

**WRITTEN TESTIMONY OF  
DOUGLAS H. SHULMAN  
COMMISSIONER OF INTERNAL REVENUE  
BEFORE THE  
HOUSE APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON FINANCIAL SERVICES  
AND GENERAL GOVERNMENT  
ON FY 2011 IRS BUDGET  
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**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 2011 Budget request for the Internal Revenue Service.

In recognition of the critical role that the IRS plays in the nation's economy, the FY 2011 Budget includes a judicious investment in the IRS' core service and enforcement programs. It also includes the funding needed to work toward timely completion of the core taxpayer account database, a key priority for the agency.

The funding in the President's Budget Request will be used to carry out the IRS' strategic and balanced agenda that includes: improved service to taxpayers; a robust and targeted enforcement program to address offshore tax evasion and improve tax compliance for corporate and high-income taxpayers; better use of data, such as credit card and securities basis information reporting; completion of the new taxpayer account data base and enhancements to our electronic filing platforms; and workforce development to ensure that we have a talented and capable workforce for the foreseeable future.

As part of this strategic agenda, the IRS has launched a number of important initiatives, such as our return preparer initiative and Global High Wealth Industry Group, which can improve the effectiveness and efficiency of our work while enhancing the integrity of our tax system. These and other initiatives are discussed in greater detail later in the testimony.

The IRS will also continue to administer on-going, tax-related provisions of the American Recovery and Reinvestment Act (Recovery Act), such as the Build America Bonds, the Worker, Homeownership, and Business Assistance Act of 2009, and any other tax provisions that may be extended.

The Budget also includes nearly \$200 million in efficiency savings, reductions, and non-recurs. While these efficiency targets are substantial, and will require tough choices, I am confident that we will achieve them through continued optimization of our operations.

As discussed throughout this testimony, the IRS has achieved significant gains in its core programs, although numerous challenges remain. This Budget will help the IRS stay on a path of continuous improvement, rise to meet the challenges of today, and carry forward positive momentum into tomorrow.

## **Enforcement**

Enforcement of the tax laws is an integral component of the IRS' effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, target elements of the tax gap and remain a high priority. In FY 2009, the IRS expanded its enforcement presence in the international arena, continued to pursue high-wealth, noncompliant taxpayers, and initiated action to better leverage the tax return preparer community.

Total enforcement revenue was \$48.9 billion in FY 2009. The IRS showed steady progress in increasing its audit coverage:

- Total individual audits increased 2.6 percent;
- Automated Underreporter (AUR) contact closures increased 2.6 percent;
- High-wealth audits increased 11.2 percent; and
- Large corporate audits increased 2.6 percent, a significant achievement given the size (more than \$10 million) and complexity of these corporate entities.

The Administration's FY 2011 Budget will help us build on this success and carry out a number of new compliance initiatives that will: (1) address offshore tax evasion; (2) increase coverage of the most strategically important international issues, including complex enterprise structures; and (3) promote compliance in high-wealth individuals and large enterprises, including those with international components, operated by businesses and investors through multiple interrelated financial and tax entities.

### *International Tax Compliance*

To meet the broad array of challenges that we face in the international arena, the Administration and the IRS are focused on a multi-year, multi-faceted tax compliance strategy that is tailored for both sophisticated corporate and individual taxpayers who operate on a global basis. It will require more people, particularly those with expertise in complex issues – such as transfer pricing. It will also require greater cooperation and stronger relationships among nations. Clearly, the success we seek in the international arena cannot be achieved by the US alone.

The ramifications from the IRS' offshore compliance efforts and voluntary disclosure program go far beyond the revenues the IRS will be collecting from these taxpayers. These efforts will change the current landscape and send a clear message that the IRS will vigorously pursue those illegally hiding income and assets overseas, no matter how remote or secret the location.

Moreover, the real effect will be seen over the next ten, twenty and thirty years. Those who came in under the voluntary disclosure program will be in our tax system going forward, and the risk calculus of people thinking about hiding assets overseas to avoid paying taxes has changed dramatically. That protects the US Treasury and our tax base in the long term.

