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Statement for the Record

For

House Ways and Means Subcommittee on Oversight

Hearing on

**“Internal Revenue Service Budget Request for FY 2017 and
the 2016 Filing Season”**

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Chairman Roskam, Ranking Member Lewis and distinguished members of the subcommittee, I would like to thank you for allowing me to provide comments on the IRS budget request for FY 2017. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 federal workers in 31 agencies, including the men and women at the IRS.

Mr. Chairman, NTEU strongly supports the Administration's FY 2017 budget request of \$12.28 billion for the IRS, an increase of more than \$1 billion above the current FY 2016 level. We are particularly pleased the Administration's request would provide the IRS with the additional resources necessary to restore customer service levels that have fallen in recent years due to funding cuts totaling almost \$1 billion, and to begin rebuilding its depleted workforce which is down more than 15,000 full-time employees since FY 2010. The IRS has warned that without this additional funding, the IRS will lose another 2,000 to 3,000 full time employees which will further undermine its ability to serve taxpayers and enforce our nation's tax laws.

Taxpayer Services

Providing quality customer service to the taxpayer is an important part of IRS efforts to help the taxpaying public understand its tax obligations while making it easier to comply. Unfortunately, the IRS' ability to provide excellent taxpayer service has been severely challenged due to reduced funding in recent years and the cuts mandated by sequestration. Without additional resources, further degradation in taxpayer services will occur, jeopardizing our voluntary compliance system.

Impact of Funding Reductions on IRS Taxpayer Services

Mr. Chairman, funding reductions in recent years have had a devastating impact on IRS' ability to provide taxpayers, including victims of identity theft, with the service they need in a timely manner. Since FY 2010, the IRS has absorbed \$1.2 billion in cuts despite the fact that they are handling more than 10 million additional tax returns a year, and the number and complexity of tax refund fraud cases are on the rise. The funding cuts have resulted in a reduction of about 34 percent in the number of assistors answering telephone calls between fiscal years 2010 and 2015 and contributed to the lowest level of telephone service in fiscal year 2015 compared to recent years. In addition, reduced funding forced the IRS to implement a number of service initiatives during FY 2015 that included reducing or eliminating certain telephone and walk-in services, and redirecting taxpayers toward other service channels such as IRS's website.

In a recent letter to Congress, the IRS highlighted some of the adverse impacts these reductions had on the IRS' ability to deliver taxpayer services during the 2015 filing season. These include:

- A reduction in the percentage of callers seeking live assistance who received it (telephone level of service) to 38 percent,—down from 74 percent in FY 2010.
- Taxpayers waiting about 23 minutes on average for an IRS representative to get on the line, with more than 60 percent of calls going unanswered. This represents a sharp decline from 2010, when the IRS answered three-quarters of calls and had an average wait time of just under 11 minutes.
- The IRS was not able to answer any tax-law questions except “basic” ones during the last filing season and no tax law questions after the filing season, leaving the roughly 15 million taxpayers who filed later in the year unable to get answers to their questions by calling or visiting IRS offices.
- The IRS historically has prepared tax returns for taxpayers who need help, particularly for low income, elderly, and disabled taxpayers. Eleven years ago, it prepared some 476,000 returns. That number declined significantly over the past decade, and last year the IRS announced it will no longer prepare returns at all.

In addition, as a result of budget cuts, the IRS was forced to reduce staff devoted to face-to-face assistance at walk-in sites by about 4 percent in FY 2015 compared to the previous year, and directed customers to self-service options. However, the percentage of customers at walk-in sites waiting for longer than 30 minutes for service increased by 7 percentage points (from about 25 to 32 percent) during the same period.

The importance of providing taxpayers with timely assistance over the phone or in person is of particular importance for victims of identity theft and other types of tax refund fraud. These cases are extremely complex cases to resolve, frequently touching on multiple issues and multiple tax years and the process of resolving these cases can be very frustrating for victims.

While the IRS has made considerable progress in this area, additional work remains. Fighting identity theft is an ongoing battle as identity thieves continue to create new ways of stealing personal information and using it for their gain. Therefore, it is critical that the IRS has the resources and staffing necessary to prevent refund fraud from occurring in the first place, investigate identity theft-related crimes when they do occur and help taxpayers who have been victimized by identity thieves as quickly as possible.

