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On

**“Internal Revenue Service Budget for FY 2013 and the 2012
Tax Filing Season”**

Submitted to

House Ways and Means Subcommittee on Oversight

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Chairman Boustany, Ranking Member Lewis and distinguished members of the Subcommittee, I would like to thank you for allowing me to provide comments on the Administration's FY 2013 budget request for the Internal Revenue Service (IRS) and the 2012 tax filing season. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

IRS FY 2013 BUDGET REQUEST

Mr. Chairman, NTEU strongly supports the Administration's FY 2013 budget request for the IRS. We believe that the President's request will allow the IRS to continue helping taxpayers meet their tax obligations while also improving enforcement of the tax law.

We are particularly pleased the Administration's budget request would provide critical increases for Service enforcement and taxpayer service activities that have been reduced in recent years, and would allow the IRS to rebuild its workforce which is down by almost 25,000 since 1995.

I would also note that in previous years, NTEU has supported the budget recommendations proposed by the IRS Oversight Board which have generally called for additional resources above that requested by the Administration. For FY 2013, the Oversight Board has recommended \$13.764 billion in funding for the IRS. While we have not seen the specific details of the Board's proposal, we would be inclined to support providing additional funding for the IRS above the Administration's request and look forward to reviewing the Board's recommendation.

IMPACT OF UNDER FUNDING THE IRS

Mr. Chairman, as you know, despite the critical role that the IRS plays in helping taxpayers meet their tax obligations and generating revenue to fund the federal government, the IRS' ability to continue doing so has been severely challenged due to the lack of adequate funding in FY '11 and FY '12.

For FY '11, the full year CR provided IRS with \$12.121 billion in funding, roughly its' FY '10 level of \$12.146 billion, less a 0.2% rescission, which strained IRS' capacity to carry out its important enforcement and taxpayer service missions and led to a general freeze on hiring.

In FY '12, funding for the IRS was again reduced by almost \$330 million below its' FY '10 level. In addition to hampering IRS' ability to collect revenue and assist taxpayers in a timely manner, the FY '12 funding reductions resulted in the loss of more than 3,800 FTE's below the FY '11 enacted level at a time when the workload is dramatically increasing and staffing levels are more than 20% below what they were 15 years ago. In 1995, the IRS had a staff of 114,064 to administer the tax law and process 205 million returns. Today, they have just 90,711, yet must administer a much more complicated tax code and process approximately 236 million, much more complicated, tax returns.

The dangers associated with underfunding the IRS cannot be overstated and have been highlighted in recent reports by the IRS Oversight Board, IRS Advisory Council, and most recently, by the National Taxpayer Advocate. In her most recent Annual Report to Congress, the National Taxpayer Advocate identified inadequate funding for the IRS as the most serious problem facing taxpayers. The report noted that a lack of sufficient resources, coupled with a rising workload and increasingly complex tax code, was negatively impacting IRS' ability to carry out its taxpayer service mission and assist efforts to reduce the federal deficit.

In particular, Olson noted that IRS' capacity to respond to taxpayer inquiries has been severely diminished, to the extent that now the IRS is unable to answer three out of every ten calls it receives, and nearly half of all taxpayers who write to the IRS must wait more than 6 1/2 weeks for a reply. In addition, recent funding cuts resulted in a drop in the telephone level of service from 74 to 70 percent between FY '10 to FY '11. Because of expected higher call demand and new legislation requiring more training for telephone assistants, the Administration's FY'13 target level of service is 63 percent.

In addition to delays in correspondence and reduced telephone levels of service, NTEU has also received reports from our members about abnormally long wait times for taxpayers seeking assistance at many of the walk-in Taxpayer Assistance Centers (TACs) around the country due to insufficient staffing. According to the IRS, 107 out of the 398 TACs located around the country are currently being staffed by just one or two employees, while overall staffing at many TACs is half of what it was just 8 years ago. The lack of sufficient staffing has greatly increased wait times at the TACs and has hampered the ability of TAC employees to provide taxpayers with the personal one-on-one assistance that they need. Inadequate staffing and availability of service at TACs has long been a problem at the IRS and has previously been highlighted by the National Taxpayer Advocate as a serious problem disproportionately impacting the most vulnerable populations who use TACs most often, including low income taxpayers, those with language barriers, the elderly and the less educated.

In addition to the adverse impact on taxpayer services, the Taxpayer Advocate's Report also noted that the lack of adequate resources was also undermining IRS' ability to effectively implement its enforcement and compliance initiatives, hampering its ability to maximize revenue collection and close the tax gap. Because of the IRS' unique role in generating revenue that funds the federal government, Olson urged Congress to view providing sufficient resources for the IRS as an investment rather than an expense.

We are pleased the President's budget proposal acknowledges the importance of providing IRS with the necessary resources to generate critical revenue for the federal government and devotes a significant portion of the increase from FY '12 to restoring lost revenue resulting from reductions in funding over the past two years.

TAXPAYER SERVICES

NTEU strongly believes that helping taxpayers understand their tax reporting and payment obligations is the foundation of taxpayer compliance. Through a variety of channels, the IRS is able to provide year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call

centers, the IRS.gov web site and Taxpayer Assistance Centers (TACs). These efforts have enabled the IRS to continue raising the standard of service to America's taxpayers and assisted in efforts to improve voluntary compliance even during this challenging budget environment.

