

NATIONAL PRESS CLUB LUNCHEON WITH JOHN KOSKINEN

SUBJECT: “THE IRS: LEARNING FROM THE PAST; BUILDING FOR THE FUTURE.” KOSKINEN WILL ADDRESS A NUMBER OF ISSUES, INCLUDING GOP EFFORTS TO CUT THE IRS BUDGET AND WHAT EFFECT IT MIGHT HAVE ON THE AGENCY’S CUSTOMER SERVICE AND COLLECTION EFFORTS.

MODERATOR: JOHN HUGHES, PRESIDENT OF THE NATIONAL PRESS CLUB

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JOHN HUGHES: (Sounds gavel.) Good afternoon, and welcome. My name is John Hughes. I'm an editor for Bloomberg First Word, the Breaking News Desk here in Washington, and President of the National Press Club. The Club is the world's leading professional organization for journalists. We are committed to our profession's future through programs such as this. And we work for a free press worldwide. For more information, visit our website, press.org. To donate to programs offered through our Club's Journalism Institute, visit press.org/institute.

On behalf of our members worldwide, I'd like to welcome our speaker and those of you attending today's event. Our head table includes guests of the speaker as well as working journalists who are Club members. Members of the public attend our lunches, so applause you hear is not necessarily evidence that journalistic objectivity is lacking. I'd also like to welcome our C-SPAN and public radio audiences. You can follow the action on Twitter using the hashtag NPCLunch. After our guest's speech, we'll have a question and answer period. I will ask as many questions as time permits.

Now it's time to introduce our head table. I would like each person to stand briefly as their name is announced. From your right, Mark Wino. He's Senior Associate Editor for Kiplinger Washington Editors and Treasurer of the National Press Club. Marilyn Geewax, Senior Business News Editor for National Public Radio and a member of the NPC Board of Governors. Michelle Salcedo, Desk Editor for the Associated Press.

Rosemary Marcus, Director of Research Analysis and Statistics for the IRS and a guest of the speaker. Gail DeGeorge, Enterprise Editor for the Economy Team at Bloomberg News. Pat Koskinen, wife of our speaker, and guest of our speaker. [laughter] Jerry Zremski, Chair of the NPC Speakers Committee, Washington Bureau Chief for the Buffalo News, and former President of the National Press Club.

Skipping over our speaker for a moment, Robert Cardin, freelance writer and the NPC Speakers Committee member who arranged today's program. Thank you, Bob. Eric Smith, an IRS spokesman and guest of the speaker. Mark Hamrick, Washington Bureau Chief for Bankrate.com and former President of the National Press Club. Kevin McCormally, Editorial Director of Kiplinger Washington Editors. Mark Sheff, a reporter with Investment News and Vice-Chair of the NPC Publications Committee.

[applause]

Well, welcome to tax season. Americans have 16 days to get their federal returns filed. But for our speaker, every day is tax day. John Koskinen is Commissioner of the Internal Revenue Service, where he oversees the collection of more than three trillion dollars each year. He has been on the job for about 15 months. How has it gone so far? I think he'll be telling us. During the first half of his tenure, he testified frequently on Capitol Hill. Questions revolved around allegations that the IRS targeted conservative groups to deny them tax exempt status.

When he wasn't testifying, Koskinen was wrestling with budget cuts imposed by Congress. The IRS audited 0.57 percent of businesses in 2014. And that was the lowest rate since 2005, according to statistics released just this month. Money being used to enforce and implement the Affordable Care Act has contributed to reduced staff on the telephone help desk. At one point, Koskinen said agency belt-tightening may result in a "miserable 2015 filing season."

Koskinen, though, is no stranger to challenges. He was non-Executive Chairman of Freddie Mac from 2008 to 2012. And he was the acting CEO in 2009. His varied career has included stints as Deputy Director at the Office of Management and Budget, City Administrator for the City of Washington, D.C., Overseer of the Federal Government's Y2K efforts, and President of the U.S. Soccer Foundation.

