

NATIONAL PRESS CLUB LUNCHEON WITH MARK EVERSON, COMMISSIONER,
INTERNAL REVENUE SERVICE

MODERATOR: JONATHAN SALANT, PRESIDENT OF THE NATIONAL PRESS CLUB

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MR. SALANT: Good afternoon, and welcome to the National Press Club. I'm Jonathan Salant, a
reporter for Bloomberg News and president of the National Press Club.

I'd like to welcome club members and their guests in the audience today, as well as those of you
watching on C-SPAN. Please hold your applause during the speech so we have time for as many
questions as possible. For our broadcast audience, I'd like to explain that if you hear applause,
it'll be from the guests and members of the general public who attend our luncheons, not from
the working press.

The video archive of today's luncheon is provided by ConnectLive and is available to members
only through the National Press Club website at www.press.org. Press Club members also can
access free transcripts of our luncheons at our website. Nonmembers may purchase transcripts,
audio and video tapes by calling 1-888-343-1940. For more information about joining the Press
Club, please call us at area code 202-662-7511.

Before introducing our head table, I'd like to remind the members of future speakers.

On March 23rd, Terrence Jones, the president and CEO of the Wolfrap Foundation for the Performing Arts, with special guest Al Jarreau. On March 27th, Jim Nicholson, the secretary of the U.S. Department of Veterans Affairs. On April 3rd, Karen Hughes, undersecretary of State for Public Diplomacy.

If you have any questions for our speaker, please write them on the cards provided on your tables and pass them up to me. I will ask as many as time permits.

I would like now to introduce our head table guests and ask them to stand briefly when their names are called. Please hold your applause until all of head table guests are introduced.

From your right, Wes Pippert, director of the University of Missouri Washington Program; Dustin Stamper, a reporter with Tax Analysts; Joan Pryde, a senior tax editor with the Kiplinger Tax Letter; Keith Hill of the Bureau of National Affairs and a member of the National Press Club's Board of Governors; Don Alexander, a former IRS commissioner and a guest of our speaker; Timothy Clark, the editor of Government Executive Magazine, part of the National Journal family; Nanette Everson, wife of the speaker and guest of our speaker and the general counsel at the Commodities Futures Trading Commission; Angela Greiling Keane, associate editor of Traffic World Magazine, vice-chair of the National Press Club Speakers Committee and the person who arranged today's luncheon. Thank you very much, Angela.

Skipping over our speaker for a moment, Lorraine Woellert, correspondent with Business Week; Marjorie (sp) Everson, mother of the speaker and guest of our speaker. (Applause.) Ryan Donmoyer, tax reporter for Bloomberg News; Janet Novak, Washington bureau chief for Forbes Magazine; Maria Recio, Washington correspondent for the Fort Worth Star-Telegram and the co-chair of the National Press Club's Newsmakers Committee; and Stephen Joyce, a reporter with BNA's Daily Tax Report. (Applause.)

Today's speaker comes from the government agency most Americans love to hate. In fact, it's hard to think of an agency we'd like to hear from less. But every dollar taken in by the Internal Revenue Service is money to run our government, to build our roads, to feed the hungry and to protect this nation from its enemies. Today the IRS uses 100,000 employees and a \$10 billion budget to process more than 200 million tax returns and take in \$2 trillion in revenue. Not a bad return.

To bring in even more money, our speaker, IRS Commissioner Mark Everson, has added almost 800 auditors and has doubled his audits of taxpayers earning more than \$200,000 a year. He has cracked down on tax shelters and called for more money for enforcement. Commission Everson says there are billions of additional tax dollars that should be collected but are not. He estimates this tax gap at \$345 billion. That's almost enough to balance the federal budget.

Commissioner Everson is an experienced government hand, having got his start under President Ronald Reagan. Before becoming IRS commissioner, he served President George W. Bush as

deputy director of the Office of Management and Budget, which helps spend all those dollars that the IRS takes in.

Commissioner Everson's tenure hasn't been without controversy. Last year the National Association for the Advancement of Colored People charged the IRS with going after the nation's oldest civil rights organization in retaliation for Chairman Julian Bond's criticism of the Bush administration. The agency audited the books of Texans for Public Justice, a watchdog group that opposed former House Majority Leader Tom DeLay. The IRS says it does not take into account political considerations when it decides which organizations or groups to look at.

Just before the Academy Awards, Commissioner Everson warned Hollywood that those swag bags filled with goodies should be counted as income for tax purposes. Some accountants valued the merchandise in those bags at \$100,000, including cell phones and vouchers for Hawaii vacations. MarketWatch calculated that the tax on those goody bags would total \$1.2 million.

Commissioner Everson recently told Forbes Magazine that his most significant recent purchase was a brooch for his mother's 80th birthday. Mrs. Everson is with us today, and perhaps she can tell us whether she's wearing the brooch, and whether she had to pay a gift tax.

