



## Exploring “Real-Time” Tax-System Possibilities: Challenges & Opportunities

**Statement by Jackie Lynn Coleman**

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Commissioner Shulman and Deputy Commissioners Miller and Tucker: Thank you for this opportunity to talk with you about the IRS’ vision for a “real-time” tax system that could replace our traditional, “look-back” model of compliance. This is an important subject for the National Community Tax Coalition, its members and the many client families we serve nationwide.

I’m Jackie Lynn Coleman, Senior Director of NCTC. Ours is the nation’s largest, most comprehensive membership organization for community-based entities that offer free tax preparation and financial services to low- and moderate-income, working families. Our local partners help struggling families claim tax credits they might otherwise overlook, ensuring they receive the full tax refund to which they are entitled. For many, that refund provides a once-a-year opportunity to pay down debt, purchase necessities and begin building assets. Altogether, we are the nation's fourth-largest provider of tax preparation services, completing an estimated 3 million federal tax returns annually. Our views reflect the experience of our partners in the provision of tax preparation services and the client families they help.

We applaud the IRS for beginning open, collaborative exploration of what’s involved in creating a “real-time,” up-front system of matching information submitted on tax returns with the information provided by third parties. The invitation for interested entities to participate in this discussion is critically important to any success for which the effort might aim: More opinions, input and experience are far better than fewer in the work of shaping any new policy direction. Obviously, this deliberation can and should take some time, and we ask to remain involved in these discussions in pursuit of your stated goals – goals that we find to be significant:

- **Reduced burden** on taxpayers as well as the IRS – by eliminating the need for many contacts, correspondence and follow-up in the resolution of discrepancies
- **Greater savings** for taxpayers and their government, alike – by eliminating many penalties and interest payments for the former, and many follow-up costs for the latter
- **Improved compliance** – by gradually allowing the IRS to concentrate on more complex concerns

With these goals in mind, I would like to emphasize several points on behalf of low- and moderate-income taxpayers served through our VITA sites. These thoughts could help guide the IRS’ thought process in while developing this concept. First, while we certainly appreciate the potential for increased responsiveness of the IRS to issues arising from taxpayers’ returns, this desire for speed must be reasonably balanced with an assurance of accuracy in the information used to assess returns in real-time

for errors. Second, we would like to reinforce the necessity of pursuing such a broad-system overhaul in close coordination with the states and with other government agencies and institutions that process information tied to federal tax reporting. Third, it is clear from the nature of this proposed system that it would require a substantial amount of taxpayer information to be stored, shared, and transmitted electronically. Concerns regarding the level of access tax preparers would be granted to client information, and the means for securing accessed information, must be dealt with prior to any implementation. Fourth, we must draw your attention to the higher burdens of tracking information returns throughout the year that this real-time system would place on many of the taxpayers we represent – tempered with the potential educational opportunities these burdens could inspire.

The earliest stages of implementing a real-time tax system would require the IRS to be particularly concerned with increasing the speed of information processing while ensuring the accuracy of the information reported. An immediate consequence of this change would be the need to reconsider the timing in which information returns are reported. It would be imperative that the IRS first test whether a limited implementation of this sped-up, information-return reporting could be achieved before it is widely rolled-out. The IRS could limit this change in the short-term to several relatively straightforward information returns, such as W-2s or 1099-INTs, before proceeding to forms that would require the involvement of other entities (e.g. higher education institutions for 1098-Ts or other governmental agencies for 1099-Gs). A measured roll-out of this shift would allow for accuracy checks as well as an assessment of feasibility, given the level of accuracy a full roll-out would require. As the IRS develops the means for increasing the speed of reporting, ongoing concern for accuracy cannot and should not be disregarded.

