous than some of the others, is
2 that we simply recommend that the IRS look to the
3 future.

4 Bad guys, as has been said all morning long, are
5 well-funded. They are nimble. They have lots of R&D
6 and technology and plenty of time in mom's basement to
7 start to develop the next iteration of activities to
8 abuse the system.

9 So our recommendation is that the Security Summit,
10 working with their partners, should start to create
11 even more mechanisms to enable stakeholders to
12 anticipate future trends in identity theft and tax
13 refund fraud.

14 So one example of that might very well be, and we
15 have seen this on other industries where they hire a
16 company to try to break into their system, or do the
17 red team drills where they try to abuse the system, and
18 by that, you learn where your weaknesses are, as
19 opposed to what our current strategy is, which is we
20 find money going out the door and then we find a way to
21 curtail that.

22 We need to look ahead, which is kind of what the

1 STAR charter is, the Strategic Threat and Response.
2 But we think it is time to supersize that, perhaps, and
3 even take a more aggressive approach on looking toward
4 other future threats, because the risk certainly
5 outweighs the reward.

6 So in summary, those are the eight recommendations
7 under the Information-Sharing, the Strategic Threat and
8 Response and, most importantly, as I started this
9 morning's comments, with the standup and establishment
10 and the first-year run of the ISAC, which is kind of
11 the culmination of a lot of these ideas.

12 So I will finish with that, and I will turn it
13 over to Joe for his commentary on the other items, but
14 we certainly appreciate your attention to the matter.

15 I guess I will entertain a question or two now, if
16 we have one, or we can wait until they are all done, or
17 we will promise to stick around and not bolt out of the
18 room after the session.

19 Are there any questions real quick before I turn
20 it over to Mr. Sica?

21 MR. SAPP: Any comments from the IRS?

22 One other thing, this is an important thing that

1 the chair does, I am going to point out that there is
2 more coffee here.

3 [Laughter.]

4 MR. SICA: All right, we have a question.

5 MR. SAPP: Everyone is allowed to ask questions.

6 MR. HOFFMAN: William Hoffman from Tax Notes
7 Today.

8 You mentioned, and this has been mentioned a
9 couple times, the importance of, now that you have the
10 ISAC up and running, keeping the momentum going and
11 especially getting funds. Can you run the ISAC longer
12 than a year if Congress does not appropriate additional
13 funds?

14 MR. STEBER: I will to the chair on that one, on
15 IRS funding.

16 MR. SAPP: The bottom line answer is, we have not
17 evaluated the specific budget dollars that are required
18 to make that happen. But, trust me, without funding,
19 nothing runs.

20 MR. HOFFMAN: Do you have the recommended level of
21 funding, something that you would take to Congress and
22 ask for?

1 MR. SAPP: I believe in our report -- Mark, do you
2 want to take that?

3 MR. STEBER: We do. When we were writing the
4 report, which was right in the middle of the first year
5 of the establishment, we kind of had a range. I forget
6 what page the funding was on.

7 MS. PICKERING: Twenty-seven.

8 MR. STEBER: Twenty-seven. I think it was \$4
9 million to \$8 million, as what we anticipated as being
10 the cost of standing up the ISAC and keeping it running
11 in perpetuity.

12 But once we have this year underway, and I think
13 they are doing that right now, seeing what it really
14 costs and what will be the actual expense, we will get
15 that number tied down. But we do have a range in
16 there, on page 27. \$4 million to \$8 million is what it
17 looked like, as we were drafting this up several weeks
18 ago.

19 I do not think any of that has changed. If
20 someone has better data -- but we think that is the
21 cost. And I would go back to what John said, and I
22 believe this. It is a smart investment, by virtue of

1 the fact that the cost will be a fraction of any of the
2 outflow that would happen if this system is not
3 otherwise in place.

4 So it will be important. It will be something to
5 highlight. As we present these reports to the
6 committees, we plan to highlight the benefits of the
7 ISAC, because we have seen it real-time this year with
8 the alerts that have come out, with things that have
9 been identified and shared with industry.

10 I do not know that we have, at this time, put a
11 return on the investment of how much money we did not
12 lose because we did it, but it pales in comparison to
13 the cost, even with this large number of \$4 million to
14 \$8 million.

15 MR. HOFFMAN: Thank you very much.

16 MR. SAPP: That was a great question. Thank you.

17 MR. ANTHONY: Good morning. I have a quick
18 comment. It is Mike Anthony with the IRS.

19 I just wanted to thank the committee for
20 acknowledging the progress we have made. I do think
21 the recommendations, we can build on momentum we have.
22 I think they are realistic and achievable over time.

