

**Hearing on 2015 Tax Filing Season**

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTEENTH CONGRESS  
FIRST SESSION

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**April 22, 2015**

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SERIAL 114-OS03

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Printed for the use of the Committee on Ways and Means

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**WITNESS**

**The Honorable John Koskinen** Commissioner, Internal Revenue Service

Witness Statement [[PDF](#)]

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**2015 TAX FILING SEASON AND GENERAL OPERATIONS  
AT THE INTERNAL REVENUE SERVICE**

Wednesday, April 22, 2015  
House of Representatives,  
Subcommittee on Oversight,  
Committee on Ways and Means,  
Washington, D.C.

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The subcommittee met, pursuant to call, at 10:05 a.m., in Room 1100, Longworth House Office Building, Hon. Peter Roskam [chairman of the subcommittee] presiding.

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Chairman Roskam. The committee will come to order.

Welcome to the updated Ways and Means hearing room, and I am told that this is the first committee activity here.

So, Commissioner, you are here on a great day, and we very much appreciate you coming.

What we will do today is we will go through two rounds of questions. As members come in and so forth, they will have the opportunity to ask questions. We will move this as expeditiously as possible.

This is the third hearing of the 114th Congress of the Oversight Subcommittee, and today we will review the 2015 tax return filing season and general operations at the Internal Revenue Service.

Obviously, the American people have the right to expect excellence from their government, including the Internal Revenue Service. This is a standard that is familiar to ordinary Americans every day in their jobs and their family lives and it is a standard that is especially important in light of the tremendous power that they have delegated to their government to perform key functions and administer them fairly and effectively.

Last week, the House of Representatives passed a Taxpayer Bill of Rights to make those rights of individuals the law when they deal with the IRS, and one of those rights is the right to quality service. And, unfortunately, many taxpayers didn't receive quality service this filing season, and many didn't receive any assistance at all. And today one of the things that we will discuss is why.

For the filing season 2015, the IRS reported that only 54 percent of taxpayers who called the agency were able to talk to a live assister. And, by April, the IRS estimated that the telephone level of service was less than 40 percent. Keep in mind, that the IRS' goal for customer service is 80 percent. Those who could get through at all had to wait an average of 34 minutes, over 15 minutes longer than last year. The number of abandoned calls increased by 1.3 million. The IRS also reported that, as of April 8, the number of courtesy disconnects, which is a nice way of saying that the system automatically hangs up because the wait time would have been too long, it actually reached 5 million.

The IRS has blamed the decline in customer service on budget cuts, and that is a premise that we are here to discuss. I think that is the focal point of our discussion today, and that is a premise that I personally challenge. I am of the view that it was the IRS who cut customer service, but we will have an opportunity to discuss that in further detail.

The amount of money that Congress appropriated to the IRS for taxpayer assistance was the same as last year, but the service was decreased drastically. In fact, the Commissioner said the taxpayer assistance this year was abysmal.

So what happened? The IRS made the decision to move money away from taxpayer assistance. The IRS has access to its user fee account, which includes fees collected for various IRS services. Last year, the IRS spent \$183 million of its user fee or 44 percent of the total user fee account on taxpayer services, but that didn't happen this year.

This year, the IRS only plans to spend \$49 million in user fees on taxpayer service. That is \$134 million less than last year. That is a 73-percent cut. So if the IRS had used that \$134 million to answer calls for assistance, it could have helped 16 million people.

At the same time the IRS was diverting user fees from taxpayer assistance, it also was failing to allocate the resources it already had available in a wise manner. For 2014, the IRS spent \$60 million on performance bonuses for employees, and in recent years, bonuses have also been paid to more than a thousand IRS employees who are delinquent on their own taxes. Fiscal year 2014 bonus money could have been used to answer 7.2 million additional taxpayer phone calls. The IRS also spent \$23.5 million and over 491 hours on union time in 2014. That could have been used to answer nearly 2.5 million calls.

The IRS recently hired an expensive law firm to conduct litigation activities with some lawyers on the account billing the U.S. Government at over \$1,000 an hour. This makes no sense to me since taxpayer money already goes to pay the salaries of IRS and DOJ attorneys who would be able to perform these duties. The IRS gave the law firm a \$2.1 million contract, and that money could have instead helped 252,000 people resolve their tax filing questions.

The IRS has also complained specifically about the impact of budget cuts on its enforcement resources, characterizing them as a tax cut for tax cheaters. But the IRS could increase its enforcement budget by over \$100 million every year through third-party debt collectors using the authority it has under current law, which is widely used in other aspects of the Federal Government.

Sequestration has forced everyone to do more with less and make tough choices, but I am concerned that the IRS by its own admission is saying, Let's do less with less. And the IRS' choices -- and I would argue that they are choices -- on how to allocate resources have been deeply disappointing. They don't meet the reasonable expectations of the American people, and I am of the view that the IRS needs to do better.

Finally, there is another issue that continues to be a matter of serious public concern and, that is, is the IRS auditing someone because they don't like someone? Through this committee's investigation of IRS targeting, we found that senior IRS employees defied internal safeguards to decide who should be audited. In part of this fact finding, I asked the IRS to tell us how many audits are started because someone inside or outside the IRS complains about a given taxpayer, and the answer was jarring. More than one of four audits are started on the basis of internal or external complaints, that is, on the basis of the IRS' own discretion.

I think what we need to learn is whether there are any meaningful safeguards in place to prevent the IRS from auditing people or groups that it simply doesn't like or if taxpayers are simply at the mercy of the IRS under this tremendous amount of discretion. So the question that we need to explore and discuss today is, could Lois Lerner 2.0 happen? We need more than a simple assurance that just "Lois doesn't work here anymore."

The American people deserve excellence from their government, and they have the fundamental right to always receive fair service at the IRS regardless of their personal political views.

It is my hope that this hearing and, Commissioner, your presence today and willing to interact and engage with us will bring light and clarity to these issues as we both work to try and make the IRS the agency that it needs to be.

With that, I am pleased to yield to my friend, the ranking member, for his opening statement.

Mr. Lewis. Good morning. Thank you, Mr. Chairman, for holding this important hearing today. It is good to be back in our room. Good to be at home again.

Mr. Commissioner, thank you for being here today and congratulations to you and your staff on a successful filing season. Last week we passed seven bipartisan bills on the House floor, all focused on improving our IRS operation. Now is the time for Congress to ensure that the agency has the resources it needs to properly serve American taxpayers and, just like last week, I hope that it will be a bipartisan effort.

Taxpayers are struggling, through no fault of their own. This committee and this Congress must do more to increase and expand taxpayer services. Unfortunately, during this filing season, taxpayers finally felt the pain of the Republican \$1.2 billion cut to the agency budget. The IRS budget is now less than it was 6 years ago.

Taxpayer service this filing season was not good. It was terrible. This was not the fault of hard-working IRS employees. National Public Radio recently ran a story called "IRS Budget Cuts Make for Nightmarish Filing Season." Taxpayers seeking assistance from the IRS waited

in line for hours. One of 4 in 10 taxpayers who called the agency were able to talk to a customer service representative.

The NBC-WIA local television station in Atlanta reported that thousands of people waited for hours to get answers to their questions at the IRS Atlanta regional office. In Georgia, the National Treasury Employee Union said the wait time was the result of Federal budget cuts. The union said that Georgia had lost nearly 1,900 IRS employees since 2011. Sadly, taxpayers are facing this same challenge across the country.

According to press reports in New York, one IRS office even ran out of paper to print extra tax form after taxpayers waited in long lines for hours. The union said that New York has lost nearly 1,200 IRS employees since 2011. This is not right, this is not fair, and this is not just.

Taxpayers should not suffer to further the Republican agenda. The majority of the budget cuts are the result of the IRS investigation into the process of tax-exempt application. This investigation started nearly 2 years ago in May 2013. The agency has spent more than \$20 million to produce more than 1,300,000 pages of documents, including 78,000 emails from Ms. Lois Lerner. To this day, there has been -- not been one shred of evidence produced to support the Republican claim that the processing or application was politically motivated and intended to target the President's political enemies.

The inspector general even stated that no one outside of the agency was involved in setting the standard for processing tax-exempt applications. It is time to put political agendas aside and work together to provide this agency with the resources it needs to improve taxpayer service and collect revenue. I ask all of my colleagues on the other side to join us in this effort.

Thank you, Mr. Chairman. And I yield back.

Chairman Roskam. Thank you, Mr. Lewis.

Commissioner Koskinen, welcome. You are recognized for 5 minutes.

And we have your written testimony for the record.

Welcome.

**STATEMENT OF THE HONORABLE JOHN KOSKINEN, COMMISSIONER,  
INTERNAL REVENUE SERVICE, WASHINGTON, D.C.**

Mr. Koskinen. Thank you, Mr. Chairman, Ranking Member Lewis, members of the subcommittee.

I appreciate the opportunity to update you on the 2015 tax filing season. And, as the chairman noted, it is a pleasure to be here in your redesigned room after we had a hearing in the basement. So it is a nice atmosphere.

In describing the filing season, as I said, it is the start of Dickens novel: It is the best of times; it is the worst of times.

Let's begin with the best of times. I am pleased to report that the 2015 filing season has gone smoothly in terms of tax return processing and the operation of our IT systems. Thus far, the IRS has received more than 132 million individual tax returns on the way to an expected total of 150 million. We have issued more than 91 million refunds for more than \$248 billion. To further illustrate how well things worked, our system accepted a record 5.2 million individual returns electronically on April 15, the final day of the filing season.

At times that day, our systems were acknowledging receipts of electronically filed returns at a rate of more than 200 returns per second. Return processing this filing season has gone even better than anticipated, given the challenges we faced beforehand.

Along with our normal preparations, we also had to prepare for tax-related provisions under the Affordable Care Act as well as the Foreign Account Tax Compliance Act. There was also late extender legislation passed in December. Integrating all of these changes into our antiquated IT systems and still opening filing season on time on January 20 was a great accomplishment by our experienced and dedicated employees.

Now a word about the worst of times. Return processing went smoothly if you were simply filling out your return without questions or a need to contact us. But for taxpayers who did need to contact us, it has been a very different and much less positive story as reflected in the chairman's opening comments. Customer service, both on the phone and in person, has been far worse than anyone would want. It is simply a matter of not having enough people to answer the phones and provide service at our walk-in sites as a result of cuts to our budget. We are dismayed by the reports of taxpayers who lined up outside our taxpayer assistance center hours before they opened in order to get service. Taxpayers who called us have had long wait times on the phones. On bad days, fewer than 40 percent of the calls were able to reach a live assister and that was often after a 30-minute wait or longer. This has been frustrating, not just for taxpayers, but also for the IRS customer services representatives who want to have the resources to be able to provide much better customer service, the customer service that our employees feel taxpayers deserve.

Another less visible area of concern for us in regard to customer service involves taxpayer correspondence. Our goal is to answer taxpayers within 45 days after we receive a letter. But this year we have been taking much longer to respond as a result of personnel shortages, and our correspondence inventory is growing because budget cuts forced us to shorten the period of employment for seasonal employees who help with these letters. It is now taking us an average of about 70 days to answer taxpayer correspondence, and that could reach 90 days by the end of the fiscal year. We estimate that the inventory of unanswered correspondence could grow almost 50 percent above our year-end goal of 1 million pieces of correspondence.



In requesting adequate resources to allow us to improve taxpayer service, it is important to point out that our goal is not simply to obtain funding to go backwards in time and perform the way we used to. We intend to build toward a new approach that centers on improving online help to taxpayers who increasingly expect and desire that type of service. While taxpayers can now go online to get tax information from us and download IRS forms, they should have a more complete online filing experience.

If we had sufficient funding, our goal would be for taxpayers to have a secure, online IRS account and use that as the basis for their interactions with us. Taxpayers would be able to fulfill their tax obligations virtually with little or no need to call, send us a letter, or visit an IRS office.

Looking ahead to next year, we are concerned that the 2016 filing season will be another challenging one. Complicating matters is the work ahead for us to continue implementing the tax-related provisions of the Affordable Care Act for the next filing season, along with the expanded requirements of the Foreign Account Tax Compliance Act. And we expect another round of tax extender legislation later in the year, which we hope will be passed well in advance of December.

Another page here. Someplace.

So it is possible that when I testify next year on the 2016 filing season, the report on the return processing front may not be as good as it was this year. The employees of the IRS will continue to do everything they can to effectively and efficiently deliver next year's filing season, but we need help. We need the Congress to pass any tax legislation as early as possible this year and to provide the additional resources necessary as requested in our 2016 budget. With that help on both fronts, I am much more confident about the chances of delivering another smooth filing season for the Nation's taxpayers next year.

This concludes my statement and I would be happy to take your questions.

Chairman Roskam. Thank you, Commissioner.

Of the two things that you asked for help on, you will find no argument from any member of this committee on passing extenders on a timely basis. We wholeheartedly agree with you that that is something procedurally that the Congress can greatly improve on.

The appropriations question is one where I think one of the themes that you will hear from the majority side today is that we think that there are areas that the IRS can go to in the current operation with the authority that you have now that can improve that customer service number. So, as a prelude to that, I think that that will probably be a part of the focus of our discussion today. And, with that, I would like to recognize Mr. Marchant.

Mr. Marchant. Thank you, Mr. Chairman.

Commissioner, good to see you. This year, the IRS has had to make some choices and has had to cut taxpayer services. Is that agreed?

