

UNITED STATES OF AMERICA

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

WASHINGTON, DC

PUBLIC MEETING

ON

REAL TIME TAX SYSTEM INITIATIVE

Internal Revenue Service  
1111 Constitution Avenue, N.W.  
7<sup>th</sup> Floor Auditorium  
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**Participants from the IRS:**

Commissioner Shulman

Deputy Commissioner Miller

Deputy Commissioner Tucker

**Participants: Tax Practitioner Panel**

Patricia Thompson, AICPA

Kathy Pickering, H&R Block

Lonnie Gary, NAEA

Larry Gray, NATP

**Participants: Government Panel**

James White, GAO

Commissioner Thomas Mattox, New York State

Michael McKenney, TIGTA

**Participants: Taxpayer/Consumer Advocate Panel**

Robert Weinberger, Aspen Institute

Bonnie Speedy, AARP Foundation

Jackie Lynn Coleman, National Community Tax Coalition

Keith Fogg, ABA Low Income Taxpayers Committee

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P R O C E E D I N G S

9:08 a.m.

**WELCOME**

MS. TUCKER: Good morning everyone. Thanks so much for joining us to talk about this very important topic. My colleague, Steve Miller and I are really pleased with the excellent turnout. I'm Beth Tucker, Deputy Commissioner for Operations Support, and Steve --

MR. MILLER: Steve Miller, Services and Enforcement.

MS. TUCKER: And obviously, our boss is not a mirage. He's been detained for a few moments, so we're going to go ahead and get started, talking about a topic that I know you're all familiar with, the Real Time Tax System that Commissioner Shulman introduced several months ago. Hopefully, on your way in, if you hadn't received this previously, you should have a package of information that describes the basic concepts of the Real Time Tax System. Steve and I are going to talk briefly about that before we turn things over to our panel.

**Agenda Review**

MS. TUCKER: Let me just give you a brief outline of what we plan to do today. We have three

1 excellent panels of folks that are very involved in tax  
2 administration and taxpayer advocacy issues and the  
3 government. And so our first panel that we'll get to  
4 later on is a panel of tax practitioners, folks that  
5 are obviously very involved with the ramifications of  
6 our current system which is basically a look back.  
7 People file the return and then some time later, we  
8 match that return filing to the W-2s, the information  
9 reports, which is not only costly for government, but  
10 also a burden for the taxpayers and I would venture to  
11 say to the practitioners that are trying to help their  
12 clients.

13 Our second panel, which will be up in a bit,  
14 is our government panel, where we have folks from our  
15 oversight functions, GAO and TIGTA, as well as state  
16 tax administration.

17 And last, but definitely not least, we'll be  
18 hearing from our taxpayer consumer advocacy panel, and  
19 some great folks on that panel as well.

20 I would like to mention that this is really  
21 the start of the discussion, and it's so important to  
22 us to make sure that we're vetting this concept with  
23 you, the citizens and folks that are interested in  
24 effective tax administration, as well as our partners  
25 in tax administration. So we plan to do additional

1 events like this, after the first of the year, and I'd  
2 like to call out in particular -- I know we have quite  
3 a few folks from the software industry with us today,  
4 welcome. So we're hopeful, as we go about other public  
5 forums, we will have not only the software community,  
6 (but also) the payroll community, financial  
7 institutions, and other government agencies that are  
8 going to be so critical to making this vision of real  
9 time a reality.

10 So with that, let me turn it over to my  
11 colleague, Steve Miller, for some comments. We do have  
12 just a small number of screens that we wanted to set up  
13 the concept for you with, so Steve, you want to take it  
14 away?

#### 15 **Presentation**

16 MR. MILLER: You have, and you should have  
17 received as you walked in as Beth mentioned, basically  
18 a PowerPoint presentation that outlines the vision  
19 here. And again, I'll echo what Beth said -- a couple  
20 things. One, this is not a short-term effort on our  
21 part. We recognize that this is groundbreaking, that  
22 this is game changing, potentially, and that an awful  
23 lot of things would need to change in order for this to  
24 work. So this is the start, as Beth said, of, I think,  
25 a long-term effort on our part, that's going to be

1 punctuated with excessive engagement. So this is the  
2 start of that engagement, and as Beth says, we'll have  
3 more meetings -- we'll have one almost immediately  
4 after the New Year, but that's how this will be run.

5           What we will see is -- and in two moments --  
6 what the idea, obviously, is to reverse the order of  
7 how we do things at the Internal Revenue Service, to  
8 get as much information as we possibly can as the  
9 return comes in the door, to be able to match as much  
10 information as we can, to cut down the number of  
11 errors, to cut down on the fraud, to ease the burden of  
12 all the downstream work that we do and that frankly, is  
13 put upon practitioners and on taxpayers. So you'll see  
14 the benefits up here, and I guess --

15           MS. TUCKER: Yeah, you know, when -- one  
16 thing that I know many of you are very familiar with,  
17 and I think this is a perfect illustration of this  
18 concept to call out, IRS, like many other entities and  
19 taxpayers, consumers, are facing increased problems  
20 caused by identity theft, where perpetrators are taking  
21 Social Security information -- Social Security numbers  
22 and filing a return to generate a refund. The  
23 wonderful thing, or one of the many benefits about the  
24 Real Time concept would be if we did have that early  
25 information, whether it's the full W-2 that shows the

1 accurate amount of the W-2 earnings, from the employer.  
2 We are then able, at that moment when that return comes  
3 in, to validate who that taxpayer is from the correct  
4 W-2. If it's a W-2 that comes in that we don't have on  
5 file, which many of the perpetrators actually mock up,  
6 that causes a problem for us. So another good thing  
7 there, we believe, it would help improve compliance.

8           The other thing is, you know, as government  
9 agencies face increasingly tight budgets, we believe  
10 the Real Time concept also has potential for saving  
11 billions, if you think about the fact that then we  
12 would be able to immediately communicate with the  
13 taxpayer, with the practitioner, and that that would  
14 stem some of the after-effect. Notices and  
15 correspondence back and forth that we get into, trying  
16 to validate the accuracy and what information should  
17 have been reported on the return, so -- big ticket  
18 take-aways, I think, as we start the discussion, a  
19 burden reduction, taxpayer and government savings --  
20 because think about the increased cost for a taxpayer  
21 as we get into the, you know, after-the-fact  
22 correspondence, and last but not least, improved  
23 compliance.

24           So, Steve, you want to take the next slide?

25           MR. MILLER: Sure. Let's go to the next



1 slide, and this is what's happening, right. I mean we  
2 have a process right now, and this is an example, but  
3 it's by no means the only example. Of all of our  
4 downstream work that we do, that we think we may be  
5 able to move up in the process. So we have over four  
6 million items that we work in our automated  
7 underreporting area. And that's a big part of our  
8 business downstream. That's part of the matching that  
9 goes on. That is something that we can look at  
10 immediately, but there is much more than that. There  
11 are all the CP2000s. There are all the notices that go  
12 out. Many of the examinations we think may be able to  
13 be done away with if the work is done up front.

14 Now that means moving people to the front end  
15 so that we have adequate service there. It means  
16 figuring out a way not to overburden people as they  
17 get caught up in mismatches and in being reasonable and  
18 moving people through the system. All of those things,  
19 you'll hear, I think, echoed throughout the panels  
20 today, are issues that we need to talk about.

21 Other things I just want to point out to you  
22 all, again, the large concentration of the number of  
23 pieces of information that we have are in four  
24 information return types, and you can probably guess  
25 what those are, but that is, you know, that is the

1 bulk. And if we were thinking about how to transition  
2 our way into this, these are the types of things we  
3 need to think about. Where is the most bang for our  
4 buck in moving something up?

5           Less than one percent get revised. Now I  
6 think you'll hear an echo throughout some of the  
7 discussion in the great discussion today, you'll hear  
8 that may be because there's an extra month here, or  
9 something like that, and those are things we need to  
10 talk about. But again, what you need to concentrate on  
11 a little bit is the number of errors immediately coming  
12 out of the box on these information returns are  
13 minimal, one percent. Ninety-seven percent of  
14 taxpayers receive at least one information return,  
15 virtually all of us do, and those are things that, as  
16 we move forward, as we walk through the panels today,  
17 I want you guys to think about a little bit.

18           MS. TUCKER: All right. I think we have one  
19 more slide. Alright. So, just to get us all thinking  
20 as we prepare for our panel, here's some of the general  
21 questions that we hope to be able to address as we go  
22 through our discussion today.

23           First of all, the opportunities to evolve our  
24 current tax system, which is a look back, as Steve and  
25 I have both mentioned, how do we evolve that into real

1 time in the near or medium and the long-term? I think  
2 we're all keenly aware, and as we've even had some  
3 preliminary discussion with our panelists, really the  
4 real issue is, how do you get started on a game-changer  
5 like this and make incremental progress?

6 So I think one of the things we want to be  
7 really clear about, we're not talking about flipping a  
8 switch in a filing season and saying, okay, from this  
9 point forward every information return that comes in is  
10 going to be there when the return is filed and we're  
11 just going to have this perfect environment  
12 immediately. That is not the vision here of how we'll  
13 be able to go about this. We're really having a  
14 discussion about what makes the most sense. What are  
15 the recommendations from you, our stakeholders and  
16 advisors?

17 Other things that we want to talk about  
18 today. What suggestions do our panel members have on  
19 how we operate that up-front matching process?  
20 Obviously, as Steve -- Steve gave you some, I think,  
21 really solid information for us to think about -- the  
22 number of individuals that receive information  
23 documents, whether it's a W-2, a 1099, do we start to  
24 segment, potentially, and only deal with taxpayers that  
25 simply have a W-2? Is that a good starting point? Or

1 is it a combo of taxpayers that have a W-2 and a 1099?  
2 How do we -- Steve and I talk a lot about funneling the  
3 work. What does that look like?

4 Another part that we want to talk to you  
5 about is what should be the role of the taxpayer, the  
6 practitioner, the software industry, in resolving  
7 issues that arise? Because, believe it or not, and I  
8 think our first panel is going to talk to you all about  
9 this, the minute someone gets a notice from IRS that  
10 says, gee, your W-2 said you made, you know, \$20,000  
11 dollars, but you said you made \$12,000. Even though we  
12 know our phone lines are ringing, a lot of the first  
13 calls a client makes is to these folks.

14 And right now, for the most part, you guys  
15 know the drill. Pat, how long do you normally tell  
16 your clients to expect before those first matching  
17 documents hit? Be kind.

18 MS. THOMPSON: It's going to be quite some  
19 time. We usually see it a year or two later.

20 MS. TUCKER: Yeah. So now that pains me  
21 greatly. I hope it's not a year or two later always,  
22 but I think, you know, the thing's going to be, if  
23 we're making that kind of rapid response, what does  
24 that mean for the software providers? What does that  
25 mean for the practitioners?

1                   And then, what are some up-front issue  
2 resolutions? Steve, you want to cover the next set of  
3 things we're hoping to talk about?

4                   MR. MILLER: Sure. Obviously, we have  
5 different sorts of scenarios that we're pushing  
6 towards, and as you can see up there, and I don't need  
7 to spend a ton of time on this, we need to just walk  
8 through what the panelists are suggesting. And as I  
9 read the documents, they were excellent. Some of the  
10 things that Beth was talking about, in terms of  
11 segmentation, how do you start this on sort of an  
12 intelligent path?

13                   And there's a suggestion of starting with  
14 1040As. A suggestion of starting, you know, with just  
15 1099s and W-2s. They are good suggestions that you'll  
16 hear, but we need to figure out how would we do this  
17 and how would we work with the different segments of  
18 the impacted public? Not only the taxpayers, but the  
19 practitioners, the states, all of the segments. How do  
20 we work that in a fashion that's collaborative and that  
21 gets us all to a place that we're generally comfortable  
22 with. And nobody's ever going to be perfectly  
23 comfortable.

24                   But that's the sort of thing that we're going  
25 to need to do. And there are going to be gaps, and

1 we'll talk about those. But I think, Beth, that's sort  
2 of -- that sort of lays out -- and we'll come back to  
3 these questions, I think, time and again. And in  
4 talking to the panelists, I think they'll be addressing  
5 those.

6 MS. TUCKER: Yeah, you know, the other thing  
7 that we've heard folks ask, well, gee, this all sounds  
8 great and terrific, you know, who among us that's  
9 involved in tax administration is not all for burden  
10 reduction, saving the government money, and making sure  
11 that folks have the ability to comply with as little  
12 burden as possible?

13 Folks have also said, gee, is this IRS  
14 getting into the prefillable form business? That --  
15 and I see people in the audience going uh-huh, you said  
16 the word that's on our mind. No, this is not about --

17 MR. MILLER: That's not where we are.

18 MS. TUCKER: Yeah, this is not about  
19 prefillable returns. This is about IRS working with  
20 all of the impacted parties and stakeholders to see if  
21 we can get information in as quickly as possible.

22 And we know that this is not a totally unique  
23 concept. I think you're going to hear from our second  
24 panel in particular, one of our state partners, have  
25 actually made some great strides in this area, working

1 within the state of New York to do some up front  
2 matching, and I actually think with really, really  
3 promising, good, solid results.

4 So we're going to try to do our best to learn  
5 from those that have gone before us and make this  
6 process even a bit better. Steve, any other comments  
7 on that?

8 In case you can't tell, we are very, very  
9 close to having our boss here, so rather than jumping  
10 into the panel -- I didn't want you to think -- for  
11 those of you that know me are going, God, Beth is  
12 really dragging this out, isn't she? Yeah, Larry Gray,  
13 I've already cautioned, Larry you'd better not be  
14 running over your time. He just held his hand up to  
15 me, going five minutes. Five minutes over there.

16 So --

17 MR. MILLER: We should get started.

18 MS. TUCKER: -- Steve, you want to -- I think  
19 we've just got a one minute mark on -- thirty seconds -  
20 - on the Commissioner, so I -- I don't know about you,  
21 but I personally vote we wait for our boss.

22 MR. MILLER: Okay.

23 MS. TUCKER: And -- with no further delay,  
24 our Commissioner, Doug Shulman.

25 (Applause.)