1 So I just wanted to appreciate the feedback.

2 MR. SAPP: Mike leads the group that does not get
3 outside a lot.

4 [Laughter.]

5 MR. SAPP: When you see the TV shows with all the
6 screens on the walls and the computer monitors and
7 those guys pounding away, that is all the folks from
8 industry and the States that Mike has corralled
9 together. To get them out is a chore in itself, so we
10 think you guys are doing a great job.

11 MR. SICA: All right, now for the English speaking
12 portion of the program.

13 [Laughter.]

14 MR. STEBER: Wait a minute.

15 MR. SICA: Mike, I want to thank you for
16 introducing everybody. I was going to highlight some
17 people. I am glad you did that, so I will not redo
18 that.

19 But I want to highlight Theresa and Tamara. I do
20 not think I would be part of the summit if it were not
21 for their work, their patience, their perseverance in
22 keeping our groups alive. So I do want to thank you

1 for that.

2 The rest of you, I really do not like that much.

3 [Laughter.]

4 MR. STEBER: He just can't stop. He just can't.

5 MR. SICA: I do not even know what you do.

6 [Laughter.]

7 MR. SICA: But I would like to thank Mike Deneroff
8 left us on maternity leave midstream through our
9 process. Paternity. Whatever. He has not lost all
10 his prenatal weight yet, but we will see what happens
11 there.

12 Tanya Barbosa, she was invaluable. She was our
13 sharing liaison, ETAAC sharing liaison. Thank you,
14 Tanya.

15 So anyway, with that, as Mark said, thanks for
16 still hanging around today. I am extremely proud and
17 honored to be part of the ETAAC group, working closely
18 with the IRS, despite my jokes, especially now as we
19 turn our guns toward ID tax refund fraud.

20 However, I am even more honored, if not humbled,
21 and that is the truth, to be working with such a
22 respected group of my colleagues and my friends.

1 Let me introduce the Filing Subgroup members
2 quickly.

3 We have Bob Barr from First Command Financial
4 Services; again, Phil Poirier, Center for Enterprise
5 Development; Tom Lorek, formerly with the Indiana
6 Department of Revenue; Julie Magee, formerly the
7 Alabama Revenue Commissioner.

8 Both Tom and Julie have come over to the dark side
9 recently and have taken private sector positions, so we
10 are glad they are on our side. Even you, Julie.

11 I might also add that Tom and Phil have done
12 double duty, contributing to both the Filing and
13 Sharing groups, and probably the Outreach group as
14 well. So a lot of work, a great group of guys. I
15 appreciate it.

16 As Mark and the others also pointed out, there
17 were many overlapping discussions that surfaced in our
18 individual subgroups, equally in addition to them,
19 many, many opinions that surfaced. We already have a
20 fair amount of items in our parking lot for
21 consideration in 2018.

22 I think this speaks to the diversity and the depth

1 of the entire group, representing all facets of the tax
2 ecosystem, because, in my view, it is the many eyes
3 from the many viewpoints that will drive continued
4 efficiency in electronic filing and effective solutions
5 to combat ID tax refund fraud.

6 So, as I mentioned early this morning, the Filing
7 Subgroup focused on the activities of the summit's
8 Authentication and Financial Services Working Groups.
9 Our recommendations focused primarily on those areas we
10 felt somehow touched upon the actual filing experience.

11 The Filing Subgroup itself can claim seven of the
12 22 ETAAC report recommendations. However, Mark just
13 stole one of them, so I will do six now instead of
14 seven, so maybe we will pick up a few minutes here.

15 So if you are following along in the report, I
16 will briefly touch upon recommendations 1, 2, and 3 on
17 page 11.

18 MR. STEBER: Sixteen.

19 MR. SICA: That is the summary. That is what I
20 said. All right, whatever. Now I do not know my
21 pages.

22 Recommendations 12 and 13, I was going to say on

1 page 12, but somebody will correct me. And lonely
2 recommendation number 22 on page 14.

3 As I said, recommendation 10 was ours, the TTIN,
4 but Mark eloquently described that.

5 As I indicated, our recommendations focused
6 primarily on those areas we felt somehow touched upon
7 the actual filing experience, not the least of which is
8 recommendation No. 1, which speaks to the actual
9 effectiveness to date of the Security Summits' efforts.

10 Our report makes it pretty clear there have been
11 identifiable positive outcomes toward combating
12 identity theft tax refund fraud associated with the
13 summit. However, how do we leverage that success? Are
14 we totally sure yet which efforts within the summit
15 were most successful?

