

**PREPARED REMARKS OF  
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INTERNAL REVENUE SERVICE  
BEFORE THE  
NATIONAL PRESS CLUB  
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Thank you for that warm welcome. I want to thank the National Press Club for its willingness to invite me back for a third time in the middle of tax season. As a way of showing my gratitude, I'll try to keep the reminders to file your taxes on time to a minimum – even my wife Pat is tired of hearing about how close we are to the April 18<sup>th</sup> filing deadline. But she's a good trouper, and is here with us on the podium again. And getting through my fun-filled 27 months as IRS Commissioner would not have been possible without her strong support.

That said, I'm delighted to be speaking once again to a room that includes a number of journalists. There are enough reporters here I started to wonder if there was a presidential candidate lurking somewhere in the building. Reporters ask me questions all the time, and believe it or not, I enjoy answering them.

They give me an opportunity to explain to the public what we're trying to accomplish at the IRS, and especially what we're doing to improve the tax system and taxpayer service.

One of my favorite questions so far was one I got last month. The reporter asked me, "What does the public not understand or appreciate about the IRS that you learned while you've been here?" At the time, I had to give a quick answer, so I talked briefly about our dedicated employees and all the work they do to help people file their returns accurately and on time.

But that question caused me to wonder what I would say on that subject if I had a captive audience for an hour. I'll pause, just in case anyone wants to escape before I continue.

Now that I've been IRS Commissioner for a little over two years, I have come to recognize that there are a number of things taxpayers don't know or focus on about the agency.

I know the IRS is not anyone's favorite government institution, and we will not win any popularity contests, especially in an election year. In fact, a recent poll even showed that 12 percent of taxpayers liked Vladimir Putin better than the IRS. But don't look for a shot of me on CNN, without a shirt, riding a horse.

Obviously, we're the nation's tax collector, but that's not the whole picture. I believe the public needs to have a clearer idea of how important the IRS is to the nation and to taxpayers. People also need to know the challenges we face in moving our agency into the future.

In other words, I wish everybody could see firsthand the IRS I see and have come to know and appreciate.

First, let me begin where I was during that interview, focusing on our workforce. In all my years of leading organizations in the public and private sectors, I can honestly say that no group of people I've worked with has been more dedicated to their mission than the employees at the IRS.

I've also been amazed by the number of people who have spent entire careers serving the public as IRS employees. Let me give you one example. When I went to visit our Detroit office a while back, I met Angelo Fracassa, a revenue agent who was retiring after 60 – that's right, 60 – years of service. I asked him if the IRS had violated child labor laws when it first hired him, but he assured me he was not ten when he was hired. When asked why he didn't retire when he became eligible about 20 years earlier, Angelo said he liked his job at the IRS so much he wanted to keep on working. That's dedication.

But we see this across the IRS. When people come to work at the agency, they want to stay because they love their work, and service to the nation.

Another employee I want to mention is sitting here at our head table: Bill Cressman, who has been with the IRS for 40 years. Bill is a good example of people we often see who come into the IRS and develop their careers, eventually doing something very different than when they started out. Bill began by "carrying the bag" – which at the IRS is shorthand for working out in the field as a revenue officer. These are the folks who actually collect past-due taxes. Bill's career path eventually led him to our communications area, where he is a whiz at putting technical tax information into plain English for taxpayers. He is scheduled to retire in June.

Angelo and Bill are two terrific public servants, and both are very typical of our workforce.

Without such dedicated employees, the IRS could not do its most important job each year, and that's delivering a smooth filing season. For most people, their only interaction with the IRS – and possibly with the U.S. government – each year is to file their tax return and, in most cases, receive a refund. To the average person, the IRS may seem almost like a vending machine: Put your return in, push a button, and out pops your refund.

What I've been trying to remind Congress and the public for the last two years is that it's a lot more complicated than that. Processing 150 million individual tax returns and issuing refunds isn't automatic and doesn't happen by accident. It happens because of the commitment, expertise and can-do attitude of our workforce.

To illustrate my point, I want to check up on the people here in this room. Anonymously, of course. Consider it your chance for audience participation.

By a show of hands, how many of you have already filed your tax return? You're in good company. We've already received more than 80 million individual income tax returns so far, on the way to that 150 million total.

