

**WRITTEN TESTIMONY OF  
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ACTING COMMISSIONER  
INTERNAL REVENUE SERVICE  
BEFORE THE  
HOUSE APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON FINANCIAL SERVICES AND  
GENERAL GOVERNMENT  
ON THE IRS BUDGET  
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**INTRODUCTION**

Chairman Crenshaw, Ranking Member Serrano, and Members of the Subcommittee, thank you for the opportunity to appear before you today.

As we mentioned to the Subcommittee staff recently, the Fiscal Year 2014 Budget for the IRS has not yet been released. But there is still much I can report to you on our budget situation and on our ongoing efforts to save taxpayer dollars and work more efficiently. The IRS remains committed to being as efficient as possible and spending taxpayer dollars wisely. We will continue to find savings wherever we can, while investing in strategic priorities that allow us to fulfill our dual mission of strong enforcement of the tax laws and excellent customer service. The IRS consistently achieves a high return on investment for its activities while running a fiscally disciplined operation.

The IRS is vital to the functioning of government and keeping our nation and economy strong. In FY 2012, the IRS collected \$2.524 trillion in gross revenue to fund the federal government, approximately 92 percent of all federal receipts. Moreover, for FY 2012, we processed more than 147.6 million individual tax returns and issued more than 121.6 million refunds to individual taxpayers totaling \$333 billion. The current filing season is running very smoothly. Through March 29, 2013, the IRS received 88.28 million individual returns and issued 72.2 million refunds for a total of \$201.5 billion. The average dollar refund is about \$2,800, and the IRS has directly deposited 61.1 million refunds to taxpayers thus far.

The IRS will use the funding in the President's Budget request to carry out its mission, which includes: improving service to taxpayers; increasing our efforts against refund fraud; making our compliance efforts more strategic; using new tools, data, and capabilities to conduct a balanced enforcement program, including improving our use of data received through third-party information reporting; and taking the next steps in building out our e-filing platforms and taxpayer account database. The IRS will also continue to administer tax-related provisions of major legislation, including the Foreign Account Tax Compliance Act (FATCA) and the Affordable Care Act.

It is important to understand that the accomplishments outlined below may not be sustainable within the current budget environment. We will continue to attempt to maintain our excellence, but our performance could begin to reflect the impact of the budget cuts of the last few years. This does not mean there will be a catastrophic event or failure at the IRS; however, there could be a steady erosion in the service we provide to taxpayers and in the amount of money we collect through enforcement activities. We will continue to find efficiencies, and you will see that we have been aggressive in recent years in this regard. We will continue to dedicate staff and resources to the most essential uses and in the most critical areas. For example, we will continue to commit staff to resolving identity theft cases, even at the cost of having fewer people on our toll-free taxpayer service line or on our automated collection phones that help us collect past due taxes.

### **A Record of Success**

Let me outline what we have accomplished. The IRS is proud of its record over the last several years. We have delivered smooth filing seasons and successfully carried out other core duties while also making important progress on a number of strategic initiatives. These initiatives include: cracking down on international tax evasion; fighting all refund fraud, but especially that related to identity theft; improving return preparer compliance; leveraging data analytics in order to improve our operations; modernizing our technology to benefit both taxpayer service and compliance; and positioning our workforce to ensure the IRS is prepared for tomorrow's challenges.

The 2013 filing season started with difficult challenges for the IRS. As the Subcommittee is aware, substantial tax law changes were enacted on January 2 of this year, just before the IRS would normally begin accepting e-filed returns. IRS staff worked nonstop, around the clock, to make changes to systems and forms necessary to open the tax filing season. I am pleased to say that, as a result of exceptional planning and hard work by our employees, all but a discrete minority of taxpayers were able to begin filing in late January, and shortly thereafter all were able to file.

Despite the challenges we faced at the outset, the filing season has been running smoothly. Tax returns are now coming in at about the same rate as last year on a day-to-day basis. Refunds are going out quickly, and our strengthened refund fraud detection tools are working well. As for customer service, accuracy rates for both customer tax law and accounts questions remain in the 90-plus percentile.