16 In addition, there are real costs and budget
17 implications associated with participating and
18 collaborating within the summit for both the government
19 and industry alike.

20 So in a cost analysis, is the investment well
21 placed? And finally, and probably most important, what
22 impact have these fraud initiatives had upon the

1 legitimate taxpayer?

2 ETAAC believes a value chain analysis process will
3 leverage successes to date and drive a more efficient
4 and effective Security Summit.

5 Moving on to recommendation No. 2, with success in
6 managing the public-private collaborative model, the
7 Filing Subgroup and ETAAC also believe the IRS needs to
8 continue to think outside of its current toolbox and
9 seek more collaborative approaches with trusted third-
10 party stakeholders.

11 It is pretty clear the IRS and other summit
12 participants, we do not have the market cornered on
13 identity theft. There is a great deal of experience
14 being developed beyond the tax industry that IRS and
15 the summit members may be able to leverage.

16 And recommendation No. 3, as I mentioned,
17 understanding better the impact on the taxpayer
18 experience previously. ETAAC took a special interest
19 in the high e-file reject rate associated with
20 taxpayers who use do-it-yourself tax preparation
21 software.

22 The IRS requires the taxpayer to know their prior

1 year adjusted gross income, or the AGI, as a measure to
2 verify the taxpayer's electronic signature. The
3 estimated 6 million rejects for this condition in 2017
4 is evidence that legitimate taxpayers are having
5 significant difficulty in verifying their prior year
6 AGI. ETAAC believes IRS should leverage the summit's
7 Authentication Working Group to explore alternatives
8 that will lessen this false-positive reject rate,
9 because left as is, this inconvenience could influence
10 many taxpayers to revert back to paper filing, and that
11 would severely negate the efficiencies of e-file for
12 the government and eliminate the progress we have made
13 in combating identity theft fraud.

14 Okay, I get to skip to that one. Beautiful.

15 Shifting gears a bit, recommendation No. 12, the
16 Filing Subgroup also looked toward financial
17 institutions. Part of filing for many is the receipt
18 of the tax refund direct deposited into taxpayer's bank
19 account. Successful fraudsters who perpetrate ID tax
20 refund fraud often hijacked the refund, as we know.

21 As the ETAAC report indicates, the IRS Financial
22 Institutions Suspect External Leads program, which

1 actually signals the IRS more analysis on a refund
2 should be done; the ACH reformatting of the tax return
3 deposits, which helps banks clearly identify tax refund
4 deposits; and the subsequent R17 reject effort, which
5 is a bank reject code that signals the IRS and States
6 that a suspect tax refund deposit was rejected instead
7 of being deposited into a customer's account, all of
8 these have led to increased recovery of ill-gotten
9 refunds.

10 These are refunds that have gotten through IRS
11 fraud filters and were deposited into bank accounts.
12 These highlighted efforts have led to the recovery of
13 funds before they were dispersed to the fraudsters.

14 So IRS reports there are currently much less than
15 1,000 financial institutions involved with the External
16 Leads program. In order to leverage this success, the
17 IRS needs to continue to analyze all deposits
18 associated with the identity theft refund fraud, in
19 order to identify a wider list of vulnerable and
20 targeted financial institutions, and conduct an
21 outreach effort to engage them into the summit
22 activities.

1 Recommendation No. 13, as I stated, financial
2 institutions are really the last stop before fraudulent
3 funds disappear, usually forever. As a result of some
4 key barriers, many financial institutions are reluctant
5 to engage the summit.

6 One barrier, for instance, is the IRS's inability
7 to confirm fraud back to the financial institution in a
8 timely manner, inhibiting the financial institution's
9 ability to confirm other fraud with similar scheme
10 characteristics.

11 Another barrier, mostly at various State levels,
12 is granting indemnification to the financial
13 institution to guard against recourse in instances
14 where suspect customer funds are returned by the bank
15 and later found not to be fraudulent. Without
16 indemnification, the bank opens itself up to legal
17 actions.

18 So ETAAC believes the IRS should analyze these
19 barriers, and there are plenty others, to seek
20 remedies, where possible, in order to facilitate
21 increased financial institution participation in the
22 summit, the Leads program, and the ISAC.

1 Lastly, since I have a few extra minutes here,
2 lonely recommendation on No. 22 -- I will not say the
3 page, just look for 22 -- 45, okay, on 45 -- focuses
4 upon the growth of e-file by continuing to expand the
5 Modernized e-File system, or MeF.