Mr. Koskinen. We had to make choices across the board. We have cut enforcement services. We have cut taxpayer services. And we have cut support for information technology. We have tried to balance that across all three areas, which are the discretionaries we have. We have no choice about implementing statutory mandates. We have no choice about trying to make sure the filing season runs smoothly. So the only areas where we have discretion are in those three areas. And over 70 percent of our budget is personnel. So when we are cut, as we were last year by \$350 million, we have no choice but to cut personnel, and we try to do that in a balanced way.

Mr. Marchant. So do you make across-the-board cuts or are your cuts made selectively based on --

Mr. Koskinen. We sat down with all the senior executives and looked for areas where we could find efficiencies. We are saving over \$200 million a year over time in the efficiencies we have already found. I take the chairman's point, we need to be as efficient as we can. We need to be careful and careful stewards of the money the taxpayers give us to spend. So I think it is always fair comment for us to work with GAO, the IG, with the oversight committees to say, Where can we be more efficient?

But when we made the cuts, we did not make them across the board, except for the fact we had no choice but to say we would not replace anyone departed, that, in other words, we would have no hiring when people left. We have 1,000 people right now requesting to retire. We won't replace those people. So part of our attrition is by wherever people are going to retire because, again, we have to cut personnel.

Mr. Marchant. So if you have a retiree that retires in a part of the service that has nothing to do with customer service, do you retain that position in that department and not fill it there, or do you shift resources over to the service department?

Mr. Koskinen. Because of the constraints, as people are leaving, we aren't replacing them anywhere except for emergencies. In other words, if we lose someone in IT who is cybersecurity, we will replace them. There is an application process. Anybody across the board, if they want to replace a position, they have to let us know.

The biggest area where we have discretion is that, during filing season, we hire up to 10,000 seasonal employees, and we usually hire them for 4 to 8 or 12 months. This year, because of the constraints on the budget, we hired those people but, in fact, had to cut back the length of time they were available to provide service. So, again, our constraints are over 70 percent of our budget is personnel. So when we take a significant hit, it is going to show up with fewer people someplace, and we have tried again to analyze where those cuts are going. But, again, as a general matter this year because we didn't get the budget cuts until December, our position has been wherever people left, we didn't replace them.

Mr. Marchant. So when our taxpayer advocate in her 2014 report basically says that she does not believe that you are spending your money in a smart way, you would disagree with that?

Mr. Koskinen. I would disagree. I work very closely with the taxpayer advocate. Every year, we sit down with her and look at her recommendations and figure out where we can make improvements.

I have told her last year and this year, "Give me all your recommendations that don't cost money because we don't have any money." And we have actually adopted those. The Taxpayer Bill of Rights was one that we worked on jointly.

I do think that we disagree. Her view, for instance, is that last year we quit preparing tax returns for people in our taxpayer assistance centers, and she objected to that and said that was an important service. It is an important service. We are only preparing 68,000. We shifted those to our 12,000 VITA sites which this year prepared 3.4 million returns for taxpayers.

Mr. Marchant. She is an advocate for additional funding.

Mr. Koskinen. She is an advocate for funding. I --

Mr. Marchant. But she says that the IRS does not have a clear rationale for how it allocates its budget, and I think what I read into that is that, while she is in favor of giving additional funds, she is not yet convinced that, when those funds are given, that they are applied properly and they are applied in the right place because --

Mr. Koskinen. Right.

Mr. Marchant. -- she doesn't think you have a clearcut vision for that.

Mr. Koskinen. Since she made those comments, we have demonstrated to her and showed her the information of where we do customer service surveys, where we analyze the flow of work, where we make decisions as to where, if we are going to lower service in an enforcement center or lower service in a walk-in center, we actually analyze that. But it is an important point that we need to be analyzing effectively and efficiently where we are going.

GAO has raised the same issue, and we agree that, wherever we can, we need to be as efficient as we can. But overall GAO, the inspector general, the taxpayer advocate and the oversight board have all, independently of the IRS, said we are substantially underfunded. No matter how efficient we get, there are not enough resources to provide the service, the enforcement, and the information technology services that are necessary.

Chairman Roskam. Mr. Lewis is recognized.

Mr. Lewis. Thank you, Mr. Chairman.

Thank you, Mr. Commissioner, for being here today. I understand that the IRS budget today is less than it was in 2009. Could you tell members of the committee how the budget cuts have impacted the agency's ability to deliver service to their taxpayers?

Mr. Koskinen. Right. If you look at it from the budget, from 2010 on when the cuts started, our budget is down a billion two hundred thousand, which means we are down 13,000 employees. We will lose another 3,000 this year, of which 1,800 will be on the enforcement side. So we will be down 17,000 employees as a result of that \$1.2 billion cut, and it is at a time when we have had additional responsibilities given to us. The Affordable Care Act responsibilities are a statutory mandate. The Foreign Account Tax Compliance Act is a statutory mandate. Any tax law changes are mandates that we are obligated to fulfill where we can. We have 7 million more taxpayers than we had 5 years ago. So, again, I would stress we take very seriously the obligation to be efficient with our funding, to spend the money wisely, but when you cut \$1.2 billion out of the system, when you take 17,000 employees out of it, you are not going to do anything as well as you used to do it.

Mr. Lewis. You heard me state in my open statement that, in the regional office in Atlanta, according to local news report, there was an unbelievable amount of wait time. Do you agree with what the union said this is due to a lack of resources?

Mr. Koskinen. Yes, it is basically -- we have 3,000 fewer people answering the phones this year, and we have 3,000 fewer people not because we think that is a good idea. It is 3,000 fewer because we can't afford to have any more.

And, clearly, if you talk to our employees, as I said, the people who care most about this are the people in our taxpayer service centers who derive great satisfaction by being able to help taxpayers, give them answers to their questions. As I have traveled around the country, I have met with over 13,000 IRS employees, and one of the common themes of those dealing with taxpayers is they simply don't have enough people to provide the resources and the service that our employees think taxpayers deserve.

Mr. Lewis. It is not just a problem in places like Atlanta or New York or other places.

Mr. Koskinen. It is a problem across the country. We actually had a list that actually was put out about where the cuts have come across the United States. We have over 500 offices across the United States. There is not -- there are not enough people anywhere in the IRS. There are not enough people in appeals, in counsel. There are not enough people in taxpayer service. There are clearly not enough people in enforcement. We don't have enough people in IT. There have been -- as a result, when you take 17,000 people out of the system, you are going to take them out across the board.

Mr. Lewis. Well, you would come before, not necessarily before us, but before another committee and be requesting more resources to make up anything --

Mr. Koskinen. Yes.

Mr. Lewis. -- that you can describe as making up, fixing up, repairing?

Mr. Koskinen. Yes. And, again, what I have tried to get people to understand is, if we got more resources, it is not to go back in time to the way we always did the business, not to hire 13,000

people and put them all on the phones. One of our goals is to move more people onto the Web, onto digital services they expect. This year over 200 million hits were made on "where is my refund" app. We have provided almost 20 million copies of prior tax returns. In the old days, those were all calls that came to our call centers. Moving those onto the Web has helped us significantly provide better taxpayer service. We need to do more of that.

So I want people comfortable that we are not saying just give us the money, and we will go back to business as usual. Our goal is to provide better service, but a big part of that service improvement will be if we can spend the money in information technology to continue to expand our services online so that more taxpayers can get efficient answers quickly online.

Also, I would note, it costs us 22 cents to answer your inquiry online. It costs us \$43 to answer your inquiry on the phone. It costs us \$55 to have you come to visit our taxpayer assistance center. So, clearly, for efficiency and to save funding, we need to actually build our capacity for taxpayer service online and that is what taxpayers most of them expect. We always have to deal with taxpayers who don't have access to online services, and we need to have a phone service for people who need to get through. But a lot of people calling could get the information off our Web site if it was more efficient.

Mr. Lewis. Thank you very much, Mr. Commissioner.

Thank you, Mr. Chairman. I yield back.

Chairman Roskam. Mr. Kelly.

Mr. Kelly. Thank you, Mr. Chairman. Thanks for having the hearing.

Mr. Commissioner, good to see you.

I know you have a reputation as a turnaround guy and being able to take things that aren't going so well and make them better. But I have also always believed that the speed of the chief is the speed of the crew. So I think sometimes just in messaging, we can polarize situations, and I just want to really be clear about this. This is not Congress versus the IRS or the IRS versus the people. This is about the two of us working together to get better results for taxpayers.

I know in my own business, and whenever we started to lose, we lost 40 percent of our business. So what we had to do was come together as an organization and ask, how are we going to do more with less? What are we going to do to meet the challenge of a market that shrank rather quickly and how do we get there and still keep the doors open? The reason I ask that is because you put a communication out to the agency, and it says you told all the IRS employees that this year you were going to have to do less with less. I don't think that if you were in the private sector, you would ever go before a company that was in bad shape or failing and say, "Hey, here is the problem. Things are looking pretty bad for us. We don't have quite the resources that we would had liked to have, not that we need to have, but that we would had liked to have, and so what we are going to do is we are going to do less with less."

And my big question is, why would we cut customer service and redeploy those dollars elsewhere? You are the head of the agency. What was it in your game plan, what was it your thinking that said, "You know what, I think what we will do is cut customer service and that way we will have a better relationship with the taxpaying public if we make them wait longer on the phone, if we make them wait longer for mail, if we can close down different offices and not be able to do the advocacy that we like to do. I think that is really going to help our position"? I really do question that.

What were you thinking about when you sent out that memo and what were you driving to get to? You can't run around town telling everybody that you are out of money and that is the reason you can't do your job and saying it is those doggone people up in Congress, if they would just give us more money, we would do a better job. We have been telling the American taxpayers for a long time; if you just give us more money, we could do a better job as a government. So, I mean, seriously, when you had that meeting, and you put out that directive, what was it that you were trying to achieve? Was it better morale?

Mr. Koskinen. I will tell you what I am trying to achieve. First of all, we value customer service. But when you cut the budget \$1.2 billion --

Mr. Kelly. No, no, no.

Mr. Koskinen. -- and we lose 17,000 people, we don't have enough people anyway. So we have cut enforcement. In other words, we don't have a situation where we will just do one thing or another. The discretionary areas we have is we have to enforce the Tax Code; we have to provide taxpayer service; and we have to protect taxpayer data and run an antiquated IT system we are trying to upgrade. So if we put more money into customer service, it comes -- and more people, it comes from somewhere.

Even less enforcement. We have 5,000 fewer revenue agents, revenue officers, and criminal investigators. Does it come from IT? Everyone, including us, are concerned about cybersecurity. We are concerned about refund theft and identity theft and refund fraud. Are we supposed to spend even less money on that? We are spending less money on all of those areas, not because we think that is a good strategy, but that is the only choice we have.

Now, you are right.

Mr. Kelly. Yeah.

Mr. Koskinen. What does it mean when I say we are going to do less with less? It means that over 5 years of budget cuts -- and I am hoping that we don't have this same dialogue about 2016 -- the mantra from the funders has been, "You should be able to do more with less." And we have done more with less. We are dealing with 7 million more taxpayers than we used to. We are implementing the statutory mandates you have passed. But there is a point for morale, when employees sitting there doing enforcement cases are answering the phone and the person next to them leaves and they know they are not going to be replaced. At some point, the employees have to know we don't expect --

Ms. Kelly. And I understand that.

Mr. Koskinen. -- we don't expect you -- can I just finish?

Mr. Kelly. But, you know, there is very little time.

Mr. Koskinen. We don't -- okay. But we don't expect you to do more work than you are already doing --

Mr. Kelly. Excuse me.

Mr. Koskinen. -- since you are already overworked.

Mr. Kelly. Excuse me. You can't do that, though, as the head of the agency, if it is about improving morale, you can't tell people how bad it is and how much worse it is going to get and expect better results. And what I have seen happen is the divisiveness that has now taken place because when you to the IRS agents, they feel that they are under the gun because Congress is out to get them. When you go home and talk to the American taxpayers, they feel that both the IRS and the government is out to get them. And then we come out with a thing that says we are going to do less with less, and we are going to have less customer service. That just doesn't make sense in the real world.

Maybe it makes sense here and being on the talk circuit and talking to people about how it is to work with less. I would just suggest to you that there is hardly a person in America today that isn't doing more with less, that hasn't tightened their belt and learned how to work with less.

Now, the technology end of it has been a huge help for us, but also a 78,000-page code is probably the biggest problem you have. And the reason you have to have customer service is there are very few people out there -- taxpayers -- who are saying, "You know what, I think I can do this myself; it is so easy." That is why they go to all these different people, and that is why they go to the IRS and, please, help me get through this very difficult web of Tax Code that I have to understand because the one thing I don't want to be is on the bad side of the IRS.

But my point to you -- and I would just suggest this because you have done this in your private life. You cannot go to the troops and tell the troops that things have never been darker, days have never been longer, winters have never been colder, but you know what, we have a solution to that, we will just do less with less. I think that is a disservice. I also think that it is further divisiveness, and it adds to the lack of confidence and the faith that the American people have in our ability to work together because it is not working with each side of the aisle. It is working with all the agencies that provide service.

So I just ask you, I would encourage you to be, a little more upbeat, it is spring! Let's talk about the good side of it, let's talk about where technology has taken us and how much easier it has been. Let's make sure that we are concentrating on customer service.

