

**WRITTEN TESTIMONY OF  
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BEFORE THE  
HOUSE WAYS AND MEANS COMMITTEE  
SUBCOMMITTEE ON OVERSIGHT  
ON THE 2017 FILING SEASON  
APRIL 26, 2017**

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, I am the Deputy Commissioner for Services and Enforcement at the IRS and am here today to provide you with the IRS's annual update on the 2017 tax filing season.

**UPDATE ON THE 2017 FILING SEASON**

The summary is that the 2017 tax filing season has gone well. The Commissioner has stated that it was the smoothest filing season of his tenure. As of April 14 the IRS received more than 118.4 million individual returns. We issued over 87 million refunds for more than \$246 billion, with an average refund of approximately \$2,800.

The smooth operation of the filing season is not automatic or accidental; it has been made possible because of the hard work and dedication of the IRS workforce. Thousands of employees spend months planning and then administering it effectively. In fact, we are already working on delivering the 2018 filing season.

We have had many notable achievements for 2017. We implemented changes enacted in 2015 under the Protecting Americans from Tax Hikes (PATH) Act, we improved taxpayer assistance, and we continued increasing our efforts to protect taxpayer information.

The PATH Act helps us protect taxpayers and revenue in three particular areas. One of those provisions requires the IRS to wait to pay refunds to taxpayers who claimed either the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC) until February 15. Although this change slowed the overall pace of refunds at the beginning of the filing season, that pace accelerated once the IRS released approximately \$51 billion in EITC and ACTC refunds after February 15.

The refund delay and a second PATH Act change – to accelerate the filing date of Form W-2s – together helped the IRS improve our ability to spot incorrect or

fraudulent returns. Receiving W-2s earlier also assisted us in releasing legitimate refunds to taxpayers more quickly when returns were stopped by our filters. When we can verify the compliant taxpayer's identity, we can reduce the delay in sending that refund.

A third PATH Act provision requires Individual Taxpayer Identification Numbers (ITINs) to expire if they were issued before 2013 or if they were not used on a federal tax return for three consecutive years. This change was designed to increase the IRS's ability to detect and stop potential tax fraud.

The IRS implemented these changes well, in part because Congress set the effective date for these changes about a year after enactment, which gave the IRS sufficient lead time to get our systems ready and also to prepare taxpayers and tax practitioners for the changes. Further, the lead time meant we could work extensively with many partner groups across the country and use various outreach and communications channels – including press releases, social media, speeches, and the annual IRS Nationwide Tax Forums – to get the word out so people would understand what the changes would mean for them. This reduced the need for taxpayers to call or write us with questions.

## **TAXPAYER ASSISTANCE EFFORTS**

In addition to processing returns and issuing refunds during filing season, the IRS uses various channels to assist taxpayers in fulfilling their tax obligations as quickly and easily as possible. While our research shows that taxpayers prefer more and more to interact with the IRS through digital channels, we continue to offer and improve services to taxpayers through our more traditional channels as well.

With respect to digital services, we understand that taxpayers want digital services similar to those offered by their financial institutions. We have been working to improve and expand our online offerings as a result. We provide a wealth of tax information on IRS.gov, which was visited more than 500 million times during Fiscal Year (FY) 2016 and more than 336 million times so far in FY 2017. Taxpayers use IRS.gov to get forms and publications, find answers to their tax questions, and perform transactions such as paying their tax bills. The most heavily visited part of our website is the "Where's My Refund?" electronic tracking tool, which was used about 300 million times in FY 2016 and more than 233 million times already this filing season.

We also understand that (as above) we need to continually improve the online content we offer. Over the last few years, we have updated many of the most-often-used sections of IRS.gov. We have also launched a number of digital applications to improve taxpayers' interactions with the IRS. These include:

- Get Transcript, which allows taxpayers to go online, verify their identity with strengthened security, and download a copy of their tax records from prior years. Taxpayers have used this tool 8.3 million times so far in FY 2017;
- Online Payment Agreement, which is a secure, safe, and easy process for taxpayers to set up a payment plan and pay their tax obligations over time. More than 294,000 online agreements have been set up so far in FY 2017; and
- Direct Pay, which is a secure, free, quick, and easy online option for making tax payments. Taxpayers have used this tool more than 4.6 million times in FY 2017.

In November 2016, we took the first step toward a fully functional online account by launching an application on IRS.gov that can answer straightforward balance inquiries. This new feature allows taxpayers to view their IRS account balance, including the amount they owe for tax, penalties, and interest, in a secure, easy, and convenient way. Since its launch, taxpayers have used this tool successfully about 611,000 times.

We recently added another feature that will let taxpayers see payments posted to their accounts. These balance due and recent payment features, when paired with existing online payment options, enhance the self-service options for interacting with the IRS.

Over time and subject to the availability of resources, we will be adding other features to this platform as we develop and test them with taxpayers and tax professionals. We are currently testing Taxpayer Digital Communications, which will provide a secure online messaging capability so that taxpayers, their authorized representatives, and IRS employees can correspond electronically and resolve issues more quickly than through traditional mail while maintaining security.