Now no amount of IRS trouble is going to put Koskinen in a bad mood this week. He is a super fan of the Duke Basketball Team that is appearing in the NCAA Final Four this coming weekend. Ladies and gentlemen, please extend a warm National Press Club welcome to John Koskinen.

[applause]

JOHN KOSKINEN: That was such a good and thorough introduction, that that's my speech, and I'm ready to take questions. [laughter] But I appreciate the warm welcome. And I'm delighted to be back here at the National Press Club. I was intrigued,

as I was last year, by the desserts. My dessert is a cookie that seems to me not quite the image I'd like. It's a dollar with wings flying away. [laughter] Next to me, though, was a more imaginative cookie. It's a 1040 form. Now we're very flexible at the IRS. But you cannot file your returns on your cookie. [laughter]

Now I should clear the record. There was some indication in a news periodical that I had-- I was a super fan of Duke, and that I would no doubt regale you with stories of this year's Final Four the way I did last year. And so, to clear the record up, last year I did note my affiliation with Duke, and apologized for the fact that we had ruined everybody's brackets by not quite making it at the Final Four, actually not making it beyond the first game. So I thought that, if I had ruined your brackets, it was, you know, my fault. This year, if we've ruined your brackets, you're going to get no sympathy from me, because you should have had us going at least this far.

But in any event, the IRS Commissioner isn't always the hottest ticket in town, because everyone knows the subject is going to be taxes. So I really do want to thank the Press Club for allowing me to have this return engagement. And I promise to stifle normally my impulse to remind everyone, as already has been, as a public service announcement, that April 15th is just around the corner, although it is.

I hope everyone is doing well with their taxes. And I would remind you that the complexity of the tax code is not my fault. [laughter] I'm now, as noted, leading the IRS. And I have been for 15 months. It's certainly been an interesting time, to say the least, and has led me to conclude the next time, as I've told several of you, I'm going to pay more attention to the fine print of the contract, especially the part about hearings running into the night with no breaks.

Today I wanted to share with you some observations and some insights about the IRS, the problems of the past and how we've dealt with them, the challenges of the present, and our strategies for meeting them, and the possibilities for the future and what we would like to be able to do for taxpayers.

But first I'd like to talk a little bit about what I've learned about the IRS in the past 15 months. When people hear "IRS" they usually think of tax enforcement, a letter in the mail or a knock on the door. While we are the nation's tax collector, that's not the whole picture. Besides enforcement, another big part of our jobs is to help taxpayers fulfill their tax obligations as quickly and as easily as possible.

When I arrived at the IRS, it surprised me to learn that more than a third of our employees work in taxpayer service. For example, we run one of the world's largest customer service phone operations. But, after seeing everything our employees do to keep the tax system running, and to help taxpayers, I'm no longer surprised by anything that they do.

Let me give you a few numbers to show you what I mean, courtesy of our excellent research division. The leader of that group, Rosemary Marcus, has already been

introduced to you, as here today on the dais. She will be retiring shortly. And I want to thank her for more than three decades of wonderful public service at the IRS, the Bureau of Economic Analysis, and the Congressional Budget Office.

So consider some of these breathtaking numbers. This year, the IRS has already processed more than 90 million tax returns from individual taxpayers, on the way to an expected total of 150 million. We have issued more than 70 million refunds to individual taxpayers so far. Last year, the refunds we processed topped \$330 billion dollars. Put another way, that's more than the GDP of entire nations, such as Chile, Portugal, Ireland, and my own personal favorite, Finland. I should note in passing that, given my Finnish ancestry, I get better press in Finland than I sometimes get here. [laughter] But that's another story. [laughter]

This year, through March 20th, the average refund check issued by the IRS was nearly \$2,900 dollars. That's real money going into people's wallets and back into the economy. In a way, I suppose you can blame the IRS, at this time of the year, for the annual surge in loud commercials selling furniture, flooring and cars, all in pursuit of the biggest check many people will see all year

Also, thus far in 2015, the IRS has assisted more than 24 million taxpayers who called our telephone hotlines. We helped more than 1.3 million people who visited our 350 taxpayer assistance centers around the country. And our website, IRS.gov, continues to grow more popular, with more than 230 million visits already this year. Our electronic tracking tool, Where Is My Refund, is even more popular than ever, with more than 170 million hits this year already.