Thank you.

Chairman Roskam. Time has expired.

I sense you will be able to respond and weave your response in, maybe even based on an inquiry from Mr. Rangel, who is now recognized.

Mr. Rangel. Well, I want to thank you for calling this hearing, but you don't expect me to respond to my dear friend, Mr. Kelly.

Chairman Roskam. No. I would suggest you keep your head down and avoid eye contact when it comes to Mr. Kelly. So -- but you can do whatever you want.

Mr. Rangel. No.

Chairman Roskam. But you got good counsel from me.

Mr. Rangel. Let me make it abundantly clear, I always learn from Congressman Kelly on the floor as well as here. And it makes it easy for me to go back home and tell the wealthy people that they could do more with less and that I will have to tell this to my teachers and the sick people who are on health care that the American dream, as he says as a businessman, is to do more and to get less benefits from it.

I don't understand all of this, but clearly, it seems as though -- I don't know why anybody would want to be the tax collector for our country or a county or anything. Obviously, there is something in the commissioner's background that causes him to want to be beaten up like this, but someone has to do it.

Let me ask you this: When you find a way for government employers, employees to do more work with less resources, check with me, we are going to write a book and we are going to reduce the deficit and everything is going to be well. It just seems to me, with the pain and anguish that my taxpayers suffered in this last election standing out in the rain, standing out there for hours trying to get just a little help so they could pay their taxes, that how in the heck your employees can do more with less when they don't even have paper to give them assistance, they all don't have computers, they all can't go online -- and I tell you what can happen. If you don't have enough money to enforce the audits and the laws, as in some countries, people are going to say "to hell with the laws," that the big shots aren't paying taxes anyway. And if you are going to give people a hard time that are trying to pay their taxes, this so-called voluntary system is not going to work.

Now, there is some talk out there that the more money we invest in your system and your program, that you can tell us that we can get a better return on that investment. If that is true, would you share with this committee the accuracy and what is that -- what do you base that on?

Mr. Koskinen. Yes. No one has disputed that we are the only major government agency, if you give us money, we give you more money back. So, particularly on the enforcement side, when we have 5,000 fewer revenue agents and officers and criminal investigators, that cut costs the government billions of dollars. Our estimate is that the government is now losing \$7 billion to



\$8 billion a year as a result of the decline in our enforcement efforts and our enforcement agencies.

So our estimate for the budget cut in December was that the cut of \$350 million cost the government over \$2 billion. So if you are interested in deficit reduction, cutting the IRS budget is not the way to go. Cutting the IRS budget increases the deficit.

I would go to -- Mr. Kelly, I agree we continue to need to work together. Actually, the Congressman and I have had a number of good conversations back and forth because we both share a business background, as he notes.

My point has been -- and with the employees is after 5 years of every year the budget is being cut and the Congress saying "you can do more with less" -- and we have an obligation to do as much as we can and more with less whenever we can -- after you get \$1.2 billion in cuts and you lose 13,000 people, for employee morale, it is important for the employees to understand that we do not, at least those of us running the place, expect that we are just going to pick up for those 13,000 people and everybody else will pitch in and will do that work.

Part of the concern for employees is, do we understand what the implications are when there simply are 3,000 fewer people answering the phones, 5,000 fewer people enforcing the code? Do we expect the remaining employees to pick up for the 5,000 revenue agents? My position to them is, at some point, the answer is no. At some point, we have to recognize the responsibility and the accountability for continued cuts in the agency.

We need to be efficient. We need to take everybody's ideas for where we could save money, and we will continue to do that. We saved \$200 million a year already. Wherever anybody has got a good idea, I am in favor of it. We are not defensive about that. We will work on it.

But at some point -- and this discussion is a continuation of 5 years of these discussions. At some point, when you continue to cut the budget of the organization and continue to give it more responsibilities, you have to acknowledge and recognize the impact of that is going to be a decline in service, a decline in enforcement, and greater risk in the IT area for cybersecurity and refund fraud and identity theft.

Chairman Roskam. Mr. Meehan.

Mr. Meehan. Thank you, Mr. Chairman.

Mr. Koskinen. I was going to say I think we need better microphones.

Mr. Meehan. It is on. Thank you, Mr. Koskinen, for being here once again. And I appreciate your testimony and the challenge that you face leading the administration that you do. Tough task.

But let me ask a question: If you want us to plus up your budget, where would you find the money? What should we be cutting in government?

Mr. Koskinen. There has been a proposal -- and it is done in the past -- called the program integrity cap, where the budget over time and people have recognizes, if you give us more money, particularly for enforcement, it is not a charge against anybody else. It increases the revenues of the government.

This year, there is a request that if you gave us \$600 million for enforcement, over time, the government -- over the 10 years everybody measures --

Mr. Meehan. So it has got to be --

Mr. Koskinen. -- the government would get \$40 billion more.

Mr. Meehan. That wasn't my question. I know where you said we can plus up, and I appreciate that. We are looking at that. As a former prosecutor, I appreciate that.

But I am asking you, where would you like us to cut?

Mr. Koskinen. Budgets are an interesting discussion. Last year, the only major agency cut was the IRS, so nobody else took any significant cut. The IRS -- going to Congressman Kelly's point about whether this is a battle or not, the IRS was singled out and the appropriators went out of their way to talk about how pleased they were to be able to continue to cut the IRS budget.

So, I guess, what I am saying is we have been double sequestered. We didn't go back to the pre-sequester level the way everybody else did. Nobody else took the cut we did last year. So we are already two sequesters ahead of everybody else. If we had just been treated the same as everybody else, we would be in a much better shape. We would have \$900 million more, and we would not be having this discussion. So I guess my point of where I would cut is basically I would restore the IRS to parity with everybody else, and then we would be in reasonably good shape.

Mr. Meehan. Let me ask about technology and where we are working with that. I see that more than -- about 60 percent of the returns come in from paid returners using the resources of others who presumably are experts in this.

Mr. Koskinen. Right.

Mr. Meehan. So we are really dealing with about 40 percent, then, are coming in in some capacity in which somebody hasn't assisted. Doesn't that cut down on some of the demands and needs of the institution?

Mr. Koskinen. Yes. In fact, the fact that we get this year over 85 percent of people filing electronically makes us much more efficient.

Mr. Meehan. So we are seeing huge new opportunities in efficiency created by IT and other kinds of things --

Mr. Koskinen. Yes.

Mr. Meehan. -- which, by its very nature, means it should reduce, as long as personnel are appropriately directed, it should reduce some of the demands on personnel, should it not?

Mr. Koskinen. Exactly. If we were taking paper returns -- in the old days, we at one point had 130,000 employees, so we are already 43,000 employees lower than where we were in the old days. That is an efficiency that has been built into the IT, and I agree with you.

One of my proposals -- the reason I said is we are not talking about going backwards. We are talking, just as you say, if we had the funding to make greater investments in IT, we would be more efficient. If those people, the 200 million hits on "Where's My Refund" or the 20 million people who got copies of their transcripts had to deal with us personally, you know, we would be out of business.

Mr. Meehan. Well, let me ask a question about that, the funding on IT. Because once you make an investment in IT, it should be something that pays for itself moving forward consistently. Correct? I mean, it is sort of a one-time investment in an upgrade that should then pay off dividends down the road?

Mr. Koskinen. Exactly.

Mr. Meehan. Well, let me ask a question, because I am looking at this. This is from 2009. I am just looking at business system modernization, 230 million invested in 2009. 2010, \$264 million more invested in business system modernization. 2011, \$263 million more invested in modernization. 2012, \$330 million more invested in modernization. 2013, \$313 million more invested in modernization. It is a lot of money invested, and each time, we are modernizing. And part of your testimony was an antiquated system. I don't get it. Why are we investing, then, 5 years of increases in modernization and you are sitting here today telling me that we are dealing with antiquated systems that don't work?

Mr. Koskinen. We are. We have retired as a result of expenditures 365 old applications. We still run 580 we need to retire. We have made significant progress. Five years ago, there was no way we could have a "Where is My Refund" app. There was no way you could do an online installment agreement.

In fact, 5 years ago, we had trouble dealing with online filings. Five years ago, we couldn't deal with identity theft the way we do now. We have put significant amount of that money into it.

We file a quarterly report. It is up on a government Web site, detailing exactly where the funding is going, what the projects are, what the results are, what the improvements are that we have made. GAO and any number of people overlook it. We have made great progress compared to 20 years ago where we really struggled.

But you are exactly right. The more we could put into information technology, the better off we will be. My position, as I say, isn't we need to go back to having 100,000 employees. My

position is what we need to do is, in the interim, make sure we provide taxpayers the services we can and enforce the code, but we need to keep doing exactly what you are pointing to: business system modernization. And it can't be just abstract.

We are preparing a white paper for the Congress that shows the building blocks going forward of how we get rid of the remaining antiquated systems; 50 of them are still out there that we were running 60 years ago. We need to get rid of those, but you can't do it for free. You have to actually continue to make that investment.

And we are willing and it is appropriate for us to be held accountable on your question: What are you getting for the money you spend? I think that is an important question. As I say, every quarter, we provide a thick report to the Congress and GAO saying, "Here is what you have gotten for this expenditure."

I want to make it even more user-friendly. I want you to be able to understand what the application is online that you got for the money, the ability for taxpayers to have their own account online. We should be able to demonstrate to you how much does it cost, and we should be held accountable when we get there.

And if -- you are right, if we can get there, we could probably run the place with even fewer employees, but we can't do it now.

Chairman Roskam. Mr. Crowley.

Mr. Crowley. Thank you, Mr. Chairman -- Chairman Roskam and Ranking Member Lewis, for holding this hearing today on the IRS and its operations.

I welcome you, Commissioner, as well. Good to see you again.

Mr. Koskinen. Thank you.

Mr. Crowley. I think it is important to make sure our Federal agencies are operating in a way that helps our constituents. Just remember, all of our efforts here are to help our constituents. But I worry there are some who don't share the same productive goal.

At some point, the IRS just became the preferred scapegoat of all problems in our country. Let's be clear, the job of the IRS is to collect taxes and audit those suspected of not paying their legal obligation. That is the job, that is the role of the IRS.

Our constituents may not like interacting with them, and I understand that. But we all will, at some point in our lives, interact in one way or another with the IRS whether we like it or not. Yes, we have seen some actions by the IRS over the past decade that could have best be described as incompetent, but let's not lose sight of the fact that the IRS does have a job to do. And I feel better about the steps that you have taken, Commissioner, to address these problems. I feel better -- I don't feel good yet, but I feel better knowing you are at the helm, known as a workhorse and without political blinders, and I appreciate that.

So, while virtually every Republican in Congress has all -- they have all promised at one time or another to eliminate the IRS -- we have heard it from just about every Member of the Republican side of the aisle that -- once elected, they have all backed down from that pledge.

Honestly, does anyone think if a Republican wins the White House in 2016 and they keep control of the Congress that the Republicans will rewrite the Tax Code and actually eliminate the IRS? We all know the answer is no. That is because governing is always harder than grandstanding.

We have seen this with the healthcare law as well. While my colleagues on the other side of the aisle have voted to repeal the healthcare law dozens of times, a law that has expanded insurance coverage to over 16 million Americans and ended the ability of insurers to deny coverage to people with preexisting conditions like asthma, not once have ever provided any type of replacement in lieu of the ACA. The only thing they have ever offered is a plan to replace the traditional Medicare system used by millions of seniors with one based on vouchers and tax credits, forcing seniors to shop for health insurance in the private market. They must have forgotten that the reason Medicare was created in the first place was to ensure that seniors had access to affordable health care instead of having to fend for themselves in the unpredictable private markets.

But, time and again, we see more focus on sound bites than substance. So, while it is easy to bash the IRS, shouldn't we be here trying to help our constituents, who we all acknowledge will interact with the IRS at some point? That means providing the agency the resources it needs to function and function effectively but with tight congressional oversight.

Starving the agency of funds may feel good, but it doesn't actually do any good for our constituents. Unless you have plans to fundamentally revamp the tax system in the U.S. and eliminate the IRS, which to date no one here has suggested any serious legislative proposal, then we need to figure out how to address the current issues at the IRS. So let's put aside the huffing and puffing.

Let's recognize that press releases and shouts don't ease the burden of our seniors looking for tax help on the phone. They don't help our small-business people trying to figure out how to meet their tax obligations. And, yes, they don't make it easier for the local nonprofit groups in each of our districts to navigate the system and serve our local communities.

Let's figure out a way to help the IRS do the job we tasked them to do in a way that is the least onerous for our constituents with sufficient oversight to help protect all of our constituency. Sure, that isn't as easy as a press release, but, again, governing is harder than grandstanding.

And, with that, Mr. Chairman, Mr. Commissioner, thank you for your service, not to the IRS but to the American people. Thank you.

Chairman Roskam. Mr. Holding.

Mr.  Holding. Thank you, Mr. Chairman.

Just as a brief followup to Mr. Meehan's line of questioning, as he was rattling off the numbers of how much is being spent to modernize the information technology of the IRS, I am sure we got up over a billion dollars. And considering some of the great information technology companies of the world started in a garage, I can only imagine what they could have accomplished if they had a million dollars of venture capital to innovate with and come up with solutions.

But at any rate, I appreciate your time, Commissioner. And I appreciate your comments in your opening remark where you say, you know, you are about being as efficient as one can and being good stewards of the taxpayers' money. Those are good mottos for anyone in government to live by.