Let's welcome IRS Commission Mark Everson to the National Press Club. (Applause.)

MR. EVERSON: Thank you, Jonathan. I'm pleased to be here again to provide an update on our services and on our enforcement activities from my last visit a year ago, and then what I'd like to do is turn to some areas of concern that I think will guide us as we go down the road.

But first, I am glad that my wife Nanette is here once again. A year ago Nanette had just stepped down from her position in the White House counsel's office, but now she's back working again. Apparently, she decided that, like most Americans, she didn't want to spend more time with the IRS commissioner. (Light laughter.)

I'm also happy that my mother Marjorie is with us today. As far as I know, she's been an honest taxpayer all her life. And she would probably be the very last person in the room to have predicted that I would become the nation's tax collector. I know it's a somewhat lame request, but I would ask the questioners to be kind and not to embarrass me in front of my mother. (Light laughter.)

Finally, I think it's great that Don Alexander is able to be with us today. Don served ably as the IRS commissioner under Presidents Nixon and Ford, and he has a robust tax practice to this day. If you were here two years ago, you might remember that Mort Kaplan, JFK's commissioner -- he's over here -- was here also at the head table. Last summer I was explaining to two friends from the Reagan days that I thought one of the nice things about being an IRS commissioner is that they appear to live a long time. (Laughter.) And Rebecca Tomlinson (sp) just said to me rather tartly, "Well, what do you expect? You guys don't have hearts." (Laughter.) Don, thanks for coming. (Laughter.)

When I was before the Senate Finance Committee three years ago almost to this day for my confirmation hearings, I spoke of the need to continue to improve taxpayer services while enhancing IRS enforcement of the law. We have restored the credibility of IRS enforcement activities but not -- not -- at the expense of taxpayer services. Before turning to enforcement, let me comment on services. Services are, in fact, better -- in some instances dramatically so. I'll touch briefly on three areas: phones, electronic filing, and volunteer tax assistance.

Our phone services are better, both in the ability to get through and in accuracy of response.

This filing season, our tax law accuracy is up over 90 percent. That's the best ever, and compared to 80 percent five years ago. Still, though, not providing the correct answer almost one out of every 10 times is not good enough. We continue to press for improvement, but Congress can help here. The real answer is of course simplification of the tax code.

Electronic filing now accounts for over half of all individual returns. Growth this year is particularly strong in the number of returns filed directly by individuals using software. Electronic filing is more accurate and it speeds the refunds that most Americans get.

The number of refunds directly deposited into taxpayer bank accounts is also steadily increasing.

Last year, over two million returns were prepared by volunteers in 14,000 sites across the country. Volunteer-prepared returns are just about double the number from four years earlier, and last year our partnership program with community-based organizations assisting low-income taxpayers actually received a prestigious award from the Points of Light Foundation. Organizations honored in the past have included the Salvation Army, Mothers Against Drunk Driving and the March of Dimes, but never a government agency.

Our community partnerships boost participation in the earned income tax credit, which helps lift families out of poverty. We will continue to support this important program.

Turning to enforcement, there is much to report. In terms of raw numbers, our programs continue to recover from their inadequate levels of just a few years ago. Total individual audits last year exceeded 1,200,000 -- a 20 percent jump from the year before. Our audits of high-income individuals more than doubled from 2002 to 2005, and our collection activities, including liens and levies, have recovered as well.

All told, we have increased our enforcement revenues -- that's the direct monies we bring in from our collection, audit and document-matching activities -- from 33.8 billion (dollars) in 2001 to 47.3 billion (dollars) in 2005. These direct fruits of our labor exclude the positive impact on compliance that flows from a credible, more visible enforcement presence.

But the numbers I have just recounted speak only to a series of quantitative indicators. Beyond pumping up the volume, there have been important qualitative changes in our program.

To name just a few, we have established balanced standards for legal opinions issued by attorneys which taxpayers use to support a reasonable cause defense against the assertion of

penalties. And our oversight of tax professionals has a more prominent role, conducted by a stronger, more vigorous Office of Professional Responsibility. I'm a little mad at Cono, who runs that office, who was here -- he's going to be leaving soon, but we'll get over it.

We've expanded the use of settlement initiatives, but with tougher terms. We have brought in billions to the Treasury using these vehicles despite the fact that we have insisted in each instance on full payment of the tax, applicable interest, and a penalty. It no longer works to just wait us out and settle for less than 100 cents on the dollar. Those who got into abusive tax shelters know this. And many have come forward and settled. Their shelter ordeals are now behind them.

