

**WRITTEN TESTIMONY OF
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INTERNAL REVENUE
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT AND SUBCOMMITTEE ON
SOCIAL SECURITY
ON
IMPLEMENTING THE ECONOMIC STIMULUS PAYMENT
PROGRAM

JUNE 19, 2008**

Introduction

Chairman Lewis, Chairman McNulty, Ranking Members Ramstad and Johnson, and Members of the Subcommittees, thank you for the opportunity to testify today on the IRS' implementation of the economic stimulus program approved by Congress last February.

I am pleased to be here today to discuss the IRS' implementation of the economic stimulus legislation enacted by Congress. This was a unique challenge for the IRS in that we do not routinely act as an administrative agency for government payments. In addition, this responsibility was assigned to the IRS concurrent to our traditional filing season – our busiest time of the year.

I am pleased to report that the first stimulus payment was directly deposited in a taxpayer's bank account a mere 70 days after the date of enactment of the stimulus legislation. This is a remarkable achievement and a credit to the hard work of thousands of employees throughout the IRS. Since then, through June 13th, stimulus payments have been made to over 76 million eligible Americans, totaling \$63.8 billion.

This is also a credit to the hard work of the leaders and employees of the Financial Management Service (FMS) that had the responsibility of actually disbursing payments to recipients, as well as the Social Security Administration (SSA) and Veterans Administration (VA) which have worked closely with us in outreach to those that do not normally file an income tax return. We are grateful to our colleagues and partners at FMS, SSA, and the VA for their cooperation, support and professionalism.

This morning I will describe for you how we implemented the legislation once it was enacted. I will discuss our outreach efforts to taxpayers and our efforts to reach others

that were eligible for a stimulus payment, but who had no Federal income tax filing requirement. I will also discuss the current status of the stimulus payments as well as where we go from here, including a new outreach program that is designed to reach those who have not yet filed a 2007 Federal income tax return.

Implementing the Economic Stimulus Program

On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008. The Act was designed to be a robust economic growth package that puts money into the hands of American workers and businesses. Specifically, the Act provided stimulus payments to approximately 128 million American households. The payment eligibility and size were to be determined by the IRS based on each taxpayer's 2007 individual tax return. The Act envisioned stimulus payments being distributed through late spring and summer so as to help the economy as quickly as possible.

Under the legislation:

- Individuals and families were eligible to receive up to \$600 for individuals and \$1,200 for couples. A minimum of \$300 per person and \$600 per couple would be available to those with at least \$3,000 of qualifying income. These payments would be available to everyone with adjusted gross income less than \$75,000 for singles and \$150,000 for married couples filing jointly. It will be phased out for taxpayers above those income thresholds. Taxpayers may qualify by filing a tax return for 2007 and including a valid Social Security number on their tax return.
- Everyone eligible for a stimulus payment would also receive an additional \$300 per child. For example, this would mean up to \$1,800 for an eligible couple with two children.
- Recipients of Social Security and certain veterans' benefits were also eligible for stimulus payments. Those who receive at least \$3,000 from any combination of benefits from these programs will receive payments. The IRS and Treasury Department are working closely with the Department of Veterans Affairs and the Social Security Administration, along with beneficiary organizations, to ensure that all eligible individuals are able to receive their payments.

When this legislation was enacted, the IRS was in the midst of the 2008 filing season. The IRS normally processes over 135 million annual individual income tax returns during a typical filing season, but in addition to the enactment of the economic stimulus legislation, this filing season was complicated by late enactment of the legislative patch that prevented 23 million taxpayers from becoming subject to the Alternative Minimum Tax (AMT) in Tax Year 2007. In order to implement the AMT fix and not delay the start of the 2008 filing season, many of our systems personnel worked nights and weekends, including the holiday season.

Stimulus Outreach

Implementing the economic stimulus payments presented a significant challenge but, fortunately, it was one with which the IRS had some experience because Congress had enacted similar legislation in 2001. From its experience in 2001, the IRS learned a very important lesson. We wanted, as much as possible, to answer taxpayer questions about eligibility for a stimulus payment up front, and what actions, if any, taxpayers were required to take. We knew that this year's legislation was far more complicated than in 2001, so anything that we could do to address taxpayer questions up front would benefit the agency as well as taxpayers.

Our first step was to make as much information as possible available on our website – IRS.gov – a service that was not readily available in 2001. In less than a week after enactment, the IRS posted on its website a summary of the stimulus legislation, as well as a series of Frequently Asked Questions (FAQ). Shortly thereafter, a schedule was announced and published on the website providing the timing of check distribution based on the last two digits of the taxpayer's Social Security Number. In addition, the website provided a calculator for the taxpayer to determine the estimated size of his or her own stimulus payment based on the taxpayer's unique circumstances.