So, of course, it concerns me that IRS employees spend hundreds of thousands of hours conducting union-related activity on official time. In fact, in 2014, IRS employees engaged in almost 500,000 hours of union activity on the taxpayers' dime. Just so we are clear, none of those hours, those 500,000 hours, would have been used to serve taxpayers. Correct?

Mr.  Koskinen. They are representing employees, and to the extent we have an effective workforce, it helps taxpayers, but it is not a direct taxpayer service, you are right.

Mr.  Holding. And none of those hours would have been used to catch tax cheats or fraudsters, would they?

Mr.  Koskinen. No. Again, to the extent it makes the workforce more efficient, it helps. But it is not a direct enforcement activity or a direct taxpayer service activity.

Mr.  Holding. So you think 500,000 hours of union activity on official time is an efficient use of time and represents good stewardship of taxpayers' funds?

Mr.  Koskinen. I do. Congress years ago passed a statute that Federal employees have a right to a union. Congress passed another statute saying that the employees of the union representatives have a right to work with the employees on official time. Our latest contract with the union has got a joint commitment to control that. It is already down by over 100,000 hours. The union has agreed we are going to try to work with virtual meetings so they don't travel so that we can control that as much as we can. But it ultimately is an important part of the workplace for employees to feel, if they have a problem and they don't feel comfortable raising it directly, they have a place they can go to raise concerns either about their personal situation or about situations in the organization.

So I think we are efficiently doing what, again, is authorized. We don't have control over whether that time is spent or not as a concept, that Congress has approved that. What we do have control over is to work with the union to try to make it efficient as possible.

Mr. Holding. Let's get a little bit more specific about that. As you note, the time spent has been reduced, and the time is actually not dictated by statute. It is dictated by the contract that you negotiate with the union. And there is some time that union members will use that is dictated. If you are engaged in collective bargaining, you have to give them official time to do that.

But, outside of that, you control that with the contract that you have with the union. And it is my understanding that you are negotiating a new contract now with your unions. You are currently operating over a contract that expired in 2012.

And so during this negotiation with your unions -- I mean, the whole theme of this hearing is how you can do more with less. So, considering that it is 500,000 hours of official time used in the past year, what are you doing to negotiate with the unions to reduce that amount of time and get it down to the bare minimum of what is required under the statute rather than --

Mr. Koskinen. That is a good point.

Mr. Holding. -- hundreds of thousands of hours.

Mr. Koskinen. As noted, it has come down. We have worked with the union. It has come down significantly over the last 5 years. In the contract, which goes into effect in the fall, there has been an agreement to reduce it again by a defined amount and a relatively modest amount, but there is a broader agreement with the union that --

Mr. Holding. Well, considering the times that we are in and, you know, as you have noted, you know, the declining budget of the IRS, perhaps it is time to take more aggressive measures to reduce the allowable time under the union contracts that they can use, the taxpayers' dime, to conduct union activity. The time is worth \$20 million, and that could have theoretically been used to answer 2 million calls.

These are difficult times that we live in. Doing more with less is the mantra, not less with less.

Mr. Chairman, I yield back.

Mr. Koskinen. Perhaps we ought to have the mantra being doing as much as you can with less, whether it is more with less or less and less. As much as you can with less is what we probably ought to be focusing on.

Chairman Roskam. Mr. Smith.

Mr. Smith. Thank you, Mr. Chairman.

Mr. Chairman, this article on IRS return fraud called "Fraudulent Filing of Tax Returns Hits High Locally" ran this last Sunday in a local paper in my district. It highlights the problems faced by folks who have had their personal info stolen and used for fraudulent returns, which is higher than ever in our region. I just wanted to bring this to the committee's attention and enter it into the record.

Chairman Roskam. Without objection.

[The information follows: [The Honorable Jason Smith](#)]

Mr. Smith. Thank you.

Commissioner, you have said the IRS has to do less with less. Could the IRS do more if it had an extra 100 million this year?

Mr. Koskinen. If we had a extra 100 million, we would do more. We would be efficient with it, and we would do more.

Mr. Smith. I would think so. Well, it seems like the IRS hasn't really been digging through the couch cushions, in my opinion, to find extra funds. I know where you can get that kind of funding -- that kind of money, in fact. Did you know that Congress has given the IRS authority to use third-party debt collectors to collect unpaid taxes?

Mr. Koskinen. Well, they haven't given us -- that issue was raised and was not provided last year. But we have tried that twice, and it turned out we didn't make any money at it.

And the GAO reviewed that. We sent a detailed report to the Senate when they were considering it last year. It turns out, by the time you get done -- recognizing private debt collectors cannot lien or levy so all they can do is call people to try to get them to pay, we have to develop a system to monitor them to make sure they are not abusing taxpayers because we are responsible for that.

In the 1990s and 10 years ago when that was tried, it turned out to not be a productive enterprise.

Mr. Smith. So we have used third-party debt collectors in the past and did not make any money?

Mr. Koskinen. Ultimately, by the time you added the cost with the revenues, it turned out to be basically -- in one case, we lost a little money.

Mr. Smith. Okay. So my understanding was that we used these third-party debt collectors and the only payment that they received is if they brought in due tax returns that we were no longer going after. Is that correct?

Mr. Koskinen. They got paid out of the revenues they received, which was either an incentive or a bounty, depending on how you wanted to deal with it. But it didn't cost us; that was not the cost. The cost was, in effect, setting up the appropriate systems to monitor and be able to, in fact, organize that. We ended up having, because of concerns by the public and the Congress, we ended up having to have IRS employees in offices to make sure on the phone that they were not using abusive tactics to harass taxpayers to get them to pay.

Mr. Smith. So what was the cost to do that monitoring?



Mr. Koskinen. By the time we got done with it, the cost equalled basically the revenues in. And I would be happy to provide you the report we provided. My commitment in my confirmation hearing was that we would go back and do a fresh review of all of this. And we provided that report to the Senate. And I will be happy to provide it to you.

Mr. Smith. I would like to see that. I just find it interesting that GAO and the Treasury inspector general for tax administration and the Joint Committee on Taxation estimates that using these third-party debt collectors would raise roughly \$4.4 billion over the next 10 years. How do you feel about that?

Mr. Koskinen. I am not sure where the Joint Committee, which does great work, came up with those numbers. But, as I say, we will share with you the third-party review and the information and the experience we had the two different times the IRS tried it.

Mr. Smith. I think we need to look into seeing why all these different committees are suggesting that IRS could get an extra \$1.1 billion under using these third-party debt collectors, especially since you could definitely use more money from what you have testified today.

Mr. Koskinen. As I say, we looked -- I looked -- I told it was my commitment we would do a fresh look at the issue and see if there was a way to deal with that. And we did that and provided the report to this Congress. It had -- GAO had looked at that in the past as well. And, as I say, we will be happy to give you that report.

Mr. Smith. So this report just says that we shouldn't use third-party debt collectors?

Mr. Koskinen. The report goes into great detail. The third-party reviews that were done, it is a fairly thick report, it will give you the background information as to how that conclusion was reached.

Mr. Smith. Okay. Mr. Holding was just discussing the unions with you. Have the same unions that have spent these hundreds of thousands of taxpayer-funded hours on their activities opposed using this authority?

Mr. Koskinen. They have historically been opposed to that, yes.

Mr. Smith. So they have opposed using third-party debt collectors?

Mr. Koskinen. That is my understanding, yes.

Mr. Smith. Thank you, Mr. Chairman.

Chairman Roskam. Ms. Noem.

Mrs. Noem. Thank you, Mr. Chairman.

Commissioner, you have complained today and previously several times that Congress has not given you enough money to do due diligence on customer service. And some, I believe, would be very surprised to know that you have the same amount of dollars in the 2014 budget in the 2015 budget that is dedicated specifically and has been appropriated to customer service.

And that is not coming through in a lot of your testimony that you delivered before us and the other places around town when you speak. The problem that I have today is that the IRS gets to choose where it spends some of its dollars. And it looks to me like you are purposely diverting money away from customer service to harm taxpayers. We are going to put a slide up today that reflects some of the user fee account dollars and where they have gone in the past and where they are going in the future and where they are happening to go today. Last year, the IRS spent \$183 million out of this user fee account for customer service, which is about, I think, 44 percent of that account was used to help make sure that taxpayers have the assistance that they needed to adequately pay their taxes.

This year, it looks like you only chose to spend \$49 million of these user fee dollars on taxpayer services. I believe that is down to almost 10 percent of the account. And it was directly chosen by you to do that at a time when you come before our committee and you come before many other places around town talking about the fact you don't have enough dollars for customer service. Instead, you moved money that you had the opportunity to away from customer service and put it into operations. So, from where I am sitting, it looks like to me that you are purposely harming taxpayers.

Mr. Koskinen. Can I answer that assertion?

Mrs. Noem. Well, I would like -- the question that I would like you to answer is, do you agree that you have cut the use of taxpayer fees or user fees to pay for customer assistance? Is that correct?

Mr. Koskinen. That money was moved to, in fact, fund the IT necessary for implementing the statutory mandate that Congress passed. In 2014, we asked for \$300 million for IT to support FATCA and the Affordable Care Act. In 2015, we asked for \$300 million to support implementation of the statutory mandate. In both years, the Congress gave us zero dollars. So we had no choice but to go elsewhere to find the resources to implement the mandate that we had no choice about implementing. So we did take -- and I made that clear before, and the chairman was very accurate in noting that we have never been fully funded for customer service. We have always used our user fees in the last several years. And you are right. The numbers are exactly right; we spent \$190 million of that in 2014. But, again, as we got zero funding for the Affordable Care Act implementation, we had no choice. We could not afford to have the filing season collapse because we couldn't implement that. So we took \$100 million of user fees out of customer service and put it into the IT -- to, in fact, operations -- to develop the IT necessary to support the filing season.

Mrs. Noem. How much money annually do you collect in user fees?

Mr. Koskinen. Our user fee account is -- it varies, but it is in the range of \$200 million to \$250 million. It goes up and down.

Mrs. Noem. So, out of that amount, you chose to reduce the dollars that were purposely dedicated to customer service and use those to fund IT?

Mr. Koskinen. We didn't fund just IT. We funded the statute that we are required to implement. At the same time, we took money out of enforcement. As I say, we are going to have 5,000 fewer people in enforcement. So this is not a question of we put the money in places we didn't need it. We have actually taken money from everywhere. And part of the reason we have done that is because of the refusal of the Congress in 2014 to give us the \$300 million necessary to implement the act, the refusal of Congress to give us \$300 million for IT in 2015 to implement the act. We have shared that information with the appropriators.

Mrs. Noem. Mr. Commissioner, if you would look at the slide that we have up today. I would like you to glance at that. Because what this shows, based on GAO data, is that there is direct correlation between wait time that taxpayers have to wait for assistance from the IRS that correlates with the amount of user fees that are dedicated to taxpayer services. And that is what concerns me today is that knowing this is the projection we are going to see in the future, that the decision was made by leadership within the IRS, which I believe lays directly at your feet, that you have chosen to help IT, to help other areas of your budget to the detriment of taxpayers and that they are truly the ones who are going to suffer in the future because they won't have the assistance to make sure that they pay their taxes on time.

I believe it is a loss of priorities. I don't believe that workers who work for the IRS are bad. I think many of them work very, very hard every day. I do think this is directly relational to leadership and the lack of priorities identified correctly to where they need to be. We have to remember each and every day that the dollars that you deal with are the taxpayer dollars and that the refunds are due them and due them in a responsible amount of time. So that is the concern that I have is that when I look at your budget and where you have chosen to prioritize funding, it has not been in taxpayer services and in assistance and taking care of them. It has, instead, been on other areas, such as IT improvements, which we can see you certainly have had millions of dollars you could work with over previous years.

Mr. Koskinen. If you would be able to point out to me where we would find elsewhere the \$300 million in 2014 and the \$300 million in 2015 for the implementation of the statutory mandate that Congress passed, where else we could find the money, I would be happy to know that. We sat down, as Congressman Kelly said, with the entire leadership team looking for how were we going to fund the requirements that we have of implementing statutes and running the filing season.

We did not take money just from customer service. We took money from across the board. As I say, we have 5,000 fewer people in enforcement. We have fewer lawyers. We have fewer appellate people. There has been an across-the-board attempt to balance out the needs. If you can find a better way for us to have spent that money, I would be happy to talk with you about it.

Mrs. Noem. We will do that. Thank you.

Chairman Roskam. Ms. Black.

Mrs. Black. Thank you, Mr. Chairman. And thank you, Mr. Chairman, for allowing me to be here on this panel today. This is a very important conversation that we are having here. And I think that all the colleagues in front of me have covered much of the issues that I had in my mind. But I want to go back to and follow up on the conversation that Representative Noem has talked about where there has been this diverting of this money. The IRS, in fact, has spent \$1.2 billion dollars on implementing the President's healthcare law, is that true?

Mr. Koskinen. Over the last 4 years, we have spent \$1.2 billion. That is a statutory mandate. We have no choice.

Mrs. Black. \$1.2 billion. And, in addition to that, you expect to spend another \$533 million in fiscal year 2015, is that correct?

Mr. Koskinen. That is correct.

Mrs. Black. Okay. So that is almost 5 percent of the IRS' total budget. Is that correct?

Mr. Koskinen. Correct.