In the last few months alone we have had several other signs that we are achieving success in some of the initiatives I mentioned above.

On the technology front, the Government Accountability Office (GAO) in February removed the IRS Business Systems Modernization program from its High-Risk list, where it had been since 1995. Citing the work the IRS has done to bolster information

technology and financial management capabilities, the GAO concluded that the IRS had made substantial progress in addressing weaknesses over the past several years and had demonstrated a commitment to sustained progress. The GAO singled out delivery of the initial phase of the Customer Account Data Engine (CADE2), which has enhanced tax administration and improved taxpayer service.

In March 2013, the Excellence.gov Awards Program sponsored by the American Council for Technology and the Industry Advisory Council recognized CADE2 for Excellence in Enterprise Efficiencies. This awards program honors government programs and projects that use information technology in innovative ways to enhance government operations, provide a more open and transparent government, and deliver important citizen resources.

IRS is also maintaining quality on the customer service front. Every year, an independent survey is conducted by the American Customer Satisfaction Index (ACSI). For 2012, the survey of taxpayers who were satisfied with IRS services reached 75 on a scale of 100, up from 73 in 2011, and our highest score since 1994 when we began participating in the survey.

The following are some of the more prominent IRS programs and initiatives conducted during FY 2012, including those within our core programs, which demonstrate how targeted investments continue to deliver real value to taxpayers and our nation.

### **Enforcement**

Enforcement of the tax laws is an integral part of the IRS' effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, remain a high priority. In FY 2012, collections related to all enforcement activities exceeded \$50 billion for the third consecutive year. The IRS has shown significant progress in several key enforcement programs. Importantly, we also were able to hold individual audit rates above 1% during a period of scarce resources, and we increased criminal investigations by 5.1 percent, to 4,937.

#### *International Tax Compliance*

In FY 2012, the IRS enhanced international tax compliance efforts through the implementation of new legislation and through programs such as the Offshore Voluntary Disclosure Program (OVDP). In January 2012, the IRS reopened the OVDP with tightened eligibility requirements in response to strong interest from taxpayers and tax practitioners. Through the end of FY 2012, the OVDP has resulted in a total of more than 38,000 disclosures of unpaid taxes and collected more than \$5 billion in back taxes, interest and penalties.

Also during FY 2012, the IRS worked closely with businesses and foreign governments in implementing FATCA. This legislation strengthens offshore compliance efforts by requiring all foreign financial institutions with U.S. accounts to report detailed

information about foreign account holders to the IRS or face a 30-percent withholding tax.

### *Tax Return Preparer Program*

The IRS continued implementation of its Return Preparer Program, begun in FY 2011. The foundation of this program is mandatory registration for all paid tax return preparers. Through September 2012, more than 860,000 preparers have requested Preparer Tax Identification Numbers (PTINs) using the online registration system.

In February 2013, a federal Court stopped the IRS from enforcing the competency testing and continuing education requirements for registered return preparers. The injunction does not apply to the requirement to obtain a PTIN, so that portion of the program continues. But at this time we are not permitted to move forward with testing or continuing education requirements. We remain confident in our legal authority and remain committed to protecting taxpayers through implementing reasonable standards in this area. The original district court opinion is under appeal.

The PTIN registration requirement provides an important and improved view of the return preparer community from which the IRS can leverage information to improve communications, analyze trends, spot issues and detect potential fraud. And we are developing new approaches in this area. For example, one pilot we conducted in 2012 used real-time data to assess the fraud risk associated with Earned Income Tax Credit (EITC) return preparers and test the effectiveness of alternative compliance treatments. This pilot involved 1,500 preparers who filed large numbers of returns claiming the EITC. Taken together, the various compliance treatments we used in the pilot resulted in a total savings on improperly claimed tax credits – including the EITC and the Child Tax Credit – of approximately \$200 million. We continue to develop new approaches in this area.