The IRS also continues to seek heightened cooperation and interaction with other national tax authorities. There have already been positive steps in this direction, such as in April 2009, when the G-20 heads of state agreed in a show of unity to act against tax jurisdictions that impede legitimate tax enforcement. A month later, tax commissioners from 34 Organisation of Economic Co-operation and Development (OECD) countries and non-OECD countries agreed on a new cooperative roadmap to combat tax evasion and abusive tax avoidance.

#### *Global High-Wealth Industry Group*

In late 2009, the IRS launched the Global High Wealth Industry Group to centralize and focus IRS compliance expertise involving high wealth individuals and their related entities.

Initially, the IRS will be focusing on individuals with tens of millions of dollars of assets or income. Going forward, the IRS will take a unified look at the entire complex web of business entities controlled by high wealth individuals, which will enable us to better assess the risk such arrangements pose to tax compliance.

The IRS wants to better understand the entire complex economic picture of the enterprise controlled by the wealthy individual and to assess the tax compliance of that overall enterprise. We cannot do this by continuing to approach each tax return in the enterprise as a single and separate entity. The IRS must understand and analyze the entire picture.

#### *Tax Return Preparer Regulation*

The IRS recently unveiled a major initiative to oversee tax return preparers, who are a critical part of the tax system. Given the complexity of the tax code, more and more Americans now turn to a preparer to help them file their taxes. The IRS estimates that there are somewhere between 900,000 and 1.2 million paid tax return preparers. Making them an integral link to our service and compliance strategies will help the IRS to do its job.

The IRS plans to require registration, minimum competency testing, and continuing education of paid tax return preparers. In addition, once a testing process is set up and running, the IRS will create a public database of preparers, so that taxpayers can find out if they are dealing with a qualified preparer.

The IRS is also shifting enforcement resources to focus on preparers. Beginning this filing season, the IRS is expanding “knock and talk” and other programs to visit thousands of preparers to discuss their operations and ways to reduce preparer error rates.

The goals of the strategy are to leverage the return preparer community to improve service to taxpayers, increase compliance, and enhance the integrity of the overall tax system.

### **Taxpayer Service**

In FY 2009, the IRS continued to improve its services by providing year-round assistance to millions of taxpayers through multiple channels. Demand for telephone services remained high as taxpayers called to obtain information regarding economic stimulus payments, new Recovery Act credits, and prior year adjusted gross income (AGI) numbers needed for electronic filing.

The significant increases in call demand stressed existing resources, resulting in a lower customer level of service (LOS). Level of Service is a measure used by the IRS for both planning and internal management of our live Customer Service Representative telephone assistance services. This measure is derived through a mathematical formula that essentially equates to the success rate of customers that call the IRS for live telephone assistance on our 1-800 help line at any given point in time. However, it does not account for those calling that choose to call back at another time based on anticipated wait time.

Level of Service is but one of many measure used by the IRS to manage its toll-free telephone performance. Others include total calls answered, which for FY 2009 were 39 million, or 5.8 million more than in 2007. For 2010, IRS is planning to answer 36 million calls, or 2.8 million more than in 2007.

Despite the high call volume, the IRS continues to focus on the accuracy of information provided to taxpayers as both Toll-Free Tax Law and Toll-Free Accounts Accuracy performance surpassed the FY 2008 record-breaking numbers.

The President’s FY 2011 Budget provides a significant investment to increase level of service by adding resources to meet the ever increasing demand and continuing to make efficiency improvements, such as automated self-service applications that allow taxpayers to obtain information on less complex issues, such as refund inquiries. These improvements free up staff to deal with the more complex tax law issues stemming from the passage of the Recovery Act and the Worker, Homeownership, and Business Assistance Act of 2009.

#### *IRS.gov Website*

In FY 2009, there were more than 296 million visits to IRS.gov. Taxpayers visited the website for a variety of reasons, including, to: (1) obtain information on the Recovery Rebate Credit; (2) determine if they qualify for the Earned Income Tax Credit (EITC); (3)

track the status of their refunds using the “Where’s My Refund?” application; and (4) get the most up-to-date information on Recovery Act credits.