Mrs. Black. So what we see here -- and I understand that you are saying it is a mandate on your agency that you must follow the law. But I think it is important for the American people to see what this is costing the American people, that \$1.2 billion has been spent up to this point in time in implementing this law. And so when we talk about the cost to the American people on implementing this law, this is one that I think gets many times lost in that of conversation. The American people don't realize that this is how much money is being spent just on this side of implementing this law.

Now, I want to go on and connect this to something last week in one of my Health subcommittees as we had people who are in the real working world, employers who are having to abide by the law on the employer mandate. And one of their complaints is that, first of all, they did not receive the guidance on just how to report on the employer mandate, which they are going to be required to do in fiscal year 2015: to report the employees that they have, the amount of insurance that they have for them, their families, Social Security numbers, a lot of information that is coming to you. They did not get guidance on that until February. And, yet, they have to go back to January and do that reporting mechanism.

But here is the thing they tell us: This is a lot of work, costing them a lot of money. Can you tell me if the agency is ready to crossmatch what they are sending in with what is seen on the exchanges and whether these employees that they have possibly have somebody in their family that has applied for the exchanges and the subsidies, can you crossmatch this information? Do you have the system set up to do that?

Mr. Koskinen. We don't yet. That is what we are building this year. That is part of the challenge for preparing for the next filing season. But we are prepared. I have been meeting every 2 weeks for the last 15 months with the IT people, the program people, and our operations people, reviewing the deadlines and the time frames. As I say, we managed to get through this filing system with all the ACA implementation going smoothly. We expect to get through the next filing season going smoothly. But, again, it is a challenge. And to the extent the funding continues to be cut, it is going to be a significant challenge.

Mrs. Black. So what we can say to the taxpayer is, by the way, you couldn't get into the IRS to ask your questions because money was taken out of customer service and put over here to the implementation.

Mr. Koskinen. Well, another way to put it would be we couldn't get into the IRS because, in fact, our budget was cut on top of all that.

Mrs. Black. In addition to that, we are asking employers to spend a lot of time putting all this information into the system where, admittedly, the system is not even ready to use that information to do what the system says that they are requiring them to send this information in for.

Mr. Koskinen. We will be ready by the filing season 2016. Last year, I said we would be ready for filing 2015, and we were. And I am confident -- because it is a great workforce working very hard -- that we will be ready to use that data when it comes in appropriately in the next filing season.

Mrs. Black. Well, I certainly hope, as we look next year this time and we are talking about this, that that is true. You have certainly said it here for the record. But it is a lot of information that is causing employers a lot of time and money to put in. And if this information is not being able to be used -- and, again, we are taking this from customer service, moving it over to the implementation of a program that, again, the American public I don't think realizes how much this is really costing. Thank you.

I yield back the balance of my time.

Mr. Koskinen. Thank you. My only other observation is if the budget continues to be constrained or cut, then we are going to have a similar dialogue next year. And my concern is, will the filing season go as well as we go?

Chairman Roskam. Commissioner, I just wanted to focus in and take the admonition of Representative Rangel and that is that we need to defend a voluntary system. And you know and I know and every member on this committee knows -- and Mr. Rangel made a great point, and that is if it is undermined in any way, then it begins to collapse in on itself. And one of the great strengths of the United States is our system is voluntarily. And to the extent that I am involved in how Representative Crowley feels, I think we can make him feel better. He said he felt better but not great. And so part of the challenge is, where are these resources? Because there is

nobody on this panel on either side of the aisle that is going to say morale and so forth is an easy thing to manage as a workload increases.

So what you have done is you have challenged us to say: Look, where is the money? Where are the resources? And give me resources.

And that is a fair argument to a point. And here is where you and I separate, I think, in terms of how we approach that. There have been a number of examples today on where resources can come from. I have got a thing up on the screen. You can't see these. Is our new technology so inelegant that you can't see this? That is not helpful. So let me read these through.

Mr. Koskinen. Somebody gave me a copy of the last one. If there were a copy of this one, it would be great.

Chairman Roskam. All right. We will get that to you. Let me just go through them.

There is nothing surprising here. And it is all essentially a discussion point. But, for example, we would argue that the bonus money that you made a decision to pay, \$60 million in bonuses, you decided to move forward with that. One of your predecessors, Commissioner Werfel, said he wasn't going to pay those bonuses. And you made a decision to pay those. We would argue that the \$60 million could have handled 7.2 million in calls. Does that make Representative Crowley feel great? No. But I think it would make him feel better if those 7 million calls were met.

The discussion that you had with Mr. Holding, for example, there is an opportunity -- and we accept at face value, again, that some of the responsibility, as it relates to collective bargaining, is, in fact, a statutory mandate. But the overwhelming majority of it isn't. And, basically, knocking on the door of about 90 percent is not mandatory. It is discretionary on the part of the Service. And so toward that end, there is another \$20 million that can be saved. That is 2.4 million calls. There is a law firm that you have entered into a contract with that I want to just touch on and then come back to because I have got a 6103 question. But the outside firm, that is a couple million dollars. And we would argue, look, there are plenty of attorneys and so forth that can handle that. And the user fee cuts, there is also a \$100 million that Mr. Smith outlined and that is in the private debt collection, and other aspects of the Federal Government have come, Commissioner, to a very different conclusion than you have come about it or that the IRS has come. Maybe it was dealt with before you assumed the leadership as the Commissioner. But the GAO says that the IRS' study was not soundly designed to support a decision on whether to continue contracting out debt collection. In addition, the study was not originally intended or designed as primary support for the decision to cancel the program. IRS officials used it nevertheless for that purpose.

TIGTA went on to criticize the private debt collection cancellation. And they said it is clear that the Federal Government benefited from private collection agencies working these lower priority cases. So to use the old contingent fee model, this is debt that is not being pursued. It is just on the shelf. And two reputable, sterling reputation organizations -- that is TIGTA and GAO -- have come to a different conclusion. And I know that is not money, Ms. Noem's point,

that can be used for customer service. It can be used to take off some of the pressure on the enforcement side. So, in light of these things, how do you respond to our suggestion that we think 26 million phone calls could have been handled much, much better if these things had been adopted?

Mr. Koskinen. All right. I appreciate that. Let's work backwards. As you note, whether we use debt collectors or not, the money doesn't come to the IRS. So that \$100 million or \$200 million or \$50 million, whatever it is, goes to the Treasury, not to the IRS.

Chairman Roskam. But \$100 million of it, according to the GAO, \$100 million of it -- so it is \$4.5 billion over a 10-year cycle, \$400 million a year, a quarter of which comes to the IRS. Now, of the \$100 million that comes to the IRS, your argument is, look, it can't go into customer service. I agree with that. But you have basically been arguing all morning the fungibility of money. So what we are saying is, look, we have got a \$100 million that is available fairly, fairly quickly. Two government agencies that everybody cites and has a lot of respect for say you can do it. Why not do it?

Mr. Koskinen. Let me start by saying if you add it all up, it is less than the budget cut we took in December in the face of increasing responsibilities.

Chairman Roskam. But that is arguing --

Mr. Koskinen. You can't add it all up. The user fees, as I say, if somebody can tell me where we would have found the \$134 million we spent on IT with that money to implement the statutory requirements, if somebody can say where else we get that, I would be happy to know that. In other words --

Chairman Roskam. No, but --

Mr. Koskinen. If I can complete it, what you are saying is, because there is a lot of pressure on customer service, that, somehow, if we moved money and we let the IT system either fail or we didn't have the filing system work, that that would be okay because we would have put \$134 million into customer service. We used to do that until the Congress refused to give us the money that was necessary to implement the Affordable Care Act and FATCA. With regard to the outside --

Chairman Roskam. Commissioner, hold on, let's just, so we can get to it.

Mr. Koskinen. Okay.

Chairman Roskam. I think that is a straw man argument. So, in other words, you are saying, you gave us -- you referred to Charles Dickens in your opening, best of times and worst of times. And, on the best of times things, it is very impressive, you know, the amount of time and so forth and the smoothness of the filing season; 200 returns per second, that is impressive.

The worst of time, based on your presentation to us, was all customer service. And the subtext of every member here on this side of the aisle has been, Let's talk about customer service. And you have been going around publicly making the customer service argument and putting it at our feet. And so what you are sensing from us is we think that is too simple. We think that you have created a straw man. And the straw man, it is sort of like the argument when you have been in a jurisdiction where a school board has not gotten a referendum passed. And the school board says: "All right, here is what we are going to do. We are not going to challenge anybody in the administration. What we are going to do is cut the orchestra, and we are going to cut the football team. And we are not going to deal with the vice principal in charge of looking out the window. We are going to go after the things that make people hurt."

Now, I am not accusing you of bad faith. But what I am saying is you came in today saying that customer service was the problem in your opening statement. And we are saying we think you are over-characterizing that and that there is resources that we have enumerated and argued for and not the least of which is the fungibility argument, which is what you were making to me 90 seconds ago, the fungibility of these funds. If we can find \$100 million in enforcement by taking Jason Smith's idea, why not take that? Particularly in light of the fact that two agencies -- and I would ask unanimous consent to put these two reports in the record -- the GAO and TIGTA, say the IRS is just wrong on this.

[The information follows: The Honorable Peter Roskam [Submission 1](#), [Submission 2](#)]

Chairman Roskam. And it is not even as if, Commissioner, this is blue-sky stuff. This is not some theoretical thing. This is well used in other areas of the Federal Government, and yet the IRS has said we are not going to do it at the same time saying we need more money.

Mr. Koskinen. This is a hearing on the filing season. The filing season was a question of how efficient were we. And we were very efficient. And it is a great accomplishment by our workforce. And I keep saying that because it is a stunning achievement by a workforce under great pressure. The other reason that I stress customer service is because that is integral to the filing system. I am happy to have another hearing to talk about what is going wrong with enforcement if you would like; what the impact of the 5,000 fewer revenue agents, officers, and criminal investigators is; and, ultimately, what the threat is to the integrity of the filing season and, ultimately, the integrity of the ability of the government to collect its revenues. That is not the subject of this hearing. But I will guarantee you that there is a serious story there. There is a serious story in information technology about what the decline in funding has done to the agency and the risk we run.

So to say I could take \$134 million that we made a conscious judgment needed to be spent in IT and magically move it back to customer service as if that was easy and nothing else were to happen seems to me to be illusory. I am happy to have that discussion. But the point about it is the \$134 million and the 16 million calls don't exist as a reality, as a likelihood because, otherwise, what would have happened is we would not have been able to implement and run the filing season the way it ran. And I can guarantee you we would have a very difficult conversation here if the filing season had not run well. We would be asked, why did you put the money someplace else and not put it into the systems necessary to collect the \$3.1 trillion?



So it is, as you have noted, a question of where do we spend the money. We spend a lot of time trying to do the best we can to, in a balanced way, implement this. And you are exactly right: Our goal is not to make life difficult for taxpayers. It does not help us or the taxpayer. But our goal and responsibility is we have to run enforcement, we have to run the IT systems, we have to run customer service. And when you cut the budget by \$1.2 billion over time, when you cut the budget by \$350 million last December, that money has to come from somewhere. And if you look at only one spot, you will say, Well, gee, why don't you put more money there? More money is even less money in the other spots.

And my concern is not looking backward; my concern is going forward. The reason I make a big point about this is because I think we are beginning to erode the ability of the agency to function. And if we do the same thing in the budget in 2016, we are going to have an even more serious discussion about the negative impacts on the ability of the IRS to deliver on its mission.

Chairman Roskam. Okay. This past exchange, we have just talked past one another. Let me try, let's try and get you and I on the same wavelength. I understood what you said. What I would -- what I would appreciate is if you could respond to this. Assume for the sake of argument that you had \$100 million in enforcement money that came in that was yours to use. Would your ability to impact customer service be helped by having \$100 million on the enforcement side that you didn't have to use user fees, for example, to supplement?

Mr. Koskinen. It certainly would help.

Chairman Roskam. Okay. We are of the opinion that \$100 million is available to the IRS. And let me explain how. The private collection process is demonstrably solid in other areas of the Federal Government. It is successful. Secondly, two agencies that have done the review, that is TIGTA and GAO, have said also that they think this is a good fit for the IRS. They are critics of the decision in the past of the IRS to move beyond this. And we are convinced that you have got the capacity within your own purview -- I mean this is not where you need legislative authority; this is within your own purview -- to pursue this money. Does that make sense?

Mr. Koskinen. Not in the result of our experience. Our experience is that we did not, in fact, for the two times we actually ran it, make money, anything like \$100 million. But I am happy to have that discussion. We looked at it already a year and a half ago. We shared that information with the Senate when they were considering it. And they ultimately decided not to go forward. But I am happy to have the discussion. It is an important one. As I said, anywhere we can find a way to be more efficient, we are happy to do that.

I would note right now we have spent a year fighting the IRS scams of people calling people on the phone masquerading as IRS representatives. So, again, unleashing private debt collectors who are going to call on the phone isn't going to automatically make taxpayers feel better or even be very efficient.

But I am happy to have that discussion because wherever we can get revenues, we can. But the \$100 million isn't even going to make up last year's budget cut. And, as I say, my concern is the indications of where we are going.

Chairman Roskam. I am not buying that. I don't buy that it has got to be all or nothing.

Mr. Koskinen. I agree.

Chairman Roskam. Even Joe Crowley, look, he is feeling better, not great. So let's get this feeling better. So let me move to another line of questions.