6 Now, the IRS has reported they receive over 135
7 million Form 1040 tax returns, of which about 120
8 million, or 88 percent or 87 percent, are processed by
9 MeF annually. However, they also report receiving
10 about 4 million amended tax returns on Form 1040X.

11 Since MeF is currently not designed for amended
12 returns, all 1040X returns are submitted on paper.
13 ETAAC believes adding the 1040X to MeF will garner
14 preparation efficiencies to be gained, will reduce
15 burdens on the IRS, will add momentum toward continuing
16 the growth of e-file. It will mirror many of the
17 States who are programming for amended returns already,
18 along with subjecting amended returns to identity theft
19 filters.

20 As such, IRS should consider prioritizing adding
21 the 1040X to MeF, and provide taxpayers with a seamless
22 electronic filing process.

1 So that is about it for me. I tried to keep it
2 brief there, and painless. If you have any comments,
3 please keep them to yourself.

4 [Laughter.]

5 MR. SICA: No, I seriously will entertain any
6 questions or comments you may have before turning it
7 over to John.

8 [No response.]

9 MR. SICA: Okay, John?

10 MR. AMS: Thank you, Joe, I think. That is a
11 tough act to follow.

12 The recommendations of the Outreach Subgroup are
13 on pages 39 to 45. I double-checked them.

14 Before I discuss the recommendations, I would like
15 to introduce the other members of the subgroup, who
16 include representatives of various stakeholder groups,
17 including tax professionals, small businesses,
18 employers, low-income taxpayers, the VITA community,
19 and software providers. They are Shannon Bond, John
20 Breyault, Angela Camp, J.C. Craig, and Deborah Sawyer.

21 I would also like to thank Stephanie Burch for
22 being our designated cat herder from the staff, and

1 keeping us on track. When her efforts alone were
2 unsuccessful, she also called Mel and John in, so thank
3 you for that help when it was needed.

4 As we have just heard, ETAAC's other two subgroups
5 have continued efforts to suggest improvements by IRS
6 and the Security Summit partners to address security
7 issues. The Outreach Subgroup looked at how the
8 messaging about this effort is being delivered to
9 taxpayers and tax professionals.

10 We focused our efforts on three areas: outreach to
11 taxpayers, outreach to tax professionals, and, to some
12 extent, the communication process itself.

13 I do, again, want to commend the IRS for its
14 communication efforts in this area. The "Taxes.
15 Security. Together." campaign increased awareness about
16 the need for computer security among both consumers and
17 tax professionals, and then was supplemented by the
18 "Protect Your Clients; Protect Yourself" program. The
19 IRS staff has also delivered press releases and
20 security alerts that we believe limited identity theft
21 during the tax season, so thank you for that.

22 However, many of these efforts are necessarily

1 limited.

2 First, taxpayers may not be aware of security
3 issues. They may not be aware that useful information
4 is available on the IRS Web site, or, frankly, that the
5 IRS even maintains a Web site. Consequently, just as
6 the security threats are constantly evolving, so, too,
7 must our efforts to communicate about these threats
8 evolve, when we believe more can be done.

9 First, identity theft is a risk to all taxpayers
10 and IRS external stakeholders. This is particularly
11 true for those in diverse communities where English may
12 not be the primary language. At the same time, these
13 taxpayers and stakeholders most at risk are often the
14 ones hardest to reach through traditional IRS
15 communication channels.

16 Given the prevalence of identity theft scams
17 targeting immigrants, senior citizens, small business
18 employers, and people with disabilities, the IRS, we
19 believe, must also work with the organizations that
20 already serve and communicate with these populations
21 for the "Taxes. Security. Together." campaign to be
22 even more effective.

1 Therefore, we recommend that outreach can be
2 increased and made more effective by expanding outreach
3 and communication to community-based consumer
4 organizations and through employers and small
5 businesses. We also recommend partnering with
6 organizations experienced in creating pro-security
7 consumer education content for these diverse
8 communities, ensuring that consumer education and
9 distribution efforts enlist the help of affinity groups
10 serving populations targeted by scams, such as
11 immigrants, senior citizens, people with disabilities;
12 finally, collaborating with volunteer tax preparers
13 through the VITA and TCE programs and local government
14 agencies to disseminate security-focused consumer
15 education materials that meet local needs.

16 With respect to the communication process, we also
17 looked at communication within the IRS. We think that
18 identity theft is an enterprise-wide challenge that
19 requires various offices within the service to exchange
20 information across the agency quickly, and create
21 dialogue with a more diverse set of stakeholders.

