INTRODUCTION

Chairman Kennedy, Ranking Member Coons and Members of the Subcommittee, thank you for the opportunity to discuss the IRS budget and provide you with an update on the 2019 tax filing season.

I am honored to serve as the 49th Commissioner of the IRS and lead an agency of dedicated and talented public servants. Having spent more than 36 years in the private sector representing taxpayers before the IRS, I understand how important the agency is to the functioning of government and our nation. In Fiscal Year (FY) 2018, the IRS collected $3.5 trillion, or 95 percent, of all federal receipts.

Our people interact with more Americans than any other institution, public or private. Our people make a difference, they care, and they take pride in serving taxpayers and our country. It is clear our nation needs a fully functioning IRS, and I am committed to ensuring the agency fulfills its mission of providing top-quality service to taxpayers and administering the tax laws in a fair, efficient and impartial manner, with neither a government nor taxpayer point of view.

UPDATE ON THE 2019 FILING SEASON

I am pleased to report that the 2019 filing season opened on time on January 28. On that first day, we saw an hour when taxpayers e-filed more than 1.9 million returns, at a rate of 536 submissions per second. This set a one-hour record for our systems, breaking the previous record of 1.6 million submissions in an hour at 443 per second on January 29, 2018.

The filing season has gone well in terms of tax return processing and the operation of our information technology systems. As of April 19, the IRS received more than 137.2 million individual returns, and we have issued more than 95 million refunds for more than $260.9 billion. It is important to note that the work of the filing season continues well beyond the deadline, as IRS employees continue to process tax
returns, including amended returns, and returns for which taxpayers had requested an extension beyond April 15.

During my first months here, I have been extremely impressed by how hard IRS employees all across the agency have worked to make sure taxpayers had a smooth filing experience this year. This is especially impressive given the need to implement so many major changes made by the Tax Cuts and Jobs Act (TCJA). With hundreds of provisions providing relief to American families and making America’s businesses more competitive, the TCJA required extensive work by the IRS to ensure taxpayers would be able to meet their filing obligations this filing season.

The IRS’s efforts to implement the TCJA’s provisions and prepare for the 2019 filing season began even before the legislation was signed into law on December 22, 2017, and they continued throughout 2018 and into 2019. These efforts included:

- Creating or revising more than 500 forms and publications;
- Reprogramming information technology systems with special focus on return processing, payment and fraud detection systems;
- Providing clear, timely legal guidance to taxpayers and tax professionals – an effort that will continue throughout 2019;
- Training IRS employees so they could assist the public in understanding how the tax law changes applied to them; and
- Providing education and outreach to taxpayers and tax professionals to increase their understanding of the various tax changes.

I would like to note that our TCJA implementation team was recognized by a national tax publication as the “Tax Person of the Year” for 2018 based on their extensive efforts.

Taxpayer demand for online services continues to be strong this filing season. For example, our website, IRS.gov, has been visited more than 421 million times in 2019 through mid-April. 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 has been used more than 317 million times this filing season.

We continue to experience strong demand on our more traditional service channels as well. Through April 19, our customer service representatives answered more than 8 million taxpayer calls. IRS automated information systems provided helpful information and answers to more than 17 million taxpayers calling those automated lines. We have also provided in-person assistance to nearly 800,000 people who visited one of our 358 Taxpayers Assistance Centers (TACs) around the country.
As important as all these efforts are, everyone at the IRS wants to do more. As technology evolves, we will continue to explore additional methods of providing assistance to taxpayers. That includes continuing to improve the use of online tools and modernizing the taxpayer experience. It also means continuing to enhance opportunities for taxpayers and their representatives who may prefer other channels, including over the phone and in-person.

**MODERNIZING THE IRS**

One of my highest priorities as Commissioner is putting the agency’s information technology (IT) infrastructure on a path toward modernization. Modernization is vital to all of our core functions: successfully delivering the annual tax filing season, ensuring the health of the nation’s tax system and supporting the federal government’s financial strength.

In April, the IRS released its Integrated Modernization Business Plan that provides a six-year roadmap for modernizing IRS systems and taxpayer services. The IRS estimates gross costs of $2.3 billion to $2.7 billion over six years – including $290 million requested in the FY 2020 President’s Budget – to fully implement the plan.