You and I have stated our opinions clearly. And I would urge you to revisit the private debt collection question. Could you give us some insight into the decision by the service to hire the law firm of Quinn and Emanuel? So two questions: Why do you have to pay these guys \$2 million? I guess three questions: Why do you have to pay them \$2.1 million, first question? Second question is, why would any partner be able to bill at \$1,000 dollars an hour? And then the third question is, how does section 6103 and the confidentiality work here? Because you have cited a fairly narrow section, 6103(n), which gives some authority at the Treasury level to designate people, but it tends to be more of a processing, storage, and so forth. And it tends not to be that involved in taking witness statements and litigation. So could you let us know -- just let me know what your thinking is on those three points?

Mr. Koskinen. Well, let me say, as you know, with 6103, we are not at liberty to talk about individual cases and any individual taxpayer. But let me just respond generally without going into any specifics about a particular case.

The IRS, historically, over time has had the authority to retain people to provide assistance in litigation which exposes those people to 6103 information by definition. Those have been economists. They have been consultants. And, on occasion and in some cases, they are lawyers. We only bring in outside consultants, only spend that money, especially it comes out of our budget, we only spend that money when it is important, related to the various cases. Some of our cases, speaking broadly, not about any particular case, some of our cases involve billions of dollars of disputed tax collection. And from the standpoint of the judgment made by the IRS Chief Counsel's Office is they look at litigation, what are the appropriate resources to bring to bear? There is a risk-reward. There is what is the benefit out of it. We do not willy-nilly in most tax court cases bring in outside experts. But whenever there are serious, significant cases against well-heeled clients who have access to unlimited amounts of legal and other consulting businesses, it is our obligation to represent the United States Government and the U.S. taxpayers as effectively and efficiently as we can. And, historically, that has been done. It has not been challenged before. We are very careful with that. It only goes on in cases that are very significant, very important to the government and, therefore, very important to the taxpayer.

Chairman Roskam. So you have concluded in those cases that the Department of Justice doesn't have the capacity?

Mr. Koskinen. For the kinds of cases we are dealing with, we have made that judgment that, in fact, outside assistance, as a general matter, whether it is economists -- we have a lot of economists in the government -- whether it is economic help, whether it is consulting help --

Chairman Roskam. These are litigators. I mean, these are people, and the Department of Justice, it is an army of litigators basically.

Mr. Koskinen. An army of litigators we use a lot. We have a wonderful working relationship with them.

Chairman Roskam. They are not up to this task? I mean, is this one so unique?

Mr. Koskinen. I am not going to talk about any particular one because I am not at liberty to do that. Let me just say, as a general matter, we are well aware of the capacity of other government lawyers. We rely on them significantly and substantially. And I am happy in private to have our chief counsel talk with you more about any particular case. But let me just say, as a general matter, our job is to, in fact, defend the interests of the government and the Tax Code. And we will deploy the resources necessary in our judgment to do that.

Chairman Roskam. How is section 6103 authority designated to this law firm? Because it is fairly limited. If you look at the statute, you are relying on section 6103(n), which says that the Secretary may issue regulations to allow the IRS to disclose return information for purposes such as the storage, transmission, and reproduction of returns, return information; programming maintenance, repair, testing, and procurement of equipment; and the providing of other services for purposes of tax information. You are talking something far beyond that. How is this possible?

Mr. Koskinen. I would be happy to get you the legal authority for that. As I say, for years, we have provided and brought in economists. We have brought in all sorts of people into tax litigation. The litigation itself is a -- the defendants are actually providing that information. But I would be happy to get you more details. But this is not a unique occurrence.

Chairman Roskam. Can you just walk me through your decision to pay the bonuses? Your predecessor, Commissioner Werfel, said he wasn't going to do it.

Mr. Koskinen. He said he wasn't going to do that in the middle of the sequester because it was only way to limit the number of days the agency was shut down. The agency was shut down for 3 days. It would have had to have been shut down for another 2 days if they had paid the performance awards. They are not bonuses; they are performance awards. Over 40, 45 percent of the employees don't get them. You only get them if you perform. The average amount of those awards is about \$1,100, \$1,200. As I said, nobody goes to Bimini with the money.

Back to Congressman Kelly's point about morale, those awards and that performance award system has been in place for a long time. It was a great hit to employee morale even though they understand the trade off was 2 more days not working if the awards were paid. My view is, going forward, if we can't reward employees and distinguish between those really going beyond the normal and doing great work, if we can't provide incentives for those employees, then it is going to cost us significantly. And I think it is an appropriate thing.

In the private sector, I ran for 20 years bankrupt companies. And in the face of creditors and everyone else, we provided incentive awards for people who did well. We protected the rights of employees because without the employees, you don't have an operation. And my sense here is I understood why, if you had to shut the place down for 2 more days, you wouldn't pay the award in 2013. But going forward -- we paid it last year. It is not a decision we made just this year. And I think it is important to reward employees who perform. This is a workforce under great stress. It is a workforce dedicated to the mission. It is a workforce that does great work. And we need to recognize that. And I would stress that they are performance awards. In any given year, 35 to 45 percent of the employees don't get an award at all.

Chairman Roskam. So let me yield to Mr. Marchant, if he is here, in a moment. Just one final point on this, we are convinced -- I mean, a majority in the committee is convinced -- that the decision to allocate resources is something that the IRS can improve on and that the notion that it is the responsibility of the Congress when there is these various significant amounts of money that are available I think is overstating and over-characterizing. So reasonable people can differ on how to approach these things. But I think that speaking on, just for myself, looking at the private debt collection, looking at the amount of union activity that is discretionary, looking at the decision to pay bonuses, looking at the hiring of the law firm, all are things that are significant that came at the expense of customer service.

So, with that, I would like to --

Mr. Crowley. Mr. Chairman, would you just yield for one or two clarifications?

Chairman Roskam. Yes. I would be happy to.

Mr. Crowley. I have been told that my name may have been brought up in the banter back and forth.

Chairman Roskam. Several times.

Mr. Crowley. And I just want to clarify for the record that I in no way, shape, or form support the privatization of any role of the IRS, be that through private debt collectors -- and, more specifically, I think adding personal reward into this, if you want to talk predatory, that is predatory. And I would, I think keeping personal reward out of this and profit-making out of debt collecting as it pertains to the IRS is where I stand. I just want to make that point clarified.

Chairman Roskam. Mr. Kelly.

Mr. Kelly. Thank you, Chairman.

I do want to get back -- as you and I were talking a little about leadership position and morale because morale is one of those things that, if we don't have a high morale, then we lose the belief that we would have or the trust we would have, whether it is in a team or an organization or an agency.

But I want to go back to this winter and this early spring. You have been pretty busy. And some of the things you have done, you have been out in public talking about some things that I think if you had the chance to take it back, you probably would take back some of those statements. And one of the ones I am going to bring up to you -- and I just read about this -- in a recent speech that you did at the Tax Policy Center in Washington, you likened the IRS budget cuts to tax cuts for tax cheats. And I think that by making that statement, I mean, certainly if the mayor of New York City would happen to say, You know what, there is not going to be any cops on the beat tomorrow; I don't have any faith in the system. Do you think that would possibly see a spike in crime? Would you think people who are out there saying, Hey, you know what, they are not going to be out checking; well, shoot, I guess I kind have a free range to get there.

So when you make those kind of statements because words truly do matter -- and we have listened today, and there are a lot of words going back and forth. And sometimes the rhetoric does go off the charts. But I keep going back to this, the 435 of us that sit in the House and the 100 that sit in the Senate and the 83,000 that work at the IRS are all here for the same purpose: to serve the American people. So when you as the Commissioner go out and make public statements that these tax cuts are a great enabler for tax cheats, what in the world were you thinking of?

Mr. Koskinen. First of all, that was a catchy phrase that has been raised several times in various parts of the press. What I am thinking of -- and I have testified on this, and it goes back to the other subject. We are talking about filing season here. Enforcement is a significant issue. And my concern is that, in fact, as I said in one of those speeches, that my concern is as we begin to erode the ability of the IRS to effectively function, what I don't want to do is have somebody later on say, You never warned us. So as I said in that speech, This is your warning. Compliance is a coin that has two sides. One is enforcement. One is taxpayer service. So the amount of money we collect every year, which is significant, \$50 billion to \$60 billion with our activities, isn't important just for the money, it is a lot of money, it reinforces the \$3.1 trillion. If that compliance rate goes down 1 percent, it will cost the government \$30 billion a year. And if we continue --

Ms. Kelly. Commissioner, If I could, I understand where you are coming from. And you are very good at these panels of taking things and making it into something else. My question really comes down to, you are the guy. You are the face of the IRS. It is you. It is not the 83,000 of the people that work for the agency. It is you. So when those words come out of your mouth -- and words certainly do matter -- when those words come out of your mouth and when you start to say this is a tax break for tax cheats, my question was, do you think that encourages those people who are going to be noncompliant -- because you and I in one of our first meetings, you said, basically, there are two types of people out there: There are those that want to pay their taxes, and there are those that don't want to pay their taxes. So I don't think that I would want to be a cheerleader, telling those people that don't want to pay their taxes, Hey, you know what, we are not going to be able to come after you because I don't have enough money to do it. So, I mean, maybe your point was to really blow up the idea that I don't have enough money to work. But I would just suggest that sometimes those comments are better kept internally. I think when you say them publicly and with the way the media is today and certainly with the social media, I think there is probably anybody out there that was wondering if they could get away

with something, they would say, you know what, listen, the Commissioner himself said, We are so underfunded; we can't go after tax cheats.

And there is an old saying: There are no secrets in my family; there are just a lot of things we don't talk about.

I just think it would be better -- and I am talking about the morale of the Agency right now. And I am serious about this. Those 83,000 men and women who get up every morning and come to work to collect the revenue that is needed to run the country are important people. But what I don't want to do is keep dividing those folks from the United States Congress. And I have got to tell you, sir, words matter. I think that you have got to be careful. And I would really, if you have the chance to do it, and you certainly do here publicly today, tell those folks, you know what, I shouldn't have said that. That is not what I meant.

Mr. Koskinen. No, I will tell you what I said -- I should have said. What I did say also -- you didn't quote -- is we still do 1.2 million audits a year. And the roulette wheel spins, and you don't want that white ball falling on your number because we are not very happy about it. So we are continuing to enforce the law.

But the Congress has, in fact, cut our revenues to a point and resources to a point that we are not as effective as we ought to be. And I agree with you; we ought to be on the same level here. My concern is for 5 years the budget has been cut, notwithstanding these discussions. And my concern is if we head into 2016 and, even in the face of all this, continue to cut the budget, I don't want you saying later on, you know, you should have told us about this, that it is serious. It is serious.

Ms. Kelly. I want to make sure you and I understand each other. My concern is you are the Commissioner of the IRS, for you to go out and start telling people that this is a tax break for tax cheats is a very dangerous phrase. My only question to you was if you could take those words back, would you take those back? Because I think that does great harm to exactly what you are talking about you are not able to do. Why would you want to increase the percentage of people who say, They can't do anything about it; I am going to go ahead and cheat. I just think that sometimes a little retrospect is in place.

So I am glad you are here today. But I got to tell you, I just expect a lot more from you because I know your background. You are capable of doing that. And especially when it comes to messaging, there is nobody that does it better than you and to flip it from where we are going to what we need to do. Please, I am just saying, words matter. Let's make sure we are all talking the same way, we are on the same sheet of music. I thank you.

Chairman Roskam. Mr. Lewis.

Mr. Lewis. Mr. Commissioner, again, I want to thank you for being here and thank you for your service.

A few moments ago, one member and later the chair said something about private debt collection. We have been down this road before. I have been here for a while. The Republicans continue to believe that hiring third-party debt collectors would help collect revenue. We fought this battle before. This is not a new idea. It is a bad idea. We need to drop the idea. We have tried it, this idea, twice over the last 18 years. Both times it has ended in failure. In 2006 and 2009, the program was started and then ended. The IRS concluded it lost money. In 1996, the IRS awarded five contracts and then terminated the program. The IRS again lost money. An IRS employee in the ACS unit can collect \$20 for every \$1 in funding. This is more than the amount collected by a private debt collector. The matter is simple: Fund the IRS. That is what we need to do. And that is what we should be talking about.

Again, Mr. Commissioner, I want to thank you for your service, for all of your great and good work. I know when you first became Commissioner, you got out. You traveled around the country. You came to Atlanta. You went to other places. You had townhall meetings with the employees. And I would like to know from you at this moment, what is the morale of the staff at headquarters and the centers around the country?

Mr. Koskinen. Well, as Congressman Kelly and I, from our background, both share the same point, which is morale and support for the employees in your organization is critical because they do the work. Without them, it doesn't matter what your business is, it is going to go away.

I just had a meeting with leadership in our wage and investment virtual meeting yesterday. I continue to be impressed by the caliber of the workforce and their dedication to the mission. As, Congressman Kelly, is important, they view themselves as on the side of the taxpayers. They view themselves as on the side of the government. They are proud to be part of the IRS. Even with all of the IRS bashing over the last couple years, with the constraints on funding, I continue to find employees who are focused primarily on what can we do to, in fact, be able to do the work better? They are professional. They are dedicated. Many of them have been -- part of my concern is a lot of them have been here a long time so they are eligible to retire. Twenty-five percent of the workforce could retire tomorrow morning if they wanted to. And so they are -- they show up every day. They work hard. I have had lunch, every place I have gone, 37 cities, I have had lunch with 15 to 20 employees. None of them lack energy. They are all enthusiastic about their work.