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**COMMISSIONER'S WELCOME**

COMMISSIONER SHULMAN: How are you? First, my apologies. Sometimes in this job, things happen, as you would imagine. Let me welcome all of you here. I'm actually incredibly pleased to see such a full room. Let me welcome the panelists. Thank you for participating. I began this conversation on what we're calling a Real Time Tax System a little over six months ago. And it really was my realization after being here for, at that point, just about three years, that both our tax system and the tax systems of most developed nations, the whole operation was based on a look-back.

And if you think about it, the economic model is this. You do your economic activity as an individual or a business. Some time about a year, sometimes more than a year later, you file a tax return. We generally process that return, try to get refunds out or collect the money. We have sophisticated filters that stop refunds based on indications of fraud or just that it's not the right amount of money, and we will investigate, but we have limited investigative resources.

We then put in place a whole other set of compliance screens that sometime, usually two years, sometimes more than two years, after the economic



1 activity took place, if we're going to have an audit,  
2 we come back in and have a discussion with a taxpayer.

3           So if you think about the burden on the  
4 taxpayer, the American people, they've an obligation to  
5 file their taxes. Sometime after the economic activity  
6 took place, they're actually gathering up all the  
7 information and interacting with a preparer, using tax  
8 software, doing it themselves, getting their head  
9 around this transaction, a major transaction, with the  
10 federal government. They send it in, they think  
11 they're all done. Two years later they often need to  
12 recreate that whole set of documentation, as well as  
13 get their mindset around, you know, I'm having another  
14 interaction with the IRS, and working through the set  
15 of issues.

16           And so it's really become clear to me over  
17 time that, if we could think about a way to resolve all  
18 the issues the first time that people have that  
19 interaction, that it would do two things. One is it  
20 could significantly reduce burden on the American  
21 people, and second, it could significantly increase  
22 compliance. And the obvious way to think about doing  
23 this is getting the information that we use later in  
24 the process and move it up front.

25           Now, the reason I chose to actually start

1 this dialogue six months ago is because I think, one,  
2 it made sense, but also, we have now a number of things  
3 in place that allow us to lift our head up and think  
4 about moving forward.

5 One is, in 1988, we told the world we were  
6 going to go from a weekly or bi-weekly batch processing  
7 of every tax return, to finish the processing of a tax  
8 return to daily processing with our computer system.  
9 That has a storied past, getting to that end game, but  
10 this year we're now on track to deliver what we call  
11 Cade 2. So the plan is, and it's on track now, it's in  
12 testing, it hasn't happened yet -- to have every  
13 American's tax return processed in a 24-hour cycle this  
14 filing season. Major achievement for the agency, sets  
15 the stage for us to think about next major milestones  
16 in modernizing the US tax system.

17 Second is that I think the American people,  
18 actually, and really, people globally, have a different  
19 kind of expectation about their major financial  
20 transactions and the speed at which they can get  
21 certainty and completion than they did when the tax  
22 system was developed, over 100 years ago. Now, I think  
23 people assume that they're going to be able to, in real  
24 time, conduct transactions, often using technology.  
25 And so if you think about consumer expectations, I

1 think that it's a time that people would welcome this  
2 kind of change.

3           And so what we did is we set out, and I think  
4 Beth and Steve showed you some of the work and talked  
5 about it, but we set out and said, okay, what would it  
6 take -- what could we do right now to move the process  
7 forward? What changes would we have to make  
8 internally? What changes would others, potentially,  
9 have to make? And we're now at the stage where what we  
10 want to do is open this up to have a more public  
11 dialogue, fully recognizing that this would be a major,  
12 in my view, positive and strategic shift for the tax  
13 system, but also a major shift.

14           And I often say, you know, we're the center  
15 of making the tax code work, the IRS is, but we're not  
16 the end of it. There's many players in the system,  
17 some of whom are represented today. So I think we have  
18 an obligation, if we're going to make this kind of a  
19 shift, to have a very public and robust dialogue. And  
20 that's the purpose of these meetings.

21           So, again, I thank you for being here. My  
22 real goal is to listen, learn, engage and keep this  
23 conversation moving forward, because I think it's an  
24 important one for the tax system. So thanks.

25           **Panel I: Tax Practitioner Panel**

1 MS. TUCKER: All right. Okay. Let's start  
2 with our first panel, and we're pleased to have Pat  
3 Thompson from American Institute of Certified Public  
4 Accountants here with us. Kathy Pickering from H&R  
5 Block. Lonnie Gary from National Association of  
6 Enrolled Agents, and Larry Gray from the National  
7 Association of Tax Professionals.

8 So what we've asked our panelists to do is  
9 make about a five minute opening statement to address  
10 the general issues. We'll let all of our panelists go  
11 through their comments and then we'll have some follow-  
12 up questions. So, Pat, why don't you kick us off  
13 please.

14 **AICPA**

15 MS. THOMPSON: Okay. Good morning. The  
16 AICPA appreciates the opportunity to appear today to  
17 discuss the proposal to develop a Real Time Tax System,  
18 and we're going to call that RTTS.

19 COMMISSIONER SHULMAN: We already have an  
20 acronym. I saw that when I read your testimony.

21 MS. THOMPSON: Alright.

22 COMMISSIONER SHULMAN: No, no, no. You just  
23 made the acronym. We won't make it official.

24 MS. THOMPSON: I am Pat Thompson, the Chair  
25 of the AICPA and I'm also a CPA from Providence, Rhode

1       Island. We commend Commissioner Shulman for seeking  
2       input from the AICPA and other stakeholders on this  
3       important initiative. We support the overall objective  
4       of RTTS, which is to create a tax system that resolves  
5       reporting discrepancies up front, eliminating the need  
6       for millions of IRS contacts with tax payers.

7               The AICPA believes the IRS should work  
8       closely with key stakeholders in the development and  
9       phase-in of this system in several stages. We  
10       recommend that the first stage focus on the simplest  
11       tax returns, specifically the 1040A, and the 1040EZ, as  
12       well as those returns involving the EIC claims. Forms  
13       1040A and 1040EZ will readily cover the population of  
14       US taxpayers who receive at least one W-2, 1099G,  
15       and/or a 1099 INT.

16               Before the IRS can realistically achieve up-  
17       front matching, the service will need to consider the  
18       technology and the resource constraints that weigh on  
19       the current AUR system. A major problem for tax  
20       administration which could prove a challenge with  
21       respect to a proposal such as this, is Congress'  
22       perennial enactment of year-end tax legislation,  
23       something that clearly needs to be considered as we  
24       move forward.

25               In the current system, taxpayers often face

1 the problem of validating the tax-related data or  
2 information that has been provided to the IRS by third  
3 party payers. Our experience is that resolution of  
4 payer reporting can take a long time in many  
5 circumstances, where the taxpayer is trying to resolve  
6 the issues on their own -- and we'll need to think  
7 about that as well as we go forward.

8           While an IRS stated objective is to resolve  
9 the discrepancies before the tax return is processed,  
10 we have concerns regarding any plan to reject the tax  
11 return based on those discrepancies. If the IRS  
12 requires resolution of those discrepancies prior to  
13 accepting the return, this could introduce issues  
14 surrounding the taxpayer's obligation to file a timely  
15 filed return, and potentially incur additional  
16 penalties.

17           While the service has done a very impressive  
18 job of increasing the rate of tax returns filed  
19 electronically, a significant number of US taxpayers  
20 continue to self-prepare their returns, and continue to  
21 file on paper. So these taxpayers will need to be --  
22 need to understand how a change to the system will  
23 impact them both from a filing and a compliance  
24 perspective.

25           Additional information is needed about this

1 program too -- so that the stakeholders can provide  
2 information on the impact that it's going to have on  
3 our particular practices and on the taxpayers' ability  
4 to use the system. If the design is for matching to  
5 take place when the practitioner e-files a taxpayer's  
6 return, the practitioner's process will need to be  
7 modified so that it can adjust for information returns  
8 that do not match the IRS records, and consideration  
9 will need to be given on whether the issues on the  
10 return will need to be resolved before the return is  
11 accepted by e-file, or if a paper return is going to be  
12 required because there's just too long a delay between  
13 the time the issue can get resolved and filed  
14 electronically.

15 An important issue is whether the due dates  
16 for tax returns and information returns would be  
17 impacted should a program such as this be adopted. For  
18 tax return preparers and individual taxpayers, there's  
19 a question as to whether a program such as this would  
20 impact the April 15 individual tax return due date and  
21 thus result in an extension of the filing season.

22 Before considering any changes to the due  
23 dates for returns, consideration should be given to the  
24 impact on state and local governments. Many low and  
25 moderate income taxpayers file their returns in January

1 and mid-February with the objective of receiving their  
2 tax refunds quickly. To the extent a taxpayer must  
3 work out the discrepancies before the IRS is going to  
4 accept and process the return, it's conceivable that a  
5 taxpayer's expectation of receipt of a tax refund will  
6 be delayed for quite some time.

7 We do appreciate your willingness to talk to  
8 us and involve the key stakeholders in the early stages  
9 as you're developing this program, and again, thank you  
10 for the opportunity to appear today, and I'll be happy  
11 to answer any questions, either now in this panel, or  
12 really, as you're moving forward also. Thank you.

13 MS. TUCKER: Kathy.

14 **H&R Block**

15 MS. PICKERING: Great. Commissioner Shulman,  
16 Deputy Commissioners Tucker and Miller, thank you so  
17 much for inviting us to this conversation today. I'm  
18 Kathy Pickering, H&R Block's vice president of  
19 government relations and executive director of the Tax  
20 Institute at H&R Block.

21 H&R Block has prepared more than 575 million  
22 tax returns since 1955, ultimately one in seven tax  
23 returns. Of the more than 21 million returns filed in  
24 2011 by our tax preparers and through our digital  
25 solutions, more than 19 million were electronically



1 filed.

2 We appreciate the invitation to participate  
3 in the discussion regarding the vision for the Real  
4 Time Tax System, and we share the concerns that the IRS  
5 has about the burden of after the tax -- after the fact  
6 tax compliance -- that's a little tough to say. The  
7 Commissioner's vision would allow the IRS to  
8 immediately match data on the tax return with data on  
9 information returns such as W-2s and 1099s.  
10 Information returns are currently sent to the tax payer  
11 and the IRS by a third party information return  
12 originator. If the data on the tax return does not  
13 match the information provided to the IRS, the IRS  
14 would immediately reject the return.

15 Of the many different issues that this system  
16 raises, H&R Block would like to address three key  
17 questions.

18 First, will the IRS be able to run matches of  
19 information return data without delaying the  
20 traditional start of tax season? For the IRS to  
21 receive information returns sooner, it would require a  
22 tremendous effort on the part of business and  
23 originators. Employers and originators would have to  
24 significantly expedite their year-end processing in  
25 order to be able to submit this data to the IRS up to

1 two months sooner than is currently required. As it  
2 may not be feasible for many businesses to accommodate  
3 an expedited timeline, the IRS may have to delay the  
4 traditional start of tax season. This would result in  
5 millions of taxpayers receiving their refunds later  
6 than expected.

7 Are taxpayers willing to delay the  
8 traditional receipt of their refunds? Many taxpayers  
9 rush to file their tax returns to quickly receive their  
10 refunds. With an average refund of \$3000, this is the  
11 largest lump sum of money many taxpayers receive during  
12 the year. We have heard from clients that they rely on  
13 their refunds to catch up on delinquent bills, make  
14 repairs, and pay for holiday expenses. Delaying tax  
15 season would significantly impact taxpayers and  
16 ultimately, the US economy.

17 H&R Block recommends the IRS conduct studies  
18 on the ripple effect these changes would have on  
19 taxpayers, originators, the business community, and the  
20 US economy.

21 Second, how does the IRS plan to handle  
22 information mismatches and corrections to information  
23 returns? Information mismatches, under the Real Time  
24 system could result from incorrect data provided by  
25 either the taxpayer or the originator. If a taxpayer's

1 return is not accepted due to a mismatch, what is the  
2 impact to the taxpayer? When mismatches occur, the  
3 taxpayer may have to contact multiple parties to  
4 resolve that issue. Additionally, originators may be  
5 required to send corrected information to update the  
6 IRS' system, resulting in further delays. The IRS must  
7 allow enough time for each of these steps to occur  
8 without assessing a failure to file penalty.

9           Additionally, it's probable that corrections  
10 to information returns will occur after a taxpayer's  
11 return has been accepted by the Real Time System.  
12 Commissioner Shulman stated at the circa Fall meeting  
13 that initial information return submission is of  
14 sufficient quality to be used for Real Time Tax  
15 compliance matching, assuming that corrections to  
16 information returns remain at less than one percent.  
17 Originators currently have up to two months to correct  
18 errors before they're submitted to the IRS and the  
19 Social Security Administration. This two month grace  
20 period may explain why less than one percent of  
21 information returns are later corrected. If this  
22 period is changed, the volume o corrections may  
23 increase resulting in extra work for stakeholders,  
24 including taxpayers.

25           Finally, if the objectives are to decrease

1 back end auditing and increase compliance, are there  
2 other existing avenues that can be explored to help  
3 achieve this? Currently, the automated underreporting  
4 program that catches matching errors is run three times  
5 a year. The IRS has previously demonstrated, through  
6 the implementation of K2, that they're able to take  
7 their Legacy systems and expedite these processes.  
8 Would such an approach be possible with the automated  
9 underreporting program?

10           According to IRS, discrepancy cases represent  
11 less than three percent of the 140 million returns  
12 filed annually. Is less than three percent enough to  
13 warrant a change of this magnitude? A Real Time Tax  
14 System would require significant investment in  
15 infrastructure and the ripple effect of implementing it  
16 would be far-reaching.

17           The key to implementing enhancements to the  
18 tax system and insuring its success, is to foster  
19 dialogue between taxpayers, the tax preparation  
20 industry, the IRS, and other stakeholders. We look  
21 forward to future collaboration on this topic. Thank  
22 you so much for inviting us to be a part of today's  
23 mission. We really appreciate Commissioner Shulman for  
24 challenging us with this vision, and for opening up for  
25 public discussion.

