

**WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT
ON THE FILING SEASON AND COVID-19 RECOVERY
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INTRODUCTION

Chairman Pascrell, Ranking Member Kelly and Members of the Subcommittee, thank you for the opportunity to discuss the filing season and IRS operations, especially the work we have been doing to help taxpayers during the COVID-19 pandemic.

I am pleased to report the 2021 filing season is going smoothly in terms of tax return processing and the operation of our information technology (IT) systems. Through March 12, the IRS received more than 66 million individual federal tax returns and issued more than 42.5 million refunds totaling more than \$126 billion. A more detailed discussion of the filing season is provided later in this testimony.

At the same time, the IRS is working closely with the Treasury Department to implement the American Rescue Plan Act of 2021 (American Rescue Plan) as quickly as possible to help the nation's taxpayers. As part of these efforts, we took immediate steps to begin delivery of the third round of Economic Impact Payments (EIP) to millions of Americans within days of the legislation being signed on March 11. In just one week, we have already delivered about 90 million payments totaling approximately \$242 billion. The IRS is also coordinating with Treasury on another important provision, which provides periodic advance payments of the Child Tax Credit to eligible taxpayers. The IRS will be working hard to deliver this program quickly and efficiently.

Now in my third year as Commissioner, I remain extremely proud to be working for the IRS and excited about the future of our agency. We are grateful for the increased and multi-year funding that will allow the IRS to (i) modernize our systems, (ii) increase our workforce and their capabilities through a robust recruitment and training program, (iii) implement the provisions of the Taxpayer First Act, including improving the taxpayer experience, and (iv) conduct compliance activities that support our voluntary tax compliance system.

My experiences as Commissioner have strengthened my belief that a fully functioning IRS is critical to the success of our nation. In Fiscal Year (FY) 2019, the IRS collected \$3.56 trillion in taxes and generated almost 96 percent of the funding that supports the Federal Government's operations. We serve and interact with more Americans than nearly any other public or private organization.

This unprecedented pandemic illustrates the significant role that the IRS plays in the overall health of our country. We have been called to provide economic relief during this national crisis while also fulfilling our routine responsibilities of tax administration.

I am proud that IRS employees have responded admirably to the COVID-19 situation by quickly facilitating financial assistance and administrative relief to hundreds of millions of deserving and needy Americans – including distributing more than \$400 billion in Economic Impact Payments in the first two rounds alone. People at the IRS continually demonstrate just how much they care, and how important the agency is to our country, by their heroic response to events over the past year. At the same time, the IRS remains focused on its core mission, striving to serve taxpayers in a manner that facilitates voluntary compliance by providing meaningful guidance and proper levels of staffing and support at points of significant taxpayer interaction.

Given the events of the past year, we appreciate the additional funding we received from Congress over the past year. The IRS received \$3.1 billion in funding to respond to the COVID-19 pandemic and implement the EIPs and other tax changes. In addition, our base FY 2021 funding level (excluding these additional resources) represents a 3.6 percent increase over FY 2020. However, it will take time to overcome the challenges of the past decade and the agency will continue to struggle to replace attrition and expand our workforce, support implementation of our multi-year Integrated Modernization Business Plan as designed, and continue enhancing meaningful service and compliance efforts that will earn the trust and respect of every American and improve our working relationships with taxpayers and others in the tax community.

We respect and proudly serve all taxpayers, none more or less so than any other. We must operate from their perspective, through their eyes, enhancing their experiences while striving to provide clear, meaningful guidance and services, in the language of their choice, wherever possible. In support of compliant taxpayers, we must aggressively pursue non-compliant taxpayers by maintaining robust, visible civil and criminal enforcement efforts. We are making a difference, but we want to continue to successfully pursue our mission on behalf of our great country.

UPDATE ON THE 2021 FILING SEASON

The IRS workforce navigated preparation for the 2021 filing season while continuing to implement COVID-related relief measures and delivering an extended 2020 filing season. These circumstances challenged our ability to make the necessary annual changes for filing season 2021. Nonetheless, as a result of the ongoing efforts of our employees, the IRS is on track to deliver a smooth filing season again this year.