We have mandated electronic filing of large corporate and non-profit returns. Since January 1st, 140,000 corporate returns have been received electronically. Electronic filing will dramatically reduce the time it takes us to conduct an audit. This is -- there is a price for uncertainty in the marketplace. Compliant will benefit from audits closing sooner. And the IRS will benefit by using improved analytics to assess risk. Electronic filing will allow us to promptly identify and address emerging areas of non-compliance.

We have expanded criminal prosecutions as well as the use of parallel civil and criminal proceedings. Obviously, the biggest development this past year was the announcement of the KPMG deferred prosecution and associated individual indictments last August. These actions demonstrated the government's resolve to hold accountable those who play fast and loose with the tax code. At some point, such conduct passes from clever accounting and lawyering to theft from the people. And working with the Department of Justice, we have broken new ground in the use of parallel civil and criminal proceedings. This has encouraged our auditors to make criminal referrals where appropriate, something they have been reluctant to do in the past, because once a criminal investigation was initiated, all civil activities ground to a halt.

There has been an unprecedented focus on abuse within tax-exempt organizations and their misuse by others. Our activities have covered several fronts: excessive executive compensation, pervasive problems in the credit counselling industry -- and this is particularly important, because the new bankruptcy law mandates a strong role for credit counsellors -- careful scrutiny of employee plan funding obligations in this time of deteriorating defined benefit plans, and enforcing the law pertaining to prohibited political intervention.

I believe the service improvements and enforcement enhancements which I have just mentioned are significant. Congress has been an important partner in these accomplishments, providing us financial support and making significant improvements to enforcement statutes. Things are better than they were. But I'm sure a lot of your speakers tell you that. So I want to offer some tangible evidence.

Since my last appearance at the Press Club I actually received a piece of encouraging mail. Let me share it with you.

"Hello. My name is" -- blank -- "and I am a loyal taxpayer. I am writing to tell you that I actually do not mind paying taxes. I make a lot of money for someone my age, and I probably pay more

in taxes than others in similar situations. I am not married, I do not have children, I do not own any property. My only deduction is called 'standard'. One of my close friends recently told me about how his visit to a local tax expert netted him enough money in his return that he was able to go out and buy a brand new motorcycle and a 42-inch plasma TV. After hearing this, I seriously considered speaking with a local tax expert. But my conscience got the best of me. I refuse to play that game. I believe that by living in this great country and exploiting all of the opportunity it affords, you have to be willing to pay to play. And I am not willing to cheat. I doubt that you have many customers like me, and I was wondering if, as a token of recognition, you could perhaps send me an official IRS shirt." (Laughter.) So, there you go.

Before taking your questions, let's look ahead, and let me share some observations in each of three areas: individuals, corporations, and tax-exempt institutions.

First, individuals. We recently issued our refined estimate of the size of the tax gap. Simply stated, the tax gap is the difference between the tax that taxpayers should pay and what they actually pay on a timely basis. While the vast majority of Americans pay their taxes honestly and accurately, many do not. About two-thirds of the \$300 billion-plus annual tax gap relates to individual income tax. The bulk of this pertains to underreporting of income, not the overstatement of deductions or expenses. We are already using the results of our research to update our audit models and make more intelligent selections of returns for review. In addition, the research reinforces one of the fundamental truths of our tax system: where there is third party reporting, there is better compliance.

Each year, about 150 million employees receive over 235 million W-2s. American employees are used to information reporting, and in fact, they are used to income tax withholding as it pertains to their paychecks. And the non-compliance rate on wages is about 1 percent, because if you are, say, a Press Club member working as an employee for a media organization, we know much you make.

The biggest piece of understated individual income tax relates to business income; that is, understated income of small businesses or individuals operating as independent contractors, but not organized as corporations. The non-compliance rate in this area, where there is no third party reporting, exceeds 50 percent.

Just to mention one important initiative in this year's budget, the administration has asked for Congress to require credit card issuers to provide the IRS information about business gross receipts. As an example, if you are running a dry cleaning business and report to us \$500,000 in credit card receipts and \$500,000 in cash receipts, notification to us from credit card issuers of card receipts of \$1 million would raise a question, to say the least.

Providing this information won't help us just in our audits. People will actually change their behaviors and report more honestly. We know this from tax reform in 1986. Up until then, you did not have to list Social Security numbers for your dependence. The 1986 changed that, and guess what? When Social Security numbers were required on the 1040, the next year 5 million dependents mysteriously vanished.

Turning to corporations. I would like to make three points pertaining to globalization, governance and transparency.

Tax administrations worldwide are increasingly challenged to keep up with the consortia of stateless accounting firms, law firms, investment and commercial banks and other financial players who structure arrangements not just to park income in low tax jurisdictions, but to avoid tax altogether. Tax arbitrage -- that is, the structuring of deals to take advantage of incongruities between tax systems -- is growing.

All too often, tax administrations don't know what is on the other side of the transactions they are looking at. To address this, we are working ever more closely with other countries.