NTEU appreciates the \$290 million that congress provided for FY 2016 to help improve the customer service representative level of service rate, among other things. With this additional funding, the IRS was able to hire 1,000 seasonal telephone assistants and project these additional employees will help increase the phone level of service to 65 percent for the current filing season. However, because these hires are only temporary, the IRS has warned the overall level of service will drop back down to 47 percent for FY 2016 when these employees are let go.

That is why NTEU strongly supports the President’s request of \$2.4 billion in funding for taxpayer services in FY 2017. This funding will allow the IRS to increase the telephone level of service to 70 percent, provide assistance to victims of identity theft in a timely manner, and

help taxpayers understand their obligations, correctly file their returns, and pay taxes due in a timely manner.

Mr. Chairman, it is evident that drastic funding reductions in recent years have seriously eroded the IRS' ability to provide taxpayers with the services they need. Without the additional funding proposed in the Administration's budget request, taxpayers will continue experiencing a degradation of services, including longer wait times to receive assistance over the telephone, increasing correspondence inventories, including letters from victims of identity theft and taxpayers seeking to resolve issues with taxes due or looking to set up payment plans.

Enforcement

Mr. Chairman, NTEU believes a strong enforcement program that respects taxpayer rights, and minimizes taxpayer burden, plays a critical role in IRS' efforts to enhance voluntary compliance, combat the rising incidence of identity theft and reduce the tax gap.

Impact on Efforts to Reduce the Federal Deficit

Unfortunately, funding reductions in recent years are undermining IRS' ability to maximize taxpayer compliance, prevent tax evasion and reduce the deficit. The adverse impact of insufficient funding on IRS' capacity to collect revenue critical to reducing the federal deficit is clear. In FY 2015, on a budget of \$10.9 billion, the IRS collected \$3.3 trillion, roughly 93 percent of federal government receipts. According to the IRS, every dollar invested in IRS enforcement programs generates roughly \$6 in increased revenues, but reduced funding for enforcement programs in recent years has led to a steady decline in enforcement revenue since FY 2007. In FY 2015, IRS enforcement activities brought in \$54.2 billion, down \$5 billion from the \$59.2 billion of FY 2007.

The reduction in revenue can be partly attributed to a reduction in the total number of IRS enforcement personnel, including revenue officers and revenue agents as well as employees in the correspondence audit program. Between FY 2014 and FY 2015, the total number of revenue officers and revenue agents fell nine percent from 15,775 to 14,376, while reduced staffing in the correspondence audit program resulted in roughly 16,000 fewer case closures and potentially \$75 million in lost revenue.

Without sufficient staffing to effectively enforce the law to ensure compliance with tax responsibilities and combat fraud, our voluntary tax compliance system is at risk. And as the IRS Commissioner has repeatedly noted, a simple one-percent decline in the compliance rate translates into \$30 billion in lost revenue for the government.

Sufficient enforcement staffing is also critical if the IRS is to make further progress on closing the tax gap, which is the amount of tax owed by taxpayers that is not paid on time. According to the IRS, the amount of tax not timely paid is \$450 billion, translating to a noncompliance rate of almost 17 percent.

While the tax gap can never be completely eliminated, even an incremental reduction in the amount of unpaid taxes would provide critical resources for the federal government. At a time when Congress is debating painful choices of program cuts and tax increases to address the federal budget deficit, NTEU believes it makes sense to invest in one of the most effective deficit reduction tools: collecting revenue that is owed, but hasn't yet been paid.

That is why NTEU was happy to see the Administration's budget request would provide a total of \$5.2 billion to support IRS enforcement activities, an increase of more than \$356 million over the current level. The increased funding is designed to protect revenue by identifying fraud, including tax related identity theft, and strengthen examination and collection programs. The increase is also supported by a program integrity cap adjustment totaling \$514 million, which includes funding for both the Enforcement (\$231 million) and the Operations Support (\$283 million) accounts. This additional funding is designed to restore enforcement of current tax laws to acceptable levels, investigate transnational organized crime, pursue abusive tax schemes and enforce the new Foreign Account Tax Compliance Act (FACTA). According to the Administration, the cap adjustment will help generate \$46 billion in net savings over the next 10 years. This estimate does not account for the deterrent effect of IRS enforcement programs, estimated to be at least three times larger than the direct revenue impact.

CONCLUSION

Mr. Chairman, thank you for the opportunity to provide NTEU's views on the Administration's FY 2017 budget request for the IRS and the 2016 filing season. NTEU believes that only by restoring critical funding for effective enforcement and taxpayer service programs can the IRS provide America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the federal deficit.