

**WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL
GOVERNMENT
ON
FY 2010 IRS BUDGET
MAY 19, 2008**

Introduction

Chairman Serrano, Ranking Member Emerson, and Members of the Subcommittee, thank you for the opportunity to appear today to discuss the President's FY 2010 Budget request for the Internal Revenue Service. I want to thank the Administration for this strategic and wise investment in the nation's tax system that will help the IRS stay on a path of continuous improvement in such critical areas as service, enforcement, technology, and human capital.

Through its service delivery, the IRS is often the face of government to the American people. The IRS is the only agency that interacts with every business, every taxpaying individual, and every non-profit organization each year. We have that rare opportunity to influence how people think about their government.

In terms of service, I believe that taxpayers want to come to the IRS, get their questions answered and issues resolved quickly, and be on their way. It sounds simple, but in a time of increasing complexity of the tax law, and challenging economic circumstances, achieving this goal will require discipline, focus, and resources. Our service operations must be designed with the taxpayer experience as the ultimate measure of our success.

We also need a vigorous and effective enforcement program. In today's tough economic environment, it is more important than ever that every citizen feels confident that individuals and corporations are paying the taxes they owe.

The American people who play by the rules every day expect the IRS to pursue those taxpayers who do not pay their taxes, and we are vigorously enforcing the tax law. We are focusing on current enforcement initiatives, such as in the international arena, while seeking to evolve and innovate. We can also hone our enforcement techniques by adding new tools, such as more information reporting, soft notices, and self-correction.

Of course, all of our efforts depend upon the people of the IRS. We must ensure that we have talented and capable leaders and employees for the foreseeable future at the IRS, and that they have the tools and resources they need to succeed.

Finally, we need to continue moving our technology to the next level. The tax system, America's taxpayers, and the approximately \$2.5 trillion of revenue depend on it.

A Firm Foundation Upon Which to Build

The IRS has a firm foundation upon which to build. Let me briefly highlight some key trends that demonstrate both across-the-board performance improvements and the IRS' ability to be agile and respond quickly to changing situations.

Service

As of May 9th, for the 2009 filing season, the IRS has received 132.2 million total individual returns and has issued 102.3 million refunds, for a total of \$273.5 billion. A record 91.2 million tax returns were electronically filed this year – a major milestone for the IRS and testament to our commitment to a robust electronic tax administration program. So far this filing season, the e-filing rate is almost 70 percent for individuals, as compared to 61 percent for the same time period last year.

This year, there was also a surge in e-file from home computers. More than 31 million people prepared their own e-file return, representing more than a 19 percent increase from the previous year. And there were almost 200 million visits to IRS.gov, comparable to last year.

And almost 200 million people IRS.gov continues to exhibit remarkable growth with almost 191 million visits to the IRS Web site this year, up from about 168 million as compared to the same period last year – a more than 13 percent increase.

Taxpayers could also find on the IRS Web site the latest information about the American Recovery and Reinvestment Act (ARRA), including details on extending health insurance for people who lost their jobs and tax breaks for first-time homebuyers. In addition, the IRS has developed "What If" scenarios and the possible tax implications for people who may be facing financially difficult times.

American Recovery and Reinvestment Act

The Internal Revenue Service is proud of the role it has played, and will continue to play in helping to implement, provide guidance, and publicize many of the provisions of the ARRA that will assist both individuals and businesses in economic distress and is getting the Nation back on the road to economic recovery.

For example, a mere four days after President Barack Obama signed ARRA into law, the Treasury Department and the IRS swung into action in record time, developing new withholding tables to ensure money would get into American's pockets through the Make Work Pay Credit.

In March, the IRS announced that businesses with deductions exceeding their income in 2008 can use a new net operating loss tax provision to get an expedited refund of taxes paid in prior years. This provision could throw a lifeline to struggling businesses, providing them with a quick infusion of cash. We are also making it as easy as possible for businesses large and small to take advantage of these benefits.