1 MS. TUCKER: Thanks, Kathy. Lonnie.

2 **NAEA**

3 MR. GARY: Good morning Commissioner  
4 Shulman, and Deputy Commissioners Miller and Tucker.  
5 My name is Lonnie Gary. I'm an enrolled agent from  
6 Mountainview, California, and I'm the government  
7 relations chair for the National Association of  
8 Enrolled Agents. First, let me thank you for engaging  
9 stakeholder groups as you consider the Real Time Tax  
10 initiative. We are pleased to partner with you and  
11 stand ready to provide you with the benefit of our  
12 extensive front-line experience with taxpayers.

13 Clearly, real time document matching is  
14 infeasible today because IRS does not receive all of  
15 the information return data in time to provide matching  
16 during the filing season, and this leads us to our  
17 first question. How will the Service acquire the  
18 information return data in a timely fashion? Assuming  
19 the Service desires to disrupt the filing season as  
20 little as possible, the initiative will require an  
21 aggressive due date for the information return data  
22 that is to be matched.

23 One possible accommodation would be to start  
24 the filing season later, and yet end on April 15<sup>th</sup>. Any  
25 significant filing season compression will tremendously

1 challenge the industry already operating at full tilt.  
2 We could have some flexibility in the January start  
3 date, as most EA's don't file that early and a  
4 modification of the e-file stockpiling rules would also  
5 possibly help. But I stress that compression will be a  
6 significant pressure point.

7           Moving one, we'll assume the Service has  
8 timely information return data and appropriate  
9 programming for real time matching. Our next question  
10 is what information does IRS plan to share on a pre-  
11 filing basis? When and how? Focusing on  
12 practitioners, will they have access to the same  
13 information IRS is using to match -- for the matching  
14 program? The most obvious approach is to use e-  
15 services, which sharing this data currently requires an  
16 executed power of attorney. Does that envision that  
17 the Service will use a power of attorney or have some  
18 other form of mini power of attorney?

19           Next we wonder what happens when the returns  
20 do not match? The initiative document sites reduced  
21 taxpayer burden as a key long-term benefit. We wonder  
22 whether a more accurate description is that these  
23 millions of contacts with the Internal Revenue Service  
24 will be moved to the front of the filing process. The  
25 decisions the Agency makes about how to address

1 mismatches are critical to ensure that these filing  
2 season contacts are not, in fact, more burdensome than  
3 the CP2000 process that currently exists.

4           Now, let's picture an actual transaction.  
5 Assume a taxpayer e-filed 1040 fails to match the  
6 information return documents the IRS is using. What  
7 happens then? Will the IRS reject what is otherwise a  
8 perfectly acceptable return? Will the IRS soft-reject  
9 the return and give the filer a short window in which  
10 to change the return? In any event, how much detail  
11 will the IRS provide the practitioners and the  
12 taxpayers? Both timing and content are important.

13           Throughout e-files long history, the IRS has  
14 notoriously opaque reject codes, so there is some basis  
15 of concern as to the fundamental structure of any  
16 reject message.

17           Once a taxpayer and preparer are aware of a  
18 problem, then what? A simple transaction error could  
19 be cleared up immediately, but missing or inaccurate  
20 information return information could be problematic and  
21 require more complex interaction with the Agency. In  
22 either case, we wonder whether correcting a reject will  
23 require a taxpayer to re-sign the return, and suggest  
24 that resigning could be a significant burden to the  
25 practitioner and the taxpayer alike.

1           Real time processing is going to require real  
2 time access to IRS data and particularly if the IRS  
3 plans to reject non-matching returns real time  
4 solutions. In other words, a real time processing  
5 system that is sensitive to the needs of taxpayers and  
6 professionals requires real time customer service.

7           The significant challenge is that return  
8 volumes are non-linear, with peaks in early February  
9 and mid-April. The AUR works in largely performed  
10 outside the tax filing season, allowing at least  
11 theoretically for the IRS to service the calls and  
12 letters that result. If only three percent of our  
13 returns on the IRS peak filing day fail to match IRB  
14 documents, you could easily have more than 100,000  
15 rejects and increased call volumes would strain the  
16 Service's current capabilities and place added burden  
17 on taxpayers and tax practitioners at a time when  
18 they're working at full capacity.

19           Perhaps the Service is considering a phased-  
20 in approach. Your slides highlight four information  
21 returns account for some 70 percent of AUR assessments,  
22 and that 50 percent of all form W-2 are issued by 56  
23 payers. This approach may create a universe that is  
24 easier to manage. A partial approach does not answer  
25 many fundamental questions including the impact of



1 shepherding taxpayers with rejected returns to the  
2 office of a typical tax practitioner, who largely works  
3 CP2000 notices outside of the peak season.

4 Finally, we raise a very obvious point that  
5 speedy refunds, as other panelists have said, are  
6 critical to the taxpayers who receive them.

7 We suggest the Agency consider three  
8 perspectives as it explores these options: taxpayers,  
9 tax practitioners, and tax professionals. A change to  
10 the magnitude under consideration today will affect all  
11 three. We thank you for taking the first step by  
12 inviting NAEA and our colleagues to this public forum.

13 MS. TUCKER: Thanks, Lonnie. So, Larry, you  
14 want to wrap us up with your comments?

15 **NATP**

16 MR. GRAY: Okay. My name's Larry Gray. I'm  
17 a CPA from the show-me state, and I represent the  
18 government liaison with the National Association of Tax  
19 Professionals. Since I'm kind of last, instead of me  
20 reading my paper, which you can address, I'd like to  
21 try to help connect what the three prior speakers have  
22 said, and I think it's really important. In doing  
23 that, Commissioner, I'd like to thank you and Beth and  
24 Steve for this opportunity.

25 But before I really dive in, as they were

1 talking, it reminded me of about 20 years ago when I  
2 was on the Commissioner's Advisory Group under a person  
3 named Commissioner Goldberg, and when I came on there  
4 was a concept called STARS. And the idea was a central  
5 location for all information returns to go to and then  
6 whoever the party was, whether it was the IRS, Social  
7 Security, state, local governments or the tax payer  
8 could go real time to it. So I think with that and a  
9 one-stop shop, I think this is very timely. I commend  
10 you for doing this because with the technology we have  
11 today, with mod e-file, Cade 2 coming on board, data  
12 mining, the CHAB (ph), more and more required e-file,  
13 again, I think it's appropriate.

14 With that, I would like to look more at the  
15 short term, as the longer term is in the paper. The  
16 first thing, I would hope, is that when we talk about  
17 this is as a vision, I think it should be in the  
18 mission statement of all elements that affect this  
19 within government, should be in return processing. It  
20 should be in examination, it should be in AUR that we  
21 all have the same direction of coordinated effort.

22 And also an information cycle which has been  
23 spoke to before. You've got the taxpayer, you've got  
24 the information reporting side that comes through,  
25 you've got the government, and then you've got the tax

1 professional community which assists everything from  
2 January 1<sup>st</sup>, when the first transaction is being  
3 recorded, of assisting and accumulating the  
4 information, helping to educate on compliance, looking  
5 at information reporting, then filing assistance and  
6 filing return, and then the follow-up on the back with  
7 AUR examination. So I think that's a real challenge.

8           So I want to look at some initial ideas.  
9 First thing is I think you have to look at internal  
10 systems, which you are as you modernize. Each time  
11 there is a technology change, is it meeting that  
12 vision? And I think that -- in other words, it won't  
13 happen in days which we said before -- but I think the  
14 other thing is that we have to try to achieve that when  
15 something is transmitted to the IRS or to government,  
16 that it's real time posted. I mean that's the reason  
17 why the requirements are more on the electronic filing.

18           For example, I'll take an example of a W-2.  
19 Why not, to the consumer, the taxpayer, whenever that  
20 W-2 is submitted by their employer, is that not real  
21 time shared? Why does it go to Social Security  
22 Administration? The IRS gets it, you know, August,  
23 September, whatever, and then what happens is, as I  
24 speak, matching the payroll reports to the W-2's happen  
25 even further, sometimes in two years happens. So

1 that's just a real world scenario that with technology,  
2 why can't we have, again, the concept of when it's  
3 transmitted to whatever government body, that it's real  
4 time forward? So, I challenge them.

5 I think the other thing is you have to look  
6 at flexibility within the IRS. Things like  
7 underreporting. Is there a diminimus amount, a  
8 business decision that if this adjustment is a \$7.00  
9 item, because of an interest policy that had a dividend  
10 on it, is there a way to say, hey, that's -- that cost-  
11 benefit analysis, we can cut out this percentage, and  
12 those returns are now still compliant?

13 I think what we have to look at is in the  
14 technology area. I think how it's banking --  
15 transactions, debit and credit card in the banking  
16 industry are real time. Commissioner, you're well  
17 aware of that industry and how that works. With  
18 technology of the I-phones and smart phones, et cetera.  
19 And I challenge you maybe to go outside of the IRS. I  
20 don't know how much of an expert you are in technology,  
21 but a lot of times, you know, it's a time to stay up to  
22 speed by addressing technology outside of the system.

23 And probably the final and most important  
24 point, the burden you bear with continuing staff  
25 cutback, you know, it's one of those things that we

1 can't take care of today, but Congress needs to realize  
2 they've got to step forward and if this service is  
3 going to be provided to every taxpayer in America, they  
4 need to have it where there's the funding there and  
5 it's not a give and a take. So I also appreciate that,  
6 plus, like I say, we don't need more Christmas  
7 presents.

8 But with that, that's just again, more a  
9 visionary of what I envision is small business we get  
10 in January, give them incentives to file that return  
11 timely, and if I do, I coordinate my W-2, my 940s and  
12 my 941s and that stops a whole lot of back end. So,  
13 thank you for the time and look forward to working with  
14 you.

15 COMMISSIONER SHULMAN: Great. Thanks to the  
16 panelists. A lot of thoughtful comments, questions,  
17 issues put on the table. We made a decision, when  
18 you're sorting through, how to make sure you have  
19 robust public engagement. We could have either given  
20 you a very detailed blueprint with our suppositions and  
21 had you go at that, or we could give you broad outlines  
22 of where we're going, and have the discussion there.  
23 We made the decision to go the latter route, and so I  
24 think a lot of the issues you brought up are ones that  
25 need to be sorted through.

1           Let me just talk about a couple of them that  
2 I've got -- had a couple questions. One is, I've tried  
3 to use the analogy of e-filing, where we had a vision  
4 for e-filing that today, looking back 15 years after we  
5 really started a heavy push, and we've moved up --  
6 individuals had almost 90 percent this year. It took a  
7 long time to get there. Software providers, preparers,  
8 individuals had to figure out how this worked. We had  
9 to revamp our systems, and then we also slowly ramped  
10 down -- we shut down five of our major processing  
11 centers, save the government hundreds of millions of  
12 dollars doing it, but this was a shift that took place  
13 over time with a dialogue.

14           And I liken this vision to that, where I can  
15 officially announce we're not going to implement this  
16 filing season. And the -- this is going to take a  
17 while to get there.

18           One of the real hard questions that all of  
19 you brought up is the early filers and the information  
20 returns, and it's, at first glance people would say,  
21 well, the information returns come in after. Some  
22 people file and how do you sort that out? Our data has  
23 shown it's actually a very small fraction of people who  
24 are filing before an information return is prepared and  
25 sent by the person who prepares and sends the

1 information return. Now that's different from makes it  
2 to us through the other government channels and us  
3 loading it onto our systems.

4 But the -- there's not necessarily a  
5 presumption on our part that you have to change dates  
6 and processes to do this, but that there could be just  
7 a small gap that you need to figure out what to do with  
8 that gap. So thoughts that you have -- that several of  
9 you made the comment about, you know, if you're going  
10 to change the reporting dates for information returns,  
11 it's a lot of burden. If you're going to change the  
12 April 15<sup>th</sup> due date, that's, look, long term in the next  
13 50 years, who knows exactly how these things will sort  
14 out. Short term, we certainly don't have those things,  
15 and our research has shown that we actually could  
16 probably do a lot of this without those changes.

17 Second is, we are well aware that if you did  
18 this today, the IRS is not set up to provide what  
19 somebody called, I think Lonnie, a real time customer  
20 service at the point of filing, resolving issues.  
21 Because there's no need to do it, generally. I mean we  
22 actually have small units where we see a mismatch and  
23 we go and we set that up, but when I talk about reduced  
24 back-end auditing and move more resources up front,  
25 let's -- you know, we used to have 100,000 people a

1 year ago, we're in the process of shrinking a little  
2 bit. But if you take, you know, I would see shifting a  
3 lot of people into real time resolution.

4 And I think the other issue that you brought  
5 up, and we'd love to hear your thoughts -- and this is  
6 a comment, and then I'll throw it open to the  
7 panelists, is exactly how do you resolve these things,  
8 and do you have any early thoughts? I mean, people  
9 have brought up diminimus amounts. People brought up  
10 soft rejects. I certainly don't think we'd be hard  
11 rejecting the whole return to begin with, because  
12 there'd be a lot of kinks through that. But there's a  
13 variety of ways. We could do warnings and watch. We  
14 could deny certain pieces of the return, where there  
15 was a mismatch. I mean there's all sorts of ways you  
16 could go through this and we'd love to hear just other  
17 granular thoughts of ways to do this that minimize  
18 burden, but that actually got the transaction done. I  
19 mean our goal is to get the transaction done with the  
20 American taxpayer in the first instance, and they can  
21 go about their way and not have an interaction along  
22 the back end. And I would just note that three percent  
23 AUR is the ones that actually get letters, not the  
24 mismatches.

25 MR. GRAY: If we're talking visionary, I



1 think one of the things we look at, and I'll go back to  
2 the payroll, because if the consumer, the taxpayer,  
3 gets the W-2, for example, if you could get that at  
4 approximately the same time, and then match the payroll  
5 at the same time, and then we're supposed to, at that  
6 point in time, technology doing it, rather than people  
7 doing it. What would happen is give an incentive, for  
8 example, would be here's a -- if those reports match  
9 real time, here's a free audit pass on your payroll.

