

Excerpt from Commissioner John Koskinen's Senate Finance Committee Testimony on Feb. 10, 2016

PLANNING FOR THE FUTURE OF THE TAXPAYER EXPERIENCE

Within our tight budget constraints, the IRS has also continued to analyze and develop plans for improving how the agency can fulfill its mission in the future, especially in delivering service to taxpayers and, along with that, maintaining a robust compliance program. Our goal is to improve and expand taxpayer services for all taxpayers, no matter what their circumstances.

In requesting adequate resources to allow the IRS to improve taxpayer service, it is important to point out that our goal is not to fund today's staff functions at historically high levels. We need to be, and are, looking forward to a new, improved way of doing business that involves a more robust online taxpayer experience. This is driven, in part, by business imperatives; when it costs between \$40 and \$60 to interact with a taxpayer in person, and less than \$1 to interact online, we must reexamine how we provide the best possible taxpayer experience, in response to taxpayer expectations and demands.

The improvements we are planning are a natural outgrowth of modernizations made to our business systems over many years. These include the development and implementation of the Customer Account Data Engine 2 (CADE2), which allowed the IRS to migrate to daily processing and posting of individual taxpayer accounts, enabling faster refunds for more taxpayers, more timely account updates and faster issuance of taxpayer notices. Another advance put in place several years ago was Modernized e-File (MeF), which processes tax returns electronically in real time, rather than in several batches a day. MeF has reduced turnaround time, and allows acknowledgments to be sent much more quickly to those who transmitted the returns.

After years of study, and in response to taxpayer demand, the IRS has also worked to improve our website, IRS.gov, and to provide more web-based tools and services. These include the "Where's My Refund?" electronic tracking tool, which was used nearly 235 million times in FY 2015, and the IRS2Go smartphone application.[...]

Even with the improvements we have made and continue to make, we are at the point where we believe the taxpayer experience needs to be taken to a new level. Our goal is to increase the availability and quality of self-service interactions, which will give taxpayers confidence in knowing they can take care of their tax obligations in a fast, secure, and consistent manner.

The idea is that taxpayers would have an account at the IRS where they, or their preparers, could log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually, and there would be much less need for in-person help, either by waiting in line at an IRS assistance center or calling the IRS.

As we improve the online filing 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 the IRS will continue to offer more web-based services, taxpayers will still be able to call our toll-free helplines if that is their preferred method of receiving service from the IRS.

Another good example of our commitment to serving all taxpayers involves the return filing process. While the number of taxpayers who e-filed their income tax returns exceeded 86 percent last year and is expected to do so again this year, millions of people still choose to file paper returns. The IRS will continue to offer individuals the option of filing on paper as long as there are taxpayers who prefer that option.



A Proposal for Taxpayers' Future Interaction with the IRS

The American consumer has grown accustomed to instant financial exchanges with lenders, brokers and banks. We believe that delivering top quality service to America's taxpayers requires us to catch up with those expectations to operate seamlessly in a digital and global environment. While our employees are working hard to help America's taxpayers meet their tax obligations with our current funding levels, we also have a plan for how we could use additional funding for key information technology building blocks fundamental to our future direction for the agency. That funding would help us meet taxpayers' expectations, simplify compliance, and put the future of U.S. tax administration on a more sustainable path.

Future State

Our future state includes enabling taxpayers to interact with the IRS in ways similar to today's financial services and insurance companies, leveraging capabilities built and proven in the private sector. With funding, we can provide a completely different taxpayer experience by focusing on:

1. What the Taxpayer Needs
2. Where the Taxpayer Needs It
3. When the Taxpayer Needs It

We are poised to interact with taxpayers through their preferred communications channels, especially the preferred manner expressed by many: timely electronic and digital interactions. While the specifics vary for each type of taxpayer, our approach to the future supports all taxpayers—individuals, corporations, partnerships, and other for-profit and non-profit businesses. With additional funding, we could move into the modern era.