Turning to corporate governance, clearly, Sarbanes-Oxley and the post-Enron environment have done much to improve corporate governance, including in the tax arena. Nevertheless, the potential incentives now associated with stock appreciation are staggering compared to traditional executive compensation. I wonder whether tax compliance, let alone corporate and shareholder interests, would not be better served if CFOs, general counsels and non-executive board chairs received generous but fixed compensation for specified contract periods. Were boards to move executive compensation to this model, it would reinforce sound conservative fiduciary stewardship.

A third subject pertaining to corporations is transparency. As long as financial accounting standards differ from the tax rules, there will be a continuing tension between increasing book earnings in order to drive up share value and lowering taxable earnings to minimize tax payments and maximize cash flow. If we are not willing to operate the two systems by the same set of rules, it makes sense to discuss whether corporate tax returns should be public. Just over the weekend there was press coverage about one of America's largest businesses, one which, according to the accounts, has reorganized overseas and increased its exposure to liability simply in order to limit public disclosure of its activities. There are important policy arguments to be made in favor of maintaining the privacy of corporate returns. Nevertheless, making corporate tax returns or a portion thereof public would likely improve compliance. I believe this idea merits debate.

As to tax-exempt institutions, I expect scrutiny of this sector to intensify, not diminish. This is because we have seen the twin cancers of technical manipulation and outright abuse that we saw develop some years ago in the profit-making sector of the economy begin spreading to its non-profit counterpart. If individuals and organizations which should be taxed are allowed to masquerade as charities, over time there will be an erosion of our nation's tax base.

And our charities have done much for the public good, particularly in response to tragedies like the tsunami and Katrina. So we need to protect their integrity.

I am particularly concerned about prohibited political intervention by charities and churches as we head into the 2006 electoral season. Clearly, political intervention by charities and churches is an area where the IRS must tread carefully. There are few bright lines for evaluating political intervention. Our work requires a careful balancing of all facts and circumstances. But I am

convinced that we must act. We can't afford to have our charitable and religious institutions undermined by politics.

Let me make one final point in closing. As I was a year ago, I remain an advocate for tax reform. I think the president's panel on tax reform did what it was asked to do. I am hopeful that we will move forward soon with a full debate leading to a better, simplified tax code.

Thank you. (Applause.)

MR. SALANT: Thank you very much.

First question: With April 15th a month away, what advice can you give to those Americans who have yet to file their tax returns?

MR. EVERSON: My first advice is, don't panic. What you need to do is to just provide careful attention to filling out the return. Be careful about things like -- remember to sign your name, get the Social Security numbers right. And if you're missing a piece of information, do your best to find that piece of information, but don't, under any circumstances, failed to file. What you can do is get an extension. That's easy to do. We have actually now increased the amount of time so that you can get an extension for the full six months. You don't have to reapply after just a period that would elapse in August.

So file a return. If you think you owe money, cover the amount of money you owe and then take care of getting the rest of the documentation.

MR. SALANT: Does the commissioner of the Internal Revenue Service prepare his own tax forms? Does he have to hire a paid tax preparer?

MR. EVERSON: I suppose that depends on the commissioner. I've done it different ways. There's some years I've done my own tax return. When I was living overseas, I had very complicated returns -- Nanette and I were overseas -- and they were prepared for by others and paid for by the company.

Now I actually do have someone that I work with who handles most of our finances -- which are, by government statute, limited as to where they can be -- and they also help prepare the return.

MR. SALANT: This questioner says the IRS official estimate concludes preparing tax returns using computer software is more time consuming than doing them by hand. How can this be?

MR. EVERSON: What we've learned is -- we've researched this -- is that apparently people who use the computers, they spend a lot of time doing "what ifs" and playing with the information in contrast to ways of where you go into -- the preparer -- the preparer is very methodical, actually. They're running a business, obviously, and they go -- they ask a series of questions -- boom, boom, boom, boom -- and that takes place relatively more rapidly.

MR. SALANT: The IRS ran into a lot of opposition in failed attempts to close walk-in centers and cut back on telephone helpline hours, largely, according to this questioner, because its service cuts were embedded through stakeholders. Following these failures, will the IRS shy away from service cutbacks, or at least change the way they approach them?

MR. EVERSON: There are two parts to that question.

We have any number of avenues where we work with our stakeholders. I think those our important communications, and we can always do better. We try to be in touch around the country as much as we can. We've got 800 facilities around the country, and a lot of them have public affairs offices, so we hear a lot of what's happening out in the country.

As to the actual balance of taxpayer services, GAO and others have said that we need to refine our services, in some places cut back in this era of spending constraints on the federal budget. And what happened last year -- what this question really refers to is the administration did make a modest request to -- or to cut back by 1 percent the amount of money spent on services. The cuts were proposed to take place in walk-in centers. That was met with fairly vigorous resistance on Capitol Hill, and we stood down.