We also continue to understand that we must serve the needs of all taxpayers, whatever their preferred method of communication. We recognize that some taxpayers may not have access to the digital economy or may prefer to conduct their transactions with the IRS in more traditional ways. As a result, the IRS remains committed to providing the services these taxpayers need through our other channels – by phone, through correspondence, and in person.

During the 2017 filing season, the level of service (LOS) on our toll-free lines improved compared to 2016, as 2016 did from 2015. Our average phone LOS for the 2017 filing season has consistently averaged above 76 percent. We believe these results are attributable largely to three factors: the additional funding Congress provided to improve taxpayer service; the relatively small number of tax law changes in 2016, which reduced the number of taxpayers calling with questions; and, as noted above, adequate time for the IRS to prepare

taxpayers and practitioners for the PATH Act changes, which again we believe reduced the number of taxpayers calling with questions.

We also substantially reduced our correspondence inventory compared to prior years. In 2014 and 2015, this inventory grew well above normal levels because our constrained funding forced us to shorten how long we could employ our seasonal employees who help answer taxpayer correspondence. To illustrate, inventory of pending correspondence stood at 900,000 at the end of FY 2014 and 859,000 at the end of FY 2015. It now stands around 742,000. The connection between correspondence and phones is well known at IRS. When taxpayers do not receive responses to letters, they call; when they are not able to talk with a telephone assistor, they write.

With respect to in-person assistance, the IRS has improved service in our Taxpayer Assistance Centers (TACs) located around the country. In recent years, many TACs experienced such heavy demand during the filing season that taxpayers lined up for hours, sometimes as early as 5 a.m., before the center opened, just to ensure they would get in the door. In some instances, we had to close our doors at 9 a.m. just to be able to serve those who had already come in to the TAC. To address those difficulties, the IRS began testing a new way of doing business in 2015. We began letting people make appointments in advance, which is a process that had already been used successfully in other countries.

The 2015 pilot was so successful that, with some adjustments, we moved to extend the appointment process to all TACs as of this year. Bearing out the results of the pilot, the appointment process has cut wait times dramatically for taxpayers seeking assistance at TACs across the country and we have had no reports of long lines this filing season.

We have also found that this arrangement provides advantages beyond decreased wait times. First, when a taxpayer calls for an appointment, our assistor can tell her what documents she needs to bring for the visit, reducing the need for return trips. Second, the IRS employee making the appointment can often help the taxpayer resolve her issue over the phone or refer her to other resources for help, possibly eliminating altogether the need to visit a TAC. In fact, we have found that about 56 percent of the taxpayers calling for an appointment are able to resolve their issues during those initial phone contacts. This fiscal year, more than 1.8 million people called for an appointment. About 1.0 million no longer needed an appointment following the call. This saves taxpayers time and money and reduces their frustration while resolving their cases earlier. Further, TAC employees can redirect their time to those who do make an appointment and visit, as they tend to have more complex issues that cannot be readily resolved over the phone.

In implementing the appointment process, we realized that it would take time for people to adjust. This fiscal year through April 8, we also served over 222,000 people who walked in without an appointment and another 627,000 people who did not need an appointment, whether it was for customer service, to pick up a tax form, to pay a tax bill, or some other need. That brings the total number served in person in FY 2017 to approximately 1.7 million.

I would note that we accomplished this successful filing season while using antiquated IT systems, as approximately 60 percent of the IRS's hardware and 28 percent of its software are out-of-date and in need of an upgrade, and with little or no dedicated funding to implement several pieces of legislation. This list includes: the Affordable Care Act (ACA); the Foreign Account Tax Compliance Act (FATCA); a new certification program for professional employer organizations; reauthorization of the Health Coverage Tax Credit (HCTC); the registration requirement for newly created 501(c)(4) organizations; and the 2015 PATH Act changes noted above.

## **SAFEGUARDING IRS SYSTEMS AND TAXPAYER DATA**

Throughout the filing season, as well as the rest of the year, we safeguard IRS systems to protect taxpayer information and prevent stolen identity refund fraud. Our core tax processing systems remain secure through a combination of cyber defenses as we currently withstand more than one million malicious attempts to access our systems every day.

The IRS also continues to battle stolen identity refund fraud. Over the last several years, we have made steady progress, even with reduced resources, in protecting against fraudulent refund claims, prosecuting those who engage in this crime, and helping minimize the adverse effect on those who are victimized.

That progress has accelerated since 2015 thanks to the collaborative efforts of the Security Summit. Over the past two years, this strong, unique partnership between the public and private sectors has allowed us to coordinate our efforts on many different levels. As a result, we put in place many new and productive safeguards beginning in the 2016 filing season. The number of people reporting to the IRS that they were victims of identity theft declined from 698,700 in Calendar Year (CY) 2015 to 376,500 in CY 2016 – a 46 percent drop.

Even with this progress, the fraud filters in our processing systems are still catching a large number of false returns, which shows that identity theft continues to be a major threat to tax administration. During FY 2016, our systems stopped more than \$6.5 billion in fraudulent refunds on 969,000 tax returns confirmed to have been filed by identity thieves.