If you went out and talked to the employees, you would find they are as concerned or more concerned about the level of taxpayer service than anyone else. They derive great satisfaction, as I said, by helping taxpayers. If you ask a question and they can answer it, they feel good about that. And they feel that is their mission. I have been in a lot of interesting circumstances. I have been 20 years in the private sector managing large failed enterprises of one kind or another. I have spent the last 15 or 20 years in various government roles. This is the best workforce I have been privileged to work with. It has great senior leadership. It has significant challenges. We haven't hired enough young people so we are aging the workforce out. We don't have enough people anywhere. We need to continue to provide training for them. We need to continue to provide support for them because they are critical.

As I say, over 70 percent of the budget is personnel. So if the personnel aren't working effectively, everything else we are talking about, IT systems or anything else, is not going to matter. So I have been delighted, amazed to some extent. Certainly it is refreshing to talk to IRS employees and see how concerned they are and dedicated they are to getting the work done.

Mr. Lewis. I believe, Mr. Chairman, we are going to have an opportunity to come in a few days and visit. And when I am in Atlanta, I plan to get out and visit and see some of the IRS employees.

But, you know, Mr. Commissioner, you cannot, old saying, you cannot get blood from a turnip. I grew up on a farm in rural Alabama. And if you expect to get something, get a crop in for the season, you have got to work that crop; you have got to fertilize it. So if you need revenue, if you need resources, you have to speak up, speak out, and demand that we do something.

I yield back, Mr. Chairman.

Mr. Koskinen. I don't think anyone would say I have been a shy, retiring violet about this problem.

Chairman Roskam. Mr. Smith.

Mr. Smith. Thank you, Mr. Chairman.

Many families in my district rely on the earned income tax credit. But in its most recent financial statement, the Treasury Department reports that the earned income tax credit improper payment rate continues to grow. During our full committee hearing in February, Chairman Ryan asked Treasury Secretary Lew if he would work with Congress to clean up the management and structure of the earned income tax credit to reduce improper payments. Secretary Lew agreed that compliance needs to be improved but said that resource constraints limit those efforts. In 2010, however, when the IRS was at its funding peak, \$12.1 billion, the earned income tax credit improper payment rate was at 26.3 percent. The improper payment rate sank in 2011 and in 2012 as the IRS' resources shrank. It does not appear that there is any correlation between increasing the IRS' resources and reduction of the improper payment rate. Given the resources available, how would you recommend revising the management and structure of the earned income tax credit program to reduce improper payments?

Mr. Koskinen. It is a very important question. And of all these challenges we have, implementing statutory mandates, identity theft, refund fraud, as we go forward, the problem that I am most concerned about is, in fact, our inability to make a dent in the rate of improper payments or the amount of improper payments in the earned income tax credit. A year and a half ago when I started, I said I want to talk -- everybody who knows anything the history of this, for 10 years, the IRS has tried a wide range of things to try to deal with this problem. The bottom line was that we had not pushed forward is we need help. I have testified before, we have asked Congress for authority. First, we need to get W-2s earlier. We don't get them until the end of March. So we are processing particularly earned income tax credit payments and returns without



knowing whether, in fact, the income statements are accurate until afterwards, at which point we are in a pay-and-chase manner. We have asked for what is called correctable error authority. We can oftentimes on a return see that the number of children claimed is erroneous. But to make any correction like that, we have to actually start an audit and an exam process. We do over 400,000 audits a year in the earned income tax credit area. But we have 25 million recipients. So we are never going to audit our way out of it.

And I think you are right, more resources, we wouldn't, say, do twice as many audits, it is going to make a difference. If we could make the corrections on the return, the taxpayer would still have the right to come in and say, no, I really do have three children, not one, that would be helpful.

Over 50 percent of the returns are prepared by preparers; 400,000 of them have no credentials at all. They are not CPAs. They are not enrolled agents or tax attorneys. A big chunk of them do a very good job. They are knowledgeable. They do their best. Some of them mean to do well but have relatively little understanding about the complicated code, let alone the complications of the earned income tax credit. And then there are some of them, a small percentage, that are crooks and run advertisements: "Come with us, we will get you a bigger refund. Just sign the return, you don't even have to see it, give me a blank return with your signature."

We need to provide and require minimum competency by tax preparers. We are talking about continuing education once a year, sometimes take 15 hours, 18 hours of updates on what the code is, learn how to fill out the earned income tax credit appropriately would be helpful.

And, finally, if somebody wanted to simplify the program, that would be helpful too because it is very complicated. I have looked at it and tried to figure out how you figure out where the kids are and who has got them. But I think, again, if we could get W-2 authority to get it in January -- New York State and several, three or four other States already get the W-2s in January -- if we could make corrections on the returns when we know there is a problem without having to audit them, if we had minimum qualifications for tax preparers, it would allow us to begin to make a dent in that problem because you are exactly right; it is a problem that needs to be addressed.

The program has great support across all political lines because it supports working people. Part of our challenge is 30 percent of them turn over every year because they get a better job; they get income, exactly what we would like to have happen. Some of them lose their jobs, and then they are not eligible. So we have the duality of trying to make sure the eligible people participate and then try to make sure that we don't pay the wrong things to the wrong amount.

Mr. Smith. Okay. Before my time runs out, you hit a lot of points that I think are valid. But also a point that you didn't hit that I have concern with is the different methods of filing, whether it is online or whether it is paper filing. And I do know that it has been publicly noted throughout everything of all the increase in fraudulent returns being filed through online software. Why don't you begin to address the problem immediately, through just form changes you control, to bring the same scrutiny of eligibility to all filing methods so online filing isn't a larger percentage of fraudulent filings than just paper filings?

Mr. Koskinen. Right. We are working with software providers across the board to try to figure out how to deal with identity theft and refund fraud. Part of it is in the IT, yet it is a broader issue than that. And you are exactly right, we had the first in history -- I brought together the CEOs of the tax preparers, brought the representatives of State tax administrators, and the IRS that we chaired because we need to work across the board to see what can we jointly do in a true public-private partnership to address the risks of identity theft and refund fraud. We have made progress, but there is a lot more progress we could do.

Mr. Smith. Thank you, Mr. Chairman. I just would like to point that online filing and paper filing should have the same standards and the same scrutiny.

Mr. Koskinen. I think that is right.

Chairman Roskam. Mr. Rangel.

Mr. Rangel. Let me first thank the chairman because so many of the issues that we raised today, it appears as though we are being critical of the IRS. And all of us want to improve the IRS and certainly improve the morality -- I mean, the feeling that they all are public servants like we are.

I am glad that the earned income tax credit has come up because there are so many things that we give them. We are giving self-esteem. We are giving the ability not to go on welfare, and, as the Commissioner said, and people would actually stay in that work market and not know what it is like to be dependent.

Of course, there are some issues too that we got these fast food places, they prepare the EITC or have people who do it for them to include as a part of their salary that keeps the salaries low. So there is a lot of work that hearings, I wish we could have a work group, which I volunteer to be on, with someone from your office to find out how we can work our way through a very complex but worthwhile situation. And I would be glad to volunteer and get some people from, how we can save something that is good.

As far as having the IRS to transfer the authority to collect taxes, I want to talk with you. You know, I have had some serious illnesses. And I thought with the Affordable Care Act and my insurance company that, hey, it was expensive, but we paid for it. Now I have insurance companies telling me that I owe them money for services that they provided. And the hospital gave them my name. And so I told them who I was and that I was a very important American; and, "What service was provided?"

They said: "We don't know."

I said: "Well, why are you calling me?"

They said: "Because we got your business."

I said: "But I don't remember getting the service."

"I am sorry about that."

I said: "Well, who can I discuss it with?"

They said: "You don't discuss it with anybody. We are here just to get the money."

And I said: "You must be kidding me. Who can I talk with? Can I talk with the hospital?"

They said: "No, it has been turned over to us."

Now, you talk about morale; we cannot afford to do this. I don't know how much money it takes to set up this system. But I know one thing, if I am motivated by the amount of money that I collect in order to get my commission, we don't want to go there. It is bad enough being a tax collector. But when we have outsiders whose income is based on the amount of money they beat out of taxpayers who don't like the Internal Revenue anyway, please let's talk about before it we even think about it because the motivation has to be how much money can I collect in order for me to make certain my shareholders make money? And that is a good thing. They have to find out how many people can I not tee off to stay in the system and at least pay something so that it continues to be a voluntarily system.

So I know that there are things the private sector can do better. But take my word for it, I come from a community that knows tax collectors. And they are the most mercenary, insensitive people in the world. And I understand their problem. Their problem is not compassion, not understanding, but to collect money. They got enough problems in trying to make morale higher with less resources than us taking it away from them where people have no responsibility at all for Americans and what we stand for.

So you have the majority. But, please, before you push that, if you are pushing it, let's have a discussion.

And I hope, Mr. Chairman, because you have been very kind in opening up a change opportunity, that we can have a private session with these people, that we can meet with them and try to tell them what is on our mind without letting the press know because I agree with you that if my daughter came up and said she was engaged to get married and I asked her who are you marrying and she said a tax collector, I don't know whether that would go over big. So we have got to do a whole lot to improve their reputation.

But I hope with the tax system that we all depend on, whether we like the bills that we have or not, whether we should reform or not, that we can have some meetings, some luncheon meetings and work with them and not just walk into the offices but to find out what problems they got and how we can be helpful.

And let me congratulate you for your openness in the subject matters. They are delicate and sensitive and nonpartisan. And we can say it in a different way, but we do want improvement.

Chairman Roskam. Thank you. Are you yielding back?

Mr. Rangel. Yes.

Chairman Roskam. All right. Let me just pick up on one quick theme. I will go to Ms. Noem in a second.

But just to pick up, I think you are absolutely right in how we would approach something like this. There is a sensitivity to it. You don't want a bounty hunter feel. We have seen in Medicare what some of these RAC audits are like. And they are not helpful. And they create a lot of churn and a lot of difficulty.

Let me also sort of highlight part of the discussion that you alluded to, but let me shine a spotlight on it. You said we have a voluntary system, and we do and we agree that that is the nature of it. But some of these folks are volunteering not to pay their taxes. So we are not talking about someone, let's say as a constituent of yours or mine or Mr. Lewis' or any of ours, who, you know, these are folks that are doing their best and coming to the IRS and saying, Look, this is something that I want to try and get right and work out a plan.

What we are really talking about here is debt that the IRS has said we are not ever going to get this; this is on the shelf, and it is going away. So, to your point, we have got to discern and we have got to be wise and thoughtful about what the structure is and what you can do and what you can't do. And that situation that you described where you are in a catch-22 situation, you are in a Franz Kafka novel where you don't know what is going on, like you have got too many things that are ringing right now and you don't know what is going on to your point, Mr. Rangel, that is fundamentally unfair. And we need to defend against that because that doesn't get us where we need to go. So I think that there is a lot of opportunity to us for us to revisit these things.

So, with that, Ms. Noem.

Mrs. Noem. Commissioner, last year this committee was investigating whether or not the IRS was keeping taxpayer information confidential. And I think, throughout the course of that investigation, they came to you and asked the IRS for communications between employees of the IRS and the White House. And the answer that you gave back was that you didn't have the systems in place to allow a search of the employees' communications.

So we asked the White House, and the White House told us to come back to you for that information. And so we have come back and asked for those documents, and you told us that it would be unmanageable to look for those emails between the IRS and the White House. You told us to give you a list of personnel involved that we would like to see the records from. And so now we have narrowed down that request to about 66 different employees. And you responded to us just yesterday that such a search would require a new database, an associated IT infrastructure. So what we are asking for you for is 66 different email accounts for correspondence with email addresses ending in who.eop.gov and provide us with the responsive documents.

And my question is, if you don't have systems in place that allow you to search the employees' emails, how do we do effective oversight of the IRS?

Mr. Koskinen. Right. First, I would note that we have provided you -- when the issue was whether 6103 information improperly went to the White House or not, we did provide you all of that information, which showed that there had been no improper distribution.

We do share some information at their request when anyone is being considered for a Senate confirmation position and their tax returns have to be -- those are by consent. So there was -- we have explained that to you and your staff as well in terms of where to go.

Our problem, which has been publically discussed certainly for the year and a half I have been here for 2 years is back to our system, that we have an old-fashioned records retention program, which is a paper retention program for official documents.

Three years ago, there was a review made at the IRS about what would it take to get to be a more modern document retention program. It would be good for official records and terrific for being able to search. The estimate then was it would cost about \$30 million. And, in 2012, the decision was made that, as the budgets were being cut, that they couldn't do that.

We resurrected that because I do think it is important for us, for your point about oversight, that we ought to be able to easily search documents and be easily able to provide them. As it is now, we go through the paper records that have preserved and then we have to go through each employee's hard drive to see what is reserved on their hard drive. And it is an antiquated system. It takes us far too long and too much money.

In corporations -- Congressman Kelly knows -- you can actually go, you have got them saved there. So we are looking for a way. We have -- since this all came up and I got here, we have now taken the top, give or take a little, 280, 300 executives across the agency and are beginning a process where their emails automatically get archived in a way that you could search for those going forward.