MR. SALANT: You know, 20 years ago, we had tax reform and tax simplification. Why do we need it again? And what makes you optimistic that there will be some progress in tax reform?

MR. EVERSON: One of the great things about our country is the political process that provides for representation of constituent interests here in Washington. Each congressman and senator does his or her best to get the best possible deal for their constituency. That is the name of the game. That's what happens in a democracy. That is intentioned with the merits of a simplified, evenhanded tax code.

If you simplify the code, to a certain degree you are taking away the ability of individual elected representatives to make a difference for their state or for their industries.

So there is that tension. And what happened was significant simplification and reform was enacted in the '80s, and then over a period of time the code has just become ever more complex.

I think these things run in cycles. It waits until it gets bad enough that people need to act, and I think we are at about at that point. And as I indicated before, I'm a little sorry that we didn't -- it doesn't have a higher prominence on the agenda right now. I think we need to get after it.

MR. SALANT: How serious is the IRS about reducing that \$300 billion tax gap? Isn't the real problem massive cheating by small businesses? What are you going to do about it?

MR. EVERSON: I think we're very serious about reducing the tax gap, and if you go back to some of the figures that I cited, the dramatic increase in the enforcement revenues, the upticks in the audits, all that we're doing on the criminal front, all of these are very real indicators not just of impact -- direct impact, but there is this indirect behavioral impact that occurs when we audit

one person. And they mention the audit or the collection activity to a friend, and then that individual is less inclined to cheat, if you will, or to stretch their interpretations.

Looking at small businesses, per say, as I mentioned, the largest single piece of a tax gap -- this \$300 billion-a-year problem -- does come in the form of small businesses, and it's not S-Corps -- businesses organized as corporations. It's the understatement of income by individuals and others that are operating as independent contractors, let's say.

What we are doing is -- we are going to up the audits there. We're going to use this research that we recently conducted and completed last year at the National Research Program to better target our audit activities. We've got a hiring build that is taking place. And as I mentioned in my remarks, most significantly we want to get some additional reporting. We've looked at the reporting, and we've crafted it to be minimally intrusive. We're not asking more business- to-business reporting. We're asking credit card issuers.

I already get a statement at the end of the year from my, you know, MasterCard account that says what I've spent -- or maybe what Nanette spent -- (light laughter) -- and so all that information is readily available. We're just asking that Congress mandate that the gross receipts, that only the gross receipts be sent to us, so that we get after some of this understatement of income.

MR. SALANT: Senator Bayh later today will introduce the bill to require brokerages to report the purchase price of security to the IRS in a bid to reduce a \$17 billion tax gap in capital gains. Does the IRS believe that having such original cost bases will aid enforcement?

MR. EVERSON: As a general rule, it's very important to weigh those benefits of reporting that I've talked about against the burden of incremental reporting.

I've not seen the piece of proposed legislation. We'll certainly take a good look at it. We're hopeful that the Congress starts by approving the five proposals that are in the president's budget. Those five proposals are significant. They are relatively modest in terms of their intrusiveness, if you will. But they represent together the biggest package of reporting increments since 1986, as I mentioned before. So we would say start with our proposal; we're certainly going to look at anything the Senate or anybody else puts together on this subject, though.

MR. SALANT: There's a movement on Capitol Hill to modernize business activity tax language supported by the financial services industry and opposed by state tax officials. What do you think?

MR. EVERSON: This is an important subject. I know that Chairman Cox of the SEC has expressed particular interest in it, and we're looking at it. We want to do as much as we can to enhance the communication of information. As I indicated before, one of the challenges here in increasing globalization is making sure that worldwide we have good communication of information. This is a part of the -- of that challenge.

MR. SALANT: When Republican lobbyist Jack Abramoff was indicted, the Justice Department noted that he misused charitable organizations. What is the IRS doing to address this issue, and are you investigating Abramoff and his use of the non-profits?

MR. EVERSON: He's in some pretty real trouble. I don't want to get in real trouble by commenting on his investigation, because if I comment on a particular investigation, that's against the law. So, I can't comment on that.

BUT -- we have very vigorous programs in the area of charitable abuses. It's -- we highlighted abuse of charities and made it one of our four enforcement priorities for our strategic plan for 2005 to 2009. Never has abuse in this area or our oversight of taxes into organizations received as much prominence as it has today -- as it has done today. This particular set of issues, the misuse of charities, you saw the same thing. Richard Hatch was just convicted, you saw, of tax evasion. And one of the things he did was he had a charity, too -- this all came out in the case. And he collected money, but he didn't use the money for charitable purposes. He just funneled it to him.