Along with the work being done through the Security Summit, another critical factor in our ability to improve efforts against stolen identity refund fraud has

been the development and phase-in of the Return Review Program (RRP). The RRP delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax noncompliance.

During the 2017 filing season, we have used RRP to improve our anomaly detection for both paper and electronic tax returns and to strengthen our anti-fraud filters to block false returns before a refund can be issued. This year through March 22, the RRP has selected approximately 631,000 potentially fraudulent tax returns claiming approximately \$4.7 billion in refunds. We have developed RRP to identify our fraud cases that were previously identified by our legacy system, the Electronic Fraud Detection System (EFDS).

Despite all the progress we have made, we realize we cannot relax in the fight against identity theft. We are finding that, as the IRS improves monitoring capabilities and shuts off certain avenues for criminal activity, identity thieves look for new ways to commit these crimes. As the IRS enhances return processing filters and catches more fraudulent returns at the time of filing, criminals attempt to become more sophisticated at mimicking taxpayers' identities so they can evade those filters and successfully obtain fraudulent refunds.

Therefore, the IRS is working not just to react better and faster, but also to stay ahead of the criminals.

In that regard, in 2016, the Security Summit began a stronger collaboration with the tax practitioner community. Working with our Summit partners, the IRS has alerted tax practitioners to various identity-theft schemes focused on preparers that have come to light over the past year.

Additionally, the IRS, in conjunction with the states and the tax community, has been conducting a public awareness campaign aimed at return preparers called "Protect Your Clients, Protect Yourself." The goal of this campaign is to get the word out to preparers about steps they can take to safeguard taxpayer data and avoid becoming victims of identity theft. We continue to educate and share similar information with individual taxpayers through the "Taxes Security Together" campaign, which is now in its second year.

Along with these initiatives, we have also undertaken a broader effort to protect the security of data and strengthen authentication standards for programs where we share taxpayer information.

One example of this effort was our decision last year to eliminate the electronic filing Personal Identification Number (PIN) as an option for taxpayers to use to verify their identity when filing their tax return. An electronic tool on IRS.gov allowed taxpayers to enter identifying information to receive the e-file PIN. We discovered that criminals had attempted to obtain PINs using data stolen from

sources outside the IRS, so we stopped using the PIN. Although no personal taxpayer data was compromised or disclosed by IRS systems and no fraudulent refunds were issued, we chose to discontinue the PIN to protect taxpayers and their data.

Our efforts to strengthen authentication standards also extend to programs where taxpayer data is shared routinely with organizations that use it to verify customer eligibility for loans. The Income Verification Express Service (IVES) has been a successful program for the government and the private sector since 2006. It allows lenders to verify income information systemically for customers applying for loans rather than each customer submitting a request to IRS for income verification information. In June 2016, we announced new, stronger requirements for IVES program participants to ensure those companies know their customers. Now, the IRS accepts data requests only from companies that are pre-screened and certify client verification.

Student financial aid is another area where we are working to stop illegal attempts to obtain taxpayer information. We are working with the Department of Education to secure the online process through which student financial aid applicants obtain their family's financial information, which they need in order to complete the Free Application for Federal Student Aid (FAFSA) or apply for an income-driven repayment (IDR) plan for their student loans.

As part of this effort, in early March we disabled our IRS Data Retrieval Tool (DRT), which is accessible from the [fafsa.gov](http://fafsa.gov) website, after we became concerned about criminals masquerading as students and misusing tax data. Our information technology, cybersecurity, and privacy experts spent the next three weeks working with their Federal Student Aid (FSA) counterparts to find a way to secure the data provided to financial aid applicants.

In the process of considering potential short-term technical solutions, we realized that none of them could ensure the protection of student aid applicants' financial information from being stolen and used to file fraudulent tax returns. With that in mind, we chose to mitigate potential risks to taxpayers and their data by taking down the DRT. We announced a few weeks ago that we will not be able to activate the DRT until longer-term system modifications are implemented, which, unfortunately, we anticipate will not happen until at least the start of the next financial aid season in the fall of 2017.

We recognize that this may be inconvenient for applicants and their families, but we have a responsibility to ensure that all of our online tools are secure, and tax return information is protected from identity thieves. However, it is important to note that, while it is less convenient, families can still complete applications for student financial aid by obtaining the financial information from copies of their tax returns. If they do not have their returns, they can obtain copies either online

through our Get Transcript application, by mail, or from their tax return preparer if they authorize one. Families can find additional guidance at [studentaid.ed.gov](http://studentaid.ed.gov)

## **LOOKING AHEAD**

We recognize that tax reform and other tax legislation may be on our horizon. We at IRS do not have a role in the policy choices Congress and the Administration make. Our job is to implement and administer the law. With that in mind, we hope to offer our perspective on the administrability of any legislation to ensure that your goals are reached efficiently and effectively for taxpayers and the tax system as a whole.

We also encourage Congress to carefully consider the impact of the timing of tax law changes. In our experience, implementation is smoother and less costly from both the government's and taxpayers' perspectives if IRS has sufficient lead time to prepare both taxpayers and our own systems for changes as happened with the PATH Act.

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, this concludes my statement. I would be glad to take your questions.