I'm pleased to report the filing season opened successfully on February 12. To give you an idea of how well our systems performed, the IRS over that initial weekend received a total of 55 million submissions, which includes individual federal returns along with other items such as state tax returns, amended returns and returns filed by businesses. At the peak that weekend, our IT systems enabled us to successfully receive 335 submissions per second.

The February 12 opening of the filing season was slightly later than in previous years. The delayed start gave the IRS time to do additional programming and testing of our systems following the December 27 tax law changes that provided the second round of EIPs and other benefits. The additional programming and testing ensured that people would receive their needed tax refunds quickly, and also receive any remaining stimulus tax credits they might be eligible for as quickly as possible.

The delay in the start of the filing season did not add any additional delays to refunds on returns claiming the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC). By law the IRS cannot issue these refunds before February 15. This filing season, the IRS was able to issue refunds for EITC and ACTC returns on February 16 and 18, 2021. We expect those refunds to be promptly available in taxpayer bank accounts if they chose direct deposit and there were no other issues with their tax return. We encourage taxpayers to e-file their returns and to check the Where's My Refund online tool on IRS.gov or the IRS2Go app to find out their estimated refund date.

As part of our work on the filing season, the IRS continues to spread the word about EIPs by reminding people who didn't initially qualify for a payment – or didn't receive the full amount – that they should check to see if they qualify to claim the payment as a Recovery Rebate Credit (RRC). The EIPs represented advance payments of the RRC, and this credit can be claimed on the 2020 tax return, by taxpayers and by individuals who don't normally file. The 2020 Instructions for Forms 1040 and 1040-SR include a worksheet that can be used to calculate the amount of any RRC for which a taxpayer is eligible. Individuals are encouraged to file electronically to claim this credit, and most can do so at no cost with IRS Free File, including those who do not have a filing requirement. This should not be a burdensome action for individuals, including those who normally do not file. We realize that delayed processing of some 2019 returns could affect the ability of some taxpayers to claim the RRC, so we are working as quickly as possible to process outstanding returns.

Another important filing season reminder involves people who received unemployment compensation during 2020. We are working to make sure they understand the tax law governing unemployment benefits they received pursuant to U.S. law or that of a state. In general, these payments are taxable and must be reported as income on taxpayers' federal returns. These individuals should receive

Form 1099-G showing the amount they were paid, along with any federal income tax they elected to have withheld. Since some states do not mail Form 1099-G, some recipients will need to get the electronic version of the form from their state's website.

However, the newly enacted American Rescue Plan Act exempts the first \$10,200 in unemployment compensation from federal taxation for individuals with income below \$150,000. For those who received unemployment benefits last year and have already filed their 2020 tax return, they should not file an amended return right away as the IRS expects to issue additional guidance.

The IRS is also working to alert taxpayers of an identity theft scam involving these payments. There have been instances of criminals using stolen identities to fraudulently apply for and receive unemployment compensation. For many individuals who did not claim unemployment compensation last year, this issue came to light when they began receiving 1099-G forms with amounts they never applied for or received. We encourage anyone in this situation to file an accurate return only reporting the taxable funds they actually received, report this fraud to the state agency that issued the 1099-G, and ask the agency to issue them a corrected 1099-G showing the correct amount.

During this filing season, the IRS will continue to emphasize the safety and health of taxpayers and our employees. For that reason, our face-to-face operations will continue to be limited to appointment services, with provision for assisting taxpayers with hardships on a walk-in basis. We believe that this year, it will be more critical than ever for taxpayers and tax professionals to take advantage of e-filing and online and virtual services to help them with their taxes. We will continue to encourage taxpayers to use electronic tools to the extent possible, including IRS.gov, where they will find a wealth of helpful information.

For taxpayers who need help preparing and filing their returns, I'm happy to report that the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs supported by the IRS will again be providing free assistance to eligible individuals. I'm very proud of the work our VITA and TCE partners are doing during the filing season to help taxpayers at approximately 8,000 sites around the country, including military bases. This year, to ensure the health and safety of taxpayers and volunteers, many volunteer tax preparation sites will offer virtual help to taxpayers, either over the phone or online. Some sites will still offer in-person tax help, but safety and social distancing will be emphasized.