Now, of those who have filed a return, how many of you are claiming a refund?

How many have gotten your refund? I won't ask how many have spent it already. So far this year, we've already issued over 65 million refunds, for a total of almost \$190 billion. That's real money going back into the economy or into people's savings.

Last question: If you received a refund, did it come in less than three weeks? If so, you're like most people, because, even with our increased efforts to stop identity theft and refund fraud in the battle against criminals around the world, the IRS still issues 90 percent of refunds in 21 days or less.

If you pause a moment to think about it, those are amazing numbers. And if we're doing our job right, the average person won't really notice how much work it takes to make things run smoothly, like issuing millions of refunds.

In fact, another thing that has surprised me since I arrived at the IRS is the amount of time and resources we devote to assisting taxpayers. Almost 40 percent of our budget goes to helping taxpayers comply with the law, by providing critical services and investing in taxpayer-friendly technology. For example, this year, we've already had 248 million hits on our website, IRS.gov. And we've answered more than eight million calls from taxpayers this filing season.

Something else that I think gets overlooked along the lines of taxpayer service is the amount of effort we put into protecting taxpayer data and the security of our IT systems.

Safeguarding taxpayers and the tax system from the growing problem of identity theft is one of our top concerns. So much so that about a year ago we convened a Security Summit to bring together the private-sector tax industry, the states and the IRS, so we could form a true partnership, joining forces against this threat.

They all understood that each of us couldn't continue to try to deal with this problem on our own.

Since then, this unprecedented partnership has focused our joint efforts on making sure the tax filing experience would be safer and more secure for taxpayers in 2016 and beyond. Over the course of a year, we put a number of important new protections in place. This is a huge step for taxpayers and for tax administration. It's giving us a better defense against criminals trying to use stolen taxpayer information to file false tax returns and claim a fraudulent refund.

Because of these new protections, those of you who have already filed with tax software may have noticed there were new sign-in requirements to access your account. Many other new safeguards we've put in place are invisible to taxpayers. But they are all invaluable to us, because they will help us do a better job of protecting everyone at tax time.

But while the Security Summit group has made progress, we also came to realize that we were missing an important partner in this effort – the taxpaying public. So last November, with the strong support of all the Security Summit partners, we launched the "Taxes, Security, Together" campaign to raise awareness about things people can do to protect themselves and avoid becoming victims of identity theft.

Many of the steps we've talked about in this regard are basic common sense. But I think we all know someone who may be tech challenged in some way. And given that 150 million households file tax returns every year, the chances are good that someone right now is clicking on a link they shouldn't or skipping a computer security update, leaving them vulnerable to hackers. That's why having the public's help on this will greatly strengthen and improve the new tools we're putting in place to stop the crime of identity theft.

Another answer to the question of what people may not think about or appreciate is the IRS's role in providing revenue for the nation. As I said a moment ago, people think of the IRS simply as the tax collector, but what does that really mean? The IRS brings in about 92 percent of all federal revenue. We collect about \$50 billion to \$60 billion through our enforcement activities, but another \$3.3 trillion – that's right, trillion – comes in from people who voluntarily file returns and pay what they owe, year in and year out.

One of the most interesting things I learned about this organization is how efficient we are in collecting revenues. I'll show you what I mean.

OK, everyone – did all of you find the envelope on your chair when you came in? Each of you should have one. If not, check with your neighbor to find out what he or she did with yours.

Now if this were the studio audience for the Ellen DeGeneres show or Oprah, you could have hoped, or even expected, that the envelope might hold something like a key to a new car. But this is the IRS we're talking about, so nobody should get their hopes up.

Go ahead and open the envelope. Do you see what's inside? Thirty-five cents. That's not even enough to mail a letter these days. And by the way, before anybody calls for an investigation into the use of taxpayer funds for this, let me assure you that these coins came from our media staff. I want to thank them for emptying their change jars and looking behind sofa cushions at home.

Now, let me show you what the IRS does with that money. Suppose I said, "Give me that 35 cents, and I'll give you back \$100." How many of you would take that deal? Everybody, right?