### *Refund Fraud and Identity Theft*

Our efforts to address identity theft and refund fraud are expanding and touch nearly every part of the IRS. We are working hard to prevent fraud, investigate identity theft-related crimes and help taxpayers who have been victimized by identity thieves. Over 3,000 IRS employees are currently working on identity theft – more than double the number at the start of last filing season. We have also trained 35,000 employees who work with taxpayers to recognize identity theft and help victims. Since the beginning of 2013, the IRS has worked with taxpayers victimized by identity theft to resolve and close more than 200,000 cases. To help past identity theft victims avoid delays in filing future returns and receiving refunds, we expanded the issuance of Identity Protection Personal Identification Numbers to more than 770,000 past victims this year, more than twice as many as last year.

Last fiscal year, the IRS significantly expanded its fraud detection efforts, expending nearly \$330 million combating refund fraud, including identity theft. During FY 2012,

the IRS protected more than \$20 billion of revenue related to fraudulent returns, including identity theft, up from \$14 billion in the prior year. IRS efforts stopped 5 million suspicious returns in 2012 – up from 3 million stopped in 2011.

So far this filing season, the IRS has suspended or rejected over 2 million suspicious returns. Over 400,000 of these were rejected at the point of filing before they even entered IRS processing systems. The remaining returns generally require further review to determine whether the filer is legitimate. Because these returns require time to review, most are still in open inventory at this time. To date, we have stopped more than 350,000 refunds determined to be fraudulent, worth more than \$2.5 billion. And this does not consider the refunds saved on the 400,000 rejected returns.

This January, the IRS also conducted a coordinated and highly successful identity theft enforcement sweep. The coast-to-coast effort against identity theft suspects led to 734 enforcement actions in January, including 298 indictments, informations, complaints and arrests. These activities come on top of a growing identity theft effort that led to 2,400 other enforcement actions against identity thieves during fiscal 2012.

The IRS also has been working to assist state and local law enforcement agencies in the efforts they are making to fight identity theft-related refund fraud. One way we have done this is by developing the Identity Theft Victim Disclosure Waiver Process, which was launched in Florida in April 2012.

This program provides for the disclosure of federal tax returns and return information associated with the accounts of known and suspected victims of identity theft with the express written consent of those victims. Prior to disclosing any tax information, victims are required to sign a waiver authorizing the release of information to the designated state or local law enforcement official pursuing the investigation. To date the IRS has received more than 1,560 waiver requests from more than 100 state and local law enforcement agencies in the nine states that have been participating in the pilot. On March 28, 2013, the IRS announced that this program has been expanded to all 50 states.

### **Taxpayer Service**

By assisting taxpayers with their tax questions before they file their returns, the IRS helps prevent inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

#### *2012 Filing Season*

Despite a number of challenges, the IRS delivered another successful filing season. During FY 2012, the IRS received more than 147.6 million individual returns and issued

more than 121.6 million refunds totaling \$333 billion. More than 82.8 million refunds were direct deposited, which is a 4.9 percent increase from the 78.9 million direct deposited in FY 2011. In addition, IRS employees responded accurately to 93.2 percent of tax law questions and 95.6 percent of taxpayer account questions.

The IRS' e-file program continued to grow, with more than 118.9 million individual returns, or 80.5 percent, filed electronically, an increase of 4.7 percent from the previous year. Other increases in electronic filing results during the 2012 filing season include the following:

- Business returns filed electronically were up by 15 percent to 36.7 percent;
- Filing via home computers increased by 9.8 percent to 43.5 million tax returns; and
- Tax professionals' use of e-file rose 5.4 percent to 75.6 million returns.

#### *Helping Distressed Taxpayers*

The IRS' commitment to customer service also means assisting taxpayers who are facing difficult economic times and other hardships. For example, the IRS provided significant support to the Federal Emergency Management Agency (FEMA) in the aftermath of Hurricane Sandy. Before the storm dissipated, the IRS initiated its response, activating 600 employees to answer phone calls beginning on October 29, 2012. That number ultimately grew to 3,000 employees answering 188,175 registration calls before the Registration Intake Line was deactivated six weeks later on December 4. Given the level of devastation, FEMA also requested IRS assistance in staffing its Help Line, and IRS employees answered 149,000 of those calls. In addition to this direct assistance, the IRS also moved quickly to provide tax relief to victims of Hurricanes Sandy and Isaac through actions such as extending return filing and payment deadlines.