Understanding the need to plan for the future and the desire to maintain a safe operating environment, the IRS will continue operating under its current posture until further notice, and we will continue to follow – and where possible, exceed – applicable CDC guidelines for public health and safety and measures. We will

continue to balance responding to urgent tax administration needs with doing everything possible to protect taxpayers and our employees.

We appreciate the patience and understanding of taxpayers and tax professionals as we work to deliver the filing season during this challenging time. I am confident the IRS will deliver for the nation, just as it has during other times of national urgency.

Phone Level of Service During the 2021 Filing Season

An important service delivery channel, during the filing season and throughout the year, continues to be our toll-free telephone line, which constitutes one of the world's largest customer service phone operations. This filing season through February 26, the IRS has received approximately 9.5 million taxpayer calls, with 40 percent, or 3.8 million, handled by our Customer Service Representatives (CSRs). The rest were calls made to lines providing automated messages containing helpful tax information.

There was no way to predict the pandemic when we were submitting our Congressional Budget Justification level of service (LOS) estimates last spring and the impact the pandemic would have on our call volume, filing season, and hiring. For example, we have been experiencing a much higher-than-expected call volume coupled with an increase in call handling time caused by greater call complexity due to the economic impact payments and other tax law changes. We are also still working through the impacts of COVID-19, which created staffing shortages and closures.

We attempted to mitigate these issues by starting the FY 2021 CSR hiring process earlier than normal with the anticipation that the high unemployment rate throughout the country might result in larger applicant pools in all locations. However, this was not the case. We set a CSR hiring goal for FY 2021 of 5,000 CSRs but have encountered significant challenges hiring during the pandemic, including low applicant pools in some locations, delays in fingerprinting, and delays in processing applicants. As such, the IRS has onboarded approximately 3,800 CSRs, our largest-ever hiring of phone assistants for the filing season, for a total of approximately 13,760 CSRs. We are currently estimating a LOS for the FY 2021 filing season of approximately 30 percent, which is certainly not where we want to be, and that may fluctuate based on call volume. We also expect to hire an additional 1,000 CSRs with the funding provided in the American Rescue Plan for the third round of EIPs and the child tax credit changes to address potential call volume increases.

Improving Service to Diverse Communities

We view our efforts through the eyes and experience of those we proudly serve. An important way the IRS serves taxpayers during the filing season and throughout

the year is by communicating with them in their most comfortable language. In preparing for the 2021 filing season, the IRS took important steps to further improve the amount of service we provide in multiple languages.

Prior to this filing season, the IRS for years had been working to provide tax information in additional languages. For example, many pages of IRS.gov are available in Spanish, Vietnamese, Russian, Korean, Haitian Creole and Chinese (Simplified and Traditional), and basic tax information is available on the website in 20 languages. And the IRS continues to expand its efforts to post and link to information available in multiple languages on social media platforms, including Twitter and Instagram.

I'm proud to say that this filing season, we are providing the Form 1040 in Spanish for the first time. Also for the first time, the 2020 Form 1040 will give taxpayers the opportunity to indicate whether they wish to be contacted in a language other than English.

Other recent changes include making Publication 1, *Your Rights as a Taxpayer*, available in 20 languages. Also, we have issued a new, streamlined version of Publication 17, *Your Federal Income Tax*, that is easier to navigate and faster to download than previous versions, and is now accessible on most personal electronic devices. The new Publication 17 is available in English, Spanish, Chinese (Traditional and Simplified), Vietnamese, Russian and Korean, and we are working to make it available in other languages as well.

Additionally, taxpayers who interact with an IRS representative now have access to over-the-phone interpreter services in more than 350 languages. The IRS has also recently begun inserting information about translation services and other multilingual options into the high-volume notices we send out to taxpayers. Our diverse workforce is proud to be reflective of the diverse communities we serve.