Well, that's the deal that you get with the IRS. It may sound like a magic trick but it's simply good, efficient tax administration. If you add up all the work we do for the tax system – issuing forms, helping taxpayers, sending out notices, conducting audits, and everything else – it now costs us about 35 cents to collect \$100 in federal revenue. I think that's a pretty good deal for the American people.

It's an even better deal when you put it into context. A fact that often gets overlooked is that the U.S. is much more efficient in its tax collection operations than most other countries.

According to statistics compiled by the Organization for Economic Cooperation and Development, the average OECD member country spends almost twice as much as the U.S. to collect a dollar of revenue. This includes countries like Germany, France, the United Kingdom, Canada and Australia.

So it costs the IRS about 35 cents to collect \$100. Now, if Congress were to give us the \$1 billion increase requested in the President's budget proposal for Fiscal Year 2017, that means we'd be able to

do more. If Congress were to fund the President's budget, we estimate that the enforcement improvements we have planned would yield \$64 billion over the 10-year budget window that's commonly used. That would average out to about \$6 billion a year. Keep in mind, I'm not talking about new taxes. This is money that's already owed but not collected, due to our staffing shortages.

Six billion dollars. It's hard to picture that amount of money, but let's try. My crack research staff tells me that a stack of a hundred \$100 bills, which comes to \$10,000, is a little less than half an inch high. You'll note we don't have a real life example of what that looks like. If you multiply that out, a stack of \$6 billion in \$100 bills would be higher than the length of 60 football fields.

Those stacks of \$100 bills don't go just to the major programs we hear about all the time, like Social Security or national defense. They fund so many other activities and programs that many of us take for granted, but would not want to lose. Things such as maintaining our beautiful national parks; ensuring the safety of the food we eat; guarantees on loans to small businesses; benefits for our military veterans; and upkeep of the nation's highways and bridges.

All of this is captured in the quote from the great Supreme Court Justice Oliver Wendell Holmes, which is inscribed above the entrance to the IRS headquarters in Washington, D.C. Justice Holmes said, "Taxes are what we pay for a civilized society."

Which brings me to why I'm so concerned about the funding cuts the IRS has had to absorb since 2010. Our budget for this fiscal year is about \$900 million below 2010. Since 70 percent of our budget is personnel, we have absorbed these cuts mostly by not replacing employees who leave for other jobs, or who retire, like Angelo or Bill. If it's a critical position, we may shift another employee into that slot. But it's still a net drop in the size of our workforce. As a result, we expect the IRS workforce to shrink by another 2,000 to 3,000 full-time employees this year. That will add up to about 17,000 full-time employees lost through attrition since 2010.

These losses have been felt all across the IRS. For example, our compliance programs have suffered as a result of underfunding. The portion of our full-time workforce that has been lost since 2010 includes over 5,000 key enforcement personnel. These are the people who audit returns and perform collection activities, as well as the special agents in our Criminal Investigation division who investigate stolen identity refund fraud and other tax-related crimes.

As you might imagine, these staffing losses have translated into a steady decline in the number of individual audits over the past six years. Last year, in fact, we completed the fewest audits in a decade. Plus, our audit coverage rate in 2015 was the lowest since 2004. That trend line of fewer audits will continue this year.

Not surprisingly, audit revenue has continued to decline as well. In cutting the IRS budget, historical collection results suggest that the government is forgoing more than \$5 billion a year in enforcement revenue, just to achieve budget savings of a few hundred million dollars. In weakening our compliance programs, these cuts also create risk for our system of voluntary compliance.

There's also a deeper issue here, and it goes to the heart of our tax system. I believe taxpayer service and enforcement must be seen as two sides of the same compliance coin. I mentioned a minute ago that over

\$3 trillion comes in every year as a result of people meeting their tax obligations under the law without being asked.

Even at the IRS we don't delude ourselves into thinking that people enjoy paying taxes. In fact, a recent poll showed that 27 percent of people would be willing to get an IRS tattoo to avoid paying taxes. As a public service announcement, I want to tell everyone that my tattoo has been totally ineffective on that score.

But tattooed or not, people keep paying their taxes, because they believe in the essential fairness of the system. If people think that many other people are not paying their fair share, or that they're not going to get caught if they cheat, or they're just frustrated because they can't get the help they need from us to file their taxes, our tax system will be put at risk.