My previous point also relates closely to a second necessity the IRS must consider in its implementation of a real-time tax system: coordination with other federal agencies and with the states. This coordination must be done in advance of any trial implementation to ensure information could be delivered accurately and promptly without causing disruptions in other benefits tied to federal taxpayer information. States and other federal agencies with important roles in processing tax-related information reports are critical partners in collaboration on such a venture. They should be brought-in on the ground floor of considerations about system feasibility and design.

Our concerns on the implementation of this system are not limited to accuracy and timely reporting of information. With the freer electronic flow of information that this system would require, the IRS must determine to what extent third parties could and should be given access to taxpayers' information and how such access would be managed while ensuring taxpayers are protected from identity theft or other misuses of their personal reporting. These questions regarding access and security must be thoroughly clarified, explored and answered prior to any trial implementations. I would like to emphasize our deep concern on this point, asking that the IRS share such concerns at the highest levels of administration and take all means possible to insure against the inadvertent opening of a Pandora's Box of identity theft and fraud cases.

While my previous points largely pertain to most taxpayers, I would like to share ideas about several more specific effects the implementation of a real-time tax system could have on the low- and moderate-income taxpayers our VITA programs represent. We applaud the ultimate goal that the IRS states of reducing burden on taxpayers by eventually reducing the number of contacts they might have in "look-back" compliance efforts. However, it's important to note that this proposed new system first and foremost represents a heavier reporting burden to low- and middle-income households, one that

would require a significantly increased level of involvement and planning on the part of individual taxpayers. Many taxpayers served by our programs do not come to us with a single, straightforward W-2. What we often encounter are workers with numerous sources of short-term income, several W-2s and 1099-MISCs, and other documents reflecting spells of part-time work and unemployment. Documents appear for them throughout the year, and not just in January as filing season dawns and these matters are most on taxpayers' minds. It is this level of complication – coupled with the complexity of filing returns for atypical family situations involving multiple beneficial deductions and refundable tax credits – that often bring taxpayers to VITA sites in the first place. Managing this increased burden of tracking important documents throughout the year may be a challenge for our already heavily saddled constituents. Something that could help ease this concern: Ensuring that individual taxpayers have no less access to their tax-related documents – perhaps via secure, online means – than would the tax preparers to whom they turn for help. Taxpayers shouldn't have to negotiate any unnecessary obstacles to their own information.

Interestingly, this system also would create an important learning opportunity for this population, with lasting effects on household financial management. A real-time system, with more-frequent-than-annual reporting, would require taxpayers to develop better skills at recordkeeping and knowledge of personal sources of income and the information related to such income. The IRS should take advantage of this opportunity and engage VITA programs as the means for introducing such skills to this population. Several VITA programs have already begun to demonstrate the capacity for sharing this knowledge, with the assistance of the IRS, for a specific subset of client households. A limited pilot of the IRS – administered through NCTC – facilitates programs' ability to assist self-employed sole proprietorships with the filing of their Schedule Cs. This assistance not only helps with preparation of the return, but incorporates an educational component for these taxpayers to learn bookkeeping and recordkeeping skills essential to filing. NCTC would certainly be willing to translate this expertise and experience into an opportunity for the kind of broader taxpayer education described above, an opportunity essential to the success of a real-time tax system applied to low- and moderate-income taxpayers.

In closing, this policy discussion clearly involves many challenges – the needs to ensure accuracy as well as speed, fully involve important partners, carefully balance access-and-security concerns, and address the increased reporting burden that a real-time tax system would represent for low- and middle-income families. Yet there are interesting opportunities to explore, as well. These include the potential for reducing after-the-fact compliance contacts and increasing savings for both taxpayers and their government – not to mention pursuing the possibility of helping low- and moderate-income households learn the skills of better-tracking important, tax-related documents throughout the year. VITA programs are particularly well-suited to help with that “teachable moment” aspect of the proposed, real-time tax system. In this exploration of important policy changes, NCTC hopes to continue to work closely with the IRS and other interested partners in identifying and posing important questions, determining their answers and shaping the best possible future for a tax system that reflects and responds to the needs of taxpaying households.