PROVIDING RELIEF TO TAXPAYERS DURING THE COVID-19 PANDEMIC

Delivering Economic Impact Payments

While delivering last year's filing season – which was the longest in history – and preparing for the one now underway, IRS employees also worked many long hours to implement major provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act, including developing new tools and meaningful guidance to deliver the first round of EIPs in record time. In fact, millions of Americans started seeing EIPs show up in their banking accounts within 14 days after the CARES Act was enacted on March 27, 2020. IRS employees successfully delivered more than 160 million payments of nearly \$275 billion in this first round of EIPs.

The IRS also quickly delivered the second round of EIPs included in the Tax Relief Act enacted on December 27th. The IRS delivered approximately 147 million payments totaling about \$142 billion and in many cases, these payments started posting to bank accounts just two days after the law's enactment. IRS employees worked nonstop through the holidays to get these payments out, while remaining hard at work preparing for the 2021 tax filing season. I want to emphasize the amount of advance preparation our employees did, once it started to become apparent that a second round of payments would be enacted, in order for us to achieve such a quick turnaround. Also helping us speed this effort was our ability to build off and use the data we had accumulated in delivering the first round of EIPs.

The vast majority of people did not need to take any action to receive an EIP, either in the first or second round. The IRS calculated and automatically sent the payments to taxpayers as well as others eligible, including many people who may not normally need to file returns, such as senior citizens with modest incomes, others receiving Social Security retirement, survivors or disability insurance benefits, and railroad retirees. The IRS also issued EIPs to those whose only income is from Supplemental Security Income (SSI) benefits and people receiving disability compensation, pension or survivor benefits from the Department of Veterans Affairs (VA). The IRS worked cooperatively with the Social Security Administration, the VA, and other government agencies to pull these agencies' information into our systems to ensure that we could send payments to these groups of people without requiring them to file a return or take any other action. These agencies provided critical help that allowed the IRS to reduce the burden for these individuals, including reducing the need for them to seek in-person tax return preparation to file a return. This effort is a significant step beyond anything the IRS was able to do during previous stimulus efforts to help taxpayers.

In addition, the IRS provided two new online tools to help quickly deliver the EIPs and provide information to individuals:

- The **Non-Filers** tool, which was launched on IRS.gov on April 10, 2020 and available through November 21, 2020 in both English and Spanish, allowed people who normally don't have a filing obligation to enter basic information so that they could receive their payment.
- The **Get My Payment** tool, which launched on IRS.gov on April 15, 2020 and is available in English and Spanish, allows many taxpayers to check the status of their payment or enter their bank account information to receive their payment electronically, if it was not already provided on a 2019 or 2018 tax return or through the Non-Filers tool.

Since the launch of Get My Payment, nearly 350 million successful status checks have been made using this tool. And nearly 15 million people have successfully provided their banking information, meaning they received their payments much more quickly via direct deposit.

The IRS has taken significant steps to reach all potential EIP recipients. We extended our reach far beyond our normal contacts to many lower-income, military, veterans, retired, older, limited English proficient, and homeless communities around the country. In fact, we worked with our partners to distribute EIP outreach materials in 35 languages within these communities.

We asked for assistance from hundreds of local community groups and religious organizations, as well as the national associations to which they belong, and numerous others to reach into their respective communities. We worked with thousands of homeless organizations, including more than 300 organizations that became “Trusted Partners” where an unsheltered homeless individual could designate to receive their payment. We also expanded the authority of Low-Income Taxpayer Clinics (LITCs) to provide return preparation assistance for individuals seeking their EIPs. To support these ongoing efforts, we developed a special online toolkit containing helpful information for groups to use in identifying and getting the word out to people who qualify for EIPs. The toolkit, IRS Publication 5420, can be found on IRS.gov. We also provided information regarding a similar online toolkit to every member of Congress.

Also as part of this effort, we mailed a letter in September to millions of Americans who might be eligible, but hadn't received an EIP and didn't file a return for either 2018 or 2019. We obtained these names by performing an extensive internal analysis of records corresponding to individuals who did not file returns or receive federal benefits and were not responsive to other EIP outreach efforts. These individuals did not typically have a tax return filing requirement but had received Forms W-2, 1099s and other third-party statements. We sent letters to these individuals to notify them of their potential eligibility as we lacked information on: whether they would qualify; whether they had eligible dependents; or whether an individual may be ineligible due to being claimed as a dependent by someone else.