We have shifted resources to deal with the expected growth of bankruptcies and business workouts. Moreover, we worked with the Treasury Department on a number of regulations that clarified rules to unclog the credit markets.

On the individual front, we have taken a broad approach. Through a series of massive, nation-wide outreach efforts, such as “Super Saturday,” we wanted to make sure that even more taxpayers are aware of every credit, deduction, and exclusion for which they qualify, including several new benefits this year.

Our message to taxpayers was that we are going the extra mile to help those in economic distress. We want to get them their refunds as quickly as possible. And if they think they can't pay, we ask them to come in and talk about it. There are steps we can take to help.

The bottom line is that we need to be flexible, principled, and empower our employees to use their judgment when dealing with these taxpayers in areas such as missed payments and postponing collection actions.

This year there are also a variety of new benefits and tax credits the IRS is administering that can also help energize the economy and generate much needed jobs. We are working with the media and other stakeholder groups to get out the message about their availability.

Enforcement

In FY 2008, both the levels of individual returns examined and coverage rates rose substantially. We conducted nearly 1.4 million examinations of individual tax returns in FY 2008, an 8 percent increase over FY 2006. This reflects a steady and sustained growth over the past three years. Similarly, the audit coverage rate has risen from 0.58 percent in FY 2001 to 1.01 percent in FY 2008.

While the growth in examinations of individual returns is visible in all income categories, it is most apparent in examinations of individuals with incomes over \$200,000. Audits of these individuals increased from 105,549 in FY 2007 to 130,751 during FY 2008, an increase of 24 percent. Their coverage rate has risen from 2.68 percent in FY 2007 to 2.94 percent in FY 2008.

In the business arena, audit coverage rates for small corporation returns (assets under \$10 million) increased slightly over FY 2007 by .03 percent. Of note, coverage rates for three classes of large corporations with assets between \$50 million and \$250 million and higher all increased. Coverage rates for partnership returns stayed even as compared to

FY 2007, while Subchapter S returns reflected a small .05 percent drop due largely to the increase in number of S-corporations. The coverage rate for tax-exempt organizations increased slightly.

IRS Criminal Investigation has also been vigorously attacking egregious tax avoidance, money laundering, and other financial crimes that have a corrosive effect on our tax system. For example, overall number of individuals charged in an information or indictment rose from 2,323 in FY 2007 to 2,547 in FY 2008.

Over the same period of time, prosecution recommendations for employment tax evasion more than doubled. The incarceration rate in these investigations was 81 percent and the average sentence was 29 months.

In FY 2008, IRS-developed cases related to foreign and offshore issues also resulted in 61 criminal convictions, and the average term for those going to jail was 32 months. For the first four months of FY 2009, there were 20 convictions, and the average sentence was 84 months

IRS Workforce

In late FY 2008, the IRS established the *Workforce of Tomorrow* task force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce in place to address future challenges.

The IRS considers employee engagement fundamental to the overall success of the organization and believes that employee engagement is an ongoing process. The IRS conducts an annual survey to assess the level of engagement of employees. Overall satisfaction showed steady improvement from a score of 3.48 in 2002 to a score of 3.79 in 2008, on a scale of 1 to 5, with 5 being the most satisfied.

IRS job satisfaction is higher than most other federal agencies, according to the Office of Personnel Management's Federal Human Capital Survey.

The Administration's FY 2010 Budget Request Funds Key Priorities

Total resources to support IRS activities for FY 2010 are \$12,440,801,000. This amount includes \$12,126,000,000 from direct appropriations, an estimated \$147,101,000 from reimbursable programs, and an estimated \$167,700,000 from user fees. The direct appropriation is a \$603,402,000 increase, or a 5.2 percent increase over the FY 2009 enacted level of \$11,522,598,000. This amount excludes funding to implement the ARRA.

The IRS continues to achieve efficiency savings in its operations. Because of the increase in e-filing, the IRS has effectively revised base operations and continues to implement savings resulting from the consolidation of an additional two of the paper

processing sites. This consolidation has already resulted in significant savings and will continue to do so.