The plan outlines a bold strategy to enable business transformation focused on improving services for taxpayers and the tax community while protecting taxpayer data. It is built around four “modernization pillars” that will help drive innovation and support the future of the IRS and its mission. The four pillars are: the taxpayer experience, core taxpayer services and enforcement, modernized IRS operations and cybersecurity and data protection.

Under this plan, the IRS will improve its ability to:
- Significantly improve the taxpayer experience by standardizing customer workflows and by expanding access to information;
- Reduce call wait and case resolution times through the use of customer callback technology, online notices and live online customer support;
- Simplify identity verification to expand access to online services while protecting data;
- Increase systems availability for taxpayers and tax practitioners; and
- Make implementation of new tax provisions more straightforward.

The modernization plan will help the IRS operate more effectively and efficiently, by stabilizing the cost of operating and maintaining our systems. It also includes milestones and accountability to ensure it is implemented properly.

The integrity of the nation’s voluntary tax compliance system depends on modernizing IRS service and compliance systems, and we look forward to working with Congress to implement this plan.
Importantly, the IRS Modernization Plan will also help us in our ongoing efforts to secure our systems and protect taxpayer data. The IRS is responsible for safeguarding a vast amount of sensitive financial and personal data, so investing and modernizing in this area will forever remain a top priority for this agency. IRS systems withstand approximately 1.4 billion cyberattacks annually (including denial-of-service attacks, unsuccessful intrusion attempts, probes or scans, and other unauthorized connectivity attempts). Many of these attempts are sophisticated in nature or represent advanced, persistent threats. To combat tomorrow’s threats, the IRS will need to continue investing in cyber defenses as proposed in the plan.

The IRS is also waging an ongoing battle to protect taxpayers and their information against tax-related identity theft. I’m pleased to report that we continue to see significant progress on this front, not only from using technology to increase protections at the point of filing, but also from collaborating with our partners in the Security Summit, which was launched in 2015 and includes state tax agencies and private-sector tax and financial partners. The Summit members work in partnership to put in place protections that safeguard the nation’s taxpayers.

As a result of these efforts, the IRS is doing a better job of stopping identity theft tax returns up front. This means fewer fraudulent returns enter the processing system, which translates into fewer taxpayers reporting themselves as victims of identity theft and fewer fraudulent refunds being issued. Our efforts on the front end have significantly lessened the burden on taxpayers that arises from identity theft. The IRS has seen dramatic declines in several key areas.

Between 2015 and 2018:

- The number of taxpayers who reported they were victims of identity theft fell 71 percent. In 2018, the IRS received 199,000 identity theft affidavits from taxpayers compared to 677,000 in 2015. This was the third consecutive year this number declined.
- The number of confirmed identity theft returns stopped by the IRS declined by 54 percent, falling from 1.4 million in 2015 to 649,000 in 2018.
- The number of suspicious refunds recovered has declined by 66 percent. The financial industry is a key partner in fighting identity theft, helping the IRS and states recover suspicious refunds. But as fewer false tax returns enter the system, fewer fraudulent refunds are being issued. In 2018, financial institutions recovered 84,000 federal refunds totaling $112 million for the IRS. By comparison, institutions recovered 249,000 refunds totaling $852 million in 2015.

Despite all the progress that has been made, the IRS and its Summit partners will not let up in our efforts against tax-related identity theft. Identity thieves continue to become more sophisticated and look for new ways of obtaining taxpayer information so they can file false tax returns and claim fraudulent refunds. These
criminals have the resources, the technology and the tax skills to carry on this fight. The IRS and its partners are committed to continuing to work together to protect taxpayers and our nation’s tax system against this common enemy.

THE PRESIDENT’S FY 2020 BUDGET

The President’s FY 2020 Budget request is $11.472 billion, which is $170 million, or 1.5 percent, more than the FY 2019 enacted level of $11.303 billion. In addition to the base appropriations request, the Budget proposes a program integrity cap adjustment that would provide an additional $362 million in FY 2020 to fund investments in the IRS’s tax enforcement program. It also proposes additional adjustments in future years to fund new initiatives and inflation. The proposed investments will generate about $47.1 billion in additional revenues over 10 years and would cost about $14.5 billion, for a net revenue of $32.6 billion. We must ensure we have a strong, visible, robust tax enforcement presence to promote voluntary compliance. The President’s request provides funding to carry out the IRS mission and invest in high-priority programs that will allow the agency to become more efficient and effective in administering the tax laws.