What the Taxpayer Needs

Taxpayers are required to conduct a wide variety of business with us, sometimes touching multiple parts of the tax code in the process. In the future, taxpayers could have better tools to interact with us and easily manage their accounts, filings, correspondence, data and payments. Virtual assistance and digital self-service tools could help them quickly identify issues and resolve errors. Taxpayers who are trying to comply but who may have overlooked a payment or something on their return could avoid being trapped in a long, cumbersome paper-trail just to fix a mistake or resolve an un-contentious issue.

Today, Jamie can take some actions online with IRS, even in a mobile environment. For example, he can use IRS2GO, the official smartphone app of the IRS, to check his refund status, find free tax preparation assistance, sign up for helpful tax tips and follow the IRS on Twitter, Tumblr and YouTube, all in either English or Spanish. However, if Jamie forgets to include something on his original return, he must prepare an amended return on a paper form and mail it to the IRS. In the future, whether Jamie recognizes an issue or the IRS detects it later, Jamie's preferred communication channel could be used to alert him to access his account and provide the information he needs to resolve the issue. Jamie or his representative would access the online information needed to properly complete or correct his return, including information that shows him how the tax law applies to his circumstances. Jamie could digitally correct his account, upload supporting documents, and authorize tax payment or direct deposit of a refund to his bank account or card. Through the same communications channel, the IRS would send Jamie a clear message letting him know they received his information, and his account reflects the resolution. Jamie could see that his tax records match ours and that his tax responsibilities have been fulfilled.

Where the Taxpayer Needs It

Currently, taxpayers do not have a single place to go to get their tax questions answered and their tax issues addressed, and the places that are available involve potentially long waits in lines or a phone queue. Additionally, to be voluntarily compliant, they must often pull together tax information and help from a variety of locations, sources and media. In our future state, taxpayers could have clear information that is directly relevant to the issue they are addressing and available to them where they need it. They would not need to live close to an IRS office to get assistance. By reaching the taxpayer through their mobile smart-phone, laptop computer or a self-service kiosk, we would empower them with the ability to take more active control of their tax account.

As the owner of a growing small business, Matthew has just moved his offices, changed his tax representative and hired a new finance manager. Rapid growth and change has made it harder to manage his taxes and stay current with new tax issues. In the future, instead of going to a TAC, calling or exchanging letters, Matthew could create an online account from his mobile device or computer. Through this virtual tool, he would be able to file his estimated payroll taxes, figure out how to set up pensions for his employees and get information on the new health care law. Or, he could authorize his finance and human resources managers and his tax representative to manage part or all of the company's tax data and account history. Matthew could send them to a virtual IRS seminar, where they could learn how to use the full capabilities of the online account. Just as Matthew can do his banking online, through ATM's, or through a branch office; he, his colleagues and his representatives could do the same with IRS online, through a virtual visit or via an automated or assisted phone call.

When the Taxpayer Needs It

Today, we may not find errors or issues on a tax return until long after we receive them. By that time, it is too late to help the taxpayer avoid paperwork, interest and penalties. We may correspond with a taxpayer anywhere from a few weeks to more than a year later, when it is difficult to retrieve documents to support old return information. Today, many audits stay unresolved years after filing. In the future, we could identify issues at the same time we identify math errors, fraud or identity theft, and we would communicate them up-front so that the large majority of taxpayers could resolve even complex compliance issues within a year of filing their return or before they miss a payment.

Today, Sam may be contacted by several different areas in the IRS over time, each about different tax return issues, potentially even different tax years. For example, one letter might question his claim for a tax credit on the most recent return he filed, while another may ask whether he reported all of his income, and still another might ask why he did not pay a previous balance due. Sam's experience is disjointed, and he wonders why he received multiple contacts from the IRS. In the future, the IRS would be able to match tax returns with information returns more quickly. This would do a better job of protecting Sam's refund from identity thieves as well as match the income he reported to information reported by his employers, banks or brokerage firms. At the same time, we would be able to identify issues on his tax return when or shortly after he files, including credit claims or issues with IRA distributions. IRS could alert Sam to these issues, and Sam could immediately fix his return information online before the return is processed and accepted. IRS would have no after-the-fact follow up, and Sam may completely avoid an audit.