More than 54 million taxpayers used “Where’s My Refund?” – a 39 percent increase over the same period in FY 2008. During FY 2009, the IRS received more than 296 million calls and helped more than 6.2 million taxpayers at 401 Taxpayer Assistance Centers.

The Budget will continue to support these self-service options as well as sustain the development of additional enhancements, such as calculators, on-line tools and information on new legislation in an easy, accessible format.

In addition, the Budget supports a multi-year effort to improve the IRS.gov website to meet taxpayer needs and the growing demand for more electronic services. The new web environment will improve customer satisfaction by making navigation on the site easier, and improve the user’s ability to locate desired information and access applications. The initiative will also support the Department of the Treasury’s efforts to increase the number of paperless transactions with the public.

#### *Another Successful Filing Season*

Despite many challenges, the IRS delivered another successful filing season. During FY 2009, the IRS received 144.4 million individual returns, 11.2 million fewer than 2008, when millions of taxpayers filed solely to receive an Economic Stimulus Payment. The number of refunds issued increased 3.5 percent to 111.4 million. The percentage of individual returns filed electronically reached 66 percent, with more than 95 million individual tax returns filed electronically, compared to 89.6 million in 2008, an increase of 6 percent. During 2009, home computer filing increased to more than 32.2 million, an increase of 19 percent.

The IRS provided extensive media coverage and expanded electronic outreach activities to make taxpayers aware of new credits, deductions, and exclusions for which they qualified. A second Super Saturday event was held in FY 2009, and the IRS provided more than 11,000 taxpayers with tax assistance and return preparation. The event was the largest one-day outreach service event in IRS history.

#### *Recovery Act*

In the depth of the recession, IRS employees provided tangible and meaningful relief and guidance to individual and business taxpayers, such as on net operating loss carrybacks and the Make Work Pay Credit, and administering the expanded COBRA health care coverage provisions for employees who lost their jobs. The IRS also helped stimulate the economy through the First Time Homebuyer Credit, while ensuring that appropriate controls were in place to minimize errors and fraud.

## **Business System Modernization**

In FY 2009, the IRS refined its CADE strategy to focus on the completion of the new taxpayer account database. The Budget will help the IRS implement the new taxpayer account database for the 2012 filing season. The new database will allow the migration of 140 million individual taxpayers to a modernized, relational database that will support better processing and result in faster refunds for all individual refund filers.

The new account database also will improve taxpayer service and accuracy and reduce interest paid on late refunds. In addition, it will improve data security and allow the development of new tools to combat fraud and improve enforcement activities. Completion of the taxpayer account database will allow for future expansion of paperless online services and transactions and the next generation of enforcement technologies.

## **Workforce**

The Workforce of Tomorrow Task Force was created last year with the goals of making the IRS the best place to work in government and ensuring that five years from now we have the leadership and workforce ready for the next fifteen years. The Task Force teams conducted a thorough analysis of current processes and developed many recommendations, some of which have already produced valuable results, such as streamlining the hiring of a large number of enforcement personnel in 2009..

To continue the momentum of this key critical area, the IRS will be sponsoring a Workforce of Tomorrow 2010 Summit in early March 2010 to evaluate Task Force accomplishments to date, plan future steps and continue the program's forward momentum.

## **The Administration's FY 2011 Budget Request Funds Key Priorities**

The total resources requested to support IRS activities for FY 2011 are \$12,971,962,000. This amount includes \$12,633,200,000 from direct appropriations, an estimated \$144,592,000 from reimbursable programs, and an estimated \$194,100,000 from user fees. The direct appropriation is a \$487,147,000 increase, or a 4.01 percent increase over the FY 2010 enacted level of \$12,146,123,000.