But there's more. We also routinely help people who are victimized by identity theft, dispute a tax liability, or face some form of hardship. In 2014, our Appeals Officers assisted more than 100,000 taxpayers, while the Taxpayer Advocate Service provided help to more than 200,000 taxpayers. Our employees with special identity theft training worked with victims to resolve more than 800,000 cases of tax-related identity theft.

And our tax collections continued as well. As noted, as the economy improved in 2014, the IRS collected a total of \$3.1 trillion dollars in federal revenues. And, as noted, that's \$3.1 trillion, not billion. We have been working hard to improve our operations. And one interesting figure that comes out of this is the cost of collecting this revenue. According to statistics gathered by the OECD, the IRS spends less than half the amount to collect a dollar of revenue than the Tax Administrations of Germany, France, England, Canada and Australia.

I could go on. If there's any place that has numbers, it's the IRS. But we only have an hour, so I won't. [laughter] But I hope this gives you a better idea of what the IRS does, year in and year out. I also want to mention the people behind these numbers. None of the work I just described could happen without the dedication, professionalism and expertise of our employees. And my admiration for them continues to grow. I've never seen such a dedicated workforce in my entire career. The smooth filing season we're

experiencing is a great testimonial to those employees. They have achieved an amazing degree of success when you consider the challenge of this filing season was to build into our system the backend of the Affordable Care Act, the frontend of the Foreign Account Tax Compliance Act, and the Tax Extenders passed in December.

We often hear from people only when things go wrong. So I think it would be helpful to remind you of something significant that's going right. A great exemplar of the caliber of our workforce is also sitting up here on the dais with us. Eric Smith, who was introduced to you, has spent nearly four decades at the IRS, working with reporters, helping them put the complexities of the Tax Code into plain English. And he shows no signs of slowing down. His dedication to public service is what you find with employees in locations all across the country. I'm pleased to be able to publicly thank Eric for his years of dedicated service.

I wanted to give you this picture of the IRS today because I think it's been obscured by the intense focus on the problems of the past. For a while, now, you've heard a lot about those problems, overspending on conferences, making some ill-advised videos, and, of course, inappropriate scrutiny of applications from groups seeking social welfare status.

The criticisms of these areas is absolutely deserved. But what gets lost is that these mistakes occurred several years ago, and we have taken concrete steps to address them. In the tax exempt area, we acted on all of the Inspectors General's recommendations to fix the management problems they identified nearly two years ago. These problems should not have happened. And we continue to work to make improvements to ensure that they never happen again.

As for conferences, spending has been reduced by 80 percent, since 2010, when the conference took place that was the subject of all the scrutiny. Not only that, but we require all conferences costing above \$20,000 dollars to get prior approval from the IRS Commissioner, otherwise known as me. And, for any expense over \$50,000 dollars, planners have to get my approval and the approval of the Treasury Department. And for videos, many of the ones we're making these days are aimed at helping taxpayers. The IRS channels on YouTube now have more than 100 videos, with nearly 9 million views to date.

Make no mistake, we understand we'll never compete with Taylor Swift, Jimmy Fallon, or funny animal videos. But our videos do help on very difficult tax topics. The subjects run the gamut from understanding how to claim various tax credits to protecting yourself from identity theft and avoiding tax scams. What's more, the much criticized videos from years ago could not be made today. Any IRS division seeking to make a video must receive prior approval from an Executive Review Board the Agency created more than two years ago.

And, not to miss anything, the people may have listed to justify cuts to our budget, we no longer pay performance awards to employees who have willfully failed to

pay their taxes. But I would note, in passing, that the tax compliance rate of IRS employees is over 99 percent. We are working to ensure, as well, that no former employee with a serious performance problem is rehired.