Developing the Future Taxpayer Experience

For this future state to become a reality, we must invest in the right information technology building blocks. By funding those building blocks, we could provide a vastly improved experience for taxpayers and deliver IRS services and enforcement actions efficiently and effectively. Here are some of the key features of the taxpayer experience we envision.

The Building Blocks

Virtual Taxpayer Assistance

In the virtual taxpayer assistance center, taxpayers could access and control account information. They would be alerted to updates via their preferred communication channel. The virtual tax assistance center would change the equation for taxpayers, their representatives and our employees, getting us all on the same virtual page. Taxpayers could see return and refund status, payment confirmations, letters mailed or completed actions, all saved in their account history. The virtual taxpayer assistance center could include easy-to-use self-service tools for taxpayers and their representatives, with clear steps to resolve most errors and issues, get refunds moving again or use easy payment options. If the IRS must perform an audit, a taxpayer could upload information to address issues quickly. Phone calls or correspondence would no longer be needed to handle such straight-forward account issues.

Identity Authentication

In our current era of data breaches and identity theft, we need to continue to ensure the absolute protection of taxpayers' private information and to confirm that we are interacting online with the right person. While we have made significant strides, we need to expand and evolve our capabilities to authenticate taxpayer identities and secure their data. Expanding this capability would give us the secure environment to interact with taxpayers online and on mobile devices and applications. Taxpayers deserve to have confidence in the security of their information, and identity authentication would help the IRS deliver secure access whenever and wherever taxpayers need it, including in the virtual taxpayer assistance center.

Up-front Issue Identification

Finding all errors and issues up-front would be central to the power of the virtual taxpayer assistance center. This is in contrast to today, when the taxpayer may wait years to hear from us. The IRS needs up-front issue identification to sift through huge amounts of return information and identify errors and anomalies on tax returns at the time taxpayers file their returns. This would help us take immediate actions such as keeping a false refund out of the hands of an identity thief or finding an unclaimed tax credit on the taxpayer's return. With this capability, a taxpayer would know that when we say we are finished processing a return, we are finished.

New legal authority and better access to data sources would help us detect issues at the beginning of filing season: accelerated W-2 information to enable IRS validation of income reporting; more complete information to authenticate taxpayer submissions and protect against identity theft and refund fraud; and correctable error authority to help resolve problems if reliable government data contradicts information on the tax return.

End-to-End Taxpayer Experience

In the future, we could build the capabilities to ensure that taxpayers experience seamless interactions with us, no matter which of our employees or teams is working with them. An integrated case management capability would allow us to move information to and among the right workgroups, even to have multiple expert employees contribute to complex audits without requiring the taxpayer to understand our internal processes.

Analytics

With analytics, the IRS could continuously improve the taxpayer experience and gain the greatest possible learning from tests and data. Analytics enables the IRS to use the data feedback loop to improve the efficiency and effectiveness of our interactions. Through analytics, we would get early warning of new tax issues and could better inform and help taxpayers avoid issues, confusion or misunderstandings in new tax laws. Or we could work with tax software providers and return preparers to identify software-specific remedies that reduce the likelihood of taxpayers' mistakes. When issues cannot be resolved without an audit, data and analytics would help us avoid wasting the taxpayer's time, working the wrong issues and

creating unnecessary taxpayer burden. The future state itself would not be possible without analytics.

Conclusion

The future direction described here depends upon investments in information technologies. We have come a long way toward a more common and flexible technology infrastructure. However, we need to invest in fully integrated systems that can provide easy self-service options on line, identify errors and issues, route work to the right workgroup, track inventory, and prompt the right interactions with taxpayers as quickly as possible. Standing up these integrated capabilities benefits taxpayers by empowering them with the information and tools to take actions on their accounts, and delivering the services they need when they need them.