22 As we know, security issues may arise in the

1 context of an audit, may arise in the context of a
2 stakeholder liaison meeting at the local level, and
3 myriad other ways. So knowledge about the issues, as
4 well as the IRS response to them, should be the same no
5 matter where the issue arises. An added benefit will
6 be to broaden the reach and effectiveness of the
7 current summit communication strategy by reaching
8 stakeholders not previously engaged through the summit.

9 Accordingly, we recommended that the IRS establish
10 and support an internal community practice for IRS
11 employees serving in a relationship management role.
12 The IRS Office of Communication and Liaison should
13 house this community and establish platforms for peer
14 communication and learning opportunities. The focus is
15 that the message should be consistent and the same
16 throughout the IRS.

17 Earlier this morning, I highlighted to the
18 commission the need to update IRS publications to
19 provide actionable guidance for tax professionals who
20 want to know, what should I do to address the security
21 risk? How can I better protect my client information?

22 For anyone who was not here earlier, I am not

1 going to risk hurting myself by reading the quote about
2 extended secure socket layers again, so you are going
3 to have to read that for yourself. It is on page 42.

4 In any event, our recommendation is to update the
5 e-File program publications to educate tax
6 professionals on the cyber and physical security risks
7 facing them. We need to provide a clear and full
8 statement of the security regulations, standards and
9 requirements applicable to a tax professional's
10 participation in IRS e-File, and the possible
11 consequences of failing to comply. We need to provide
12 simple and clear actionable guidance on how to
13 implement a security program -- again, preferably
14 consolidated into a single-source population. And,
15 importantly, we need to review, update, and improve the
16 content on an as-needed basis in order to keep up with
17 industry best practices.

18 Once the publications are updated, then, together
19 with the information developed by the Security Summit
20 participants, we will, we think, have valuable
21 information about Internet security, data protection,
22 and the myriad ways that thieves try to steal taxpayer

1 data. In turn, this information could serve as a
2 tremendous educational resource for tax professionals.

3 I want to commend Carol and the IRS Return
4 Preparer Office for its announcement in January that
5 identity theft and data security programs focused on
6 enhancing tax professional awareness of protecting
7 client data may qualify for continuing education
8 credit. However, this announcement was posted only on
9 the IRS Web site, and those of us familiar with the Web
10 site know that it can be difficult to find things even
11 during the best of times. Therefore, we do not think
12 that announcement received the publicity it deserved,
13 which resulted in few preparers knowing about this
14 announcement.

15 So our recommendation is really a softball, which
16 is to please take steps to make return preparers more
17 aware that educational courses about Internet and data
18 security will qualify for IRS-recognized continuing
19 education credits, assuming the course meets IRS
20 standards for such education.

21 Thank you, Carol.

22 However, outreach to tax return preparers who

1 voluntarily take continuing education in this area,
2 while commendable, the scope of the identity theft
3 problem is such that Internet security education should
4 be a requirement. We note that the IRS does not
5 currently have the legislative authority to regulate
6 tax preparers with respect to their tax return
7 preparation activity.

8 So I also want to thank Steve Whitlock for going
9 out of his way in public comments to make sure that the
10 people you are talking to are aware of the need for
11 security, and encouraging them to get education even
12 though they may not be required to do so. So thank you
13 for that.

14 Even with respect, though, to tax preparers that
15 the IRS may currently regulate because they practice
16 before the agency, existing regulations establishing
17 the standard of care that tax practitioners must meet
18 when advising on and preparing tax returns do not
19 require any particular competence with respect to
20 Internet security.

21 We, therefore, recommended that the IRS, when it
22 amends Circular 230, make knowledge about an

1 implementation of Internet security and the protection
2 of taxpayer data a requirement for all preparers
3 subject to the rules of practice contained in the
4 circular.

5 The IRS and its Security Summit partners have
6 spent, as I have said, considerable time and effort to
7 identify evolving scams, phishing emails, and other
8 attempts to steal taxpayer data. We commend this
9 effort, especially the IRS issuance of numerous emails
10 and press releases designed to provide early warning to
11 tax professionals and electronic return originators
12 about the threats.

13 However, when these warnings are co-mingled with
14 other IRS communications without differentiation, there
15 is currently no quick or easy way to separate the
16 messages that warrant immediate attention from the
17 messages that may be opened as time allows. Frankly,
18 the security information needs to be responded to
19 immediately, whereas the information that the interest
20 rates are the same this month as they were last month,
21 maybe those could wait a little while.

22 So our recommendation is that IRS security alerts

1 to tax professionals should be differentiated from
2 other IRS communications, whether on different
3 letterhead or font size or color to highlight the
4 urgency of the message and the recommended actions.