I would stress that, again, while these problems were important and needed to be addressed, and deserved our attention, the remedies we have applied we think will keep them from happening again. And the problems do come from a prior era. We have addressed them, so we think they won't happen again. And it really does make it a new day at the IRS. It's not the IRS of 2010, 2011, or even 2012.

I can't guarantee that we won't have any problems in the future. No one could, since we still have 87,000 employees who deal with 150 million individual taxpayers and administer the world's most complicated tax code. But I can assure you that our commitment is to find problems quickly, to fix them promptly, and be transparent in the process.

So how are we doing that? In the past, problems sometimes were not found fast enough were corrected right away. We're now building a culture within the IRS that is focused on risk management. It encourages the flow of information from the frontlines through the organization, and then encourages every employee to think of themselves as a risk manager, responsible for reporting problems as soon as they see them. Employees, I think, are beginning to believe that I mean it when I say that bad news is good news. We don't shoot the messenger, we reward him or her. And the only problem we can't fix is the problem we don't know about.

In trying to build for the future, one of the challenges we're facing involves our workforce, which has changed dramatically over the years. The workforce issues facing the IRS are similar to the challenges facing other government agencies. For years, we've heard concerns about the "brain drain" confronting the federal workforce, as large numbers of workers head toward retirement. The IRS has been dealing, firsthand, with that issue.

Problem is aggravated by our steadily declining employee numbers, which in turn are driven by our budget cuts. The high water mark of the Agency's workforce, in terms of size, was in 1992. Since then, we've lost more than 30,000 full-time employees. And we're at the lowest level since the early 1980s.

The drop has been accelerating between 2010 and 2014. The IRS lost over 13,000 employees. These aren't just positions in Washington or one or two other cities. Every state in the country now has fewer IRS employees than they did a few years ago, meaning fewer people to help with taxpayer service and enforcement. We expect to lose through attrition another 3,000 people, perhaps more, by October 1st of this year.

The resulting composition of the IRS workforce also presents a challenge. The problem is simple. Given my age, I think I can diplomatically say our workforce is maturing at a rapid rate. As highly skilled employees retire, we need to replace them with

the next generation of talented and dedicated people. But that's becoming harder and harder to do, in large part, as a result of the hiring freeze we've been forced to maintain for the last several years, to absorb the significant cuts to our budget since 2010.

More than 70 percent of our budget is devoted to employee costs. So we've had no choice but to constrain our hiring of new employees. As a result, a portion of our workforce over 50 years of age has been growing rapidly during the last several years. Today, more than half of our employees are in that age group. And we estimate, that by next year, more than 25 percent of the IRS workforce will be eligible to retire. By 2019, that number will be over 40 percent.

Meanwhile, the number of IRS employees under 30 has been steadily declining and is now less than 30 percent of our workforce. We have only about 1,900 employees out of the 87,000 under age 30. And about half of them are only part-time. We have only 650 employees, out of 87,000, who are 25 or younger. Essentially, the IRS is facing its own version of the Baby Bust.

The situation makes it extremely difficult, if not impossible, for the IRS to properly develop the next generation of leaders. We estimate that by next year, 41 percent of our frontline managers and 61 percent of our executives will be eligible to retire. With so many departures go knowledge and expertise that we will find difficult or impossible to replace, especially if our severe underfunding continues.

For anyone who questions whether it really is a new day at the IRS, let me share another piece of information with you about our workforce. Since October, 2011, 101 IRS executives, or 46 percent of them, 46 percent of the leaders of our agency have left. Some of our business divisions have experienced an even higher rate of turnover. A good example is our small business self-employed division, where about 80 percent of the current leadership team is new since the end of 2010.