## **Enforcement Program**

The FY 2011 President's Budget Request includes an Enforcement account increase of \$293.4 million for investments in strong compliance programs, including a robust initiative to address offshore tax evasion. As previously noted, additional enforcement resources will address underreporting of income associated with international activities and expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment activities. The new enforcement personnel funded through a program integrity allocation adjustment in the FY 2011 President's Budget will generate nearly \$2 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2013. Similar to past budgets, the allocation adjustment applies to the Enforcement and Operations Support accounts, and is founded on the net positive value enforcement resources are demonstrated to deliver. Vigorous enforcement also encourages voluntary compliance, further increasing revenue, by generating public awareness of the consequences of not meeting one's tax responsibilities. The return on investment estimate does not include the revenue impact from the deterrence value of these investments and other IRS enforcement programs, which is conservatively estimated to be at least three times the direct revenue impact.

### *Explanation of Enforcement Budget Activities*

The FY 2011 President's Budget request is \$5,797,400,000 in direct appropriations and an estimated \$61,506,000 from reimbursable programs for a total operating level of \$5,858,906,000. The direct appropriations level is an increase of 5.3 percent from the FY 2010 enacted level and includes additional tax enforcement activities funded through a program integrity allocation adjustment. This appropriation funds the following budget activities.

- **Investigations (\$651,966,000 from direct appropriations and an estimated \$50,567,000 from reimbursable programs)** This budget activity funds the criminal investigation programs that uncover criminal violations of the internal revenue tax laws and other financial crimes, 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 provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens and expatriates and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.
- **Exam and Collections (\$4,974,618,000 from direct appropriations and an estimated \$10,245,000 from reimbursable programs)** This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It also includes programs such as specialty program examinations (employment tax, excise tax and estate and gift exams), international collections and international examinations. The budget activity also supports appeals and litigation activities associated with exam and collection.
- **Regulatory (\$170,816,000 from direct appropriations and an estimated \$694,000 from reimbursable programs)** This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; advice on general legal services, rulings and agreements; enforcement of

## Taxpayer Service Program

The FY 2011 President's Budget Request includes a Taxpayer Services account increase of \$43.1 million. The increase includes \$20.9 million to improve telephone level of service, increasing the level of service performance target to 75 percent from 70 percent in FY 2009 and 71 percent in FY 2010.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS.

### *Explanation of Taxpayer Service Budget Activities*

The FY 2011 President's Budget Request is \$2,321,975,000 in direct appropriations, an estimated \$34,159,000 from reimbursable programs, and an estimated \$127,000,000 from user fees, for a total operating level of \$2,483,134,000. The direct appropriations level is an increase of 1.9 percent from the FY 2010 enacted level. This appropriation funds the following budget activities.

- **Pre-Filing Taxpayer Assistance and Education (\$693,753,000 from direct appropriations and an estimated \$1,459,000 from reimbursable programs)**  
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 (\$1,628,222,000 from direct appropriations, an estimated \$32,700,000 from reimbursable programs, and an estimated \$127,000,000 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.

## Operations Support

### *Explanation of Budget Activities*

The FY 2011 President's Budget Request is \$4,108,000,000 in direct appropriations, an estimated \$48,927,000 from reimbursable programs, and an estimated \$67,100,000 from user fees, for a total operating level of \$4,224,027,000. The direct appropriation level is an increase of 0.6 percent from the FY 2010 enacted level. This appropriation funds the following budget activities as well as \$25 million to improve the IRS.gov website infrastructure and redesign the website to meet taxpayer needs and the growing demand for more electronic services.

- **Infrastructure (\$889,929,000 from direct appropriations, an estimated \$398,000 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-IT equipment.
- **Shared Services and Support (\$1,337,776,000 from direct appropriations and an estimated \$33,110,000 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 (\$1,880,295,000 from direct appropriations, an estimated \$15,419,000 from reimbursable programs, and an estimated \$51,000,000 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 bills 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 access to tax information.

## Business Systems Modernization (BSM)

### *Explanation of Budget Activities*

The FY 2011 President's Budget Request is \$386,908,000 in direct appropriations. This is an increase of 46.6 percent from the FY 2010 enacted level. This appropriation funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems and to move toward completion of the new taxpayer account database. The completion of the core taxpayer account database is the cornerstone of modernization and is a prerequisite to the development 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. It also funds BSM labor and related contract costs.