5 Finally, we looked at how the IRS is communicating
6 security messages. As we all know, and as all the
7 people in this room know, we all have multiple channels
8 for information. Although the IRS has gone to great
9 lengths to utilize many communication channels,
10 including Facebook and Twitter and YouTube and Tumblr,
11 our subgroup noticed that these channels do not
12 necessarily contain the same important and consistent
13 messaging provided on IRS.gov, with respect to security
14 matters. We think this is a missed opportunity.

15 Therefore, we recommended that the IRS expand and
16 enhance its current use of social media channels to
17 more broadly and consistently communicate the messages
18 providing information about security awareness.

19 Thank you, and may all of your sockets be layered.

20 [Laughter.]

21 MR. SAPP: Okay, John is no longer going to be
22 allowed to sit beside Joe.

1 [Laughter.]

2 MR. SAPP: Any questions or comments for John or
3 the tax pro communications outreach group?

4 MR. LEMONS: Can I say one thing?

5 MR. SAPP: Please.

6 MR. LEMONS: I just want to thank the subgroup for
7 the recommendations. You guys clearly spent a lot of
8 time looking at it.

9 I know there are several items here on the
10 communication side of the house we are going to be
11 taking a very close look at.

12 We are not done. We still have a couple tricks up
13 our sleeve, but this is very helpful.

14 It is very challenging landscape to get the word
15 out to taxpayers and tax professionals. And some of
16 the themes you have in here, you will see outreach to
17 tax professionals will be a big part of the tax forms
18 this summer. But clearly, there are a lot of things we
19 need to be doing.

20 I do know a number of you in various fashions have
21 been supporting a communications effort, and we really
22 appreciate that. The industry has been very

1 supportive, the States as well.

2 I know, Doreen and Julie, both Idaho and Alabama
3 have been very supportive in picking up summit
4 materials.

5 And also, Tom, Indiana has been as well.

6 I really have been pleased with just how much
7 support we have had. It is really a pretty unique
8 collaborative effort getting the word out.

9 There is more to do and more to come. I
10 appreciate your feedback, and I know we have been
11 working closely with Carol's group on this as well.

12 MR. AMS: Well, the fortunate thing is that we
13 have had good material to look at, from the perspective
14 of our group.

15 The challenge has been, for outreach purposes, how
16 do you reach out to the 50 percent of PTIN holders who
17 are not EAs or CPAs or attorneys or otherwise subject
18 to some regulation, whether at the Federal or State
19 level? I mean, frankly, some of these people have made
20 it their life's work to stay off the radar. So how do
21 you communicate with those people and encourage them to
22 have a secure system when they are not required to do

1 so. And secure system or not, as I said, they are
2 under the radar.

3 MR. SAPP: It is one of the byproducts of the
4 Loving case that meant the IRS could not regulate tax
5 return preparers, which has literally led to the
6 inability of the IRS to prescribe to a tax return
7 preparer security measure, in particular, through that
8 methodology, through Circ. 230, redefining what
9 representation or tax return preparation is.

10 Any other questions or any other comments?

11 Phil, go ahead.

12 MR. POIRIER: Yes. It is Phil Poirier.

13 I just wanted to, really, I think on behalf of all
14 of us, thank the IRS for its hard work over the past
15 few years on the Security Summit.

16 I was on ETAAC back from about 2009 to 2011 when
17 we were involved in very early stage kind of reviews.
18 Fraud was just starting to pick up, identity theft, tax
19 refund fraud, and an increased focus on cybersecurity.

20 And to see the progress that has been made in 2 years
21 is absolutely remarkable and did not happen without
22 your leadership, as well as, I think, two things. The

1 collaboration with State Governments and with the
2 private sector cannot be understated. And the other
3 thing is a real effort to try to innovate.

4 I think one of the challenges, in any large
5 organization, is to innovate, because there is so much
6 process around trying to do something new that it just
7 does not happen.

8 So to see the level of innovation in testing and
9 piloting, which is going to be the way that we are
10 going to find the best way to stop the fraudsters and
11 react to their new approaches, is really remarkable.

12 So I just wanted to thank you and mention again,
13 call out again, some of the things that already have
14 been mentioned, but collaboration and innovation, I
15 think, is a huge engine underneath the progress being
16 made by the Security Summit.

17 [Applause.]

18 MR. SAPP: Any additional comments from the IRS or
19 from anyone else?

20 Sorry, John. I did not see your light.

21 MR. AMS: I just turned it on.

22 As much as it was fun to make fun of the secure

1 socket layer quote, especially since I represent
2 accountants who are more familiar, if anything, with
3 socket wrenches, it is still an area where we have the
4 challenge of having an understandable message about
5 something that is very technical.