The changes are so significant throughout the agency that you could hang a sign out at the front of the headquarters saying, "Under new management." Tax issues aren't simple, and neither are the core skills we need to run the IRS. For our technical positions, it's not like hiring people for a fast food restaurant or a grocery store. When we hire a tax auditor, it takes years for them to reach full productivity. And it can take even longer for those auditing the largest, toughest, most complicated corporate cases that involve complex issues spanning industries and national boundaries.

That's one of the reasons we have decided, even in this budget environment, that we have to continue to train our employees to ensure they are as prepared as possible to deal effectively with taxpayers and their questions and problems. The negative impacts of our budget situation on our workforce are generally overlooked in our funding discussions. And yet these issues are critical to the future of the agency and will only grow in importance in the months and years ahead.

As I've noted along the way, my term will end before the true magnitude of this problem is visible to outsiders. But it would be irresponsible to just slide along without beginning to address the situation. We have a number of initiatives underway to deal with this specific challenge. With regard to the loss of insights and experience, when employees retire, we've initiated an agency-wide knowledge management program, designed to capture, to the extent we can, the lessons learned along the way by employees at all levels of the organization. Our Large Business and International Division is leading the way on this area. And our Human Capital Organization is coordinating similar activities across the agency.

In addition, the Office of Personnel Management has approved a phased retirement program designed to have retirees spend time transferring their expertise to ongoing employees. We're still studying now how to fit that program into operations that don't have the resources to support the activity.

With regard to our lack of younger employees in the workforce, I have advised our senior leadership that this is the last year that we will deal with budget constraints by freezing or severely limiting new hires in the agency. We have interesting and exciting career opportunities to offer young people beginning their careers. And we need to encourage more of them to join the agency.

In the days gone by, the IRS had a reputation of being a great place to start your career because of everything you learned that made you attractive to accounting firms, businesses, and law firms. Many of those who started with the IRS and assumed they would move on after what sometimes was viewed as a post-graduate education, discovered the challenge and satisfaction of the work here, and stayed throughout their careers. We need to restore our reputation in that regard.

But I'm not here to talk just about the problems we face. We're also working to move the agency forward with new ideas and new initiatives, especially new ways of helping taxpayers. Even with our budget constraints, many good things have been happening at the agency recently that people may not be aware of. And I'd like to give you a couple of examples.

One is our adoption last summer of a Taxpayer Bill of Rights. We believe this is a cornerstone document that will provide clearer help to taxpayers. The Taxpayer Bill of Rights consists of ten fundamental rights that every taxpayer should be aware of, such as the right to receive quality service from the IRS, the right to pay no more than the correct amount of tax, and the right to retain representation when a taxpayer has a disagreement with the service. Our employees believe in these rights and are doing their best to advise taxpayers about them, and to support them in their day-to-day activities.

Given the complexity of our tax code, the majority of taxpayers these days seek professional help with their taxes. Last year, more than half used a professional preparer. The IRS has been taking steps to help taxpayers know where and how to get the help they need. And, as part of that effort, we launched a new Directory of Tax Return Preparers on

IRS.gov. earlier this year. For the first time, taxpayers could now use this directory to find tax professionals with credentials and qualifications in their local area.

We're also trying new ways of doing business in our taxpayer assistance centers. We remain deeply concerned about helping people at these walk-in sites, given our resource limitations. We are aware of taxpayers lining up outside some of our offices many hours before they open. You would think, in fact, we must be selling something like the Apple Watch when you look at the lines. [laughter] This isn't a new story this year. It's just gotten worse. And we're working to find a better approach for taxpayers.

To help cut down on the long lines, one new approach we're trying is very simple. Why not let people make appointments in advance, rather than wait in line for hours? We began doing this at 10 centers in February and recently added 34 more. If this works, we'll consider expanding the approach to all of our taxpayer assistance centers next year.

We already discovered one major advantage of this new system: The IRS employee setting the appointment time is often able to determine what the taxpayer's problem or question is. And, as a result, what information the taxpayer needs to bring with them to their appointment. This saves the taxpayer the aggravation of having to make a return trip later. The pilot program is a great example of a commonsense change that increases the level of customer service we can provide, while minimizing needless, pointless burdens on taxpayers.

