

**WRITTEN TESTIMONY OF  
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BEFORE THE  
HOUSE APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON FINANCIAL SERVICES AND  
GENERAL GOVERNMENT  
ON IRS OPERATIONS AND FUNDING  
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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 to discuss the work we are doing to chart a path forward for the IRS.

The mission of the IRS is twofold: to provide America's taxpayers with quality service by helping them understand and meet their tax responsibilities, and to enforce the law with integrity and fairness to all. In order for the IRS to operate effectively, we must have the trust of the American taxpayer. Unfortunately, that trust has been broken as a result of the unacceptable conduct uncovered in the recent report by the Treasury Inspector General for Tax Administration (TIGTA).

Along with the hardworking men and women of the IRS, I am committed to restoring that trust. This begins with moving quickly to take a number of steps: ensuring accountability for the problems that exist in the exempt organizations area, fixing those problems, and conducting a broader review of IRS operations. In taking these steps, we will be guided by several principles. First, we will ensure that we operate with the utmost fairness and impartiality in administering and enforcing the nation's tax laws. Second, we will be as open and transparent as possible with the American people. Third, we will operate in close consultation and cooperation with Congress. Adhering to these principles will ensure that we always act with the best interests of the taxpayers in mind.

**The Road Ahead and Restoring Trust**

In my first few days at the IRS, I have initiated a comprehensive review of the agency and have taken immediate actions to address the significant and alarming problems identified in the Inspector General's report regarding the 501(c)(4) application process. The TIGTA report makes clear that inappropriate and inequitable criteria were used to help inform determinations of eligibility for 501(c)(4) status, there were inexcusable delays in processing many of these applications, and some organizations were required to furnish unnecessary information in support of their applications. The behavior and actions described in the report are unacceptable, and must be addressed.

The TIGTA report describes a number of factors that led to breakdowns in procedure and oversight within the IRS' exempt organizations area. In particular, there was a series of management oversight failures and a lack of internal controls to ensure the appropriate treatment of applications. Moreover, the staff who handled the applications were not adequately trained, and thus were not well equipped to properly detect political activity and determine if the level of that activity was sufficient to deny an application.

Although additional investigations are underway that will shed further light on this matter, I have, at this time, reached an inescapable conclusion about the behavior described in the TIGTA report. The inappropriate use of certain political labels to determine how applications would be handled resulted in applications being inappropriately singled out for additional scrutiny. Moreover, there was a fundamental failure by IRS management to prevent this inconsistent treatment and ensure that it was halted once management became aware. These failures have undermined the public's trust in the IRS' ability to administer the tax laws in a fair and impartial manner.

I also want to make another important point. I have only been with the IRS a few days, but it is clear to me that IRS employees take great pride in the work they do as non-partisan civil servants dedicated to helping the nation. Like so many, the IRS community is shocked and appalled at the use of political labels inside one part of the organization, and considers it to be an affront to the mission of the IRS and their solemn duty as civil servants to fairly administer our tax laws. This incident has overshadowed the indispensable work the agency and its employees do for the nation every day.

The agency stands ready to confront the problems that occurred, hold accountable those who acted inappropriately, be open about what happened, and permanently fix these problems so that such missteps do not occur again. Moreover, we owe it to the American public to use this moment as an opportunity to take a hard look internally at the IRS and see where other deficiencies or risks may exist, and take action to address them. Our work has already begun in each of these respects, and we will report to the President, the Treasury Secretary and the public by the end of the month about our progress in these efforts.

One of my first actions has been to install new leadership to oversee the exempt organizations area. Last week, I appointed Ken Corbin as the acting director of Exempt Organizations, the unit within the IRS responsible for the review of 501(c)(4) applications, among many other important duties. Most recently, Mr. Corbin was the Deputy Director of Submission Processing for the IRS' Wage and Investment Division. He will report to Michael Julianelle, whom I have asked to serve as acting commissioner of the Tax Exempt and Government Entities Division. Mr. Julianelle has been the director of Enterprise Collection Strategy for the Small Business/Self Employed Division. Both Mr. Julianelle and Mr. Corbin have strong and diverse leadership backgrounds that will help us through this difficult period. I have initiated a search for permanent leadership for the Tax Exempt and Government Entities Division and for Exempt Organizations. I am also conducting a further review to determine what

additional personnel actions must be taken to hold individuals accountable and to ensure that we have the proper people in positions of trust.

Another immediate step that must be taken is to address the backlog of applications for 501(c)(4) status, focusing initially on those “potential political cases” referenced in the TIGTA report that are more than 120 days old. Some of these applications are 400 or 500 days old. That is unacceptable. I have directed Mr. Corbin and Mr. Julianelle to submit a plan to me by the end of this week that contains specific milestones for expeditiously resolving this group of cases. I have also made clear that these applications must be examined in a manner consistent with the TIGTA recommendations, so that the reviews, while thorough, are also fair and impartial.

I have further instructed Mr. Corbin and Mr. Julianelle to work expeditiously to ensure that all nine TIGTA recommendations are thoroughly implemented, and I have asked them to provide me with, at a minimum, weekly updates on their progress. I intend to update the public on the status of both the elimination of the existing backlog as referenced above and the implementation of the TIGTA recommendations by posting reports on IRS.gov, and I expect to make my first report by the end of this month.

But the work we are doing extends well beyond Exempt Organizations. I am also reviewing the broad spectrum of IRS operations, processes and practices to focus on how we deliver our mission today and how we can make improvements in the future. In that way, we will develop a better understanding of organizational risks wherever they exist within the IRS. Wherever we find management failures or breakdowns in internal controls, we will move to correct these problems quickly and in a robust manner. As we move forward with our work, we will be transparent about what we learn, our specific plans for improvement, the actions we take and the results achieved.