The IRS Strategic Plan 2009-2013 guides program and budget decisions and supports the Department of the Treasury Strategic Plan. The IRS Strategic Plan builds on past successes while being innovative and adapting to new situations, such as the increasing complexity of tax laws, changing business models, expanding use of electronic data and related security risks, accelerating growth in international tax activities, and growing human capital challenges. I am a firm believer that organizations must always be evolving, changing, and improving and the strategic plan reflects that philosophy.

The IRS Strategic Plan has two overarching goals: (1) improve service to make voluntary compliance easier; and (2) enforce the law to ensure everyone meets their obligation to pay taxes. The IRS must excel at both service and enforcement to meet its mission; it is not an either-or proposition.

To improve service and make voluntary compliance easier, the FY 2010 President's Budget Request for IRS provides the necessary funding to implement the following key strategic priorities.

Enforcement Program

The FY 2010 President's Budget request includes program increases of \$332.2 million for investments in strong compliance programs, including a robust portfolio of international enforcement initiatives that the President and Treasury Secretary Geithner and I unveiled on May 4, 2009.

The international initiatives include reforming business tax deferral rules so that – with the exception of research and experimentation expenses that have significant spillover benefits to the United States – companies cannot receive deductions on their U.S. tax returns supporting their offshore investments until they pay taxes on their offshore profits. The Administration would also seek to prevent abuse of the foreign tax credit.

In addition, getting tough on overseas tax havens is an integral part of the Administration's plan. It would reform the so-called "check-the-box" rules to require certain foreign subsidiaries to be considered as separate corporations for U.S. tax purposes. It would also crack down on the abuse of tax havens by wealthy Americans. For example, the Administration proposes withholding taxes from U.S. customer accounts at foreign institutions doing business with the U.S. but which don't share information with the IRS through the "Qualified Intermediary" program. To further combat abuse, the Administration proposes extending the statute of limitations for international tax enforcement to six years.

The Administration's full budget describes additional international tax reform proposals. Other legislative proposals to improve compliance and strengthen tax administration can be found later in this testimony. A key focus of our strategy is to shift enforcement

resources so we can expand programs targeted at non-compliance among large corporations, U.S. business with international operations, high net-worth individuals, flow-through entities and partnerships.

Increased resources for the IRS compliance programs yield direct measurable results through high return-on-investment activities. The new enforcement personnel funded in the FY 2010 President's Budget are expected to generate \$2.0 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2012. This estimate does not account for the deterrent effect of IRS enforcement programs, which are conservatively estimated to be at least three times larger than the direct revenue impact.

The tax law is complex, and even sophisticated taxpayers make honest mistakes on their tax returns. Accordingly, helping taxpayers understand their obligations under the tax law is critical to improving compliance. To this end, the IRS remains committed to a balanced program of assisting taxpayers in both understanding the tax law and paying the proper amount of tax.

Taxpayer Service Program

The FY 2010 President's Budget request continues improvements to both the quality and efficiency of taxpayer service, using a variety of person-to-person, telephone, and web-based and self-serve methods to help taxpayers understand their tax obligations and pay what they owe. The IRS taxpayer service program is funded in the Taxpayer Services and Operations Support appropriations. It should be noted that service investments and strategy are guided by the Taxpayer Assistance Blueprint – a five year plan that outlines the steps the IRS should take to improve taxpayer service and the IRS strategic plan.

Providing quality taxpayer service is fundamental to keeping honest taxpayers in the tax system and compliant. It also helps them avoid making unintentional errors before returns are filed, which, in turn, reduces the need for follow-up correspondence from the IRS.

The IRS provides year-round assistance to millions of taxpayers, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, the IRS.gov web site, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

For example, in the Small Business arena alone, in FY 2008, the IRS participated in over 2,600 meetings, symposiums, and seminars attended by over 162,000 small business owners and tax professionals. The IRS also holds national and local Small Business Forums which provide an open avenue of communication between IRS and trade and industry groups. We held 135 Small Business Forums and facilitated 410 Small Business Tax Workshops in FY 2008.