Another good example of a new initiative is in the tax exempt area, where 15 months ago, we had a backlog of applications from groups seeking statuses, private nonprofit organizations. Those applications come in at the rate of 70,000 a year. And, at one point, the backlog exceeded 60,000. This kept groups in limbo for months or years. So our tax exempt organization group got to work trying to come up with ways of tackling the problem before it got further out of hand.

These efforts led to new processes, and the development of a simpler application form for small groups, the 1023EZ. That form debuted last year. And the result is that our inventory of applications is now current. That's a huge accomplishment and a change that's helping all applicants including larger organizations completing the longer, more complicated forms.

These are just a few of the new innovative initiatives we've been working on to help taxpayers and improve tax administrations. All of these efforts are important. But we want to do still more. In the time remaining, I want to talk about the IRS of the future and some of the things we're looking at.

But, before we do that, I would like to talk more generally, just for a minute, about our current budget and technology challenges. By now, some of you, especially my newfound friends in the press, have to wonder why I don't get tired of talking about the subject of our budget. The simple answer is, that the underfunding of the agency is the most critical challenge facing the IRS today. As the serious ramifications of five years of

budget cuts become increasingly visible, I don't want anyone to say that we didn't warn you in advance. So consider this your warning.

In case you missed it, the IRS budget for fiscal 2015 was set at about \$10.9 billion, which is \$1.2 billion less than five years earlier. The IRS is now at the lowest level of funding since 2008. If you adjust for inflation, our budget is now comparable to where we were in 1998. Despite that, we've taken on many new additional responsibilities like ACA and FATCA while our taxpayer base continues to grow by millions.

As a result, this year, we reached the point of having to make very critical performance tradeoffs. For enforcement, the budget cut means we will close fewer audit and collection cases. We estimate that the reduced closures this year will translate into a loss for the government of at least \$2 billion dollars in revenue that otherwise would have been collected. This is a classic example of being penny wise and pound foolish.

We are also seeing a noticeable negative impact on taxpayer service. This year we were forced to substantially reduce hiring of extra seasonal help we usually bring in during the filing season. As a result, our phone level of service is now below 40 percent. That means that six out of every ten people who call can't reach a customer service representative. This truly is an abysmal level of service.

It's especially troubling to me that these cuts prevent us from fully improving and modernizing our IT infrastructure and operations support. The situation hurts taxpayers and the entire tax community. We are operating with an antiquated system that is increasingly at risk as we continue to fall behind in upgrading both hardware infrastructure and software.

Despite more than a decade of upgrades to the agency's core business systems, we still have very old technology running alongside our more modern systems. We had many applications running when John F. Kennedy was present. About the only good thing you can say about them is that the code they use has been out of date for so long that it has the unintended effect of creating problems for any hackers who might try to figure out how the system actually works. [laughter]

But this ancient technology compromises the stability and reliability of our information systems and leaves us open to more system failures and potential security breaches. While IRS systems have held up well, it's a continuing area of major concern for us in this era of daily headlines of major companies and institutions seeing security breaches.

So there you have it. There's no doubt the IRS has budget and IT challenges. But where does that leave us? Will simply providing additional funding for the agency solve these problems? Well, funding would certainly help. I'm increasingly convinced that the IRS needs to do more and take a different approach and one that doesn't just rely on funding.

As I told our Appropriations Committees in the last few weeks, the IRS can't keep doing business in the old ways. If we get additional funding, we are not going to build the IRS back to where it was in 2010. We need to be looking forward to a new, improved way of doing business. The world is changing. Taxpayers are changing. And so too must the IRS. We need to look at the future in a more comprehensive way and consider how we can take advantage of the latest technology to move the entire taxpayer experience to a new level and do it in a way that is cost-effective for the government.

And that's what we're doing. In particular, we are focused on how best to use our limited information technology resources for the benefit of taxpayers. Our goal is for taxpayers to have a more complete online experience for all their transactions with the IRS. The online experience should get everyone confidence in knowing they can take care of their tax obligations in a fast, secure and consistent manner.