Also in 2012, the IRS expanded the Fresh Start initiative to help struggling taxpayers meet their tax obligations. Changes included:

- Increasing the dollar threshold and repayment period for individual installment agreements;
- Providing more financial analysis flexibility for installment agreements and Offer in Compromise programs;
- Issuing new guidance to address unsecured debts such as student loans, credit cards, and state and local taxes;
- Providing a six-month grace period to certain wage earners and self-employed individuals on failure-to-pay penalties; and

- Extending help to taxpayers eligible for the Innocent Spouse Program by eliminating the two-year timeframe for consideration of certain innocent spouse claims.

### *IRS.gov and Social Media*

The IRS continued to provide alternative service options by increasing the amount of tax information and services available to taxpayers through IRS.gov. In FY 2012, taxpayers viewed IRS.gov more than 370 million times. These taxpayers used IRS.gov to get forms and publications, find answers to their tax questions, and check the status of their refunds. Taxpayers used the “Where’s My Refund?” electronic tracking tool more than 132.3 million times.

The IRS is increasing communications with taxpayers who do not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social media such as YouTube and Twitter, the IRS reaches these taxpayers and provides important service and compliance messages to them.

Of particular note is the IRS presence on YouTube. We have YouTube videos in English, Spanish, American Sign Language and other languages. These videos contain useful information for taxpayers. There are now more than 100 IRS videos, which have been viewed more than 5.5 million times. The “Where’s My Refund” video just surpassed one million views this filing season. The IRS now ranks fourth in YouTube viewership among government YouTube channels.

In addition to the IRS presence on Twitter, our social media work has recently been expanded to include Tumblr – a microblogging platform where users access and share text, photos, videos and other information from browsers, smartphones, tablets or desktops. We are using Tumblr to share information about important programs to help taxpayers, such as late tax law changes, the EITC, and Free File.

Also during FY 2012, the IRS released an updated version of its IRS2Go Smartphone application with new features that let taxpayers interact with the IRS using their mobile devices. To date, there have been more than 1.9 million downloads of the application, and more than 6.2 million applications launched. On April 2, 2013, the IRS announced that, for the first time, the IRS2Go application is available in Spanish.

### *Outreach and Education*

The IRS enhanced its outreach and education services during FY 2012 by collaborating with state taxing authorities, volunteer groups and other organizations to address taxpayer needs. By supporting more than 3,900 local partners and a combined 13,143 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly and the disabled, as well as to individuals with limited proficiency in English.

In FY 2012, nearly 99,000 volunteers prepared almost 3.3 million federal returns and more than 2.5 million state returns, which represent increases over FY 2011 of 2.4 percent and 5.9 percent, respectively. In addition, 95 percent of the federal returns under these programs were filed electronically.

### **Business Systems Modernization**

IRS modernization efforts focused on building and deploying advanced information technology systems, processes and tools to improve efficiency and productivity.

The IRS reached a major milestone in its modernization efforts in January 2012 with the launch of its Customer Account Data Engine (CADE2). Up to this point, the IRS had been performing core account processing on a weekly basis. Launching CADE2 meant the IRS successfully migrated 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.

The IRS also made important progress on another front when Modernized e-File (MeF) Release 7 became operational in January 2012. The enhancements of Release 7 expanded the reach of MeF to cover 100 percent of the 1040 population filing electronically. The IRS processed nearly 107 million individual federal and state returns and more than 14.3 million Business Master File returns through MeF. MeF is a major improvement over the previous system, which processed returns in several batches per day, rather than in real time. MeF reduces turnaround time, improves processing and allows acknowledgments to be sent much more quickly to transmitters.

### **Working Smarter and Finding Efficiencies**

Over the last several years, IRS budget requests have reflected strategic investments in the IRS that reduce the deficit, along with substantial efficiency and other targeted reductions that reflect our commitment to effective stewardship of the resources that we are given. Over the past five President's Budget submissions (for FY 2009 through FY 2013), the IRS declared almost half a billion dollars (\$486 million) in budget savings. In addition to these declared savings, the IRS has faced reductions to its budget each year since FY 2010, even as we took on new legislatively mandated responsibilities.