Of note, as part of our efforts to improve overall risk management at the IRS, I have appointed David Fisher as Senior Advisor and Chief Risk Officer. Mr. Fisher comes from the Government Accountability Office (GAO) where he was the Chief Administrative Officer and Chief Financial Officer. He brings a formidable background in financial management and internal controls, as well as experience leading complex government organizations.

### **IRS Operations and the Fiscal Year 2014 Budget Proposal**

Although there is no question that the IRS is going through a very difficult time, it remains an indispensable organization, filled with dedicated and talented public servants, that is vital to the functioning of government and keeping our economy strong. In Fiscal Year 2012, the IRS collected more than \$2.5 trillion in revenue to fund the federal government, approximately 92 percent of all federal receipts. During FY 2012, we processed more than 147 million individual tax returns and issued more than 120 million refunds to taxpayers totaling \$333 billion.

Each year, the top priority of the IRS is to deliver a smooth filing season and to make the return filing experience problem-free for the American public. Although taxpayers frequently think of the IRS in terms of enforcement, a consistent point of contact with the IRS for the vast majority of Americans each year involves filing a return and receiving a refund, which last year averaged \$3,000 per household.

Aside from managing filing season, the IRS recently has made important progress on a number of strategic initiatives. An excellent example involves our work to improve offshore tax compliance. The IRS has worked to obtain information on owners of offshore accounts and conduct investigations and examinations to bring evaders into the system and to justice. The IRS also made available a special voluntary disclosure program (VDP) in 2009 and again in 2011, and reopened the program in 2012. To date, there have been approximately 38,000 voluntary disclosures from individuals, and the IRS has received back taxes and penalties totaling more than \$5.5 billion.

Elsewhere in the enforcement area, last week marked an important milestone as IRS Criminal Investigation participated in a multi-agency effort that led to the indictment of Liberty Reserve for allegedly running a \$6 billion money laundering scheme. This is believed to be the largest international money laundering prosecution in history and involved law enforcement actions in 17 countries.

The IRS has also made major strides in the fight against refund fraud and identity theft. So far this year the IRS has suspended or rejected more than 3.9 million questionable returns, and stopped more than 900,000 refunds determined to be fraudulent, worth more than \$5.6 billion. Assisting taxpayers victimized by identity theft is also a priority. In 2013 alone, the IRS has worked with identity theft victims to resolve and close more than 350,000 cases.

Along with enforcing the tax laws, the IRS also works to assist taxpayers in meeting their tax obligations. There is no better example of this than the support the IRS has provided in the wake of the recent tornado that devastated parts of Oklahoma. The IRS moved quickly to provide tax relief to tornado victims through actions such as extended return filing and payment deadlines. The IRS provided similar assistance after other recent disasters, including Hurricane Sandy and Hurricane Isaac.

It is important that we continue to make progress on these and other major priorities of the IRS even as we act to address the serious problems that have recently come to light regarding the specific issue of reviewing tax-exempt organizations. It also must be noted that the IRS' recent accomplishments and the critical work it continues to do are set against the backdrop of an extremely tough budget environment.

Since FY 2010 and including the current fiscal year, IRS appropriations have been cut by nearly \$1 billion (including more than \$600 million in reductions from sequestration and rescissions this year). This represents nearly an 8 percent cut in our annual budget while the total population of individual and business filers grew by more than 4 percent over the same time period. Labor is our largest operating expense, and we have been very

focused on managing personnel costs. Through a hiring freeze and limited use of buyout authority last fiscal year, the IRS has reduced the total number of full-time permanent employees by almost 8,000, or about 9%, since 2010. In addition, due to the impact of sequestration on the IRS budget, IRS employees are taking several furlough days before the end of the fiscal year, which will inhibit our overall productivity.

The President's FY 2014 Budget seeks to reverse this downward trend in funding, so that the IRS can continue performing its critical role while sustaining positive results. The president has requested \$12.9 billion in direct appropriations for the IRS, an increase of \$1 billion over the FY 2012 enacted level of \$11.8 billion. The direct appropriation, along with an estimated \$110.6 million from reimbursable programs and an additional estimated \$277.5 million from user fees, would bring the total operating level to approximately \$13.2 billion.

The funds requested for the IRS are vital to allowing the agency to carry out its mission, and continue making progress on important initiatives, including: 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 note that the portion of the FY 2014 IRS budget request devoted to enforcement activities includes a \$412 million program integrity cap adjustment, which will reduce the deficit through above-base funding for high return on investment (ROI) tax enforcement and compliance programs. Of that total, \$407 million will fund new activities that will enhance tax administration and build capabilities to meet tomorrow's challenges. Once new hires are fully trained and have gained experience to reach their full potential in FY 2016, these resources are expected to raise \$1.6 billion in additional revenue annually. The average return on investment for these activities is more than \$6 to \$1. The return on investment is even greater when factoring in the deterrence value of these investments and other IRS enforcement programs, which is estimated to be at least three times the direct revenue impact. The remaining \$5 million will be transferred to the Alcohol and Tobacco Tax and Trade Bureau (TTB).

The President's budget proposal is vital to our efforts to keep tax administration moving forward effectively and efficiently. I also want to stress that it is a top priority for all of the IRS to continue its vital daily operations during this challenging period.

## **Conclusion**

We have a great deal of work ahead of us to review and correct the serious problems that have occurred at the IRS and continue the important work of the agency on behalf of taxpayers. This work is being done every day by thousands of dedicated public servants

who remain committed to carrying out the agency's mission. It is an honor for me to serve alongside them. I am confident that, together with Congress and other external stakeholders, we will address the current challenges and move forward with a stronger and more effective IRS.

Mr. Chairman, Ranking Member Serrano, this concludes my testimony. I would be happy to answer your questions.