American Recovery and Reinvestment Act

As noted in the introduction, the IRS is now implementing a number of ARRA tax provisions, including individual tax credits, such as the Make Work Pay credit; energy credits for certain appliances, education credits, and child care credits; tax incentives for business; bond incentives; and a tax credit to provide discounted health benefits to certain workers who have lost their jobs. The IRS will be able to continue to implement and administer these critical tax programs within the levels contained in this Budget request.

Explanation of Budget Activities

Enforcement

The FY 2010 President's Budget request is \$5,504,000,000 in direct appropriations and an estimated \$60,797,000 from reimbursable programs, plus an estimated \$7,800,000 from user fees¹, for a total operating level of \$5,572,597,000. The direct appropriations level is an increase of 7.6 percent from the FY 2009 enacted level and includes \$600,000,000 to support tax enforcement activities funded by an allocation adjustment. This appropriation funds the following budget activities.

- ***Investigations (\$637,694,000 from direct appropriations and an estimated \$51,553,000 from reimbursable programs)*** This budget activity funds the criminal investigations programs that explore potential criminal violations of the internal revenue tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. It also includes investigation and prosecution of tax and money laundering violations associated with narcotics organizations.
- ***Exam and Collections (\$4,706,350 from direct appropriations, an estimated \$8,783,000 from reimbursable programs, and an estimated \$7,800,000 from user fees)*** This budget activity funds programs that enforce the tax laws and compliance through examination and collection programs that ensure proper payment and tax reporting. The budget activity also supports appeals and litigation activities associated with exam and collection.
- ***Regulatory (\$159,956,000 from direct appropriations and an estimated \$461,000 from reimbursable programs)*** This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal servicing, ruling and agreements; enforcement of regulatory rules, laws, and approved business practices; and supporting taxpayers

¹ Note that user fees are available to supplement appropriations contingent on demand for user fee services and receipt of fees. These amounts are subject to change.

in the areas of pre-filing agreements, determination letters, and advance pricing agreements.

The Office of Professional Responsibility is funded within this budget activity and is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Taxpayer Services

The FY 2010 President's Budget request is \$2,269,830,000 in direct appropriations, an estimated \$39,000,000 from reimbursable programs, and an estimated \$127,000,000 from user fees, for a total operating level of \$2,435,830,000. The direct appropriations level is a reduction of 1.0 percent from the FY 2009 enacted level, though it does not represent a program reduction due to non-recurrent activities and savings. This appropriation funds the following budget activities.

- ***Pre-Filing Taxpayer Assistance and Education (\$676,063,000 from direct appropriations, an estimated \$819,000 from reimbursable programs, and an estimated \$18,700,000 from user fees)*** This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.
- ***Filing and Account Services (\$1,593,767,000 from direct appropriations, an estimated \$38,181,000 from reimbursable programs, and an estimated \$108,300,000 from user fees)*** This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. The IRS continues to make progress in decreasing paper returns and increasing the use of electronic filing and payment methods. As previously noted, a record 90 million tax returns were filed electronically this year.

Operations Support

The FY 2010 President's Budget request is \$4,082,984,000 in direct appropriations, an estimated \$47,304,000 from reimbursable programs, and an estimated \$32,900,000 from user fees, for a total operating level of \$4,163,188,000. The direct appropriation level is an increase of 5.6 percent from the FY 2009 enacted level and includes \$290,000,000 of support funding for enhanced enforcement activities. This appropriation funds the following budget activities.

- ***Infrastructure (\$900,852,000 from direct appropriations, an estimated \$155,000 from reimbursable programs, and an estimated \$16,100,000 from user fees)*** This budget activity funds administrative services related to space and housing,

rent and space alterations, building services, maintenance, guard services, and non-Automated Data Processing (ADP) equipment.