6 I think the messaging about, "Where is my refund?"
7 was very successful, in that we were able to put out an
8 understandable message about something that involved
9 technical elements. So we look forward to working with
10 the IRS and the various partners here to develop that
11 understandable messaging, given our knowledge of our
12 own customers.

13 We look forward to working with you on that.

14 MS. CAMP: Just to underscore John's comments
15 there, I think that also circles back again to the
16 importance of the collaborative relationship between
17 the IRS, the States, and industry, and an industry that
18 goes from a do-it-yourself space to tax professionals,
19 payroll, financial institutions. But it goes back
20 around to that partnership.

21 When you have that partnership there, you are a
22 lot more likely to make sure that all taxpayers are

1 being considered in the process. Ultimately, that is
2 all of our goal, is to do what is best and most helpful
3 for taxpayers.

4 MS. PICKERING: I just wanted also to offer some
5 observations.

6 Through the work that we have been doing through
7 the Security Summit with a lot of the colleagues that
8 are now on the ETAAC committee as well, for the last
9 couple years, we have been very deep into the details,
10 trying to work through in this committee and in that
11 committee how we move the ball forward. So it has been
12 a real privilege and an opportunity as a member of
13 ETAAC to now take a step back and look at things
14 holistically, to be able to look from the different
15 lenses and perspectives, to say, "All right, how is
16 this working? How is this coming together? How are we
17 all collaborating?"

18 So it has given me and all of us, I think, a new
19 lens, a new broader perspective, to be able to take a
20 higher level look of saying: How is this coming
21 together? How is this working? What are the things
22 that will now help us move forward in a more structured

1 and coordinated way going forward?

2 So I think with this smaller group, we have had
3 the opportunity to have some really deep conversations
4 where, in the different working committees in the
5 broader Security Summit groups, there tend to be so
6 many voices, it is hard to go really deep on issues or
7 to come to that higher level view as well. So I really
8 appreciated the opportunity to take a step back and
9 look at what we have accomplished, think about what we
10 need to do to go forward.

11 It has just been a real pleasure to be a part of
12 this. I am really proud of the report. I appreciate
13 the leadership. I just wanted to second the
14 commendation to the IRS leadership team for your
15 commitment and passion for helping us all move forward
16 with that. Thank you.

17 MR. STEBER: I would offer one last comment as we
18 wrap up, in the spirit of time.

19 I think it bears mentioning that the ETAAC
20 members, the Commissioner, the IRS folks, in
21 particular, we have never really ever lost sight of the
22 most important element on all of this, which is the

1 taxpaying consumer.

2 Everybody always asks, after we have these
3 detailed John-type technical discussions, and Joe with
4 the bank issues and financial, how is it going to
5 impact the taxpayer? We have to keep them first and
6 foremost in the front of our consideration, our
7 recommendations. How will this improve their day-to-
8 day experience? And there is a comment in the report,
9 or a couple places, where, if it is a great solution,
10 but nobody does it, it is that not great of a solution.

11 So we have worked tirelessly to keep the taxpayer
12 in the front of our minds on all of this, and all of us
13 have. So I just make sure that we are all focused on
14 that point, because we sometimes seem to make these
15 recommendations, and we look at them from a technical
16 lens or a tax provider, or a taxpayer, or a service
17 provider, but we keep the taxpayer in front of our
18 minds on all of this at all times. I think that is it
19 an important and a noble purpose.

20 MR. LOREK: As a State member rolling off of the
21 committee, I do not want the IRS to lose sight of the
22 States. At this point moving forward, we only have

1 Doreen to represent the State perspective on ETAAC. I
2 would certainly encourage the IRS to include as many
3 States as possible moving forward in the ETAAC.

4 It is truly surprising how many States do not
5 understand what the ISAC is and what the ISAC is doing,
6 and the benefits from it, particularly with new
7 administrations coming into the various States every
8 year, that State participation is crucial.

9 MR. LEMONS: I just want to reassure you that the
10 State component it is absolutely critical to this. I
11 do not see how this effort could have been as
12 successful as it has been without the involvement of
13 the States.

14 So as the ETAAC applications have come in for the
15 next round, we are very conscious of the State angle.
16 Rest assured, we want to keep a strong presence from
17 the States there.