To help these groups, we extended the initial access to the Nonfilers Tool five weeks to November 21, 2020. This new deadline provided additional time for individuals to use the tool without adversely affecting our work on the 2021 filing season. On November 10 we held National EIP Registration Day (and supported other similar events), to encourage people who had not received a payment to use the Non-Filers tool before the November 21 deadline.

The IRS has also been providing support to members of Congress who have been receiving inquiries from constituents about the payments. To help provide these answers, the IRS set up a special online “EIP Mailbox” last May to which congressional staffs could send inquiries.

The EIP Mailbox proved even more popular than anticipated, with the number of emails received averaging 700 a day at first and reaching 1,000 a day by the summer. To make sure we helped as many people as possible, we modified our

processes and temporarily reassigned IRS employees to respond to these inquiries. By the time we closed the mailbox in December, we had received a total of more than 130,000 inquiries and resolved an estimated 90 percent of the questions. With the second round of EIPs, we reopened the EIP Mailbox on January 11, and since then have been receiving approximately 100 emails a day.

Implementing Business Tax Relief

Along with EIPs for individuals, the IRS has also been working to make sure businesses know about important tax relief available to them, and we continue to provide guidance about business tax relief. This assistance was originally provided in COVID-relief legislation last year. Two important measures, the Employee Retention Credit and the Credit for Sick and Family Leave, have already resulted in, as of January 2021, credit amounts claimed on returns of nearly \$10 billion. These measures were extended and/or modified by the American Rescue Plan as follows:

- *Credit for Sick and Family Leave.* Eligible employers are entitled to receive a refundable (and advanceable) tax credit for the qualified sick leave and family leave that the law provides to employees dealing with health and family issues related to the coronavirus between April 1, 2020, and September 30, 2021.
- *Employee Retention Credit.* This refundable credit is designed to encourage businesses to keep employees on their payroll. As amended by the American Rescue Plan, the refundable credit is 70 percent of up to \$10,000 in qualified wages paid by employers financially affected by COVID-19. Qualifying wages – including health plan expenses – are those paid after June 30, 2021 and before January 1, 2022. The credit was modified to include: eligibility for certain startup businesses; special rules for “severely financially distressed employers” that experienced a gross receipts reduction of more than 90 percent; and a five-year statute of limitations for the IRS to make an assessment of any amount attributable to the employee retention credit.

In addition, for the Credit for Sick and Family Leave and the Employee Retention Credit, the IRS set up a system that allowed businesses to claim these refundable credits in advance during 2020 and thus have more funds available to keep their workers employed without having to wait to claim the credits on tax returns filed in 2021.

Another important area where Congress provided relief involves net operating losses of businesses. The CARES Act includes a provision allowing businesses to carry back net operating losses over five years and obtain tax refunds for those years. The IRS issued Revenue Procedures 2020-23 and 2020-24 and Notice 2020-26 to clarify this provision and help businesses and partnerships take advantage of the relief it provides.

Providing Administrative Relief and Protecting Taxpayers

Along with implementing the CARES Act, the IRS provided significant administrative relief to ease the burden on taxpayers:

- A postponement of the deadline for individuals to file federal returns and pay federal income tax from April 15, 2020, to July 15, 2020. This relief covered all taxpayers with a tax return filing deadline or payment due date between April 1, 2020, and July 15, 2020.
- The IRS People First Initiative, under which we temporarily adjusted our processes to help people and businesses during these uncertain times. This included limiting certain collection and examination activities.

While it has been important to the tax system, and the nation, for the IRS to resume its critical tax compliance responsibilities, we continue to assess the wide-ranging impacts of COVID-19 and other difficulties people are experiencing.

To that end, the IRS is offering a wide range of taxpayer relief options. We are:

- Doing everything we can under existing rules for immediate, broad-based relief from unpaid liabilities resulting from COVID-19 issues, including those affected by IRS mail processing and correspondence delays;
- Removing bureaucratic barriers and expanding flexibilities to all taxpayers whose financial condition has been affected by COVID-19; and
- Balancing the relief provided against the need to serve all taxpayers and uphold the nation's tax laws.