The IRS' comprehensive approach to taxpayer service played a critical role in allowing it to deliver a successful 2011 filing season, despite the challenges presented by reduced funding and enactment of tax legislation in late December 2010. During this time, IRS employees processed more than 144.7 million individual returns and issued 109 million refunds, totaling \$345 billion; answered more than 42 million automated calls and 34.2 million assistor calls; responded accurately to 93.4 percent of tax law questions and 96 percent of account questions; and helped millions of taxpayers at the 398 Taxpayer Assistance Centers located around the country.

But, without the additional funding proposed in the Administration's budget request, NTEU believes taxpayers will continue experiencing a degradation of services including difficulty seeking telephone assistance, delays in responses to letters, including those seeking to resolve issues with taxes due, delayed responses to small business owners or individual taxpayers looking to set up payment plans, and difficulties for those seeking answers on tax deductions and credits due under the tax codes. As noted previously, IRS' ability to respond to taxpayer inquiries has already been diminished due to the FY '12 funding cuts which are resulting in a very challenging filing season.

NTEU strongly believes providing quality services to taxpayers is an important part of any overall strategy to improve compliance, and that the President's request for additional funding for taxpayer services will help prevent further degradation of services and enable the IRS to deliver a successful filing season next year.

ENFORCEMENT

Mr. Chairman, NTEU believes that in the current budgetary environment, it is critical that the IRS has the resources it needs to maximize taxpayer compliance, reduce the tax gap and generate critical revenue for the federal government.

IRS' ability to generate critical revenue necessary to reduce the federal deficit is clear. In FY '11, on a budget of \$12.1 billion, the IRS collected \$2.42 trillion, 92 percent of federal government receipts. This means that, for every \$1 that Congress appropriated for the IRS, the IRS collected about \$200 in return.

However, reductions in enforcement funding in FY '11 and FY '12 have undermined IRS' ability to maximize taxpayer compliance and bring in much needed federal revenue. In FY '11, the IRS generated \$55 billion in enforcement revenue, down from \$57.6 billion in FY '10. The reduction in revenue can be partly attributed to a reduction in the total number of revenue officers (ROs) and revenue agents (RAs). Despite the critical role they play in maximizing taxpayer compliance and generating revenue, the total number of ROs and RAs were reduced by almost 450 between FY '10 and FY '11, and are down almost 20 percent since 1995.

The need for sufficient enforcement staffing is more important than ever. In January the IRS released a new set of tax gap estimates for tax year 2006. The tax gap is defined as the amount of tax owed by taxpayers that is not paid on time and is the most comprehensive and up to date data that IRS has on noncompliance. According to the IRS, the amount of tax not timely paid is \$450 billion, translating to a noncompliance rate of almost 17 percent.

While the tax gap can never be completely eliminated, even an incremental reduction in the amount of unpaid taxes would provide critical resources for the federal government.

That is why NTEU was happy to see the Administration's budget request would provide a \$402 million increase in funding for IRS tax enforcement above the FY 2012 level, including additional resources made available through a program integrity cap adjustment.

The increased funding will be invested in Service enforcement programs designed to increase compliance by addressing offshore tax evasion, reduce the underreporting tax gap, and restore revenue lost from FY '12 reductions to examination audit and collection programs. According to the IRS, these investments are expected to generate \$1.48 billion in additional annual enforcement revenue, resulting in a return on investment (ROI) of more than 4 to 1, once new hires reach full potential in FY 2015. This estimate does not account for the deterrent effect of IRS enforcement programs, estimated to be at least three times larger than the direct revenue impact.

At a time when Congress is debating painful choices of program cuts and tax increases to address the federal budget deficit, we believe it makes sense to invest in one of the most effective deficit reduction tools: collecting revenue that is owed, but hasn't yet been paid.

NTEU urges support for the Administration's request for an additional \$691 million in enforcement funding for FY '13 through a program integrity cap adjustment for high revenue generating enforcement activities. This \$691 million in funding, coupled with additional investments through 2022, will support a variety of compliance activities, including new initiatives that deepen and broaden IRS' focus on international tax compliance of high net worth individuals and entities. These investments are expected to generate an additional \$44 billion in additional tax revenue over ten years.

In recent years, both Democratic and Republican Administrations have requested and Congress has approved, integrity cap adjustments for IRS enforcement activities. President Bush's FY 2006 budget proposal included a program integrity cap adjustment for IRS enforcement of \$446 million. Congress approved that amount and in 2007 the IRS stated in Congressional testimony, "much of the enforcement success in FY 2006 was the direct result of this increased funding provided by the program integrity cap adjustment." Congress also approved an \$890 million cap adjustment in FY 2010.

The Budget Control Act of 2011 specifically allows for other program integrity cap adjustments for Social Security disability claim reviews and health care fraud and abuse programs. The Senate version of the Budget Control Act also included an IRS enforcement program integrity cap adjustment, but it was not included in the final legislation. Clearly, Congress recognized the wisdom of small spending increases when they will be more than offset

by large returns on investment. NTEU strongly supports the President's request for additional enforcement funding for FY '13 above the current level, including additional funding made available via a program integrity cap allocation adjustment.

CONCLUSION

Mr. Chairman, thank you for the opportunity to provide NTEU's views on the Administration's FY 2013 budget request for the IRS and the 2012 tax filing season. We believe that by restoring critical funding for demonstrably effective enforcement and taxpayer service programs, the Administration's request will allow the IRS to continue providing America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the federal deficit.