So there's criminal conduct that's going on in these charities. And in some of it, obviously, there's a lot of debate on the Hill now about what needs to be reported for what runs through charities. We're very concerned that charities play it right down the middle of the road and that there aren't these abuses, particularly in the area of corruption.

MR. SALANT: This questioner asks, there's been a lot of IRS press coverage about the IRS looking into the political activities of churches and charities. Why is the IRS spending so much time on this? Wouldn't it be better spending that time catching tax cheats?

MR. EVERSON: We have a balanced set of priorities. As I indicated, we have to make sure that we can collect the \$2.2 trillion that the American people rely upon us to collect each year. But at the same time we are the principal regulators of the tax-exempt community, which includes not just charities, it includes pension plans, it includes tax-exempt bonds, a whole series of areas where there are not tax revenues associated with those activities. We can't short-change that area of responsibility.

If you look at the explosion of the campaign races that have taken place in the last few years, you just have to be concerned. In the '99-'00 election cycle, FEC-monitored campaigns cost \$4 billion. That increased to over \$10 billion in the '03-'04 cycle. The 527 organizations, the MoveOn.org and the Swift Boat veterans, those sorts of things, they more than doubled in the last six months of the campaign cycle. Those are organizations that are monitored, they have to report to the IRS, but they aren't subject to the FEC.

You mentioned Abramoff. We've got increasing indicators of political corruption. We can't have this cocktail of money which is awash in our system now move over and pollute our charities. And make no mistake; that will happen. That will happen because they are the least regulated piece of this puzzle.

So we're sensitive to the absolute fact that free speech and religious liberty are terribly important, but at the same time, the Congress has set in law and the Supreme Court has upheld that while those rights are enshrined in our Constitution, you don't have a right to be subsidized by the American taxpayer through a tax exemption.

So there's a balancing here that needs to take place. We're doing our level best to do it. And the only things I can say on top of that is it's done by career people absolutely without regard to politics in terms of what side of the aisle -- and by that, I don't mean the church aisle -- that these organizations are taking in their positions.

MR. SALANT: Speaking of some of these organizations, do you think that 501(c) organizations that engage in political activity should be required to disclose their donors?

MR. EVERSON: There is an inference there that political activities are different from other activity. That's correct in the sense that you're not allowed to issue a -- or take a position that is in favor of or opposed to a particular candidate, but just because you're taking -- or advocating one position, issue advocacy, that's not a problem. So I don't think we would advocate any different standards for issue advocacy or people who are doing work on educational programs or anything else. I'm not suggesting that at all. We think that everybody ought to play by the same set of rules whatever you're doing as a 501(c)(3). Where you get into trouble, though, is when you do things that help or oppose a particular candidate in a race. That's the problem.

MR. SALANT: The last time the IRS was accused of auditing political critics, according to this questioner, was in the Nixon administration. What are your plans on auditing groups when asked to investigate by powerful members of Congress?

And along those lines, how do you decide which nonprofit organizations to audit?

MR. EVERSON: Let me go back and touch on the history a little bit. And I won't cede the floor to Don Alexander, but I think he's pretty well versed in this subject.

It is true that the Watergate commission, it looked at this issue, but it did substantiate that there was no use of the IRS to audit tax returns or to somehow get involved in going after enemies of President Nixon. What there was was an attempt by the White House to have that happen, but the IRS refused to play ball. So the IRS has not been used that way. The IRS stood up to that, and under the leadership of Don and his predecessor, that did not take place. And it has not happened.

It does not happen today. We have two political appointees in the whole 100,000-person organization, and that's by design. We have career officials who take a look at referrals that come in. When we saw a big ramping up of political activity by charitable organizations in the spring of the 2004 cycle -- thanks in large part to reporting by the press, if you will -- we did convene a panel of three career officials in our exempt organizations group. They took a look at these referrals. They tried to make sure that they were all being handled in a consistent basis so that you didn't get different patterns in different parts of the country or different kinds of

organizations. This was all looked at after the allegations were made that you mentioned, Jonathan, early in your remarks.

I asked the inspector general for tax administration to look at this. This was all done, and they concluded that there was absolutely no bias one way or the other in terms of the matters that were selected for review. That's been consistent any time any congressional or other oversight group has looked at how we conduct our responsibilities. In the tax-exempt area in particular, they've been satisfied that there's no politics in what we do.

MR. SALANT: What do you think of Senator Brownback's legislation to institute a flat tax in the District of Columbia?

MR. EVERSON: I don't take policy positions on different type of tax rates or different kinds of taxes, so I will take a pass on that question.

MR. SALANT: Does the IRS have any current estimate of how many individuals or couples will be hit by the alternative minimum tax for tax year 2006?

MR. EVERSON: I think that you know that the fixes that people are trying to get to will avoid the additional something -- I think it's 17 million or 18 million people who would be carried over next year if that is not corrected. Right now there are several million who are already subject to the AMT.