When appropriate, the IRS can help taxpayers by abating penalties, extending payment plans, expanding access to installment agreements, and providing relief for taxpayers having difficulty meeting the terms of previously accepted offers to settle tax debts.

Our new initiatives offer help in a variety of ways. Taxpayers without income or the ability to pay can request a temporary suspension of collection activity through the Currently-Not-Collectible program. Taxpayers with balance due amounts may qualify for installment agreement options with generous terms and timeframes, and taxpayers with existing Online Payment Agreements, or Direct Debit Installment Agreements can propose lower monthly payment amounts and update their payment due dates. Other penalty relief options include first-time abatement for reasonable cause.

The IRS has also been diligently working to alert taxpayers and tax professionals to scams related to COVID-19, especially calls and email phishing attempts tied to the EIPs. The IRS and its partners throughout the country have been publicizing these scams.

MAINTAINING IRS OPERATIONS DURING COVID-19

The IRS's efforts to provide relief to taxpayers came during Filing Season 2020 and at a time when the agency had to temporarily scale back operations to protect the health and safety of both IRS employees and taxpayers. Even with our reduced operations, the IRS continued to successfully deliver the 2020 filing season, by processing electronic tax returns, issuing tax refunds, and accepting electronic payments.

During COVID-19, the IRS has been using innovative approaches to make sure our employees can deliver on the agency's mission:

- We have set records for the number of IRS employees teleworking, thanks to the continued support of our Information Technology (IT) division;
- Our IT systems continue to perform at a high level. Our internal networks are supporting nearly 61,000 employees online at the same time, all in a secure environment;
- IT provided the equipment necessary to allow thousands of our customer service representatives (CSRs) to telework, which gave critical help to the IRS in its efforts to resume phone assistance to taxpayers while maintaining the safety of employees during the COVID pandemic;
- Our external-facing IT systems also continue to work extremely well in a time of increased demand, including filing season systems as well as IRS.gov tools; and
- We have been able to continue bringing on new employees through the use of a successful virtual onboarding process.

As part of these efforts, the IRS continues to find ways to provide new virtual services and online tools for practitioners to ensure the critical work of the agency continues.

Last summer, for example, we moved quickly to shift our Nationwide Tax Forums for tax professionals into an all-virtual set-up rather than handling these in person at locations across the country. And in our 30th year of offering the forums, I'm proud to report our virtual version last year still attracted more than 10,000 practitioners from across the country.

Another great example is our announcement earlier this year that we are giving tax professionals a new online option to obtain signatures from individual and business clients and submit authorization forms electronically. This applies to Form 2848, *Power of Attorney and Declaration of Representative*, and Form 8821, *Tax Information Authorization*. This is an important first step in our ongoing efforts to expand digital options for tax professionals using electronic signatures and online uploads.

New options for taxpayers include the launch last year of an electronic filing option for those who need to amend their income tax returns. Providing an online filing

option for the amended individual income tax return – also known as Form 1040-X – has been an IRS goal for many years and is a major milestone for us. Electronically accepting Form 1040-X posed a number of unique challenges, but we succeeded thanks to a great deal of hard work by employees across the agency.

Resuming Operations and Answering Taxpayer Needs

Last summer, the IRS began resuming operations for non-portable services, as more states and local areas also began reopening. As we have continued our work during this unusual period, we have been aware of the continuing taxpayer needs and the backlog of work at our campus and office locations.

One area we have worked hard to improve upon is opening the mail. Because we had to scale back mail-processing functions last spring due to the pandemic, we developed a backlog of unprocessed paper returns and other mail. At one point, the backlog reached more than 20 million pieces. But since last summer, we have been working through this backlog, and we are now current.

While working to reduce the paper backlog, we also have been providing relief for taxpayers who sent us mail that was unopened for a period of time. For example:

- For people who had tax refunds affected by our closure, the IRS has paid interest on refunds. These payments, which can sometimes show up as a second deposit, averaged \$18 for nearly 14 million taxpayers.
- For people who made a payment but where there was a delay in when the mail was opened, we credited people on the date the mail was received, not the day we processed the payment.