Since FY 2010 and including the current fiscal year, IRS appropriations have been cut by nearly \$1 billion (including over \$600 million in reductions from sequestration and rescissions this year). This represents nearly an 8 percent cut while the total population of individual and business filers grew by more than four percent over the same time period. At the same time, we have tackled significant new challenges, including: implementing merchant card and basis reporting, the Affordable Care Act's tax provisions and new requirements for foreign financial institutions under FATCA; and addressing the sharp growth in refund fraud and identity theft.



While the IRS will continue to be an efficient steward of taxpayer resources, improving and investing in our critical programs under continually reduced funding levels has been difficult. Labor is our largest operating expense and we have been very focused on managing personnel costs. We have operated under an exception-only hiring freeze since December 2010. In FY 2012 we secured buyout authority that resulted in the elimination of 1,224 positions that did not involve direct service or enforcement interactions with taxpayers. By closely managing hiring, we reduced the total number of full-time, permanent IRS employees by almost 7,000 between the end of FY 2010 and FY 2012. So far this year, we have further reduced full-time permanent staffing through attrition by another 1,000 full-time employees – thus, we are down 8,000 permanent employees since 2010. Of these, more than 5,000 are front-line enforcement employees.

The IRS has also implemented significant reductions in its non-labor spending. By limiting operating travel to mission-critical needs and increasing the use of virtual delivery for meetings and training, the IRS reduced travel costs by a total of \$158 million in FY 2011 and FY 2012, a 55 percent reduction from FY 2010. Over the same timeframe, we also reduced spending on professional and technical service contracts by \$200 million. Additionally, the IRS generated \$60 million in printing and postage savings by eliminating the printing and mailing of selected tax packages and publications, and by transitioning to paperless employee pay statements.

Finally, in an effort to promote more efficient use of the Government's real estate assets and to generate savings, the IRS announced last year a sweeping office space and rent reduction initiative that over two years is projected to close 43 smaller IRS offices and consolidate space in many larger facilities.

These measures will reduce rent costs by more than \$40 million and reduce total IRS office space by more than 1.3 million square feet by the end of FY 2014. These savings will be realized with little or no impact on taxpayer service or enforcement efforts. Some examples of projects currently underway include consolidating the IRS Detroit Computing Center space for a projected annualized rent savings of \$15.8 million, and a reduction in rent in midtown Manhattan for an annualized savings of \$4.4 million.

### **IRS Workforce**

The IRS remains focused on its efforts to become one of the best places to work in the federal government. We can only serve the nation's taxpayers well if we have engaged employees who are respected and challenged, and whose managers support them, help them do their jobs and hold them accountable.

In 2008, we created the Workforce of Tomorrow task force, which has generated many workplace initiatives to help us achieve the improvements we seek. Last fall, the Partnership for Public Service released the results of the 2012 Best Places to Work in Federal Government survey. It showed the IRS is currently ranked 98<sup>th</sup> among 292 organizations, only slightly lower than 2011 and still significantly higher than 2010. And

we ranked third out of 15 large agencies – those with 20,000 or more employees – in that survey’s employee engagement index.

In addition, we held our ground or improved our ranking in three of the four IRS Human Capital Strategy Measures. We finished second only to the Department of State in measures related to leadership and knowledge management.

These survey results are especially heartening because of the challenges our employees have faced over the past year, including budget uncertainty and freezes on pay and hiring. These survey results reflect the deep commitment and dedication of the IRS workforce to delivering for the American taxpayer.

## **CONCLUSION**

Mr. Chairman, Mr. Serrano, let me thank the Subcommittee again for the opportunity to discuss the IRS. We will continue our efforts to be fiscally prudent and make wise investments in strategic priorities in enforcement, service, and business modernization. However, as I have noted, without a change in the current budget environment, the American people will see erosion in our ability to serve them, and the Federal government will see fewer receipts from our enforcement activities.