I believe that one of the things I've said to the tax panel and others was that as soon as we can get rid of the AMT -- the sooner we can get rid of the AMT, the better. The reason I say that is because -- I'm speaking from a compliance point of view here. It seems difficult to me that if you are unfair -- you ask someone to go through the whole process of completing their return and then you say, "Oh, you got to the end, now, aha, you're really not paying that tax, you've got to go through this whole other calculation to see what you owe there," that just can't help compliance. So we don't only want to see us stop the ultimately tens of millions of additional taxpayers who would get swept up in the AMT, we'd like to see it go away entirely, from a compliance point of view.

MR. SALANT: A statistics question: what percentage of claims are examined for possible tax evasion, and what percentage of claims of undetected fraud?

MR. EVERSON: Our process, we -- the audit rates on individuals are around 1 percent, 1-1/2 percent for high income individuals. Corporations, if you get up to be the largest corporations, something like over 40 percent of those biggest corporations are examined each year. So there's a range of examination rates.

You're not looking for fraud per se. But obviously, if you see things on the return, our examiners end up making fraud referrals to our criminal investigatory unit. So that is -- that's the procedure. Fraud examination is not the front end of the overall examination process.

MR. SALANT: Is there a connection between enforcement and tax simplification?

MR. EVERSON: I think there is. Actually, Nanette came up with this. She said, complexity obscures understanding. Every once in a while a spouse weighs in and helps you on things like this. And she's right. It's on both sides. If you're trying to be compliant, complexity makes it hard to comply.

Again, let's go back to the AMT. It's complex, inherently complex. Now, if you're trying not to comply, you take advantage of the complexity. That's a lot of these shelter deals that we saw for all sorts of tier transactions, and some of them being international in their characterization.

So, absolutely. We favor simplification. That will help on compliance from both points of view, helping the people who want to comply and helping us detect where the problems are for those who seek not to comply.

MR. SALANT: The introduction to the five proposals noted that you were studying the larger issue of independent contractors. What are you looking at, and when might you propose something?

MR. EVERSON: What we said in the budget was that we -- we made five specific legislative proposals. We also indicated that the administration wanted to look at the definition of "employee" versus "independent contractor". This has been locked in statute since the mid -- actually, the late '70s. We were unable to address that definition. And if you think about the way the world has changed since the late '70s, it's really been a profound transformation in terms of people who used to work for the Post Office, for GM, AT&T, all the big companies. Now more and more of the jobs are in the smaller businesses, or people are operating as independent contractors. And yet we can't adjust the regulations as to what -- where are the tear lines between an employee an independent contractor.

Because, as I indicated, so much of the tax gap actually is in this area, we particularly want to look at this to make sure we have a tax system for the 21st century and not for the 1970s. That'll take us a while to do, but we will be coming up with proposals.

MR. SALANT: How can the nonprofit sector partner with the IRS to increase compliance with the tax laws?

MR. EVERSON: I think the nonprofit sector is doing that extremely effectively.

I would contrast the nonprofit sector with the attorneys and accountants who orchestrated all the crazy tax shelter deals in the late '90s and basically denied that anything on toward was happening.

What you see in the nonprofit sector -- organizations like Independent Sector, which convened the panel on the not-for-profits -- they came up with a very comprehensive report last spring that has this whole series of responsible reforms that Finance and Ways and Means are looking at.

So I think that as a whole, that sector is being responsible in recognizing problems. They work with us on a collaborative basis, and I think there are good ideas that are out there that they're -- they haven't got their head stuck in the sand, as the profit-making sector did.

MR. SALANT: You mentioned the benefits of electric filing. Where can someone find information on electric filing and other electronic products and services?

MR. EVERSON: Just go right to irs.gov, and there'll be a way to file. And most Americans qualify actually for free filing. That's a service provided by a consortium of software preparers where if you're below a certain income threshold, you can actually file for free.

So that's a good thing, but there are a whole series of other things that we do in connection with assisting tax practitioners that also are identified at irs.gov.

MR. SALANT: When you log on to the IRS website and look up the 527 political organizations, you can get copies of the paper they filed. Is there talk about forcing them to file electronically the way the SEC now does for tax and House candidates?

MR. EVERSON: I haven't heard of that, but it's certainly something we can look at.

Again, as I indicated, we work to implement the statute that required us to do the collection of the revenue monies and the disbursements for the 527.

As I indicated, I think this is an important area. These organizations are growing rapidly. Public disclosure here, anything we can do to foster public disclosure on those activities is important.

MR. SALANT: You happen to have a lot of reporters for tax people at the tax publications on the head table. Are you surprised by the pushback on the questionable refund program emplaced by the Criminal Investigation Division? And what's the latest on the IRS's efforts to rein it in?