The President’s request will allow the IRS to: help taxpayers meet their tax obligations by improving service on our various channels; protect the integrity of the tax system by enforcing the tax code; and partner with key stakeholders in the state and local tax administration, tax preparation, and international communities.

The President’s request will also help us cultivate and retain a well-equipped, diverse, flexible and engaged workforce. Our employees are the backbone of the Service, and it is imperative that we provide them with the tools and training they need to do their jobs. We also must recruit, train and motivate the next generation of IRS leaders. This is especially important given that a large portion of the IRS workforce is eligible to retire in the next several years.

The President’s request includes $344 million to invest in four high-priority areas:

- **Technology modernization.** The budget provides initial funding for the six-year IRS Integrated Modernization Business Plan mentioned earlier in this testimony. The IRS continues to rely on legacy IT systems, aged hardware and software, and outdated programming languages, all of which make it increasingly difficult for the IRS to carry out its mission. The technologies provided for in the plan, such as customer call back and online notifications, will simplify taxpayer interactions with the IRS across all service channels and improve the overall taxpayer experience. Modernization will also simplify identity verification and expand access to online services while protecting taxpayer data. In addition, the agency will be able to stabilize and eventually reduce the growing cost of operating and maintaining legacy systems.
• **Cybersecurity and identity theft.** These funds will improve the IRS’s ability to combat tax-related identity theft in a number of ways, including: improving fraud filters that catch false returns before processing; acting on additional tax fraud leads in real time to stop more fraudulent refunds; strengthening safeguards for W-2 data; and increasing staffing in the Criminal Investigation division to conduct more investigations related to identity theft.

• **Data analytics.** This investment will enhance the IRS’s ongoing efforts to use data analytics to more effectively identify tax compliance risks. While the IRS has made strides in this area, the agency faces a constantly changing data environment and needs to transform with it. The IRS will use these resources to, for example: identify emerging trends in noncompliance and build effective enforcement strategies; identify previously unknown areas of noncompliance; and make effective use of new data sources, such as the Organization of Economic Cooperation and Development’s Country-by-Country reporting regime. The investment will also aid the IRS in enforcing the TCJA by adapting current risk-assessment tools to account for significant changes made by the new tax law.

• **Infrastructure.** These funds will help the IRS deliver IT services and solutions that drive effective tax administration. Funding will be used to deliver core operation and maintenance services and address aging infrastructure, reducing the percentage of aged IT hardware from the FY 2019 target of 44 percent to 39 percent. The funds will also cover maintenance on various investments, including those necessitated by tax reform implementation.

**LEGISLATIVE PROPOSALS IN THE PRESIDENT’S FY 2020 BUDGET**

Along with the funding requested in the President’s FY 2020 Budget request, we are also asking for Congress's help legislatively in several important areas that would improve tax administration and support the IRS in fulfilling its mission, including the following:

**Streamlined Critical Pay Authority.** The IRS Restructuring and Reform Act of 1998 increased the IRS’s ability to recruit and retain a small number of key executive-level staff by providing the agency with streamlined critical pay authority. This allowed the IRS, with approval from Treasury, to move quickly to hire well-qualified individuals to fill positions deemed critical to the agency’s success and that required expertise of an extremely high level in an administrative, technical or professional field. This authority expired at the end of FY 2013. The last appointment made under Streamlined Critical Pay authority expired on September 29, 2017. Without this authority, the IRS continues to face challenges recruiting and retaining top-level talent, especially IT professionals who can help modernize our IT systems and protect taxpayer data from cyberattacks. The President’s FY 2020 Budget request proposes reinstating this authority through FY 2023.
Correction Procedures for Specific Errors. Under current law, the IRS has authority in limited circumstances to identify certain computation mistakes or other irregularities on returns and automatically adjust the return for a taxpayer. At various times, Congress has expanded this limited authority on a case-by-case basis to cover specific, newly enacted tax code amendments. The IRS would be able to significantly improve tax administration—including reducing improper payments and cutting down on the need for costly audits—if Congress were to enact a proposal in the President’s FY 2020 Budget to provide the IRS with greater flexibility to correct specific errors on taxpayer returns. This proposal would allow the IRS to correct errors in cases when: the information provided by the taxpayer does not match the information contained in government databases or Form W-2; the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or the taxpayer has failed to provide certain documentation required to be included with his or her return. This proposal would significantly lessen the burden on taxpayers from the IRS having to pursue the necessary adjustments administratively.

