

**PREPARED REMARKS OF
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“UPDATE ON THE INTERNAL REVENUE SERVICE”

Good afternoon! I’m delighted to join you and happy to follow such a meaningful event in the “Inaugural Presentations.” I’d like to echo my congratulations to the new NASBA leaders and also extend my gratitude to the outgoing leaders. I’m honored to be the IRS Commissioner and to participate with you and others in service to the public.

In my first ten months as the IRS Commissioner, I’ve learned a lot about the people who make up the IRS, and it’s been an incredibly rewarding experience. I’ve talked with and listened to more than 12,000 employees in town hall meetings around the country. Everywhere I go, I use the lunch hour to have smaller gatherings with employees. And what’s impressive is that even after four years of setbacks...with pay freezes, shutdowns, furloughs, the sequester, and then the additional background noise around the IRS...what’s refreshing, and to some extent, amazing, is the level of dedication to the mission of the agency and energy the workforce continues to manifest. It’s an exceptional agency and an exceptional workforce. And it’s a good thing because we have a lot on our plate at the IRS in addition to delivering a successful filing season each year.

Even with our resource constraints, we’re making significant progress in meeting the challenges we face.

1. We are dealing with two important, statutory mandates from the Congress. One is implementing the Affordable Care Act and the other is preparing for the global exchange of information as a result of the Foreign Account Tax Compliance Act, or FATCA. Both laws present unique challenges for the agency, for taxpayers, and for tax professionals and both will need to be folded into filing season this coming Spring.
2. The Earned Income Tax Credit program helps pull millions of working families out of poverty each year and is supported by politicians on both sides of the proverbial aisle. On EITC and a number of other refundable tax credits we provide, we continue with our dual responsibilities of ensuring that possible beneficiaries understand their right to participate in these programs while we work to fight against refund fraud and improper payments, often the result of the complexity of the programs.
3. Going into 2015, another of our challenges is implementing our new voluntary education program for return preparers who are not CPAs, attorneys or Enrolled

Agents. We would prefer to see Congress enact legislation allowing the IRS to impose mandatory oversight of tax return preparers. But until that happens, we have a responsibility to ensure to the extent that we can that preparers who lack credentials meet the standards of competence and professionalism we need to uphold our system of voluntary compliance.

As part of our management of this program, we are also advising taxpayers of the significant qualifications of CPAs, attorneys and Enrolled Agents who spend significantly more time developing their expertise than the preparers who only complete the minimum level of continuing education offered under our voluntary program.

4. Another complicated issue we face is dealing with identity theft and refund fraud. More than 1,200 individuals involved with tax-related identity theft were recommended for prosecution last year alone. The state of our enforcement operations is strong, but we can and must do more to keep up with evolving criminal schemes. We have taken many of the amateurs off the streets but increasingly are confronting organized crime syndicates here and around the world.
5. Tax scams, particularly criminals calling on the phone, claiming to be from the IRS and threatening immediate dire consequences unless payments are made, continue to be a pervasive threat to innocent taxpayers around the country and a threat to our system of voluntary compliance overall. We obviously don't relate to taxpayers this way. In fact, if we have an issue with a return, we initially contact the taxpayer by mail. So, as I tell the public, if you are surprised to be hearing from us, you're probably not hearing FROM US.
6. With regard to the rapidly changing business environment, the IRS is embracing every opportunity to approach the work more efficiently, especially as the number of large partnerships has more than tripled in ten years. Large partnership audits were the focus of a recent report by the Government Accountability Office, and the real catch-22 of GAO's final conclusion is that we need funding to implement the changes recommended...changes that would ultimately yield a return on investment for the country in the form of increased revenue collection.

One of the things that surprised me most when I first came to the IRS was the amount of time and resources dedicated to taxpayer services and helping the public, including tax professionals. One of the things we've begun to do is define more clearly what the tax filing experience ought to look like for a taxpayer three to five years down the road. Right now, we've begun to make significant improvements with applications such as "Where's My Refund?" and "Get Transcript" which have moved millions of calls off the phone and onto the website.