While the website provided an important new tool to communicate with taxpayers about the stimulus payments, we knew we could not rely on it exclusively as the means to reach all taxpayers. As a result, in mid-March, the IRS mailed a notice to 140 million taxpayers, which was authorized by the stimulus legislation. The primary purpose of the notice was to communicate to taxpayers that they needed to do nothing more than file a 2007 tax return in order to receive a stimulus payment.

In addition, the notice had several other objectives: First, it was designed to explain the stimulus payments, educating the public on the purpose of the legislation and setting public expectations by describing how eligibility would be determined. Second, it was designed to maximize the benefits of the stimulus payments to the taxpayers. Specifically, an initial notice letting citizens know that stimulus payments would be coming in 2 to 4 months (depending on the sequencing of check issuance) would assist in expediting the behavioral effects of the stimulus legislation. The notice was also designed to reduce taxpayer calls. Our hope was that a well-crafted initial notice, with a simple and direct explanation, would eliminate millions of calls to the IRS prior to the April 15th income tax return filing deadline. This would be crucial to maintaining IRS service levels in responding to the normal surge of tax return and tax refund inquiries during the height of the filing season. In addition, the notice could steer taxpayers to informational websites in lieu of IRS call centers.

Another reason for the notice was to differentiate between refunds and stimulus payments. Since the economic stimulus payments overlapped with the normal tax refund season, the notice explained the differences in the purpose, timing, and amounts of the two payments.

Finally, the IRS hoped that the notice would encourage filing by certain taxpayers on the margin, such as seniors, who may be eligible for the stimulus payment, but who may not have planned on filing a tax return in 2007.

Reaching Seniors and Veterans

In addition to reaching individuals who normally file a tax return, the IRS also needed to reach out to millions of individuals who do not normally file tax returns, but who were eligible for an economic stimulus payment. This included recipients of Social Security and certain veterans' benefits. Those who received at least \$3,000 from any combination of benefits from these programs are eligible to receive stimulus payments.

The IRS has worked closely with the Department of Veterans Affairs (VA) and the Social Security Administration (SSA), along with beneficiary organizations, such as the American Association of Retired Persons (AARP) to alert individuals that they may be eligible for the stimulus payment and that in order to receive it, they must file a 2007 tax return.

Using a list compiled by the SSA and the VA, the IRS sent in March a package of information to over 20 million individuals who had not filed a 2006 tax return. The 10-page tax package was designed to inform the recipient about the stimulus payments and provide all the information needed for the recipient to file a 2007 income tax return.

The IRS' outreach efforts took other forms as well. On March 29, 2008, the IRS held "Super Saturday," a day on which the IRS and scores of its partners opened hundreds of locations nationwide in an effort to reach those individuals who normally are not required to file an income tax return, but who were eligible for the economic stimulus payment.

On Super Saturday, approximately 320 IRS offices were open to prepare the simple Form 1040A for people who were filing a return solely to receive their stimulus payment. IRS partners such as AARP, United Way of America, and dozens of others also opened their offices and made other special efforts on Super Saturday to reach out to those who normally were not required to file a tax return.

Payment Distribution

The IRS began distribution of the economic stimulus payments on April 28, 2008, which was slightly ahead of schedule. Through June 13 2008, the IRS has processed payments to over 76 million taxpayers totaling almost \$64 billion. In addition, over 14 million of the 20 million individuals on the list provided by SSA and VA who were eligible for the stimulus payments, but who normally do not file a return, filed a 2007 tax return. This is 70 percent of those individuals to whom the information packet was sent in March. Another one million persons did not meet the \$3,000 income threshold that was necessary to qualify for the stimulus payment.

We expect to continue to process and distribute payments for those individuals who have already filed a 2007 income tax return. We also intend to do additional outreach to those remaining 5 million individuals on the SSA and VA lists who do not normally file an income tax return, who may be eligible for the stimulus payment.

Shortly after this hearing, we will send a second notice to those taxpayers from the SSA/VA lists who have not yet filed a return, reminding them they may be eligible for the stimulus payment and providing them everything they need, including instructions on how to file.

We also plan to employ an aggressive public relations campaign for which we need your support. The theme of the campaign will be: "It's Not Too Late to File!"

We expect to shortly provide each of your offices with the estimated number of qualifying nonfilers by county within (or partially within) your District. We also are going to have our field media specialists work with the local news outlets across the country and in your Districts to help get the word out.

We are also ready to keep IRS offices open on specific Saturdays, as needed, to provide assistance to those who want to file. In addition, we would be happy to work with you on special events within your District to get the word out.

I should caution, however, that the successful implementation of this stimulus effort has come at a cost. We have received millions of stimulus related calls in addition to the other levels of assistance that I discussed earlier in this statement. The IRS does not have the resources to handle this type of a response to an emergency program without diverting resources from other areas to meet the needs of the stimulus program.