Authority to Require Minimum Qualifications for Return Preparers. The President’s Budget request proposes providing the Secretary with explicit authority to require that all paid tax return preparers have a minimum knowledge of the Code. This is especially important to ensure that the estimated 400,000 non-credentialed tax preparers can meet minimum standards for competency. Incompetent and uninformed tax return preparers harm taxpayers by subjecting them to potential audits and by potentially subjecting them to penalties and interest as a result of incorrect returns. Requiring all paid tax preparers to keep up with changes in the Code would help promote high-quality service from preparers, improve voluntary compliance and foster taxpayer confidence in the fairness of the tax system. This proposal would significantly lessen the burden on taxpayers having to otherwise administratively resolve errors in their returns.

Lower Employer Threshold for Mandatory Electronic Reporting of W-2 data: Under current law, employers who file 250 or more Forms W-2 in a year must e-file these information returns, but those filing fewer than 250 Forms W-2 in a year may choose to file on paper. The Budget proposes increasing the number of employers subject to mandatory electronic reporting of W-2 data, by reducing the W-2 e-file threshold from 250 to 10. Providing the IRS with more timely and accurate W-2 information facilitates pre-refund verification of wage and withholding information, which in turn reduces the issuance of questionable tax refunds through early detection of identity related fraud and other erroneous refund claims. This proposal would significantly lessen the burden on taxpayers by accelerating the ability of the IRS to electronically match return information.

Improve Clarity in Worker Classification and Information Reporting Requirements: The Budget proposes to establish a new safe harbor that allows a service recipient to classify a service provider as an independent contractor, and
would require withholding of individual income taxes to this independent contractor at a rate of five percent on the first $20,000 of payments. The proposal would also raise the reporting threshold for payments for all independent contractors from $600 to $1,000, and reduce the reporting threshold for third-party settlement organizations from $20,000 and 200 transactions per payee to $1,000 without regard to the number of transactions. In addition, Form 1099-K would be required to be filed with the IRS by January 31 of the year following the year for which the information is being reported. The proposal increases clarity in the tax code, reduces costly litigation, and significantly improves tax compliance.

In addition, the President’s FY 2020 Budget request also includes these two provisions related to tax administration:

**Require a Social Security Number (SSN) to Claim Certain Tax Credits:**
The proposal would require an SSN that is valid for work in order to claim the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and the credit for other dependents (ODTC). This requirement would apply to all taxpayers, including all qualifying children and dependents. This proposal would close an administrative gap to strengthen enforcement of these credit provisions, by ensuring that only individuals who are authorized to work in the U.S. could claim the credits.

**Exempt Certain Federal Student Aid Programs from Section 6103:** Section 6103 of the Code provides that tax returns and tax return information are confidential and cannot be disclosed or used unless permitted under the Internal Revenue Code. The Administration proposes to authorize the IRS to disclose tax return information directly to the U.S. Department of Education for administering programs authorized by Title IV of the Higher Education Act of 1965. The section 6103 exception is expected to improve administration of student aid programs, enhance program cost estimation, increase servicing efficiency, and reduce improper payments.

**CONCLUSION**

Chairman Kennedy, Ranking Member Coons and Members of the Subcommittee, thank you again for the opportunity to provide you with an overview of the filing season and budget request. The IRS is dedicated to improving service to taxpayers, modernizing its systems and maintaining the integrity of the tax system. The IRS is not just a large government institution, it is an institution run by people – people who care.

Taxpayers expect and deserve a high-quality customer experience when interacting with the IRS. Rapid advancements in the digital service experience offered by the private sector increase expectations of a similar service from government agencies, including the IRS. We want to provide that experience. To
do that, the IRS must be properly resourced – consistent with the President’s Budget – to provide the best possible service to taxpayers.

We must continue our efforts to strike the appropriate balance between service to taxpayers with an appropriate degree of enforcement. The integrity of the nation’s tax system will be strengthened through enhanced taxpayer services as well as enhanced enforcement activities. To be successful, we need both.

Again, I am personally committed, during my term as Commissioner, to ensuring we administer the tax laws passed by Congress in a fair and impartial manner. With Congress’s help, we will continue our efforts to operate the IRS efficiently and effectively, as we move the agency forward into the future. This concludes my statement, and I would be happy to take your questions.