- ***Shared Services and Support (\$1,296,629,000 from direct appropriations and an estimated \$32,228,000 from reimbursable programs)*** This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equal employment opportunity and diversity services and programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.
- ***Information Services (\$1,885,503,000 from direct appropriations, an estimated \$14,921,000 from reimbursable programs, and an estimated \$16,800,000 from user fees)*** This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. The IRS business programs rely on these systems to process tax and information returns, account for tax revenues collected, send notices for taxes owed, issue refunds, assist in the selection of tax returns for audit, and provide telecommunications services for all business activities including the public's toll-free telephone access to tax information.

Business Systems Modernization (BSM)

The FY 2010 President's Budget request is \$253,674,000 in direct appropriations. This amount is an increase of 10.3 percent from the FY 2009 enacted level. This appropriation funds the planning and capital asset acquisition of information technology (IT) to continued modernization of the core taxpayer account database.

This effort is a critical underpinning of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls. This activity also funds the ongoing development of the Modernized e-File platform for filing tax returns electronically. The account also funds BSM labor (salaries and expense dollars) and related contract costs.

Health Insurance Tax Credit Administration (HITCA)

The FY 2010 President's Budget request is \$15,512,000 in direct appropriations. This amount is an increase of 0.7 percent from the FY 2009 enacted level. This appropriation funds costs to administer a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002 (Public Law 107-210).

FY 2010 Budget Adjustments

The IRS funding increase for FY 2010 is \$603,402,000, which includes \$256,329,000 for maintaining current levels; a net decrease of \$115,794,000 from efficiencies, savings and reinvestments; and a program increase of \$462,867,000 to strengthen enforcement, address IT security needs and deploy information technology systems. These investments also fund increased front-line enforcement efforts. By FY 2012, these investments are projected to increase annual enforcement revenue by \$2.0 billion.

The budget request supports these activities by proposing:

- \$332,160,000 to target the tax gap by addressing underreporting of tax associated with complex international activities; expanding enforcement efforts on noncompliance among business and high-income taxpayers; and minimizing revenue loss by increasing document matching efforts;
- \$108,100,000 to address critical IT operational and security infrastructure needs; and
- \$22,607,000 to accelerate efforts to modernize the core taxpayer account database.

FY 2009 Enacted Level

The FY 2009 enacted level for the IRS is \$11,522,598,000, supporting an estimated 94,209 FTE.

Maintaining Current Levels

- ***Adjustments Necessary to Maintain Current Levels +\$260,061,000 / 0 FTE***
Funds are requested for: FY 2010 cost of the January 2009 pay increase of \$80,054,000, the proposed January 2010 pay raise of \$148,894,000, and non-labor related items such as contracts, travel, supplies, equipment, and GSA rent adjustments of \$31,113,000.
- ***Government-wide Reduction for Productivity Improvements -\$13,732,000 / 0 FTE***
The IRS continues to focus on improving the efficiency of its operations through a disciplined process of productivity improvement. Additional efficiency savings are outlined in the next section.
- ***GAO Audit Reimbursement Pursuant to Public Law 110-323 +\$10,000,000 / 0 FTE***
This estimated adjustment will provide funds to reimburse the Government Accountability Office (GAO) for the audit of the IRS annual financial statements. The IRS must pay this cost pursuant to Public Law 110-323. In prior years, GAO conducted the financial statement audit for which it did not receive reimbursement.