But we need a system where, for the 87,000, those documents would be preserved, their official records would be preserved. When somebody wants to know something, we could, in effect, almost push a button and get it to you without having to make a big deal about it.

So we are -- it is still a \$30 million dollar item. I have actually asked -- even with the resource constraints, we made a decision a few weeks ago that we need to actually spend what I call the seed money to design what that program would look like and what the procurement would look like so, if we ever do find the money, we could do it.

But right now, as shown -- we provided this committee, for instance, 1,300,000 pages of documents about the famous (c)(4) issue. It took us months to do, and we should have been able to be able to do that if we had a good system, you know, in a week or two.

Mrs. Noem. I think the concern here is that taxpayers, how do they feel reassured that when they make FOIA requests, that they get the information that they need? And if we ask you for 66 employees and are pretty specific on which communications we would like to have, will we be getting that information?

Mr. Koskinen. Right.

Mrs. Noem. And why is that impossible to provide?

Mr. Koskinen. No. We actually -- you know, the FOIA requests we are behind a little because we have been providing to all the six investigators documents they want. We provide -- we have an obligation and we measure the delay in time to FOIAs. We have an obligation to comply to the statute and anyone who makes a FOIA, particularly the media, we try to do that. Obviously, they get redacted information because the FOIA statute has issues that you can't reveal to the public, and then there is 6103 information that doesn't apply here.

Mrs. Noem. What is the general --

Mr. Koskinen. So we have said all of the -- anything that is provided in response to a FOIA request, we are delighted to provide with you. And, in fact, in most cases, because most of it is about the issue of the determination process, you have already got everything they got in the FOIA results plus more because you have the unredacted amounts.

Mrs. Noem. So you are -- you believe you are mandated to reply to these FOIA requests as well?

Mr. Koskinen. Yes. I -- I think we --

Mrs. Noem. And I do believe you are mandated to supply information to this committee as well.

Mr. Koskinen. Yes. And, in fact, our -- we have been having very good --

Mrs. Noem. So when you have made the technology upgrades and you spent millions of --

Mr. Koskinen. No. We are going to do it.

While we are over here -- and it hasn't been upgraded -- we have an obligation to work with you.

Mrs. Noem. What I am wondering is the money that you have received for IT and that you have diverted away from user fees to use for IT, where particularly did you invest those dollars in upgrading IT to do what services? Did you focus on the Affordable Care Act mandate? Did you focus on the mandate to provide FOIA requests? On providing background searches? On getting us information for the committee? You have IT dollars, and you had to choose where to spend them.

Mr. Koskinen. Right.

Mrs. Noem. And you believe you are mandated in several different areas to provide information. So where did you focus those dollars that you believed were critically important to be --

Mr. Koskinen. Yes.

Mrs. Noem. -- complying with --

Mr. Koskinen. I do think -- and I have told and made it clear in our discussions about the budget, even with the constraints, improving our system and ability to be able to provide information is a priority. And we have to figure out where we are going to find the money to do that, but it is one of the half a dozen senior priorities we have because we just can't keep running it the way we are doing it. It just takes too much of our time and effort, and it is unsatisfying to the committees. But we have had good discussions with the staff, and we continue to want to work with them to figure out how can we most efficiently get you what you need for the investigations and the oversight you want to do because it is an important function.

Mrs. Noem. Okay. Thank you.

Chairman Roskam. Commissioner, thanks.

I just have a couple of -- one subject area that is new for us to discuss a little bit and then a little bit of cleanup. But you have been generous with your time today, and I really appreciate your taking the time to field all these questions.

Mr. Koskinen. Well, I am delighted --

Chairman Roskam. And you can dish it out as much as you can take it, so that is why --

Mr. Koskinen. No, no. But -- but I was going to say --

Chairman Roskam. -- these exchanges --

Mr. Koskinen. -- it has been a terrific hearing as far as I am concerned because these are important issues and I don't -- I think it is an important part of oversight. I think all -- we don't always come to the same conclusion on the facts, but I do think it is helpful and important for us to be able to have this discussion without it getting overly contentious or difficult. And I am delighted to have been here. I think it is an important use and good use of my time, and I appreciate the opportunity to have this interchange.

Chairman Roskam. Thank you.

Let me ask one question for the record, and then I want to -- I want to talk specifically about audit selection so that is where I will go in a second.

But this is this idea about rehiring people who were rejected and then brought back on.

Mr. Koskinen. Yes.

Chairman Roskam. And when you hear about these and you read a description of them, when the GAO characterizes them, let me just read a couple of paragraphs as a summary.

Mr. Koskinen. I could -- I agree with you totally and we have adjusted the process. I have told people that, within any constraints of the law, we are not going to hire -- rehire anyone. Most of them are temporary or seasonals. We are going to go out of our way to make sure we don't hire anyone with a prior employment problem. If they were dismissed or any violations of the law, the statute, or performance, we ought not to be rehiring them. I agree with you totally.

It is the same thing -- it has been raised in the past that employees who had willfully not paid their taxes were eligible for awards, and we have changed that. You no longer are eligible for an award if you haven't complied with the Tax Code. Even though we have over 99 percent compliance, I thought it was an important point. I think this is an important point.

Chairman Roskam. Fair enough.

Mr. Koskinen. It makes no sense.

Chairman Roskam. When I was practicing law and I had a motion before a judge, and the judge said, "Motion granted," I always learned to stop talking. So thank you for that response.

Let me shift gears quickly. I sent you a letter. You responded, and the question was -- just to refresh your recollection --

Mr. Koskinen. Exam.

Chairman Roskam. -- it had to do with audit selection. And you said -- and I am bound -- this is sort of the ratio. But you said about 25 percent of audit exams, audits to be determined were based on referrals in some way. And I thought that number was really high. I thought that the system was far more automated, that there were a lot more algorithms that went into it and there are algorithms, obviously, that determine 75 percent of these. But 25 percent of them come from referrals of some type, internal, external, press reports, congressional letters --

Mr. Koskinen. Right.

Chairman Roskam. -- and so forth.

So here is the question. And let me just parenthetically tell you about this interchange that I had, because I did a townhall meeting with the employees at the Cincinnati office on Monday, as you know.

And when I went in and I spoke to them, the point I was making was that we were all in this together and that they worked for an institution that was unpopular, and I am a participant in an institution that is unpopular. And the unpopularity of Congress is based on a perceived ineffectiveness; that is the bottom-line criticism of Congress these days. But the unpopularity of



the Internal Revenue Service, I would argue, is different. So people say, "Congress, you are not doing your job," but IRS is perceived as fearful. That is really the concern. So --

Mr. Koskinen. Right.

Chairman Roskam. -- it is not as if this stuff just happened in a vacuum. So the ability of the Internal Revenue Service to be incredibly directive and to have a lot of discretion is -- it is an incredibly powerful thing. And as you know and I know, any type of power that is abused is a disaster because it is corrosive and so forth.

So what steps have been taken to assure the public that when they get an audit notice, it is on the level and it is not somebody that is saying "I don't like your politics" or "I don't like this" or "I don't like that?"

And let me just make one other point because it is important. Lois Lerner -- there was a -- there was a process that was in place -- and you are familiar with the emails and so am I.

Mr. Koskinen. Right.

Chairman Roskam. There was a process that was in place that, on paper, was a good process. It said there is going to be a review. You know, there is going to be three people and so forth. Lois Lerner was able to run around that completely and say things like "I can't believe you are not auditing these people" and putting pressure and so forth. So I am going to assert something and tell me, if you think I am wrong, why I am wrong.

I think Lois Lerner 2.0 is possible today. What do you think?

Mr. Koskinen. Well, first of all, you raise a critical point. And that is -- and I have said from the start, I said, the issues about the determination process that took place and were revealed 2 years ago revealed mistakes that should never have been made and they should never happen again. And we have made it clear -- and I, a year ago, apologized on television saying anybody who was delayed -- most of the people were delayed. They never got turned down. They just were delayed for, you know, 2 years, which is, you know, outrageous. And I think that is wrong. I think that should never happen, and I think we should, in fact, do whatever we can going forward.

Taxpayers need to be confident -- as you say, it is critical that if they hear from us, it is because of something in their return. We don't care who they voted for. We don't care what party they belong to. We don't care what meeting they went to 3 weeks ago. And if somebody else had the same issue on their return, they would hear from us as well. And we need to make sure that we do everything we can for taxpayers to feel comfortable with that as we go forward.

So the inspector general, in the famous report in May of 2013, had a set of recommendations as to how to put in place security steps to make sure it doesn't happen again. We implemented all of those. We have gone forward with those.

Also, what we have done, as we did a review across our exam process totally: What are the criteria? Are there controls? Is there an issue? And we brought in an outsider that Danny Werfel before me hired, and he started when I did. And he did a full review of all of our audit exam procedures to see -- and he is a trained auditor -- to see if there were any issues.

GAO is right now doing the same thing. And we found no issues in that review. We have shared that information with GAO. We expect them to give us any recommendation they have. But it is critical that we have systems in place that work. But your point is well-taken, no system self-executes.

So I have spent a lot of time in my year and a half worrying about employee morale, but also culture is trying to get employees to understand in the meetings I have had with 13,000 of them that we need every employee at the front lines and for the frontline managers through the system to view themselves as a risk manager. That if there is something going on that they don't think looks good, it is not going the way we expected, something new has happened they have to believe me when I say, Bad news is good news, that, in fact, the only problem we can't solve is the one we don't know about.

And we need to have the entire agency comfortable that if we have a problem -- I testified at my confirmation hearing, it would be nice to say we are never going to have a problem, that this system will be perfect. And the answer is 87,000 people and the complicated Tax Code and dealing with virtually every American, things aren't always going to be perfect.

So the real challenge is to make sure, if there is a problem, we find it quickly, we fix it quickly, and we are transparent about it. And the only way that is going to work is if everybody is comfortable that is what we are trying to do. So I have already had people a couple of times walk into my office and say, I have bad news. And I was delighted because then we could address the issue.

So part of what happens in large organizations -- I always talk about the General Motors ignition switch issue. People in General Motors knew what the problem was. It just never got to the top. Because I know General Motors from my private sector experience, it is a command-and-control organization. Large organizations tend to be. You know, you have got a lot of people; you have got to tell them what to do. The art form is to make sure that the information flows from the bottom up as well as the top down.

So we are committed to supporting every employee to saying, Whatever the issue is, whatever the problem is, if it doesn't look right, let us know. And everybody in the organization now knows how to get a hold of me personally. I have gotten, in my travels, over, I guess, 400 or 500 separate suggestions. I have gotten another 500 in emails to me. And I think it is important.

Somebody asked me at a hearing last week who is the responsible and most knowledgeable person about Affordable Care and its issues, and I said, I am. If you run the organization, you need to know what is going on in it, you need to be accountable and responsible for how it works.

And so, coming back to where we started, you raise a very important point, and that is that the American taxpayer needs to be comfortable that we are in tax administration; we are nonpartisan; we are nonpolitical. We simply are enforcing the Tax Code.

Your point earlier, if you have problems with compliance, we are here to help you. You don't have to hire somebody off late-night TV to represent you with the IRS. I always say that you can call us, and then I shutter a little bit about how long it takes you to get through. But we really are trying to help people in that regard. But you are also right, the people trying to cheat need to understand that we will chase you to the end of the earth if necessary, and we are not going to be happy when we find you.

But -- so the balance for us, not only in terms of compliance, the voluntary compliance system and enforcement in taxpayer service, the balance for us for a normal taxpayer is for them not to fear us if they have a legitimate question or a legitimate concern or problem. You can do online installment agreements. We do offers in compromise. If you try to be compliant, as I said earlier, we are doing everything we can to keep you in the system to have you be comfortable and to work with you.

But, ultimately, it goes back to trust. And people have to know that we mean this and that we have got an employee system -- I have had no pushback from the employees. They are all delighted to know that if there is an issue, as I say, we don't shoot whistleblowers or people who bring the problems to them; we reward them and compliment them. And I think that is a message that we have to keep saying, but we have to mean it. We have to have systems in place, and we have to have oversight.

I am delighted the GAO is taking another look at the stuff we have looked at because we need to make sure that in every one of these cases, if we are auditing you, it is because of some question in your tax return. If you got a good answer, we will be delighted.

Chairman Roskam. Thank you. Let me just close by saying this. In fourth grade I had Miss Lillian Anderson, who was my teacher. And Lillian Anderson was a really good fourth grade teacher. And my memory of her was she was tough, but she was fair. And I think that there is an admonition there for what everybody expects from the Internal Revenue Service, to be tough -- it is a tough business obviously -- but to be fair.

I am of the opinion that Lois Lerner 2.0 is still possible. I appreciate the spirit with which you are communicating to us today that you recognize the nature of that milieu and trying to mitigate those possibilities. I think that a 25 percent referral rate is high in a highly automated system, and so I would ask you to revisit that.

We have posed a number of things that we think will improve the customer service aspect of things, some of which you have responded you are willing to take a look at, some of which you have said you disagree with us. But I will say we think that there is -- there is ways to meet these needs of the taxpayers in an environment that makes the IRS a satisfying place to work but also protects and defends taxpayers.

And, with that, I want to thank my colleagues for their time today and, Commissioner, for your time as well. And the committee is adjourned.

Mr. Koskinen. Thank you, Mr. Chairman.

[Whereupon, at 12:22 p.m., the subcommittee was adjourned.]

[Public Submissions For The Record](#)