### **Health Insurance Tax Credit Administration (HITCA)**

The FY 2011 President's Budget Request is \$18,987,000 in direct appropriations. This is an increase of 22.4 percent from the FY 2010 enacted level. This appropriation funds the administration of a refundable tax credit for health insurance to qualified individuals, which was enacted as part of the Trade Adjustment Assistance Reform Act of 2002. The additional resources will help administer the Health Coverage Tax Credit expansion found in the Recovery Act.

### **FY 2011 Budget Adjustments**

The IRS funding increase for FY 2011 is \$487,147,000, which includes \$219,523,000 for maintaining current levels, a temporary base adjustment of \$3,494,000 to support the Recovery Act's expansion of the Health Coverage Tax Credit (HCTC), a decrease of \$32,680,000 from non-recurring activities, a decrease of \$157,958,000 from efficiencies and savings, and a program increase of \$454,768,000 to improve taxpayer service, strengthen enforcement, and complete the new taxpayer account database. By FY 2013, the revenue-producing enforcement investments are projected to increase annual enforcement revenue by nearly \$2 billion. The Budget Request supports these activities by proposing the following initiatives:

- \$20,945,000 to increase the telephone level of service, which includes a \$9.0 million reallocation from the FY 2010 enacted levels for Taxpayer Service grant and advocacy programs;
- \$247,446,000 to reduce the tax gap by investing in a strong compliance program; and
- \$167,585,000 to complete development of the new taxpayer account database and continue investments in electronic filing systems.

### **Building on the FY 2010 Enacted Level**

The FY 2010 enacted level for the IRS is \$12,146,123,000, supporting an estimated 95,070 FTE.

### **Maintaining Current Levels**

- *Adjustments Necessary to Maintain Current Levels* +\$219,523,000 / 0 FTE  
Funds are requested for: FY 2011 cost of the January 2010 pay increase of \$47,473,000, the proposed January 2011 pay raise of \$119,537,000, the cost of the increase in FERS agency contribution percentage of \$16,392,000, and non-

labor related items such as contracts, travel, supplies, equipment, and a GSA rent adjustment of \$36,121,000.

### **Base Adjustments**

- ***Resource Adjustment to Support Recovery Act-HCTC Program Expansion*** **+\$3,494,000/ 0 FTE** This temporary base increase will provide additional contractor funding for the continued support, sustainability, administration, and operation of the HCTC program. Taxpayer participation in the HCTC program is expected to grow because of the Recovery Act. The additional contractor support will allow HCTC to serve a significantly larger participant population.
- ***Technical FTE Adjustments*** **\$0 /-318 FTE** This adjustment reflects permanent changes made to ensure FTE levels are fully funded in the base budget.

### **Efficiencies and Savings**

- ***Non-Recur Savings*** **-\$32,680,000 / 0 FTE** This is the net of reductions of non-recurring, one-time costs associated with the IRS FY 2010 enforcement initiatives (e.g., IT equipment and training).
- ***Increase e-File Savings*** **-\$22,808,000 / -472 FTE** This decrease is a result of savings from increased electronic filing (e-File), which is projected to lead to fewer returns filed on paper in FY 2011. The number of returns filed electronically is expected to increase substantially in FY 2011 with the addition of the recently enacted Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92), which requires electronic filing by all tax preparers filing more than ten returns in a calendar year.
- ***Information Technology (IT) Infrastructure and Process Improvements*** **-\$75,000,000 / 0 FTE** The IRS will reduce infrastructure costs through process improvements in IT infrastructure. Initiatives such as the Information Technology Infrastructure Library will allow the IRS to improve the quality of IT services. In addition, the IRS is working to achieve a Capability Maturity Model Integrated certification that will yield efficiencies in software engineering.
- ***Reduce Procurement/Contracting*** **-\$25,000,000 / 0 FTE** In accordance with Presidential guidance on controlling contracting costs, the IRS will generate savings by improving the effectiveness of existing acquisition practices and reduce the cost of contracts.
- ***Reduce Printing, Travel, and Training*** **-\$10,000,000 / 0 FTE** The IRS will generate savings by reducing agency-wide printing of selected internal manuals, selected training materials, and other items, non-case related travel and non-technical training.