And when that happens, you're talking about losing serious money. Consider that a one-percent drop in the compliance rate translates into a revenue loss of over \$30 billion a year, or \$300 billion over the 10-year budget window often used.

When we do get funding, I want to emphasize the IRS will put it to good use. As evidence, Congress back in December approved \$290 million in additional funding for the IRS for Fiscal 2016. These funds were designated for improving taxpayer service, strengthening cybersecurity and expanding our efforts against identity theft, important priorities for the IRS as well as the Congress. This was the first time in six years that the IRS has received significant additional funding, and it is a step in the right direction.

To illustrate how helpful this extra funding was, we used a portion of it to add about 1,000 extra temporary employees to help improve our service on the phones. As a result, we're already seeing service improvements this filing season.

So far this filing season, the level of service on our toll-free help lines is over 70 percent, and the average for the entire filing season will probably be at or above 65 percent, which is a vast improvement over last year. Once the seasonal employees are gone, we can expect that number to drop significantly, and it will probably be around 47 percent for the full year. Even that's much better than last year, but we want everybody to understand that it's still not where we want it to be. If we received the President's Fiscal 2017 budget request, our phone level of service would be up to 75 percent next year for the entire year.

I should mention another very critical challenge for our agency that has been made worse by our budget situation. Last year when I spoke to the Press Club I said a large portion of our workforce would be eligible for retirement soon, and the number of younger employees was dwindling to the point where the IRS was facing its own version of the Baby Bust. I'm here to provide an update. The age demographics of the IRS now look no better than they did a year ago – and some actually look worse

We expect more than 40 percent of the IRS workforce will be able to retire by 2019. Looking at the other end of the age spectrum, I said last year that the IRS had only 650 employees who were 25 or younger. Since then, that number has dropped to about 200. That's out of a workforce of about 85,000. Things have gotten so bad that we worry our 25-or-under group may end up on the endangered species list.

Now, on behalf of those for whom age 25 is a bit of a foggy memory, let me say I know how important it is for any organization to have older workers, with their experience and institutional knowledge. So the fact that our agency skews older is not a problem by itself. What I worry about is if we don't have enough young workers in the pipeline, the IRS will have great difficulty developing the next group of leaders it needs five or 10 years down the road.

Ultimately, continued underfunding of the IRS threatens to erode its effectiveness. My concern is that we're getting dangerously close to that point. And, at a minimum, I don't want anyone to say, after my term is over, that they didn't understand the seriousness of the situation. They can continue to ignore it if they so choose, but they won't be able to say that they weren't warned.

But I don't want to give anyone the impression we're trying to go back in time. It's important for people to understand that our goal isn't to get enough funding to perform the way we used to. We are not going to build the IRS back to where it was in 2010, although it's clear we do need more staff. We need to be looking forward to a new, improved way of doing business.

If you attended last year's luncheon or tuned in on C-SPAN, you heard me talk about our intention to move the IRS forward into the future and improve the taxpayer experience. This is driven, in part, by business needs. Consider that it costs between \$40 and \$60 to assist a taxpayer in person, and less than \$1 to do so online. We have to take a fresh look at how we provide the best possible taxpayer experience, in response to taxpayer expectations and demands, while not losing sight of providing one-on-one help for people.

What we're talking about is not new, but a natural outgrowth of modernizations made to our business systems over many years. Modernizations that, I might add, are mostly invisible to the average taxpayer but have revolutionized their interactions with the IRS. A great example of this is the Customer Account Data Engine, or CADE2, the first phase of which was put in place a few years ago.

CADE2 allows us to process taxpayer account information daily instead of weekly so we're generating faster refunds, notices and account updates for better customer service.

We converted the old master file data stored on tape drives, with 250 million individual taxpayer accounts and more than 1.2 billion individual tax modules, to a modernized and secure relational taxpayer account database and data model. This is transforming tax administration and paving the way for new digital self-services.

But don't take my word for how important CADE2 is. The GAO was so impressed that it removed our Business Systems Modernization program from its High-Risk list in 2013, citing CADE2 as the reason. We had been on that list since 1995 – and many insiders at the agency thought we would never be removed from it.