10 COMMISSIONER SHULMAN: A big incentive,  
11 Larry.

12 MR. GRAY: You said ideas.

13 COMMISSIONER SHULMAN: Yeah, I like it. I  
14 was thinking like a coupon to -- you know, Macy's at  
15 Christmas. But I do think the concept of incentives  
16 around where it goes -- and surety and finality.

17 MR. GRAY: Well, because you've got a 1099s  
18 by March 1<sup>st</sup>, even under the current filing  
19 requirements, at least by March 1<sup>st</sup> there's a different  
20 sector of the consumer that at that point in time could  
21 go out real time and check the information. So what's  
22 happening is that's actually being checked at the time  
23 the return's being processed, and then let the market,  
24 whatever market -- H&R has a sector, and I have a  
25 sector that files in January. Well, in that case, we

1 make a deal of well, we'll go out and verify that and  
2 that becomes a practitioner move for customer service.  
3 Again, another idea.

4 MS. TUCKER: Yeah, Larry reminded us about an  
5 initiative from 20 years ago, the STARS initiative that  
6 we really did hope to get off the ground as a  
7 partnership with other government agencies and states.  
8 And quite candidly, I think, you know, the technology  
9 just wasn't there to make that successful. So I think  
10 what we're doing with Cade and the platform we're  
11 building provides us an opportunity as well, to maybe  
12 revisit some of that.

13 Kathy, I think, you might have had a comment  
14 you were going to make kind of as a follow-up?

15 MS. PICKERING: Well, so certainly some of  
16 the other questions that we've been raising are just  
17 what visibility to the data and information would tax  
18 practitioners have, so that we would also be able to  
19 assist the taxpayer in resolving issues at the point of  
20 filing? And while I don't have a really good grasp on  
21 all the latest technology capabilities, one of the  
22 other things that we've been questioning is just moving  
23 massive amounts of data from large providers to  
24 agencies and posting and things like that, and are  
25 there capabilities, you know? Certainly, a partnership

1 with public and private industry, where we might be  
2 able to explore new capabilities that would enable us  
3 to access the data at its source, as opposed to having  
4 to transport it to a new place, would that help to  
5 expedite the visibility and the validation of the  
6 information?

7 COMMISSIONER SHULMAN: So I think -- I mean,  
8 you know that taxpayers who want their practitioner to  
9 get access to information can get access to  
10 information. Right now it's not as fast a process as  
11 you'd like. We've got a whole on-line initiative  
12 going, and clearly on-line power of attorney and real  
13 time ability to give people access is a vision that we  
14 have. We're stacking it up against all the other  
15 pieces, and I think you bring up this point. We  
16 clearly could, if we saw a taxpayer demand that they  
17 don't want to deal with this and they want to resolve  
18 it real time, move to the front end as we move forward  
19 with this, the ability for people to give consent for  
20 somebody else to access data to resolve their issue.  
21 And so I think -- I actually don't think that's an  
22 insurmountable issue. That's a matter that's pretty  
23 straightforward technology. The thing with the IRS is,  
24 given the volumes we deal with, the scale and our  
25 security, it's not insurmountable issues have to be

1 done at scale, and so it takes just money and attention  
2 and band width.

3 MR. MILLER: If I could, I'm going to  
4 reiterate a point that Doug made which is, as we look  
5 at how this should work, and one of the key items,  
6 obviously is, okay, you have a mismatch. Let's assume  
7 we've been successful moving that information up, you  
8 have a mismatch, what does that mean? And yes, there's  
9 thresholds on the back end. There's no reason why  
10 there would not be thresholds on the front end. Right.  
11 And then the real question is, let's think outside the  
12 box. We have a batch of processors now, but we don't  
13 need to use those processors, we can do something a  
14 little different. There is, obviously, everything from  
15 math error that some of the other panels will discuss,  
16 to reject codes out of electronic filings, to the error  
17 resolution program, to all sorts of things and we ought  
18 to be thinking, what -- well, does this create a new  
19 paradigm? Should we have something of a waiting area  
20 for people who have a certain level of mismatch where  
21 we're holding the return, working with them. It's in,  
22 so there's no issue on failure to file. And those are  
23 the kinds of things we just need to work out and tease  
24 out, because I think we need to just step back a little  
25 bit from our current process and think okay, how would

1       this work? Do we need a new sort of filing process  
2       here?

3                   I want to press you guys a little bit on  
4       that.

5                   MS. PICKERING: One of the -- I'm sorry.

6                   MS. TUCKER: Yeah, do we -- Pat, so you want  
7       to --

8                   MS. THOMPSON: Well, what I wanted to ask for  
9       you to consider when you're talking about the 1099 and  
10      the matching, and if it doesn't match, there could be  
11      reasons which maybe the person, you are correct, but  
12      maybe you're not correct and the payor has given you  
13      incorrect information. And so the question would be,  
14      would you be willing -- what would you be willing to  
15      accept from the taxpayer to prove that their answer is  
16      the correct amount, rather than the other one, or, are  
17      you going to wait and ask the taxpayer to get a new,  
18      corrected form before the return will get processed?  
19      So, to speed up the process, it would be let the  
20      taxpayer provide the information and then accept it  
21      from there.

22                   MR. MILLER: Well, those are the things we  
23      have to be open to. Those are the kind of things --

24                   COMMISSIONER SHULMAN: And one of the things  
25      we'll certainly, as we go through these public

1 meetings, have discussions with payors about -- I mean,  
2 you can imagine, just as you want to access, payors  
3 might have incentive to go in real time and fix things  
4 or have some sort of electronic way to fix it. I mean  
5 there's a variety of ways to do it.

6 MS. PICKERING: They get an audit.

7 MR. GARY: I just wanted to add, the Service  
8 already employs certain systems now that could be  
9 utilized in this situation. You have soft touches, if  
10 you think there's a mismatch and it doesn't rise to the  
11 AUR thresholds, you send out a softer letter that says,  
12 well, we think there's something wrong. I mean, this  
13 kind of a system could be utilized in conjunction with  
14 providing the taxpayer with that information that you  
15 think has not matched correctly on their return, and  
16 then allowing them to self-correct. And you can  
17 monitor, I think, piggy-backing here on the  
18 Commissioner's comments, you could monitor then whether  
19 they've corrected this situation, how severe is the  
20 situation that needed to be corrected, and you could  
21 look at that return, whether it was corrected or  
22 whether subsequent returns were corrected. So I mean  
23 there's systems that you have in place now that could  
24 be utilized to lead into this real time process.

25 MS. TUCKER: Yeah, I think that the other

1 thing that you've all touched on and what we've heard  
2 from the Commissioner and Steve, part of the reason for  
3 these discussions is for you to give us ideas, but I  
4 think the other thing we're going to have to do is  
5 we're going to have to get out and talk with the  
6 industry groups, talk with folks that have already, as  
7 I mentioned, on our next panel we're going to have Tom  
8 Mattox talking about some work they've done in New  
9 York, and maybe to, not necessarily say well everything  
10 is going to be treated the same way, and then to do  
11 some testing, because I think that we've all talked  
12 about too, for this to be successful, there probably is  
13 some remixing of the resources, rather than everything  
14 being on the back end, how do we move things up to the  
15 front end resolution area.

16 MR. GRAY: Just a real quick follow-up. I  
17 think one of the other things you should go through  
18 would be what I would call the empowered process, and  
19 part of that would be what was spoken to earlier, that  
20 self-correcting through technology, but it would also  
21 go back to the one stop shop of 20 years ago. Would it  
22 be nice -- and I'm saying this on behalf of the IRS  
23 employees -- it would be nice for them to be more  
24 empowered, because so many times you get that phone  
25 call that you wait for an hour, hour and a half to get

1 somebody and then they go, well, I can't help you, you  
2 need to go there.

3 So I think the other concept is you have to  
4 look again at the dynamics of empowerment, either the  
5 technology, which would be the first line of  
6 correcting, and secondly would be that empowered  
7 employee that can say, hey, I see what the issue is. I  
8 can correct this right now. And I think that would be  
9 a huge change that would really help.

10 MS. TUCKER: Commissioner Steve, any other  
11 questions for this panel? All right. Thank you very  
12 much. We really appreciate it.

13 (Applause.)

14 MS. TUCKER: Can we have our government panel  
15 come on up and join us? And to the practitioner panel,  
16 we really appreciate it.

17 COMMISSIONER SHULMAN: Thanks, guys.

18 **Government Panel**

19 MR. MILLER: I'd like to introduce the second  
20 panel and we really very much appreciate their being  
21 able to come. Government panel is comprised of, from  
22 the General Accountability Office, Jim White. Welcome  
23 Jim. From New York state, the Commissioner of revenue  
24 there, Mr. Mattox, and Mike McKenney from our TIGTA,  
25 the Inspector General for Tax Administration. And I'd



1 like to thank you guys for coming out, and why don't we  
2 start with you, Jim, if we could.

3 **GAO: James White**

4 MR. WHITE: Commissioner, Deputies, thank you  
5 for inviting me to speak today on a Real Time Tax  
6 System. I'll summarize my longer statement. A Real  
7 Time System in which could do information return  
8 matching and other compliance checks before issuing  
9 refunds could have enormous benefits for both taxpayers  
10 and IRS. Benefits include collecting over-claimed  
11 refunds before they are issued and holding refunds on  
12 returns selected for audit, thus avoiding penalties and  
13 interest for many taxpayers. One important benefit  
14 that I did not see cited in the slides prepared for the  
15 meeting is correcting under-claimed refunds in cases  
16 where taxpayers failed to claim tax benefits for which  
17 they're eligible.

18 The Commissioner has acknowledged that  
19 implementing real time system would require a  
20 fundamental shift in how IRS conducts its business, and  
21 would likely need to take place over significant period  
22 of time. While we agree that implementing such a  
23 system would be a long-term endeavor, we have  
24 identified in recent reports a number of short-term  
25 steps that IRS could take to expand its current pre-

1 refund compliance checks.

2           These include pursuing additional math error  
3 authority to help enforce lifetime limits on certain  
4 tax benefits, enforce the limit on the number of years  
5 the Hope Credit can be claimed, and identify certain  
6 ineligible IRA contributions. We've also suggested  
7 that Congress consider granting broader discretion to  
8 IRS about when to use math error authority with, of  
9 course, appropriate safeguards for taxpayers. One  
10 recent successful expansion of math error authority  
11 involved the first time home buyer tax credit.

12           Another example is rethinking existing  
13 business processes to avoid burdensome audits. We  
14 recently asked IRS to consider such a change for the  
15 adoption credit, when the initial screening to request  
16 missing documentation, we suggested that rather than  
17 initiate an audit, the IRS request the documentation  
18 from the taxpayer, and if provided, run the return  
19 through the screening again.

20           Another example. Expand the information  
21 reported on some forms. For example, we recommended  
22 that forms 1098 include the addresses of properties  
23 securing mortgages to help insure compliance with rules  
24 governing deductibility.

25           Another example is expanding transcription of

1 information from paper returns. This would make more  
2 data available for automated pre-refund checks.

3 Yet another example is to continue to  
4 implement modern systems such as Cade and MEF, without  
5 such systems significant expansion of pre-refund checks  
6 is not possible.

7 In addition to the above, we know from our  
8 past work that certain steps, such as strategic  
9 planning and research can lay foundation for long-term  
10 success. While we've not recommended them, the  
11 following steps could Real Time Tax System. Develop a  
12 strategy that describes the vision for pursuing real  
13 time matching in more detail, such a strategy might  
14 list objectives or desired capabilities, list topics  
15 requiring future research, describe benefits and costs,  
16 discuss any impacts on taxpayer rights, describe risks,  
17 list milestones, and list needed budgetary resources.  
18 The plan would likely be high level, initially, with a  
19 focus on understanding alternatives. We would expect  
20 that we all can add detail over time.

21 On the topic of research, there are a number  
22 of things that might be done, including the following.

- 23 • The range of effects on taxpayers, in addition to  
24 limiting penalties and interest, as I said, pre-  
25 refund compliance checks might help IRS better

- 1 detect failures by taxpayer to claim tax benefits.
- 2 • Another impact on taxpayers involves taxpayer
  - 3 rights.
  - 4 • Another topic for research would be the accuracy
  - 5 of information in withholding documents currently
  - 6 submitted to IRS, whether third parties could file
  - 7 them earlier and how early in the year IRS could
  - 8 be ready to do more matching. There's already
  - 9 been a lot of discussion of this.
  - 10 • Another topic is business processes and
  - 11 information systems that would need to be modified
  - 12 or developed so that IRS could conduct matches --
  - 13 could conduct more matches during processing.
  - 14 • Another topic is whether paid preparer regulation
  - 15 and tax software could be leveraged to make
  - 16 additional pre-refund checks possible.
  - 17 • Another topic for research is best practices of
  - 18 states that have already implemented some aspects
  - 19 of a Real Time Tax System.

20 The above are not meant to be an exhaustive  
21 list, rather they are examples of steps that might help  
22 IRS move in the direction of a Real Time Tax System.  
23 We believe such a move could benefit taxpayers, and in  
24 an era of tight agency budgets, make tax administration  
25 less costly.

1           That concludes my statement. I'd be happy to  
2 answer questions.

3           MR. MILLER: Thanks. Thanks a lot.  
4 Commissioner Mattox.

5           **New York State: Commissioner Mattox**

6           COMMISSIONER MATTOX: Good morning. We join  
7 the other panelists in expressing our appreciation for  
8 the opportunity to visit with you all this morning. To  
9 be clear, the state of New York views this as an  
10 incredibly important topic and we commend the Service  
11 for initiating a dialogue, if for no other reason, many  
12 of the points that have been made are already under  
13 consideration in the state of New York so I think it  
14 would be fair to say we have a parochial interest in  
15 the topic as well.

16           I do have a couple of slides that I wanted to  
17 share with you. Perhaps our only disappointment in the  
18 process so far has been -- we were under the impression  
19 that initially our time would be 50 minutes, not five,  
20 so we had to do quite a bit of scaling down in terms of  
21 the information we wanted to share with you all, so  
22 we'll try to hit some of the highlights on the screens  
23 to your left and right.