Dealing with Glitches in Payment Distribution

As I mentioned earlier, we have distributed nearly \$64 billion in stimulus payments to more than 76 million taxpayers through June 13, 2008. We estimate that we have been able to make over 99 percent of these payments without any significant problems or concerns. The method of distribution for each taxpayer was determined based on how the taxpayer chose to receive his or her 2007 income tax refund. Taxpayers who chose to have their refund deposited directly in their bank account will have their stimulus check treated the same way. Taxpayers who chose to have their refund check mailed directly to them will get the stimulus payment in the same manner. There is no cutoff date for direct deposits regardless of when the taxpayer filed, provided that there is no other restriction that would prevent direct deposit, such as owing a payment to a tax preparer.

The timing of the stimulus payment check was based on a schedule determined by the last two digits of the taxpayers Social Security Number. The schedule was published on IRS.gov along with a calculator for taxpayers to determine the size of their stimulus payment

This level of success has only been possible because of the enormous effort by a number of IRS employees who, upon completing the 2008 filing season, plowed headlong into the stimulus effort. I cannot tell you how proud I am of all of these employees and their stellar efforts for the past six months.

It is virtually impossible, however, to run a payment operation of this size without encountering some problems, and we have had a few in this case. I should also point out that we understand that no matter how high our success rate is overall, it is irrelevant to the taxpayer for whom something has gone wrong. For that taxpayer, the system did not work, and we must do everything we can to deal with that stimulus payment as quickly and efficiently as possible.

One of the challenges we have identified is related to the Child Tax Credit. More than 99 percent of the 36 million tax returns with child stimulus payments were completed accurately by taxpayers, tax professionals, and software providers.

However, there were some instances where the necessary information to determine eligibility under the Child Tax Credit was not available. The specific issue with the child stimulus payments involved the Child Tax Credit checkbox on line 6c, column (4) on Form 1040 and Form 1040A. For the stimulus payments, the IRS systems require the information from the checkbox to generate the \$300 qualifying child stimulus payment. In some instances, taxpayers did not check the proper box to trigger the \$300 child payment. In other instances, a few tax software products, primarily used by tax professionals, did not capture the proper information needed for issuing the child stimulus payment.

Normally in situations like this, we would return the income tax return to the taxpayer and ask that they revise it appropriately so as to claim the additional economic stimulus resulting from the Child Tax Credit. However, because we wanted to get the stimulus payments into the hands of every recipient as soon as possible, we made the necessary adjustment on each of these returns internally.

As a result, the IRS is sending affected families separate checks to cover their qualifying children. The IRS will mail out approximately 230,000 additional \$300 or \$600 economic stimulus payments to the affected taxpayers starting in early July 2008. These taxpayers also will receive a special adjustment letter explaining the payment amount for qualifying children that was not included in their original stimulus payment.

In early May of this year, we also identified a problem with 1,500 stimulus checks that were directly deposited into the wrong accounts. This was the result of a programming error that occurred during the initial computer payment run. We immediately corrected this problem, and no additional erroneous deposits have been made. All of the taxpayers who were affected by this problem have since been sent a paper check. We are also reviewing the data transmitted to determine if we need to provide the taxpayer with credit monitoring services since Personally Identifiable Information (PII) may have been transmitted to the wrong accounts along with the funds.

We also faced a problem created by a printing error at one of the vendors that we were using to mail confirmation letters to taxpayers explaining the calculation of their stimulus payment, the method of payment, and when it should arrive. We estimate that 22,000 of 66 million notices were sent in error. However, the IRS has received just over 200 inquiries thus far about this event.

We discovered that the problem was due to an error by the print vendor and was narrowed down to a single printer. Upon identifying the error, the vendor's CEO took immediate and decisive action, and made changes to the quality review process. As to corrective actions, the vendor will issue corrected notices with an explanation indicating that the issue was a printer error and is their responsibility. The IRS determined that no breach of personally identifiable information had occurred and sufficient action had been taken.

We have also received some complaints from taxpayers because they expected to receive their stimulus payment quickly via direct deposit, but instead they are scheduled to receive a paper check. This can be caused by taxpayers who entered into financial agreements with tax preparation companies, including major nationwide preparers, and others who received Refund Anticipation Loans (RALs), Refund Anticipation Checks (RACs), or similar loans while completing their tax return.

These agreements authorize the IRS to transmit tax *refunds* to these third party accounts, but not the stimulus payments. Therefore, these taxpayers will receive their stimulus payment via a paper check rather than direct deposit. In addition, taxpayers may receive paper checks because they used tax preparation software and they elected to pay the fee for the service out of their stimulus payment.

Identity Theft

I understand that an additional purpose of this hearing is to review IRS efforts relative to identity theft. Mr. Chairman, our overall goal for taxpayer service is that when a taxpayer contacts the IRS with an issue or concern, we have in place a seamless process that gets the issue resolved promptly.