As difficult as these last months have been, we have seen many examples of how this crisis has brought out the best in people, including the IRS workforce. I am proud of what our employees have accomplished during the pandemic. Our employees shared the same health and safety concerns for themselves and their families as every other American. However, they not only went the extra mile in doing their jobs; they also made a difference in their communities.

For example, we saw IRS employees across the country doing some amazing things: getting out their sewing machines and creating homemade face masks for family members and friends; donating essentials to protect first responders on the front lines in their communities; and delivering “care packages” to seniors in nursing homes. During last summer’s Feds Feed Families Campaign, employees at our Memphis Campus donated a record-breaking 51,800 pounds of food to the Mid-South Food Bank!

Another good example of providing help during the pandemic involved our Criminal Investigation division. A group of 12 special agents deployed to Travis Air Force Base in Fairfield, California, in March 2020. They helped provide security and

quarantine enforcement at hospitals and other locations, such as COVID-19 quarantine sites operated by the Department of Health and Human Services (the Assistant Secretary for Preparedness and Response and the Centers for Disease Control and Prevention).

It is important to note that, in addition to their efforts during the pandemic, IRS employees routinely deliver in times of need for the nation when disasters strike. Since 2012, more than 10,000 IRS phone assistors have stepped up to help take the burden off the Federal Emergency Management Agency's (FEMA) call centers in the aftermath of hurricanes and other natural disasters, answering an estimated 1.6 million calls from storm survivors seeking help. We have also had many agents from our Criminal Investigation division provide their help and expertise during disasters. For example, in September 2020, a team of about two dozen special agents deployed to Oregon in support of those fighting wildfires in that state. More recently IRS phone assistors were called upon to be ready to help FEMA with respect to the weather-related difficulties in Texas.

ENSURING TAX COMPLIANCE

Enforcement activities of the IRS affect revenues directly, by collecting unpaid taxes, and indirectly, by influencing taxpayers' behavior. Nearly all of the IRS's funds are appropriated annually by Congress. Appropriations for the IRS fell by about 20 percent (adjusted for inflation) since FY 2010. About 70 percent of the IRS's overall budget is for labor and thus, a decline in the overall IRS budget resulted in a decline in IRS staffing. The decline in funding levels resulted in a 15 percent decline in the number of full-time employees at the agency (since FY 2010) and a 31 percent decline in the number of full-time employees working in enforcement roles (since FY 2010). The number of examining revenue agents, who handle complex enforcement cases, fell by 35 percent, and field collection revenue officers, who manage difficult collections cases, dropped by 48 percent. The examination rate for individual returns fell by about 45 percent between 2010 and 2019 and for businesses with assets equal to or exceeding \$10 million fell by about 72 percent.

The IRS remains committed to having a strong, visible, robust tax enforcement presence to support voluntary compliance. When taxpayers file their returns, they should feel confident others are doing the right thing too. Enforcement of the tax laws is critical to ensuring fairness in our tax system. IRS employees who collect taxes, audit returns and investigate fraud as well as tax-related identity theft work hard throughout the year to enforce the tax laws while treating taxpayers fairly and respecting their rights. This commitment is true across our agency – our divisions that deal with individuals, large businesses, small businesses and exempt organizations are highly coordinated. In fact, the IRS' new Office of Fraud Enforcement, which was created in March 2020, is actively encouraging and

ensuring this coordination across IRS, and promoting compliance, and strengthening the IRS' response to fraud and mitigating emerging threats.

Over the past two years, we have shifted significant examination resources and technology to increase our focus on high-income and high-wealth taxpayers. For example, an IRS initiative announced last year involves improving tax compliance among high-income taxpayers by increasing visits to those generally with incomes above \$100,000 who failed to file tax returns in 2018 or previous years. Substantially all experienced examiners – those who are the most highly trained with substantial accounting skills – are almost entirely focused on high-income taxpayers and the most egregious situations. Our examination rates for closed and in-process examinations of taxpayers with total positive income (TPI) exceeding \$10 million are about 8.16 percent; for those with TPI between \$5-10 million are about 4.39 percent; and for those with TPI between \$1-5 million are about 2.39 percent. We are also pursuing those who promote and make use of abusive tax shelters, and are especially concerned about certain variations, including abusive syndicated conservation easements and micro-captive insurance shelters.