Efficiency Savings

- ***Increase e-File Savings*** **-\$8,360,000 / -182 FTE** This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to 4.6 million fewer returns filed on paper (2.9 million individual and 1.7 million business) in FY 2010. This is projected to result in a savings of 182 FTE in submission processing.
- ***Non-Recur Savings*** **-\$27,074,000 / 0 FTE** This decrease is the net reduction of one-time costs associated with the IRS FY 2009 enforcement initiatives.
- ***Non-Recur Stimulus Savings*** **-\$67,900,000 / -1,322 FTE** One-time resources were provided in FY 2009 to meet the requirements of the Economic Stimulus Act of 2008 (Public Law 110-185).
- ***Non-Recur FY 2009 Reduction Adjustment/ Correspondence Inventory*** **-\$13,439,000 / 0 FTE** One-time resources were provided in FY 2009 to handle the increased adjustment/correspondence workload that resulted from diverting staff from paper correspondence to telephone service to meet the requirements of the Economic Stimulus Act of 2008 (Public Law 110-185).
- ***Non-Recur Pension Plan Form Processing*** **-\$1,352,000 / 0 FTE** This decrease results from the funding of the one-time cost in FY 2009 to test the IRS ERISA (Employee Retirement Income Security Act of 1974) Residual Solution (IERS) system. This system will process the electronic Form 5500, *Annual Return/Report of Employee Benefit Plan* from the new Department of Labor ERISA Filing Acceptance system and the paper Form 5500EZ, *Annual Return of One-Participant (Owners and Their Spouses) Retirement*.

Reinvestment

- ***Submission Processing Consolidation (Andover)*** **+\$2,331,000 / 0 FTE** Increased use of electronic filing options has led to consolidation of the individual return processing sites. Increased e-File savings will be reinvested to fund one-time severance pay costs for the ramp-down of the Andover submissions processing site. As the Andover consolidation approaches, the IRS will continue to assist employees in finding employment either in or outside the IRS.

Program Increases

- ***Reduce the Tax Gap Attributable to International Activities*** **+\$128,064,000 / +784 FTE** The IRS plans a multi-year investment, beginning in FY 2010, to deal more effectively with increasing international tax activities of individual and business taxpayers.

This multi-year investment will improve the identification and coverage of international issues and increase issue specialization to address increasingly complex international transactions by both business and individual taxpayers. It

will bring an unprecedented increase in international resources with the specialized skills to identify and examine international non-compliance.

The resources will improve the use of data we receive from non-U.S. entities and foreign governments, provide the needed legal resources, and address aggressive profit allocation activities of multi-national entities doing business in the U.S.

This effort will also focus on increasing reporting compliance of domestic taxpayers with offshore activity. The additional resources will allow the IRS to implement a stronger presence in offshore activities that will be able to uncover the use of offshore credit cards, disguised corporate ownership, brokering activities, and non-U.S. financial institutions providing banking services to U.S. and non-U.S. persons. This initiative will also fund the anticipated growth of collection activities resulting from increases in small and large business examination assessments, foreign investment transactions, and withholding compliance for nonresident aliens.

Finally, this initiative will allow the IRS to increase its overseas presence by adding attachés in key countries to continue our efforts to aggressively combat abusive foreign tax schemes and other tax evasion schemes. These resources are also a key component in supporting the Department of Treasury's objective of "Pre-empted and neutralized threats to the international financial system and enhanced US national security."

This multi-pronged approach will aggressively target the many areas of offshore tax abuse with the goal of identifying more of these abuses and curbing this activity.

- ***Improve Reporting Compliance of Small Business and High Income Taxpayers*** **+\$94,215,000 / +755 FTE** This initiative will improve reporting compliance by increasing examinations of business and high-income returns and exams involving flow-through entities by 47,400; audits targeting employment, excise, and estate and gift taxes by 6,350; and investigations of business non-filers by 183,000. This request will generate \$567.2 million in additional enforcement revenue once new hires reach full potential in FY 2012.
- ***Expand Document Matching for Business Taxpayers*** **+\$26,237,000 / +300 FTE** This initiative will increase the coverage of the document matching program to reduce the number of business taxpayers who misreport their income. This request will generate \$386.5 million in additional revenue once new hires reach full potential in FY 2012.
- ***Address Nonfiling/Underpayment and Collection Coverage*** **+\$83,644,000 / +491 FTE** With expanded enforcement efforts in recent years, the IRS must invest in improving its collection operations to ensure appropriate overall balance and coverage. This initiative will generate \$359.4 million in additional revenue

once new hires reach full potential in FY 2012. In addition, this initiative will fund the rent, furniture, telecommunication, and IT costs to build two new Automated Collection System (ACS) sites.