- ***Reduce Tuition Assistance Program (TAP) -\$5,150,000 / 0 FTE*** The Tuition Assistance Program provides funding to employees for courses that support both career development and the IRS mission. In FY 2011, the IRS will generate savings by restructuring this program.
- ***Eliminate Selective Mailing of Forms and Publications -\$20,000,000 / 0 FTE*** The IRS will generate savings by eliminating the non-mandated notice inserts; the automatic mailing of Form 1040, U.S. Individual Tax Return, tax packages; and the automatic mailing of business tax products.

### **Program Reinvestment**

- ***Submission Processing Consolidation (Atlanta) +\$2,792,000 / 0 FTE*** Increased use of e-File has led to consolidation of the individual return processing sites. A portion of the Increased e-File Savings will be reinvested to fund the one-time separation costs associated with the September 30, 2011 closure of the Atlanta submission processing site. As the Atlanta consolidation approaches, the IRS will assist employees to find employment either in or outside the organization.

### **Program Decrease**

- ***Reduce Taxpayer Service Grant and Advocacy Programs -\$9,000,000 / 0 FTE*** The FY 2010 appropriation included an additional \$3,500,000 to expand Taxpayer Advocate Service case processing activities; \$500,000 to increase the Low-Income Taxpayer Clinic (LITC) grants program; \$1,000,000 to increase the Tax Counseling for the Elderly (TCE) grants program; and \$4,000,000 to increase the Volunteer Income Tax Assistance (VITA) grants program. These program decreases will realign the programs to the 2010 requested level to fund the Increase Telephone Level of Service initiative.

### **Program Increases**

- ***Improve IRS.gov +\$25,000,000 / 0 FTE*** This initiative, part of a multi-year plan, will initiate the migration of IRS web content and applications from the current outdated portal infrastructures to a new consolidated IRS web environment. These funds will enable the IRS to complete the first phase of the migration of the taxpayer-facing content and applications and to begin the second phase of the migration and transition of approximately 35 percent of the public and partner-facing applications to the new environment.
- ***Increase Telephone Level of Service +\$20,945,000 / 0 FTE*** Recent legislation has led to an unprecedented demand for telephone services over the past few years. In addition, the additional complexity of – and time needed to resolve – many phone calls, resulted in a decline in the telephone level of service. This initiative will improve the telephone level of service from a projected 71 percent in FY 2010 to a target of 75 percent in FY 2011 through a program increase of

\$11.9 million and a \$9.0 million reallocation from TAS and the LITC, TCE and VITA grant programs.

- ***Address Business and Individual International Compliance*** **+\$121,086,000 / +781 FTE** This initiative supports the Presidential priority to address offshore tax evasion and builds on the IRS FY 2010 international enforcement initiative. It will allow the IRS to continue its multi-year investment in international tax compliance activities. It increases coverage of the most strategically important international issues, including large enterprises with international components operated by businesses and investors through multiple interrelated financial and tax entities and high-wealth individuals and the complex business enterprises they control.

This initiative will increase examinations of additional international issues pertaining to international structures involving tiered pass-through entities, corporations, and high-wealth individuals by a projected 4,864 cases. The increase in examinations will generate \$812.2 million in additional enforcement revenue once the new hires reach full potential in FY 2013.