The IRS is committed to pursuing those who would intentionally evade their tax obligations and commit fraud. IRS Office of Chief Counsel is working closely with IRS compliance officers to properly and fully develop cases with indicators of fraud across all operating divisions, in pursuit of a civil fraud penalty where appropriate or for the most egregious violations, a criminal fraud referral. The Office has also appointed a National Fraud Counsel and the IRS also created the Office of Promoter Investigations to coordinate efforts regarding promoters of potentially abusive transactions. Our Criminal Investigation division also does important work to uncover tax fraud,

Additionally, the IRS – in particular, the Office of Fraud Enforcement and National Fraud Counsel – has been focused on preventing COVID-19-related fraud and scams, working closely with the Small Business Administration, the Bureau of Fiscal Service and the Department of Justice to prevent and stop improper claims for tax credits and see that the unscrupulous individuals face appropriate civil and criminal sanctions.

The IRS also must use technology to develop new enforcement tools. Our advanced data and analytic strategies allow us to catch instances of tax evasion that would not have been possible just a few years ago. We also recognize that we must evolve our enforcement efforts to address new types of tax fraud and criminal behavior. For example, the IRS has been working to ensure taxpayers with virtual currency transactions understand the tax laws governing virtual currency and meet their tax obligations. Our Criminal Investigation Cyber Crimes Unit has been involved in new complex types of tax enforcement including the take down of the largest child exploitation site operating in the Dark Net utilizing virtual currencies, to international money laundering operations involving the theft of

virtual currencies, to the seizure of terrorism financing sites maintained on behalf of al Qaeda, Hamas, and ISIS.

TAXPAYER FIRST ACT: UPDATE ON IMPLEMENTATION

Even during this challenging period, the IRS is meeting not only the immediate needs of taxpayers, but developing an innovative approach to the future of tax administration that will better serve everyone, including those in underserved communities.

The IRS is using its implementation of the Taxpayer First Act (TFA), to make significant improvements in the way we serve taxpayers, enforce the tax laws in a fair and impartial manner, and ensure our workforce collaborates and is well-trained. In January, pursuant to the statutory requirement, we submitted our TFA Report to Congress. This report includes strategic recommendations to improve the taxpayer experience, employee training, and the current agency organizational structure. The report is the culmination of input and feedback from our employees, our partners in the tax community, and other stakeholders.

I'm pleased to report that we will have strong, experienced leaders guiding us in our efforts to improve the taxpayer experience:

- We recently announced that Heather Maloy, a former IRS executive, is returning to the agency to be the new director of the Taxpayer First Act Office. Heather held many prominent positions while at the IRS, including Commissioner of our Large Business and International Division.
- Just two weeks after issuing the Report to Congress, we announced the creation of the Chief Taxpayer Experience Officer position to unify and expand efforts across the agency to serve taxpayers. We selected Ken Corbin, the Commissioner of our Wage and Investment Division. With more than three decades at the IRS, Ken Corbin is ideally suited to lead our efforts to improve interactions with the IRS for taxpayers and the tax professional community.

We are committed to serving the nation. With our TFA Report guiding us, and with ongoing support and feedback from our employees and partners in the tax community, we will continue to make improvements to ensure the IRS can serve the needs of the nation's taxpayers well into the future.

CONCLUSION

Chairman Pascrell, Ranking Member Kelly and Members of the Subcommittee, thank you again for the opportunity to update you on IRS operations, especially our responses to the COVID-19 situation. The IRS is dedicated to improving

service to taxpayers, modernizing its systems and maintaining the integrity of the tax system, while also protecting the health of its workers and American taxpayers.

We believe we have made great strides over the past year and will continue this progress with the help of Congress, as we move the agency into the future. This concludes my statement, and I would be happy to take your questions.