From the perspective of an identity theft victim, that means that when taxpayers call the IRS, they reach someone who is knowledgeable on the issue and is able to take care of the problem quickly and completely.

In terms of the economic stimulus payments, the IRS has not observed, to date, any significant issues involving identity theft. Originally, there was concern that upon filing, some in this population would discover that someone else has been filing returns under their Social Security Number. However, we have not noticed such a pattern taking place. In an effort to be proactive due to our original concerns, we set up a specialized unit to analyze returns filed specifically for stimulus payments (typically filed via Form 1040A). In addition, we set up a referral process with our Criminal Investigation Unit to conduct

further analysis in instances when identity theft is suspected. We have reviewed over 38,000 potential duplicate returns, which can often be an indicator of identity theft, and have identified only 25 potential instances of identity theft.

However, we have recently been informed that the Federal Trade Commission, which maintains the national clearinghouse for identity theft complaints, has received approximately 150 identity theft complaints regarding economic stimulus payments. We are currently working with the FTC to obtain more information to research these complaints, eliminate duplication with those we have already identified, and determine if additional action is necessary.

In terms of the broader issue of identity theft and how it might affect tax administration, we have identified two ways in which taxpayers' interaction with the IRS might be affected. First, someone could steal another person's identity and use it to file a tax return in order to obtain a tax refund fraudulently. Generally, the identity theft perpetrator will use a stolen SSN to file a forged tax return and obtain a refund early in the filing season. The rightful owner of the SSN will be unaware that this has happened until the taxpayer files his or her return later in the filing season and we discover that two returns have been filed using the same SSN. We call this type of identity theft a refund-related crime.

The second way a person's stolen identity will affect his interaction with the IRS is if someone uses the stolen identity to obtain employment. This occurs in many instances when an employed individual uses someone else's SSN to get a job. In this instance, the IRS would receive a W-2 or a Form 1099 reporting income on the taxpayer's account, which the rightful owner of the SSN had not earned. Identity theft in this instance is referred to as an employment-related crime.

Recognizing that identity theft is a growing issue with the potential to affect tax administration significantly, the IRS has taken a number of steps to address the problem. These include:

- By this fall, specially trained personnel will be in place to assist taxpayers when they call to report that they are an identity theft victim.
- In January 2008, the IRS implemented a new service-wide identity theft indicator that is placed on a taxpayer's account upon the authentication of identity theft that has affected their account. All applicable IRS functions are now tracking tax fraud identity theft victims using the universal identity theft indicator. Since January, indicators have been placed on more than 10,800 accounts. This new process means that taxpayers should only have to provide identity theft authentication one time.
- Beginning in January 2009, returns filed using SSNs associated with accounts that are coded with a universal identity theft indicator will be filtered to distinguish legitimate returns from fraudulent ones. In this way, the universal identity theft

indicator will reduce taxpayer burden and inconvenience by expediting the process for identifying and processing the victim's return.

- Beginning this fall, taxpayers who can verify that their identities have been stolen can notify the IRS and have an indicator placed on their account even if the theft has not yet affected tax administration.
- The IRS has developed new standards for documentation required from taxpayers to validate the identity of the taxpayer and the fact of the identity theft. For example, taxpayers can now fax information to the IRS that verifies their identity rather than appearing in person at an IRS office. These documentation standards are consistent with those required by FTC and SSA.
- The IRS' website – IRS.gov – includes an email address, published jointly with the Treasury Inspector General for Tax Administration (TIGTA), to serve as a repository for the fraudulent emails so they could be tracked to the source and destroyed, and if appropriate referred for criminal action.
- In July 2007, the IRS created the office of Privacy, Information Protection, and Data Security (PIPDS) within the agency. The creation of this office recognized the importance of having an enterprise-wide approach to address identity theft problems consistently. The Director of PIPDS is a Senior Executive reporting directly to the Deputy Commissioner for Operations and Support. This allows PIPDS to reach across all IRS organizations and ensure that proper attention and discipline is given to privacy, identity theft, and security issues.
- IRS is also a member of the President's Identity Theft Task Force and is working with Treasury and OMB to comply with all directives regarding steps that needed to be taken to safeguard the privacy of individuals.

Conclusion

I am extremely proud of the effort made by IRS employees to make sure that the stimulus legislation is implemented as Congress intended and that every individual who is entitled to a stimulus payment gets one. The Members of this Committee can assist the IRS in this effort as we implement the "It's Not Too Late" program targeted at the remaining 5 million individuals who have not filed a 2007 return but are eligible for the stimulus payment.

Thank you again Chairman Lewis, Chairman McNulty, and Ranking Members Ramstad and Johnson for the opportunity to appear today. I will be happy to respond to any questions.