So as our tax base changes and grows, and as expectations change, one strategy for operating in an era of sustained budget cuts is shifting more business to low-cost, online channels. The idea is that the IRS ought to offer the same type of access to your account as you might expect with any major financial institution today – anytime, anywhere, on any device.

And to a certain extent, this shift to more robust online services extends to tax professionals too. IRS.gov is a rich source of information for Circular 230 tax professionals and we continue to adapt our communication methods to more effectively reach tax pros with the information they need to practice before the IRS.

In making the case for appropriate levels of funding for the IRS, I continue to emphasize that the IRS is the world's largest financial accounting institution and that's a tremendously risky operation to run with outdated equipment. Despite more than a decade of upgrades to the agency's core business systems, we still have technology from JFK's era running alongside our more modern systems. This is a concern for a lot of organizations, especially ones that have been the same business for more than 100 years.

Next filing season could be one of historic proportions in terms of complexity for the IRS and by extension, for taxpayers and tax professionals. ACA and other statutory mandates like FATCA would be complicated enough, but the wild card on top of it all is what the Congress does, and when, with regard to tax extenders. I've already had conversations with and formally advised the Senate Finance Committee and House Ways and Means Committee that we need to know as early as we can what they're going to do. Significant changes to the way a tax extender operates – its calculations, its benefits – will challenge us in terms of being able to start filing season on time. And the longer we have an uncertain tax picture, the more difficult it becomes for everyone to do their jobs. Of course the downstream effect for the average taxpayer is the potential for a delayed start to the filing season. For the vast majority of taxpayers who expect a refund every year, over 80 percent of all filers, that means a lot of unhappy taxpayers.

One of our most significant accomplishments this year – aside from doing the core business of taxpayer service and enforcement – has been getting greater public and Congressional recognition of the agency's need for funding. The IRS is an important agency, closely tied to the fiscal health of our nation. In fact, as noted recently, the federal deficit is down significantly this year, primarily because the IRS helped collect more revenues.

By now, Congress knows my message by heart: You get what you pay for, and conversely, you don't get what you don't pay for. I have said that cutting the IRS budget is like a tax cut for tax cheats. It's like playing a football game with 10 players and lead weights in your shoes. In four years, the agency is down 13,000 permanent full-time employees. All the while, our responsibilities continue to grow with ACA and FATCA and all the associated changes to tax forms, publications and notices. In the four years Congress reduced the IRS budget by 7 percent, we got seven million new "customers" needing to interact with the tax system in some way or another.

To give you an idea of where we stand, the IRS budget for Fiscal Year 2014 was set at just under \$11.3 billion, which is nearly \$900 million less than four years ago. We're operating under a continuing resolution for now, so at the moment, we're in a holding pattern. What we do know is that four years of reduced budgets have resulted in our having 13,000 fewer employees, including a decline of 5,000 key enforcement personnel: that includes revenue officers, revenue agents and criminal investigators.

But there's also a deeper issue to consider. Any marked deterioration in taxpayer services and enforcement creates long-term risk for the U.S. tax system, which is based on voluntary compliance. If people think that their chances of ever hearing from us are diminishing significantly, or if they just can't find the information they need and get discouraged, the impact is actually going to be on the compliance rate. And if the compliance rate goes down by one percent, it costs the government \$30 billion a year. That's almost three times the size of the entire IRS budget for the year.

And so I'll continue working with Congress to solve the agency's budget problem. I believe the IRS budget should reflect the basic truth that the IRS funds government and by extension, funds the national priorities we all value as citizens and taxpayers of the United States of America. Regulators of the accounting profession play an important role in the larger economy – and from the IRS perspective, we share a common bond in our commitment to serving in the public's interest. We share some challenges too. Our world is changing, public expectations are changing, and the way we fulfill our mission is – by extension – changing too.

As a final note, thank you again for the opportunity to give an overview of the major efforts at the IRS and where we stand today. I'm told we may have time for questions, so if that's the case, I'd be happy to take any questions you have for me!

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