18 MS. POWELL: I am Tamara Powell, acting director
19 for Return Integrity Operations.

20 First, I would just like to thank the committee
21 and everybody that has been on the Security Summit
22 teams for your participation in the Information-

1 Sharing, Authentication, and Financial Services
2 workgroups.

3 Our team is really kind of the boots-on-the-ground
4 for those three teams, so we really appreciate the
5 feedback. We will continue to work on the
6 recommendations that you have made and then look at the
7 new areas where we can make progress.

8 The other thing, when someone mentioned the State
9 participation, it is really important as we move
10 forward and look at proactive versus reactive
11 initiatives that we have that State participation and
12 the industry participation along with the feedback from
13 the initiatives that we have, so that we can measure
14 the results and then continue to move forward.

15 Thank you.

16 MR. BARR: John, I would be remiss if I did not
17 say something, particularly in regards to the
18 achievement of the 80 percent number.

19 As so many of you know, I served as the first
20 Assistant Commissioner of Electronic Tax Administration
21 and was the primary influencer and author of Title II
22 of the 1998 Restructuring and Reform Act, which was the

1 one that actually commissioned this committee, as well
2 is that particular goal, and a number of opportunities
3 and initiatives to drive this program forward.

4 So I sit here today quite humbled, quite frankly,
5 at the service's grand achievement, as reported by
6 John, of having hit that 80 percent number after these
7 many years.

8 The refocus of this committee now on the whole
9 integrity of that program, so that it can continue to
10 advance even further forward is quite commendable. So
11 I want to thank both my peers and friends on the ETAAC,
12 many of whom I have known for many, many years -- Joe.

13 But I also want to commend all of you in
14 leadership positions at the IRS. I am extremely proud
15 of what you have done and what we have done
16 collectively between the public and private sector --
17 Federal, State, local, banks, tax preparers, and the
18 like.

19 So let's not lose sight of what we so fortunate as
20 the first ever ETAAC could report, which was the
21 achievement of that 80 percent goal.

22 So thank you very, very much.

1 MR. EGAAS: I just wanted to also thank everyone.

2 It is nice when you are in a Federal Government
3 position to hear what you are tasked to lead be such a
4 vocal component of the industry and States. Thank
5 goodness, we did not have to put quarters on the table
6 every time we heard the word ISAC here, because there
7 would have been a lot of change exchanging hands.

8 So I appreciate all the recommendations. Many of
9 those are already works in progress. And I look
10 forward to working with you on furthering those
11 efforts.

12 The States are increasing membership in the ISAC.
13 And I also look forward to any different ways that we
14 can get the message out to the States with the
15 difficulty of the changing hands.

16 There is just tons of opportunity, as you guys
17 have already mentioned, for the ISAC. So thanks again.

18 I look forward to big successes in the next years.

19 MR. SAPP: Okay, I was looking at my closing
20 remarks points that I wanted to make.

21 Collaboration and expansion: Check. I think we
22 have covered that.

1 Additional communication: Check. I think we got
2 that.

3 The hard work and dedication of the folks around
4 this table to protect the American taxpayer, with an
5 eye toward the impact and the inconvenience or
6 convenience of the American taxpayer meeting their tax
7 obligation, and receiving the benefits that our tax
8 system does provide to them -- it is rare in today's
9 world to see across any type of line, whether it is
10 political lines or economic lines, whatever they are,
11 and we have crossed some of the toughest, I believe,
12 between the government and the private sector, and the
13 Federal Government and State Governments, to come
14 together for that common purpose of combating fraud,
15 combating identity theft, and protecting taxpayers.

16 I believe it is a noble cause, as evidenced by the
17 diversity of the interests in that cause, and the
18 commitment that has been shown by the folks around this
19 table. I am proud to be affiliated and associated with
20 such an excellent, professional, and dedicated group of
21 individuals.

22 One of those is Mike Deneroff, who I did not

1 mention earlier, who has held my hand through this
2 process and been a great resource at the IRS, even if
3 he did leave to go take care of a child, which,
4 whatever.

5 [Laughter.]

6 MR. SAPP: I don't understand these kids today.
7 They care about their kids. It is not the way we
8 raised ours.

9 [Laughter.]

10 MR. SAPP: Anyway, seriously though, thank you all
11 for coming. Once again, we will all be available after
12 the fact here to hang around.

13 And have a good ETAAC year. Thank you.

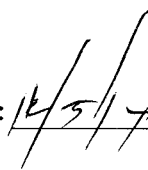
14 [Applause.]

15 [Whereupon, at 11:19 a.m., the meeting was
16 concluded.]

17

18

19 Approved:  _____
20 John Sapp, ETAAC Chair

Date:  _____

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