Another major advance was Modernized e-File. With this system, we can process tax returns electronically in near real time. So we can accept a return and send out an acknowledgment much faster than in the past. The numbers here are truly amazing.

To give you an idea, on our busiest day earlier this filing season, our systems accepted 4.4 million tax returns, with nearly 450,000 accepted in one hour at the peak. That's 125 returns every second.

Changes like this don't come about without the expertise and know-how to make them happen. In our case, we were fortunate to have the guiding hand of our Chief Technology Officer, Terry Milholland, who is here at the head table today.

Terry came to us in 2010 after a distinguished career in the private sector. In six years with the IRS, Terry has overseen not only CADE2 and Modernized e-File, but many other critical IT projects as well. In fact, it's fair to say we've had a renaissance in our information technology because of his leadership. Terry, I have to salute you and your team for your infinite patience and dedication in meeting the never-ending challenge of improving our IT systems, even in the face of ongoing funding cuts.

Terry is also symbolic of an important change at the IRS. When Congress reorganized the agency in 1998, lawmakers recognized the need to bring in the best minds from the private sector, to help modernize the IRS's aging technology. So Congress gave us a special tool called streamlined critical pay authority.

The most significant part of this authority is that it has let us recruit and hire technical IT experts just like a private sector company would. Otherwise, we have to tell a great candidate, "We want to hire you, and if you'll just sit still for three to six months while we process you through our government hiring system, we can make this work."

Needless to say, IT experts, especially those dealing with cybersecurity and online services, have a lot of competing opportunities that don't come with those limitations.

Unfortunately, that special hiring authority expired at the end of Fiscal Year 2013. The loss of that authority seriously harms our ability to recruit the best IT and cybersecurity talent out there. More immediately, ten of the last fourteen people on this authority are senior IT executives who turn into pumpkins by this time next year when their four-year terms under the authority run out. In fact, Terry's term will expire in a little over three months if the authority is not renewed, and one of our key cybersecurity directors just accepted another position outside of government rather than wait to see what happens.

This has real-world implications for the IRS, which has one of the largest and most sensitive databases in the world. If Congress wants to help taxpayers, one of the best things it could do is renew this special hiring authority.

Our next step on the journey into the future is to improve our operations to the point where taxpayers can do business with the IRS online in a manner that's fast, secure, and convenient.

However, as we improve the online experience, we understand the responsibility we have to serve the needs of all taxpayers, whatever their age, income, or station in life. We recognize there will always be taxpayers who do not have access to the digital economy, or who simply prefer not to conduct their transactions with the IRS online. The IRS remains committed to providing the services these taxpayers need.



For example, while we will continue to offer more web-based services, taxpayers will still be able to call our toll-free help lines or obtain in-person assistance if that's what they prefer. In fact, improving the online experience for those who want to deal with us that way will free up resources to make it easier for those who want to call us or visit us in person to get help.

In building toward this improved online experience for taxpayers, one of our biggest challenges will be making sure taxpayers' online accounts are properly protected. Our concern is that cybercriminals are becoming increasingly sophisticated. They continually find new methods of stealing personal information, and gain access to even more sensitive data than in the past.

For that reason, we will need to ensure our authentication protocols become more sophisticated. For authentication, we're moving beyond asking for information that used to be known only to individuals but now, in many cases, is readily available to criminal organizations that have stolen it from various sources. And I would note that those sources are outside the IRS. But there's a delicate balance here. We need to provide the strongest possible authentication processes that protect taxpayer data without making it almost impossible for people to safely access their own data and use IRS services online.

So as you can see, there are challenges, but it's an exciting journey if you're someone in the tax business. We believe the end result will be a more practical, effective and efficient approach to tax administration, and the IRS will be able to do an even better job of helping people meet their tax obligations quickly and easily.

So that's our story. I know I speak for the entire IRS workforce when I say we look forward to continuing to improve our agency and the administration of the tax system.

Finally, I'll leave you with one last public service announcement: If you haven't done your taxes yet, remember that April 18 will be here before you know it.

I started out by saying how much I enjoy getting questions, so I'll be happy to answer as many as we have time for.