MR. EVERSON: This question relates to a program we had that has been conducted by our criminal investigators who are -- there has been a real growth in refund fraud over the years, and it's been particularly prevalent in the earned income tax credit area, where you can actually get back a refund of up to \$4,400, and rings of individuals will develop bogus returns and claim the credit.

So we had a dedicated program within Criminal Investigations that would hold all refunds, if they looked pretty solid, like they were part of a criminal scheme.

There were some refunds that would appear to have the same characteristics but that, in the end, would not be part of these schemes. They were held, and what -- the storm that developed sort of early this year was around whether we notified these individuals. We've committed to notify all the individuals for the refunds we hold. This relates to, oh, maybe half a million returns or so, refunds a year, out of the hundred million plus that we issue each year. So it's a relatively small percentage, but we agreed when the questions came up that we need to notify folks.

We also want to process the returns or the refunds and reach a judgment as to whether they need to be held or not more quickly than we have in the past. We're making some systems improvements that will ultimately allow us to do that. So I think that we will -- we are responding to the concerns on this as well, and we have to balance this idea that we want to -- we work on an honor system here. This is an instance where you claim your refund, and unless there seems to be a real problem here, you're going to get it issued to you. So we need to balance that appropriate feature of our tax system with the fact that there is some fraud out there, that we obviously can't send a message that we allow that, either.

MR. SALANT: How are you addressing the human capital issues that affect your information technology modernization, especially the attrition of technical experts through retirement?

MR. EVERSON: Sounds like a question from one of my technical people, if they're here. (Laughter.) But this is a critical area for us all over the government and certainly in the IRS. We have many people who are eligible for retirement or who won't be with us really that much longer, so we've got one gap there. The other thing is the IRS has had stops and starts on its own technology programs over the years. I think they're in better shape now than they were five or 10 years ago.

And what we -- one component of this is certainly being able to attract the very best, most competent technical people to come into the IRS. We're attentive to this. We constantly look. And last year, in fact, we did something -- we changed a whole series of our positions, several hundred positions where we felt we had too many people in the technical area working on administrative tasks. We needed to swap them out and get more technically competent people to do the systems development and that sort of work.

We've done that. So we've brought in some new people that way. But this is a constant challenge. I think a lot of the technical people generally they're -- a lot of the best work is out in industry. We need to bring more of that, obviously, in house.

MR. SALANT: Regarding the political activities of churches, could you give some examples of activities that will raise questions as to their tax exemption?

MR. EVERSON: Basically, let me try and boil it down to -- what you don't want to do is -- again, it's -- the law says you can't be advocating for or against a particular candidate. Again, issue advocacy is fine. So I would say if there's one sort of rule, it would be don't do something that is providing a benefit to one candidate or opposing one candidate that you're not doing for another candidate.

I gave a speech recently at the City Club in Cleveland. And they -- a woman stood up, and she was a candidate for judge, and she said, "I want to get this right. Can I have my church do something for me in my parking lot? I've got a lot of people -- in their parking lot and on their property? A lot of people from my church -- I'm very close to the folks in my church. They really want to help."

And the question I said to her was -- I said, "Well, are you going to do same thing -- is the church going to do the same thing for your opponents?" That's the question.

And this can take all sorts of different forms. It can be allowing one candidate to speak but not another. It can be in something like in a website. We've seen instances where a website for an organization will have a link to one party's candidate but not to another.

Now if there's a balanced presentation -- voter guides are fine, as long as they provide a balanced presentation of views.

So what we can -- what I can point you to specifically is, we issued some expanded guidance. We were rightly taken to task here after '04, saying, "Jeez, you really ought to provide some more examples." We've done that, so again, if you go to irs.gov, you'll see more examples of what we say are sort of tangible lines.

We even found examples, though, of charities and churches, obviously, giving money to candidates. That's pretty bright-line.

MR. SALANT: Well, thank you very much. Before we ask our last question, I wanted to offer you the official National Press Club coffee mug, suitable for drinking coffee while you audit our tax returns --

MR. EVERSON: I want to say this is -- I'm safe from that \$100,000 problem that those Academy Award presenters have -- (laughter) -- declare it on their returns. (Light applause.)

MR. SALANT: -- and a certificate of appreciation. And we'll send you the 1099 form with the value of the mug next year. (Laughter.)

Last question: Did the letter writer ever get the shirt? And can other taxpayers get an official IRS shirt? (Pause.)

MR. EVERSON: No. (Laughter.)

MR. SALANT: Well, thank you very much. (Applause.)

I'd like to thank our speaker for coming today and everybody in the audience. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booze and Howard Rothman for organizing today's lunch. And thanks to the National Press Club library for its research. We're adjourned. (Strikes gavel.)

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