24           First and foremost, I think it would be fair  
25 to say that we view the priority order as related to

1 what real time information might be able to accomplish,  
2 as needing to start with addressing fraud, both in  
3 terms of detection and prevention, because the ability  
4 to match information up front, as opposed to post-  
5 refund, which would engage a number of enforcement  
6 related activities, clearly would be preferable from  
7 our view. And equally importantly, for the taxpayers  
8 in the state of New York, is the potential of real time  
9 processing to promote a greater perception of fairness  
10 in the process. And we spend a lot of time thinking  
11 about both compliance and the fairness of tax  
12 administration in the state of New York and we believe  
13 that many of the concepts that the Service is promoting  
14 now under the Real Time processing banner, are  
15 consistent with those objectives.

16 With respect to the current process, I think  
17 Deputy Commissioner Tucker noted this earlier, there's  
18 absolutely no question that there are significant  
19 expenses associated with the current process, but from  
20 our perspective, in an era where we operate under year  
21 on year reductions to our operating budget, where we  
22 have considerations around cash flow and other issues,  
23 the notion of reworking returns, particularly over a  
24 cycle that can stretch to 18 months or longer, is  
25 problematic if for no other reason than oftentimes

1 errors get compounded over multiple reporting periods.  
2 So complexity increases as well as these timelines  
3 extend.

4 The state of New York evaluates its every  
5 return. Every personal income tax return is ultimately  
6 presented for evaluation as an electronic file. We  
7 have achieved 80 percent electronic filing for  
8 individual returns. The remainder of those returns are  
9 either scanned or we use other technologies to prepare  
10 electronic equivalents of those files.

11 So we begin our process with a fairly  
12 sophisticated set of business analytics-based  
13 methodologies to evaluate whether in fact the  
14 presentation of the information is accurate. And that  
15 is the underpinning of our fraud detection and  
16 prevention program, and you can see the results  
17 associated with having made the investment in those  
18 platforms. We do, however to be candid, sacrifice  
19 something on the back end with respect to speed of  
20 refunds. So in the state of New York we place less  
21 emphasis on the notion that a refund must go out of the  
22 door right now, and more emphasis on insuring that  
23 taxpayers are appropriately serviced by having the  
24 returns validated.

25 So we essentially run a single processing

1 stream. To the extent that there are any exceptions --  
2 and this topic came up in your earlier panel -- those  
3 returns would essentially be suspended, or brought out  
4 of the main processing stream for follow-up and  
5 correction. The vast majority of our returns, well  
6 over 95 percent of them, are evaluated. We can confirm  
7 the presentation of the information and proceed in  
8 terms of having them go through the processing system.  
9 But even so, that up front evaluation, if you will, and  
10 please be mindful of the fact that at least in our  
11 view, we don't have quite the arsenal of tools  
12 available that the Service has to recoup any refunds or  
13 payments that were made against inaccurate  
14 presentations. In the state of New York we place quite  
15 a bit of value in terms of making sure that the payment  
16 is appropriate before it goes out the door.

17 With respect to the benefits, I think they've  
18 been clear here in terms of our return on investment.  
19 It is a process that took us a while to get us to where  
20 we are. I mean our initial exploration of business  
21 analytics-based algorithms to evaluate returns is a  
22 processes that literally started in 2004. So I think  
23 all of the Commissioners have pointed out that this is  
24 a process that is likely to take some time to come up  
25 to full speed, but I think the benefits are clear.



1           One of the aspects of any real time system,  
2 in our view, is that it needs to be able to learn. I  
3 think one of the advantages of our technology platform  
4 is that based on presentations of returns, we are able  
5 to adjust our models so that both real time, as well as  
6 in subsequent periods, we essentially can accommodate  
7 the fact that at one end of the spectrum fraudulent  
8 schemes shift in terms of where they're looking for  
9 seams, but also our ability to get smarter around error  
10 correction, the nature and sources of errors, is an  
11 important part of the architecture that we've put in  
12 place.

13           Finally, with respect to results and how they  
14 could be catalyzed or enhanced, we would strongly  
15 suggest that there are important opportunities  
16 associated with being able to verify taxpayer  
17 identification information. Again, Deputy Commissioner  
18 Tucker touched on this point earlier. We think it's  
19 critically important from a fraud prevention and  
20 detection perspective, to be able to validate, not only  
21 the identity that is being presented by the return, but  
22 also supporting information around dependents, Social  
23 Security numbers, et cetera, because schemes, as we all  
24 know, have become ever more sophisticated in terms of  
25 looking for opportunities to take advantage of

1 potential refunds. And unfortunately, in the state of  
2 New York, we do wrestle with everything from refund  
3 mills to fraudulent returns presented by folks who are  
4 incarcerated.

5           We do believe that dates are an issue,  
6 however, we would counter some of the positions of the  
7 prior panel and suggest that we might think about  
8 moving up rather than back, some aspects of processing.  
9 And in fact, we could see a scenario where a January  
10 15<sup>th</sup> date, based at least on some of the statistics that  
11 the Service has presented around the source of the  
12 information returns and the consolidation of the  
13 producers of that information, as well as the fact that  
14 in the private sector, for those of us that have credit  
15 cards that feature year-end expenditure reporting,  
16 those reports are often prepared, shipped, delivered,  
17 well before the tenth of January. So clearly, the  
18 ability to process quickly, as part of year end  
19 procedures, may be more sophisticated and advanced than  
20 we're giving folks credit for.

21           Finally, we believe that there are important  
22 opportunities, not only to leverage what is going on in  
23 the state of New York, but across many states in the  
24 country. I think it would be fair to say that there's  
25 keen interest in this topic and a strong willingness to

1 support the Service in any way that we can. Thank you.

2 MR. MILLER: Thank you so much. Mike.

3 **TIGTA - Michael McKenney**

4 MR MCKENNEY: I'd like to thank the  
5 Commissioner and the Deputy Commissioners for the  
6 opportunity to participate on this panel, which I  
7 believe is critical to the future of tax  
8 administration. The Real Time Tax System initiative  
9 has the potential to substantially reduce improper  
10 payments, tax gap, and taxpayer burden. We believe the  
11 timing is right for this initiative because the IRS is  
12 putting its modernized systems in place to allow for  
13 real-time processing and data analytics. Nonetheless,  
14 the implementation of this vision presents enormous  
15 challenges. Given the complexity of the tax code and  
16 the quantity of data the IRS receives, it will be an  
17 intricate process to achieve the goals of this  
18 initiative.

19 In fiscal year 2010, the IRS received over  
20 2.6 billion information returns. Focus of the IRS'  
21 presentation on this related primarily to the automated  
22 underreporter program and the analysis of income  
23 reporting documents such as W-2 statements and forms  
24 1099. While moving this process to an earlier date  
25 would reduce taxpayer burden, an even greater benefit

1 to the taxpayer and the IRS would result if the IRS  
2 could provide immediate feedback during the process of  
3 transmitting the return, in much the same way that the  
4 IRS provides error reject information to taxpayers who  
5 file electronically for many conditions, such as  
6 incorrect Social Security numbers or missing forms.  
7 This would help eliminate the need for notices. With  
8 such a process the taxpayer could simply add the  
9 correct information or provide an explanation for the  
10 difference and resubmit the return electronically.

11 As the IRS notes, it will be a substantial  
12 challenge to change the timing of the receipt of  
13 information needed to perform real time verification.  
14 In addition to obtaining the data earlier, the IRS will  
15 also need to have a process in place to enable it to  
16 make use of the data more promptly. To this end, wage  
17 and withholding data are a top priority to help  
18 identify fraudulent tax returns and combat identity  
19 theft. In September 2010, we recommended that the IRS  
20 develop a process to expedite the availability of wage  
21 and withholding information received from the Social  
22 Security Administration. The IRS agreed and has  
23 initiated a pilot project to accelerate its access to  
24 this wage data. It is also working with the Social  
25 Security Administration to analyze the costs and

1 benefits of accelerated transfer of this data into IRS'  
2 systems.

3           Furthermore, both the Department of the  
4 Treasury and TIGTA have recommended legislation to  
5 expand IRS access to wage information available through  
6 the National Directory of New Hires for the purpose of  
7 tax administration. Currently, its use is limited by  
8 law to just those tax returns with a claim to the  
9 earned income tax credit. Expansion of the  
10 availability of such data would not only help the IRS  
11 identify fraudulent returns up front, it would also  
12 help the IRS use its resources more efficiently.

13           The IRS should also assess whether third  
14 party information is useful for verifying information  
15 on tax returns and whether it is requesting enough  
16 information from the taxpayer to help facilitate a  
17 match with third party information. A recent example  
18 relates to the new requirement for payment settlement  
19 entities to report payments made to merchants in  
20 settlement of payment card transactions. We found the  
21 redesign of tax year 2011 income tax forms did not  
22 facilitate a direct match between sales reported on  
23 Form 1099-K and amounts reported on tax returns. It  
24 did not provide the IRS the gross and net merchant card  
25 sales, net of cash back. Based on our finding, the IRS

1 made adjustments to the tax forms.

2 Another area we believe illustrates this  
3 issue is education credits. Form 8863 for American  
4 Opportunity and Lifetime Earning credits requests only  
5 one entry for qualified expenses. It does not  
6 distinguish between tuition and related expenses.  
7 Furthermore, on the tuition statement, Form 1098-T,  
8 educational institutions can report either the amounts  
9 billed or the amounts paid, consequently, information  
10 on Form 1098-T and Form 8863 cannot be matched, and the  
11 IRS did not use Form 1098-T to validate claims for  
12 education credits. This turned out to be significant  
13 for tax year 2009, 1.7 million taxpayers received \$2.6  
14 billion dollars in education credits that appeared to  
15 be erroneous because there was no associated Form 1098-  
16 T in the IRS' files to verify that the student attended  
17 a qualifying educational institution. The timing of  
18 the submission of these forms is not conducive to  
19 matching during processing. Earlier submission would  
20 help the IRS to identify potentially erroneous claims.  
21 Moreover, revising the Form 8863 to require taxpayers  
22 provide employer identification number for the  
23 educational institution would help to determine whether  
24 the student attended a qualifying institution that for  
25 some reason did not submit a Form 1098-T.

1           To the extent possible, the IRS should design  
2 a Real Time Tax System initiative to verify credits and  
3 deductions. However, for many credits and deductions  
4 there is no third party information that can be used to  
5 definitively determine whether the taxpayer is  
6 eligible. For example, the credit which results in the  
7 highest amount of improper payments, the earned income  
8 tax credit, in many cases cannot be adjusted without an  
9 examination. The IRS can use third party data via its  
10 dependent data base to identify claims that have a high  
11 probability of being improper. Nonetheless, it does  
12 not have the resources to audit all these claims.

13           For those refundable credit claims, the IRS  
14 cannot verify with a reasonable degree of certainty  
15 using third party data, we recommend that the IRS  
16 require documentation to verify eligibility. The IRS  
17 has taken this action for two refundable credits,  
18 namely the first time homebuyer credit and the adoption  
19 credit. We believe the IRS should take this action for  
20 other refundable credits as well, to the extent  
21 practicable.

22           Previously requesting specific documentation  
23 required taxpayers to file a paper tax return.  
24 However, with IRS' replacement of its existing e-file  
25 system with its new modernized internet-based e-file

1 system, taxpayers will have the ability to provide  
2 supplemental information with their tax return when  
3 they e-file.

4 Thank you again for the opportunity to share  
5 TIGTA's views on this initiative. We will focus on any  
6 issues we identified during audit work that will  
7 further assist the IRS as it moves forward with the  
8 Real Time Tax System initiative.

9 MR. MILLER: Thanks Mike and the panel.  
10 Questions from the --

11 COMMISSIONER SHULMAN: So, this panel --  
12 again, thank you. Very thoughtful, informative  
13 presentations. I think it's one thing that's important  
14 to clarify, and I think it got flushed out on this  
15 panel. A lot of what we're talking about is fully  
16 resolving with real data from third parties, issues at  
17 the time of filing. And so the thing I want to clarify  
18 is, today, every single tax return goes through a fraud  
19 screen that has filters, data analytics, that look at  
20 patterns of abuse, that look at previous mismatches  
21 where we see issues, and we already stop billions of  
22 dollars of fraudulent refunds. So I didn't want anyone  
23 to think this would be getting us to the first time  
24 that we looked at fraud filters. That happens.

25 The issue, and I think it got teased out



1 here, is about the actual data provided by banks,  
2 employers, other third parties, and is there a way to  
3 push that up, because that's often the data that's used  
4 later in the process to trigger the post-filing work  
5 that we do.

6 My -- I guess my first question is to Jim.  
7 You gave a lot of suggestions around this, and you know  
8 one of the things we've pushed very hard is this  
9 concept of being an organization that creates  
10 hypothesis, runs sample sets and pilots, use the  
11 results of those pilots to then go deeper in. And your  
12 thoughts about as we start moving into this, this panel  
13 and the one before it, talked about different treatment  
14 streams, different ways to use a reject, measuring the  
15 burden. The reality is, you know, we could do a lot of  
16 research and hypothesize, but there's nothing like real  
17 sample sets to work this. And your views on the  
18 appropriateness of us using a variety of sample sets  
19 and whether you think that would further the goal?

20 MR. WHITE: I think that's absolutely the way  
21 to go, that you start -- and you've done some of this -  
22 - researching the data you've got right now based on  
23 the experience you've got right now, and then going  
24 forward, you're partly collecting new information as  
25 you change processes and so on, and you research that.

1 I think an example of this is the paid preparer  
2 regulation where now for the first time, you've got a  
3 lot of data that's been collected systematically about  
4 paid preparers and the intent is to do research using  
5 that data to try to get a better understand of how to  
6 involve paid preparers differently in the processing  
7 and compliance process.