- ***Reduce the Reporting Compliance Tax Gap*** **+\$77,679,000 / +700 FTE** This initiative will improve compliance by increasing examination of field and correspondence individual return audits by 61,100 annually; business return audits by 1,200; audits targeting employment, excise, and estate and gift taxes by 9,300; and Automated Underreporter (AUR) document matching individual return audits by 234,000. This request will generate \$659.6 million in additional enforcement revenue once new hires reach full potential in FY 2013.
- ***Reduce the Nonfiling and Underpayment Tax Gap*** **+\$38,181,000 / +406 FTE** This initiative will allow the IRS to broaden its collection coverage and address the tax gap more effectively by increasing staff resources for field collection and the Automated Collection System (ACS) program. The additional staff will produce an additional 144,000 tax delinquency accounts (TDA) (i.e., balance due accounts where returns were filed, but the taxes have not been paid) and 22,500 tax delinquency investigations (TDI) (i.e., investigations of taxpayers with unfiled returns who have not responded to a notice). This request will generate \$474.4 million in additional enforcement revenue once new hires reach full potential in FY 2013.
- ***Support of Increased Enforcement Activities*** **+\$5,000,000 / +65 FTE** Most tax enforcement actions result in downstream Accounts Management activities, including account adjustments, assisted phone calls, amended returns, and installment agreement preparation. This funding will allow the IRS to assist taxpayers to resolve issues early in the enforcement process, pay their taxes, and respond to and close out various enforcement actions. Improving the response to taxpayers who have received enforcement notices should increase revenue and reduce interest paid.

- **Maintain Recovery Act Staffing +\$5,500,000 / +31 FTE** Among other responsibilities, the IRS is mandated by the Recovery Act to administer the new bond provisions. The Treasury is required to issue a direct payment to the bond issuer. The unique nature of this new role requires continuous compliance reviews and verification throughout the administrative life of the bonds. This initiative will extend IRS staffing resources received in the Recovery Act to administer ongoing Recovery Act bond provisions.
- **Business System Modernization (BSM) +\$167,585,000 / +156 FTE** The BSM increase is a top priority for the IRS and will allow the completion of the new taxpayer account database for the 2012 filing season. The new taxpayer account database will result in faster refunds for taxpayers, improve service accuracy and timeliness, and enhance data security. Completion of the taxpayer account database is a prerequisite for other major initiatives such as significant expansion of online paperless services and next-generation enforcement technologies. The ability of the IRS to support increasingly complex taxpayer service and compliance initiatives will be severely limited until it is completed.

## Legislative Proposals

The FY 2011 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 \$26 billion over the next ten years. Among other proposals, the Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

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:

- Require information reporting for private separate accounts of life insurance companies;
- Require information reporting on payments for services to corporations;
- Require a certified Taxpayer Identification Number (TIN) from contractors;
- Require increased information reporting on certain government payments;
- Increase information return penalties; and
- Require information reporting on expense payments relating to rental property.

Improve compliance by businesses – Improving compliance by businesses of all sizes is important. Specific proposals to improve compliance by businesses would:

- Provide Treasury regulatory authority to require that information returns be filed electronically;
- Require corporations and partnerships with assets of \$10 million or more that are required to file Schedule M-3 to file their tax returns electronically;

- Provide Treasury regulatory authority to reduce the current threshold, filing 250 or more returns during a calendar year, to require electronic filing of certain other large taxpayers not required to file Schedule M-3 (such as exempt organizations);
- Implement standards clarifying when employee leasing companies can be held liable for their clients' federal employment taxes; and
- Increase certainty about the rules pertaining to classification of employees as independent contractors.

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:

- Expand IRS access to information in the National Directory of New Hires for tax administration purposes;
- Make repeated willful failure to file a tax return a felony;
- Facilitate tax compliance with local jurisdictions;
- Extend statutes of limitations where state tax adjustments affect federal tax liability;
- Improve the investigative disclosure statute;
- Repeal the requirement of a partial payment with an application for an offer-in-compromise;
- Allow assessment of criminal restitution as tax; and
- Codify the “economic substance” doctrine.

Expand penalties – Penalties play an important role in discouraging intentional noncompliance. A specific proposal to expand penalties would:

- Impose a penalty on failure to comply with electronic filing requirements; and
- 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:

- Improve the foreign trust reporting penalty;
- Apply the Federal Payment Levy Program to contractors before providing Collection Due Process; and
- Clarify that a 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 2011 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 bolsters 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. 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.