- ***Address IT Security and Material Weakness*** +\$90,000,000 / +36 FTE
Improving IT security is necessary to ensure the integrity of the tax system and maintain taxpayer confidence. This initiative will allow the IRS to enhance enterprise security risk management; harden software applications and network infrastructure security; improve security compliance monitoring and reporting; and provide an enterprise solution to deploy end-to-end audit log collection.
- ***Implement Return Review Program (RRP)*** +\$18,100,000 / +10 FTE
In FY 2008, the Electronic Fraud Detection (EFDS) System stopped \$1.4 billion in erroneous refunds. This initiative will complete modernization of the IRS fraudulent refund detection systems. It will deliver an integrated and unified RRP system that will enhance IRS capabilities to detect, resolve, and prevent criminal and civil tax refund and abuse.
- ***Business System Modernization (BSM)*** +\$22,607,000 / 0 FTE
This initiative will provide funding for the continued modernization of the core taxpayer account database. This effort is a critical underpinning of the next generation of IRS service and enforcement initiatives. The integration strategy includes a particular focus on enhanced information technology security practices and robust accounting and financial management controls.

Legislative Proposals

The FY 2010 President's Budget includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. These proposals will specifically target the tax gap and generate nearly \$10 billion over the next ten years. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

- ***Modify Electronic Filing Requirements*** – Electronic filing benefits taxpayers and promotes effective tax administration because it decreases processing errors, expedites processing and payment of refunds, and allows the IRS to efficiently maintain up-to-date records. This proposal would require electronic filing by tax return preparers (initially defined by a set threshold amount).
- ***Expand Information Reporting*** – Compliance with the tax laws is highest when payments are subject to information reporting to the IRS. Specific information reporting proposals would:
 1. Require information reporting on payments to corporations;
 2. Require a certified taxpayer identification number (TIN) from contractors;

3. Require increased information reporting on certain government payments; and
 4. Increase information return penalties.
- *Improve Compliance by Businesses* – Improving compliance by businesses of all sizes is as important. Specific proposals to improve compliance by businesses would:
 1. Require electronic filing by certain large organizations; and
 2. Implement standards clarifying when employee leasing companies can be held liable for their clients’ federal employment taxes.
 - *Strengthen Tax Administration* – The IRS has taken a number of steps under existing law to improve compliance. These efforts would be enhanced by specific tax administration proposals that would:
 1. Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
 2. Make repeated willful failure to file a tax return a felony;
 3. Facilitate tax compliance with local jurisdictions;
 4. Extend statutes of limitations where state tax adjustments affect federal tax liability;
 5. Improve the investigative disclosure statute;
 6. Repeal the requirement of a partial payment with an application for an offer-in-compromise; and
 7. Allow assessment of criminal restitution as tax.
 - *Expand Penalties* – Penalties play an important role in discouraging intentional non-compliance. Specific proposals to expand penalties would:
 1. Impose a penalty on failure to comply with electronic filing requirements; and
 2. Clarify that the bad check penalty applies to electronic checks and other forms of payment.

Improve Tax Administration and Other Miscellaneous Proposals

The Administration has put forward additional proposals relating to IRS administrative reforms. These proposals would:

- Require information reporting on expense payments relating to rental property;
- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that vendor levy on “goods and services” would not exclude “property.”

Conclusion

Mr. Chairman, thank you again for this opportunity to testify on the President's FY 2010 Budget for the Internal Revenue Service. We urge its passage. It provides the IRS with the much needed resources to provide taxpayers with high quality customer service, and bolster IRS enforcement in critical areas, such as unlawful offshore tax evasion. It also makes wise investments for the next generation of technology and the IRS workforce.

I also urge this Subcommittee to support the enactment of the legislative proposals included in the Budget to improve compliance. Collectively, they will generate more \$10 billion over the next 10 years if enacted.

I look forward to working with you and the Subcommittee on this important budget request and I will be happy to respond to any questions.