8 COMMISSIONER SHULMAN: My other question is  
9 for Commissioner Mattox. I've had the benefit of being  
10 both a customer of the IRS and a customer of the New  
11 York state. I filed taxes for a long time in New York  
12 state, so have some first-hand knowledge from the other  
13 side, the taxpayer who we're trying to work issues  
14 through. I'm curious to give a -- if you give a little  
15 bit more sense -- I mean, you're very clear that  
16 compliance and reduced fraud is your goal one. And  
17 that's obviously one of the important drivers of this  
18 initiative. I mean, I'm very concerned that the tax  
19 system has been used more and more to distribute money.  
20 The tax system is not a closed net. We're incredibly  
21 efficient. We have a financial transaction every year  
22 with every taxpayer, so it's very efficient way to  
23 distribute money, but a statistic I like to use, is it  
24 costs us one-tenth of what it costs the food stamp  
25 program to push a dollar out the door. And if we added

1 the other nine-tenths and used lots of checking before  
2 we went, there'd be less fraud. It would be much  
3 costlier to taxpayers and would go out a lot slower.  
4 So how long does an average refund take and what kind  
5 of feedback do you get, especially for the five percent  
6 of people that are in your filters taking longer?

7 COMMISSIONER MATTOX: Well, we are much  
8 closer to, on average, a two to three week window for  
9 getting refunds out the door for folks who have filed  
10 the return, that makes it through our process cleanly.  
11 And the other end of that elapsed time scale really  
12 depends on the nature of the mismatches. And those  
13 returns are pulled out of the main processing stream.  
14 We go out to taxpayers with addition information  
15 requests. There is an element of manual processing  
16 associated with reviewing that information when it  
17 comes back in from taxpayers. We append that  
18 information and then put the return back in the  
19 process, and have it go forward.

20 COMMISSIONER SHULMAN: And that process, is  
21 it usually a paper correspondence or is there a phone  
22 bank that works it and how does that work?

23 COMMISSIONER MATTOX: It is generally a paper  
24 correspondence, where we will touch base with the  
25 taxpayer, articulating where there have been issues in

1 the return, and the additional information that would  
2 be helpful to us to resolve that. We also make it  
3 clear that if the taxpayer has questions about any  
4 aspect of that communication, they are welcome to  
5 engage our call center.

6 COMMISSIONER SHULMAN: Yeah. Okay.

7 MS. TUCKER: And my, I guess, observation and  
8 then a follow-up question also for Tom. Because the  
9 large majority of the states that have an income tax  
10 piggy-back off of the federal return, and because we do  
11 the information exchange, I don't think the point's  
12 lost on all of us that this is going to require  
13 significant partnership with state tax administrators.  
14 So Tom, the work that you've done in New York, I think  
15 is going to be very helpful for us as we scope this  
16 out.

17 One of the things that we heard from all of  
18 the panels is the timing of the information and why  
19 that's going to be so critically important. Any  
20 thoughts and ways you've looked at that in New York on  
21 making sure that you do have information where  
22 possible, sooner than later?

23 COMMISSIONER MATTOX: Well, we -- to be  
24 clear, you're absolutely correct. I mean, we are  
25 heavily dependent on the Service, because we

1 essentially follow the Service in terms of the  
2 presentation of the information that comes on to our,  
3 what we fondly refer to as our IT-201, the main return.  
4 That said, we do have independent sources of third-  
5 party information, including wage reporting data that  
6 comes directly to the state of New York, so we use that  
7 to get a jump start on the process.

8 But we're not sure whether the relative  
9 benefits of the various models that are being  
10 considered is really the most important area of focus.  
11 And to be specific, this notion that you would  
12 essentially engage the taxpayer up front before  
13 accepting the return, versus allowing the return to  
14 come into the system as presented and then work  
15 processes to verify the information, potentially append  
16 that return -- that is similar to what we do now in the  
17 state of New York. So to the extent that errors are  
18 identified, that we have the information in house to  
19 correct, we will proceed in updating that information,  
20 and then going back to the taxpayer to say, we have --  
21 there's been a discrepancy. We are essentially using  
22 our data --

23 COMMISSIONER SHULMAN: Is that third party  
24 data?

25 COMMISSIONER MATTOX: It's third party data,

1 and please connect with us if, in fact, you believe we  
2 have made a mistake. So I do agree that there is an  
3 interest in moving the processing along, but it isn't  
4 obvious to us that you would require, with various  
5 software providers or other intermediaries, the ability  
6 to correct the return before it is officially accepted  
7 or submitted. I think it's worth thinking about  
8 whether, in fact, you can, quote, "accept the return as  
9 presented," do the amendments on the back end and then  
10 allow the taxpayer to confirm or dispute the changes.

11 MR. MILLER: Questions? Okay. I want to  
12 thank the panel, and we'll call upon our next panel.

13 (Applause.)

14 MR. MILLER: Want to take a few minutes? I  
15 think we'll take about a two minute break, but I'm  
16 talking a two minute break, guys.

17 (Whereupon, at 10:39 a.m., the meeting was  
18 off the record for a five-minute period.)

19 MR. MILLER: Okay. It's all yours.

20 MS. TUCKER: Okay, everybody. We really do  
21 appreciate our second panel. And one of the folks on  
22 this panel, who will remain unnamed, said we saved the  
23 best for last. So that remains to be seen, Bonnie  
24 Speedy.

25 **Taxpayer Consumer Advocate Panel**

1           So our third panel is just a great group of  
2 folks that the Service truly enjoys working with,  
3 representing the taxpayer and consumer constituency,  
4 which obviously is a huge part of the considerations  
5 around real time. So it's my pleasure to introduce Bob  
6 Weinberger from the Aspen Institute, Bonnie Speedy from  
7 AARP, Jackie Lynn Coleman from the National Community  
8 Tax Coalition and Center for Economic Progress, and  
9 last but not least, representing the American Bar  
10 Association, Low Income Tax Clinic, Keith Fogg. So  
11 welcome again, we really appreciate it. So, Bob, why  
12 don't we kick off with you.

13                           **Aspen Institute: Robert Weinberger**

14           MR. WEINBERGER: Thank you for inviting me to  
15 comment on Commissioner Shulman's Real Time Tax System  
16 initiative. The proposal is bold and imaginative. It  
17 represents precisely the kind of thinking we need if we  
18 are to leverage technology to modernize tax  
19 administration in America, a field in which we have  
20 lagged.

21           Let me comment on three aspects: the goal,  
22 the obstacles, and ways to strengthen the vision. In  
23 concept, the idea of accelerating information reporting  
24 and front-loading government data to enable taxpayers  
25 and tax preparers to more accurately tax returns is

1       laudable. The current process of sending and using W-  
2       2s, 1099s and other information statements, which  
3       sometimes takes months, is clunky, and invites  
4       unnecessary transcription errors. The ability to  
5       download the information can improve accuracy and  
6       compliance, minimize post-refund error corrections, and  
7       allow the IRS to deploy its staff more efficiently. It  
8       can also ease burdens on some taxpayers who file in  
9       good faith, using unverified information, spend their  
10      refund, and months later receive a notice requiring  
11      them to repay with interest for innocent errors.

12               While the concept is appealing as an  
13      aspiration, and has some clear benefits, tradeoffs and  
14      costs must be carefully considered. A number of  
15      practical hurdles will need to be overcome before it  
16      can be implemented. A few examples.

17      • First, filing deadlines. The code law requires  
18      employers to send W-2s to employees by January 31<sup>st</sup>  
19      and to the Social Security Administration by March  
20      1<sup>st</sup>, if on paper, and March 31<sup>st</sup> or April 2<sup>nd</sup> in  
21      2012, if filed electronically. Other information  
22      returns have similar deadlines. If real time  
23      matching is to work, these deadlines will have to  
24      be advanced, or the filing season will have to  
25      shift to say April 15<sup>th</sup> to June 15<sup>th</sup>, or tolerances



1 for inaccuracies will have to be relaxed. Each  
2 has downsides. For example, in recent years,  
3 despite advances in information technology,  
4 bankers and brokers have pressed for extended  
5 deadlines to reduce inaccuracies. Accelerating  
6 deadlines without their support may present a  
7 significant political obstacle. Similarly, April  
8 15<sup>th</sup> has an iconic status for Americans. It's  
9 baked into our DNA. Delaying the filing season,  
10 or even just the mid-January starting date is  
11 likely to be quite controversial and trigger  
12 opposition, especially if it means delayed  
13 refunds, which is a political third rail. The  
14 hard reality is that it takes time for taxpayers  
15 to review their information returns and alert  
16 providers and issuers as to problems; time for  
17 third party information reporters to clean up the  
18 data before submission to the IRS or the Social  
19 Security Administration; time for the Social  
20 Security Administration to clean the data before  
21 it is sent to the IRS; and time for the IRS to  
22 perfect and post all the data so that it can be  
23 used for matching, which now takes five to seven  
24 months. By April 15<sup>th</sup>, less than one percent of W-  
25 2's and only 46 percent of 1099s are posted to the

1           IRS's master file.  Ninety-nine percent are not  
2           available until September.  Compressing those  
3           months may bring a penalty in accuracy.

- 4           • Secondly, errors in rejects.  Even with the Real  
5           Time System, errors in mismatches will still need  
6           to be corrected and resolved.  If the Commissioner  
7           -- if as the Commissioner indicates, less than one  
8           percent of total information returns volume is  
9           from amendments or corrections to the original  
10          return, and there are over two billion information  
11          returns, one percent is still more than 20  
12          million.  How many taxpayers would be affected?  
13          The Social Security Administration receives about  
14          217 million W-2's, including over two million  
15          corrected forms from employers.  About ten percent  
16          have a name/Social Security number that doesn't  
17          match Social Security Administration records.  
18          After additional matching and correction, about  
19          four percent, or nearly nine million go into the  
20          earnings suspense file.  Again, these are not  
21          insignificant numbers of returns that need  
22          attention if they are to be part of a successful  
23          return processing system.  Rather than reject  
24          these mismatches, consideration should be given to  
25          the expansion of math error authority so some

1 returns can be processed and refunds issued with  
2 disputes resolved later. This is what GAO has  
3 suggested, but I also listened carefully to  
4 Professor Fogg's draft testimony which shows some  
5 problems with that approach.

6 • Preventing e-filing in case of discrepancies may  
7 also cause a work-load jam, a traffic jam of  
8 taxpayers communicating with their employers,  
9 other payers, and the IRS, with bunch volume  
10 overloading IRS call centers, corporate HR  
11 departments, financial institutions, and return  
12 preparers. The work-load compression from mid-  
13 January to early in February, the first peak in  
14 filing, can be particularly problematic and this  
15 is the period when glitches are often first  
16 appearing as this tax season has demonstrated.  
17 Plus, in recent years, Congressional enactment of  
18 legislation is often delayed until late December  
19 which creates a scramble by the IRS and software  
20 developers to adjust their systems. While the  
21 Social Security Administration is speeding its  
22 processes, and while 85 percent of information  
23 returns are W-2s with them are filed  
24 electronically, it still must deal with millions  
25 of paper W-2s submitted by small businesses and

- 1 backlogs are possible.
- 2 • Fourth, security. Today tax preparers and tax  
3 software customers can download information  
4 reports from various issuers. The proposed Real  
5 Time Tax System would aggregate the data and make  
6 it available for retrieval from an IRS centralized  
7 data hub. While this may increase convenience, it  
8 may also increase the risk of penetration and  
9 fraud. As the IRS faces a growing problem of  
10 identity theft and a continuing challenge in data  
11 security, countermeasures will need to be  
12 carefully evaluated.
  - 13 • Fifth. States. As Commissioner Mattox has  
14 illustrated, real time system needs to coordinate  
15 carefully with state tax administrators and  
16 hopefully will harmonize some of the divergent  
17 rules affecting state filing.
  - 18 • Sixth. The private sector's role. As mentioned,  
19 some data retrieval is already available through  
20 private sector providers. About 90 million  
21 taxpayers can now get from 200,000 companies,  
22 their data downloaded into tax preparers or other  
23 systems. And this can save up to three weeks.  
24 The private sector's role has been expanded on by  
25 the Electronic Tax Administration Advisory

1           Committee, and they've outlined their concerns  
2           which I know that you're aware of.

3           • Seventh. Clarity of intentions. For better or  
4           worse, the Commissioner and his staff have  
5           clarified that the Real Time Tax System is quite  
6           distinct from proposals for return-free filing or  
7           an IRS-created return -- simple return system.  
8           Yet some parts of the tax industry are nonetheless  
9           concerned that the same functionality is a  
10          prerequisite for both approaches and is stage one  
11          of the move to such a system.

12           MS. TUCKER: All right. Bob, I think we have  
13          your statement for the record, so thank you so much,  
14          but because of the size of this panel, we'll move on to  
15          Bonnie.

16           MR. WEINBERGER: Okay.

17                   **AARP Foundation - Bonnie Speedy**

18           MS. SPEEDY: Good morning, Commissioner  
19          Shulman, Beth and Steve, thanks for having me here  
20          today. As you know, I work for the AARP Foundation  
21          that runs AARP tax aide which does, through 35,000  
22          volunteers, over two million tax returns a year. So we  
23          appreciate being asked here today to bring that  
24          consumer perspective, and low income tax preparation  
25          perspective to the table.

1           At the conceptual level, there can be no  
2           doubt that this system will be good for the taxpayers  
3           and excellent for the country by helping to close the  
4           tax gap. As other amounts are reconciled in this  
5           process, such as non-employee compensation, Social  
6           Security and Medicare could benefit as well. The delay  
7           in IRS notification of missing income and other  
8           mismatches costs the taxpayer, including penalties,  
9           interest, and even additional service fees to preparers  
10          as they try to reconcile those differences after the  
11          fact.

12           Out of the tax season, nearly all VITA and  
13          TCE, other franchise preparers -- franchise stores are  
14          closed for the season, leaving our taxpayers with  
15          little options, in some cases just burying their head  
16          in the sand, hoping that it will go away. As I'm sure  
17          you're aware, the key will be to make the  
18          reconciliation process as effective and efficient as  
19          possible.

20           AARP tax aide volunteers embraced e-filing  
21          long ago and are now at 95 percent e-filing, despite  
22          having to carry computers and printers back and forth  
23          to tax sites. However, AARP tax aide Foundation asks  
24          you, with the e-filing burden long ago accepted, to  
25          consider the amount of additional burden that could be

1 shifted to the preparer community, volunteer or paid,  
2 with this effort. Again, the real time concept is  
3 spot-on. It will be the secondary request, and the  
4 devil is in the details kinds of issues that will drive  
5 up burden levels for taxpayers and preparers. Although  
6 a bit difficult to dive in the weeds when concepts are  
7 still being formulated, I hope some of these  
8 suggestions are helpful.

9           The long-term benefits of a Real Time Tax  
10 System for the IRS are huge. With systems, preparers  
11 and taxpayers essentially taking over the automated  
12 underreporter system and other pieces of compliance.

13           My recommendation is to start small with  
14 highly compliant, large volume preparers and break in  
15 the process with wins and process calibration to insure  
16 all of us you and the community are ready for full  
17 implementation of forms where taxpayers struggle with  
18 compliance, or payers more frequently have errors.

19           I recommend making the most information --  
20 making the information returns due earlier, first and  
21 immediately by January 31<sup>st</sup> to allow matching the  
22 information returns to most of the early returns. The  
23 forms are due to the Social Security Administration --  
24 or to the taxpayer at that point, why are they not  
25 ready to send on? I actually am concerned about a

1 little bit of the statement about the one percent error  
2 rate, because a two month gap, from our perspective --  
3 we see a lot of taxpayers come back with a corrected  
4 form. You're not seeing them, but we're seeing them,  
5 so we need to be a little bit concerned about that one  
6 percent error rate.

7           Clearly the IRS will need instantaneous feeds  
8 of the information from the Social Security  
9 Administration, as painful as it was, the stimulus  
10 process, although not without its bumps, did prove that  
11 the Social Security Administration and IRS can  
12 effectively exchange taxpayer data. I do not recommend  
13 following the -- pushing the filing date back to  
14 February 1<sup>st</sup> to insure all information returns are  
15 available. There needs to be a process for the two to  
16 three week gap from the opening of e-filing to the IRS  
17 having access to information returns.

18           We suggest that increment amounts reported on  
19 the 1040 equal to or higher than the amounts and the  
20 corresponding information returns should be considered  
21 a compliant amount and not rejected. Run these early  
22 tax returns against information returns mid-season and  
23 send mismatch AURs as quickly as possible.

24           Focus on success for the process first, then  
25 work compliance. Match returns, perhaps, from the ten



1 largest payers for the first year, and maybe even then,  
2 just W-2s and 1099G's and even R's that are paid by  
3 those payers. Skip 1099B's as basis reporting settles  
4 down and those payers get those forms with some more  
5 consistency.

6 Other thoughts and ideas for easing in.

7 • Don't reject mismatches the first year.

8 Provide a warning. A warning process the first  
9 year will allow the preparers to work with the  
10 taxpayers to resolve the differences while IRS  
11 and the preparer community continue to work out  
12 how a hard reject might work. Most of our  
13 taxpayers want to be compliant, and the warning  
14 can go a long way to resolving many AUR issues  
15 then and there.

16 • Consider matching all electronically submitted  
17 W-2 and 1099Ts in the first year. They  
18 represent 83 percent of the total information  
19 returns that are generally highly compliant.

20 • Consider matching returns going in one service  
21 center only and overstaff that service center  
22 to help with the needed customer service.

23 • Consider one service center and even one metro  
24 area within that service center and do all the  
25 returns, do a small pilot, all returns to see

- 1           how that works. Keep the pool small, but test  
2           the process on everything. Certainly, once the  
3           volume of rejects is quantified and minimized,  
4           and maybe even further the final process.
- 5           • Match only the main amount on the returns, so  
6           on the W-2 box one, to the 1099. Our  
7           suggestion is that the additional information,  
8           whether it's child and dependent care or what's  
9           taxable or not taxable for quite a while is  
10          going to be a strain on the system to reconcile  
11          those, if and when you ever decide to.
  - 12          • For rejects, provide name and address of the  
13          payer as well as the amount in the EIN in order  
14          to help us figure out where to go to get the  
15          needed information. Better yet, provide a copy  
16          on e-services, or even a taxpayer version of e-  
17          services, with a reasonable authentication so  
18          single taxpayers or those working with us can  
19          get that.
  - 20          • Develop a new form to reconcile the information  
21          so that when the taxpayer stands firm that they  
22          are correct and the information is not so, they  
23          have a way to get the return in. Let that be  
24          the markup for the IRS that some activity has  
25          happened on the front end.

- 1           • There is no need to continue to make taxpayers  
2           revert to paper returns as they do now with  
3           EITC, when somebody else has claimed the child,  
4           and perhaps that form can be used as well.
- 5           • Allow the taxpayers to simply agree with the  
6           mismatch and just put the amount on another  
7           line on the tax return, maybe line 22. Just  
8           get the return in the door.
- 9           • With regard to time to reconcile rejects, maybe  
10          consider extending the after April 15<sup>th</sup> break  
11          period to ten working days so that taxpayers  
12          have time to get back to the payers to find out  
13          what's going on with their form.

14                    Again, we appreciate your continued  
15          commitment to consumers and willingness to tackle  
16          big issues like the Paid Preparer Strategy and the  
17          Real Time Tax System, and while doing so ask for and  
18          personally participate in a very early comments  
19          process. Thank you very much.

20                    MS. TUCKER: Thanks, Bonnie. Now, Jackie  
21          Lynn.

22                    **National Community Tax Coalition/  
23          Center for Economic Progress: Jackie Lynn Coleman**

24                    MS. COLEMAN: Commissioner Shulman and Deputy  
25          Commissioners Miller and Tucker, thank you for the

1 opportunity to talk to you today about the IRS's  
2 vision for Real Time Tax System that could replace  
3 the actual traditional look-back model. This is an  
4 important subject for the National Community Tax  
5 coalition and our members, and the many taxpayers  
6 that we serve nationwide. I'm Jackie Lynn Coleman,  
7 the Senior Director of the National Community Tax  
8 coalition.

9 NCTC is the nation's largest, most  
10 comprehensive membership organization for community-  
11 based entities that offer free tax preparation and  
12 financial services to low and moderate income  
13 working families. Our local partners help  
14 struggling families claim tax credits they might  
15 otherwise overlook, ensuring they receive the full  
16 tax refund for which they are entitled.

17 Our views today reflect experiences of our  
18 partners, and the provision of tax preparation  
19 services, and the taxpayers they actually help. We  
20 applaud the IRS for beginning open, collaborative,  
21 explanation of what's involved in creating a real  
22 time, up front system of matching information  
23 submitted on tax returns with the information  
24 provided by third parties. The implication for  
25 interested entities to participate in this

1 discussion, sharing opinions, input and experience,  
2 is critically important to any success for which the  
3 effort might aim.

4 It's vital that we take the time to  
5 collaboratively and carefully, on any proposal to  
6 pursue these significant stated goals, to reduce  
7 burden, to increase savings, and to improve  
8 compliance.

9 With these goals in mind, I would like to  
10 emphasize several points on behalf of low and  
11 moderate income taxpayers through our VITA sites to  
12 also help guide the IRS's thought process while  
13 developing this actual concept.

14 • First, we're concerned with accuracy. The  
15 earliest stages of implementing a Real Time Tax  
16 System will require the IRS to focus  
17 particularly on increasing the speed of  
18 information processing. An immediate  
19 consequence of this change will be the need to  
20 reconsider the timing in which information  
21 returns are reported. It would be imperative  
22 that the IRS first test whether a limited  
23 implementation of this speed-up information  
24 return reporting could be achieved before it is  
25 widely rolled out. The IRS could limit this

1 change in the short term to several relatively  
2 straightforward information returns, such as W-  
3 2s or 1099 INTs before proceeding to forms that  
4 would require the involvement of other entities  
5 such as 1098Ts for higher education  
6 institutions, or 1099Gs for government  
7 agencies. A measured roll-out of this shift  
8 would allow for accuracy checks as well as  
9 assessment of feasibility, given the level of  
10 accuracy that a full roll-out would require.  
11 As the IRS develops a means for increasing the  
12 speed of reporting, ongoing concern for  
13 accuracy cannot and should not be disregarded.

- 14 • Second, there are issues involving coordination  
15 with states and other federal agencies involved  
16 in processing tax-related documents. This  
17 coordination must be done in advance of any  
18 trial implementation to assure information  
19 could be delivered accurately and promptly,  
20 without causing disruptions in other benefits  
21 tied to taxpayer information. States and other  
22 federal agencies with important roles in the  
23 processing of tax-related information reports  
24 are critical partners in collaboration on such  
25 a venture.

- 1           • Third, we'd like to flag very important matters  
2           of access and security. With the freer  
3           electronic flow of information, this system  
4           will require the IRS must determine to what  
5           extent third parties could and should be given  
6           access to taxpayers' information, as well as  
7           how such access would be managed while insuring  
8           taxpayers are protected from identity theft and  
9           other misuses of their personal recording.

10           Finally, I will note that my previous points  
11           largely pertain to most taxpayers, but I would like  
12           to share ideas about several more specific effects  
13           that implementation of the Real Time Tax System  
14           could have on the low or moderate income taxpayers  
15           VITA programs represent. Many taxpayers served by  
16           our programs do not come to us with a single  
17           straightforward W-2. What we often encounter are  
18           workers with numerous short-term incomes, several W-  
19           2s and 1099s, and other documents reflecting spells  
20           of part-time work and unemployment. It is the level  
21           of complication, coupled with the complexity of  
22           filing tax returns for atypical family situations  
23           involving multiple beneficial deductions and  
24           refundable tax credits that often bring taxpayers to  
25           VITA sites in the first place. Managing this

1 increased burden of tracking important documents  
2 throughout the year may be a challenge for our  
3 already heavily saddled constituents. To help ease  
4 this concern, IRS should ensure individual taxpayers  
5 have no less access to their tax-related documents  
6 than the tax preparers to whom they turn for help  
7 and perhaps via secure on-line means.

8 So those are just some of our points.  
9 There's some other points also identified in my  
10 written document. So again, I thank you guys for  
11 your attention and help and I'm happy to entertain  
12 any questions.

13 MS. TUCKER: Thanks, Jackie Lynn. Keith you  
14 want to wrap up our final panel with some comments?

15 **ABA Low Income Taxpayers Committee Chair**

16 **LITC Site: Keith Fogg**

17 MR. FOGG: Thank you very much for having me.  
18 It's appropriate for me to go last. I've gotten a  
19 great education in this process. I am not involved  
20 in filing tax returns, I'm involved in the back-end  
21 process when things go wrong, and I represent the  
22 least, so being last and least is appropriate here.

23 I think this is a great idea, so to the  
24 extent that I'm making comments that seem critical,  
25 it's not because I don't think it's a great idea,



1 I'm very much in support of the goals here. I think  
2 it's particularly important, as Deputy Commissioner  
3 Tucker pointed out at the outset, and others have  
4 commented on, that this could prevent ID theft,  
5 which is a big issue for low income taxpayers. And  
6 I think the prevention of fraud is also important  
7 because those things really hurt low income  
8 taxpayers who have difficulty communicating with the  
9 system.

10 So my concerns really go with that  
11 communication problem, because I think that when you  
12 identify a mismatch on the return of a low income  
13 taxpayer, you have trouble communicating with the  
14 low income taxpayer in a way that gets the low  
15 income taxpayer to communicate back with you. So I  
16 see the better system as putting this information in  
17 the hands of the return preparers so that somebody  
18 the low income taxpayer is sitting with can help  
19 them prepare the correct return at the outset will  
20 be much better than having the return go in, the  
21 taxpayer walk away, and then the IRS try to  
22 communicate with the low income taxpayer who's not  
23 very good at communicating back. They have trouble  
24 getting the information, their addresses are  
25 changing more frequently, difficult processing the

1 information.

2 The IRS deals with low income taxpayers in  
3 pools. I mean you send them, in exam study, you  
4 send them correspondence exams -- I never deal with  
5 a revenue agent. I never deal with a revenue  
6 officer. I only deal with pools of people at the  
7 IRS, so they never have personal touches on their  
8 taxes until they get to appeals or to counsel of  
9 some higher level. That makes it also more  
10 difficult for them to communicate, because each time  
11 they touch the IRS, they're touching a different  
12 person, they have to start all over again. So I  
13 would much prefer to see this information in the  
14 hands of the return preparers so that their return  
15 is done correctly at the outset, rather than trying  
16 to fix it.

17 Then if we go to the issue of fixing it.  
18 We've had a lot of discussion here of rejecting  
19 returns, and I have difficulty with that as a legal  
20 concept. A tax return that's mailed into the IRS is  
21 --

22 COMMISSIONER SHULMAN: Can I actually, Keith,  
23 because a bunch of people in this panel, I mean --  
24 the language was used at one -- in one speech, we  
25 would reject the return. The language has shifted,

1           so let me be clear. And I think there's quite a  
2           nuance around -- still very much want to hear your  
3           concept of reject, but this proposal isn't  
4           necessarily reject the return. I mean there's lots  
5           of ways you could think about that sort of  
6           correspondence. So I just -- I only interrupt you  
7           before you go with the supposition that that is the  
8           plan.

9                       MR. FOGG: I appreciate that comment, because  
10           I did read your original speech in April, and then  
11           your subsequent speeches did --

12                      COMMISSIONER SHULMAN: The hazards of being  
13           IRS Commissioner, people actually watch your words.

14                      MR. FOGG: Because as I was saying, you  
15           cannot -- the IRS cannot reject a paper return, a  
16           return which meets very minimal standards. And if  
17           you want to read an interesting case, read the case  
18           of Joe Comforty, the owner of the Mustang Ranch in  
19           Nevada, which is one of the leading cases on what is  
20           a return. But there are very minimal standards for  
21           what is a return, so once the document comes in, I  
22           think the IRS has a return in its hands. It can't  
23           say, oh, this isn't the return we wanted, take it  
24           back, give us another one. You've got a return.  
25           You've got to do something with it.

1           So then the question is, what are you going  
2           to do with it. And that kind of rolls into math  
3           error, which we've heard several people discuss.  
4           And math, you know, math error wouldn't allow the  
5           IRS today to make changes to the return. I mean,  
6           today, if it is a return, once it comes into the  
7           IRS, and you identify a problem early in the  
8           process, most of the people, I think, that you  
9           contact, will fix those problems quickly. So that's  
10          why I think it's a great process.

11          But to the extent that they don't fix them  
12          quickly, then you've got to do something so maybe  
13          what you are doing is accelerating the process of  
14          examination and leading towards a notice of  
15          deficiency from what is now a couple years later, or  
16          12 months later, into right at the front of the  
17          process. But in order to make an assessment, you  
18          have to have consent. If the return doesn't give  
19          you that consent, you have to find it somewhere  
20          else. Normally you find it in 6213 with a notice of  
21          deficiency, the exception to that is math error,  
22          which is also in 6213.

23          Of the 13 subparagraphs of math error, only  
24          one is math. So it's really not math error, it's  
25          other things we've decided not to go through the

1       deficiency process, and if you add on more to that,  
2       you're just taking, you're chipping away at taxpayer  
3       rights as you do that because math error gives them  
4       60 days to respond, not 90 days.

5               The math error notice doesn't have the  
6       requirements that a Notice of Deficiency does,  
7       doesn't tell them when the 60 days ends, for  
8       example. Doesn't have a very good description to  
9       them of what is the problem. And it just -- it  
10      doesn't tell them to contact the taxpayer advocates  
11      as does a Notice of Discrepancy. It just doesn't  
12      have the same kind of rights that the Notice of  
13      Deficiency has, and if they don't strike back within  
14      that 60 days, then they have an assessment, and then  
15      you've pushed this into a collection problem rather  
16      than an exam problem.

17             So that may be good, you're beginning to  
18      collect the taxes right after the return filing  
19      season rather than a couple years later, and early  
20      collection is better than later collection, but all  
21      you've done is shift your problem. So there has to  
22      be a good way to engage taxpayers as you push back,  
23      and that's going to be harder with low income  
24      taxpayers than with other areas of taxpayers, and  
25      that's why I think putting this information in the

1 hands of preparers will be the best result.

2 MS. TUCKER: Alright. Thank you.

3 Commissioner? Steve?

4 COMMISSIONER SHULMAN: So the -- one, one of  
5 the reasons we thought it was very important in the  
6 first time we had a public hearing that we had  
7 panels of people representing taxpayers and low  
8 income taxpayers is because we take the issue of  
9 taxpayer rights and service and -- very seriously,  
10 and because, as I think one of the previous panels  
11 had noted, a lot of Americans really count on that  
12 average \$3000 check coming to them early in the  
13 filing season.

14 I guess my question would be for Jackie and  
15 for Bonnie who work at the front end of the filing,  
16 but then also see taxpayers throughout the process,  
17 how much of a burden is -- I have a supposition, but  
18 interested in your views -- how much of a burden is  
19 it on the back end when we start doing that  
20 interaction 18 months later, and what kind of  
21 benefit would it be, assuming -- and I know this is  
22 a big leap of faith -- that we got it right on the  
23 front end, where if we saw a mismatch we figured out  
24 a way to have a respectful dialogue with  
25 flexibility, to help people correct it would be the

1 goal, not to slap assessments and block returns and  
2 delay refunds. But assuming we could get the front  
3 end right, how much burden would that alleviate on  
4 the back end?

5 MS. COLEMAN: I think it would be tremendous.  
6 What we see at our tax sites is many folks coming  
7 back and saying that their tax return was incorrect.  
8 And so it reduces burden on the taxpayer, reduces  
9 stress on the taxpayer. It reduces burden on the  
10 volunteers as well. So I think that's like really,  
11 really critical for our folks, because the fewer  
12 amended returns that our programs have to do, the  
13 better off, I think folks will be.

14 And I think the other thing, what I wasn't  
15 able to mention before is that, you know, the VITA  
16 sites and tax aide sites can actually be used as a  
17 conduit, as a teachable moment. Because this is  
18 what the VITA programs do. We have those  
19 significant touch points, and can have some real  
20 dialogue with our taxpayers, and we can actually  
21 help them to keep up with their own records, and not  
22 just like Schedule C returns, but all taxpayers as  
23 well.

24 MS. SPEEDY: There's two major issues in the  
25 delay. One is the cost, what it costs them to try

1 to -- with the penalties and interest -- these are  
2 folks who didn't have the money in the first place.  
3 So when you look at delays and even hundreds of  
4 dollars, it's quite a traumatic event for them.  
5 They often don't even have their copies of the  
6 returns and it's just excessively difficult.

7           You know, I struggle with this concept of  
8 rejects, as we talked about, and whether or not --  
9 because that's the other piece, is we're there with  
10 them on the spot, and I understand and appreciate  
11 after four years on IRSAC that you guys are going to  
12 want the return in. You want them checked off. You  
13 want them in the door. And I respect New York and  
14 how they're handling them, but there's concern to me  
15 from the standpoint that we have that one time  
16 interaction with them. If they walk away, even if  
17 it's three months later, or three weeks later, what  
18 does that still do to the system of trying to  
19 reconcile that amount after the fact at all.

20           So you will have a tough decision when it  
21 comes down to whether or not you either do a soft  
22 reject or a warning, and letting them get right back  
23 in, but letting us know so that we can try to handle  
24 that on the spot. So just bringing people back  
25 afterwards is difficult, whether it's weeks or



1 months, let alone a year.

2 COMMISSIONER SHULMAN: I said don't  
3 underestimate the stress level of -- I told some  
4 people this story, you know. After my first day on  
5 the job at the IRS, I had gone through FBI  
6 background check, everybody in town had looked at my  
7 taxes and determined that I was compliant. I go  
8 home and in my pile of mail there's a letter from  
9 the IRS, and I said, oh, this is on. It turns out  
10 it was my employment forms, but, you know, the  
11 average American, when they see the return address,  
12 isn't excited, despite the fact that 80 percent of  
13 people file a return electronically, get a \$3000  
14 refund from us and don't hear from us again for most  
15 of their lifetime. So, we think of ourselves as  
16 customer service, but we understand the brand  
17 doesn't always convey that in the mail. Just the  
18 name, that's helpful.

19 The other thing I just want to clarify from  
20 what Bob said, and again I appreciate that everybody  
21 read my first speech closely, and there's been a  
22 couple in between. I threw out and I said the  
23 vision could include this notion of a data hub that  
24 everybody accessed. We've looked at that and are  
25 wide open about, does that make sense? Does it make

1 sense for us just to hold the information, make it  
2 available to preparers and taxpayers, et cetera. So  
3 by no means is that a prerequisite.

4 Bob spent many years at H&R Block and I guess  
5 old habits die hard around -- worried about the pre-  
6 filled issue, but, you know, I'm very clear that the  
7 data hub may not be something that makes a lot of  
8 sense. We threw that out there to get people to  
9 chew on it and be interested. I mean, it runs a  
10 little bit in conflict to what Keith was saying, is  
11 get it to the preparers.

12 And I'm very clear that this initiative is  
13 not about prefilled returns. This is about the  
14 whole set of other issues. So let me turn it over  
15 to Beth and --

16 MR. MILLER: Let me, if I could, a couple  
17 questions. Sort of the first one is, as we listened  
18 to the panels today, a batch of ideas about how do  
19 we go first here. I mean, everybody agrees  
20 transition it in, try some stuff, don't go big.  
21 Whether it's geographic, whether it's the 1040A and  
22 the 1040EZ, but there has been a sense that okay,  
23 maybe the 1040A, maybe 1040EZ, maybe EITC, and then  
24 Jackie Lynn, I'm listening to your discussion of --  
25 and I assume you have the same sorts of things of

1 people coming in with basically a tapestry of W-2s  
2 and 1099s from several part time jobs, and that's  
3 probably that group.

4 MS. COLEMAN: Yeah.

5 MR. MILLER: Probably the EITC group. And so  
6 my question, I guess, is, if you could comment,  
7 should I take away from that that maybe that's not  
8 the group I start with. Does that overburden this  
9 particular pilot with a particular set of taxpayers  
10 who this may not fit perfectly for, or is it the  
11 reverse? If you could give me some sense of that?

12 MS. COLEMAN: You know, I talked about the  
13 ten payers because I think the possibility is, or  
14 hope that those are -- could be more stable, at  
15 least more accurate returns, and that you don't  
16 match by person, but maybe you match by forms that  
17 you have. Because then that takes the load off  
18 somebody who has five jobs or ten jobs, and believe  
19 me, we see them.

20 So some thought with that type of ease-in  
21 process is you don't go after -- and you may decide  
22 to go after individuals, but perhaps that isn't the  
23 way. So look at your highly compliant forms and  
24 bring those in, and if they had taxpayer with two of  
25 their ten W-2s, so be it. Two of them are matching.

1 But I believe that might be the more sound way to  
2 go, plus you know they're highly compliant, you know  
3 who they are, you can work with them. And I think it  
4 provides a good opportunity.

5 MR. MILLER: So I shouldn't be too worried  
6 about going in that direction for these taxpayers?

7 MS. COLEMAN: Yeah, and frankly, I don't know  
8 why the angle of EITC is a subcomponent of this,  
9 first, because it's not necessarily an information  
10 return.

11 MR. MILLER: Right.

12 MS. COLEMAN: So I see some discussion around  
13 compliance, again, and I'm hoping that compliance --  
14 I know you guys are going to worry about compliance,  
15 but hoping we just can get the process started and  
16 started smoothly before we start tackling the  
17 compliance issue, because --

18 MR. MILLER: It's a factor, not the factor.

19 MS. COLEMAN: Yeah.

20 MS. TUCKER: But just a follow-on to see  
21 thoughts -- especially you guys are on the front  
22 line doing the return prep, to roll this out, do you  
23 see any benefit to a smaller geographic or carving  
24 something out to test different ways to do this?

25 MS. SPEEDY: You know, it was an interesting

1           idea that actually somebody tossed out, was that if  
2           you take a small geographic area and sort of test  
3           the whole model, it certainly was a different way of  
4           looking at it. I thought worthy of -- it does  
5           require now you're looking at all the information  
6           returns then. I can imagine what that might do to  
7           your systems, of how to implement those checks. But  
8           it did provide another measure, and it is a small  
9           measure, and then you work out of one service center  
10          and you load up some personnel there. Jackie, you  
11          want to --

12                   MS. COLEMAN: Yeah, I think that's right. I  
13          think when you're talking about a pilot, it's very  
14          important to kind of like control that to get the  
15          best nuggets and lessons learned out of that process  
16          before like pushing it out across. So I agree with  
17          what Bonnie is saying there.

18                   COMMISSIONER SHULMAN: Yeah, when you look at  
19          the data, it's very interesting because you could  
20          think of a number of ways to pilot and test the  
21          concept. One could be around one set of information  
22          returns which are accurate, early, they hit a set of  
23          taxpayers, but it doesn't solve the whole taxpayer  
24          issue. So if the idea is to get certainty in  
25          closures so you don't have a back end interaction,

1           it's not going to do that.

2                   The other is to flip it around and say, get  
3 taxpayers that only have one information return and  
4 run them through a pilot. That closes their issue.  
5 You won't have the back end, but it won't be as  
6 comprehensive.

7                   Or you could think of geographic. There's a  
8 variety of ways to think about this, all of which  
9 we're very interested in continuing as we go through  
10 this to get some feedback.

11                   MS. TUCKER: All right. Well, listen,  
12 thanks. Thanks to our third panel and the two that  
13 came first. Let me thank everybody for coming and  
14 turn it over to the Commissioner to wrap us up.

15                   **Closing: Commissioner Shulman**

16                   COMMISSIONER SHULMAN: So, thanks everybody  
17 for coming. It's, like I said, it's heartening to  
18 see this many people interested in making sure the  
19 American tax system works well for all of us. This  
20 has been very valuable for me, both what I've heard  
21 and also what we wrote down. We plan to continue  
22 doing this and you should expect to see something in  
23 January with some of the other stakeholder groups.

24                   I think that the sets of issues that were  
25 brought up thematically and consistently were the

1 ones that make sense to us as the ones that we need  
2 to focus on and think about.

3 I guess where I come from, I've a favorite  
4 saying from Will Rogers which is, "Even if you're on  
5 the right track, if you're standing still, you're  
6 going to get run over."

7 And I really do believe that while this was a  
8 vision that now needs to be concrete and  
9 operationalized, and there's lots of issues that  
10 could be obstacles, whether it's this direction or  
11 other directions in the tax system, one of my  
12 obligations, and our obligations in leadership here,  
13 is to keep pushing the system because I can  
14 guarantee you 50 years from now whatever we're doing  
15 today isn't going to work and so the question is, at  
16 what pace do you change? My view is the way that  
17 you change is you lay out some things that make  
18 sense and then you're not stuck that the thing you  
19 laid out is what you need to do, but you bring this  
20 kind of input together.

21 And just to repeat what I said before, we're  
22 the ones responsible to make sure the tax system  
23 works for the American people, but it by no means  
24 ends here, and so all of the issues and  
25 perspectives, from the important perspectives from

1 the preparer community, from people who do oversight  
2 for us, as well as partners in other parts of  
3 government, from taxpayers, from the payor  
4 community, from the people who will send information  
5 returns, all of them are part of this and we are  
6 very committed to just keep this dialogue alive.

7 My commitment is to keep innovating in the  
8 tax system. Exactly how we innovate depends on what  
9 we hear from everyone, and what makes sense, and  
10 resources, and strategies, and priorities.

11 So thanks again for being here today, and  
12 we'll look forward to continuing the dialogue.

13 MR. MILLER: Thanks to the panel. Really  
14 appreciate it.

15 (Applause.)

16 (Whereupon, at 11:24 a.m., the meeting in the  
17 above captioned matter was adjourned.)

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**REPORTER'S CERTIFICATE**

This is to certify that the attached proceedings  
before:

**INTERNAL REVENUE SERVICE**

In the Matter of:

**PUBLIC MEETING**

**ON**

**REAL TIME TAX SYSTEM INITIATIVE**

Were held as herein appears and that this is the  
original transcript thereof for the file of the  
Department, Commission, Board, Administrative Law Judge  
or the Agency.

Further, I am neither counsel for or related to any  
party to the above proceedings.

***Wendy Greene***  
Official Reporter

Dated: December 19, 2011