The goal is not unrealistic. We are not trying to go to the moon. We're simply saying people should expect the same level of service when dealing with the IRS in the future as they have now, with their financial institutions, their banks, brokerages, and mortgage companies. The idea is that taxpayers would have an account at the IRS, where they or their preparers can log in securely, get all the information about their account, and interact with the IRS as needed.

Most things that taxpayers need to do to fulfill their obligations could be done virtually. And there would be much less need for in-person help, either by waiting in line at an IRS assistance center, or calling the IRS. Improving service to taxpayers in this way can also help us on the compliance side of the equation. We need to be faster and smarter. With a more modern system, the IRS could identify problems in tax returns when a return is filed, rather than coming back to taxpayers years after the fact, while the meter is running on potential interest and penalties.

We want to interact with taxpayers as soon as possible on these issues, so that they can be corrected without costly follow-up, contact or labor-intensive audits. The upfront issue identification effort could also help in other areas as well, such as the ongoing battle over the use of stolen identities to file fraudulent tax returns. And we must provide greater security in the future. We need to find more ways to protect taxpayers' private information. At tax time we need to be sure we are interacting with the right person, improving identity authentication is a major goal going forward.

We've already taken a number of steps in the identity theft area. And the most recent occurred earlier this month when we held an unprecedented sit-down meeting with the leaders of the software and tax industry and state tax administrators. We agreed to build our cooperative efforts of the past into a new way to leverage this public-private partnership to help battle identity theft. We agreed to form three working groups to come up with short-term solutions to help taxpayers in the next tax season, and to work on longer-term efforts to protect the integrity of the nation's tax system.

You could say, of course, that if I find it exciting to talk about the possibility of taxpayers being able to conduct all of their communications with the IRS electronically, I may need to find a way to put a little more balance in my life. But I do look forward to talking more about the future vision of the IRS in the months ahead. Many of our efforts to improve taxpayer service will take years to fully implement. Our progress will be affected by many factors, including changes in the tax law, the continuing evolution of refund fraud, and the demographics of our aging workforce.

And of course, how quickly we can deliver on this concept will depend on future levels of agency funding. But even with our constrained funding, we are going to continue to find some funds to report these efforts to build toward the future, even at the expense of other areas of operations. Otherwise, if we just wage a guerilla style fight every year through the continuing funding challenges, focusing only on the present, we'll wake up in five years and be no further ahead than where we are today. And, in fact, we'll be five years farther behind.

So it gives you an idea of where the IRS stands today, how we've changed from the past, and where we want to go in the future. I took this job 15 months ago because I understand the critical role the IRS plays in the lives of taxpayers and the collection of the revenues that fund the government. I know I speak for the thousands of professional, dedicated employees of the IRS when I say that we are committed to continuing to do all we can to build for the future in the interest of serving the American taxpayer. I hope all of you who have filed your taxes now have had a good experience. For those of you who haven't filed yet, remember, the clock is ticking. [laughter] And, as noted, you've got 16 days, which means you now have the benefit of three public service announcements for the price of one. [laughter]

The IRS serves all taxpayers. And therefore, we also include in that group procrastinators. So if you can't make the April 15th deadline, remember, everyone can file, or anyone can file for a six month extension. Thanks very much.

[applause]

JOHN HUGHES: Thank you, Mr. Koskinen. You talked about the budget cuts. If there are only so many people who can perform audits and resources for audits, how do you determine who gets audited? It would seem that the people who owe the most money would be higher on the priority list. But that is not always the case.

JOHN KOSKINEN: For those of you not at the top of the food chain, making a lot of money, do not rest comfortably that we're not coming after you as well. Our audits serve an important function, which is to have taxpayers, as they pay their taxes, feel comfortable that everybody is paying their fair share. And, if you're trying to cut corners, we're going to notice that, find it, and we'll be unhappy about it.

So we need to actually demonstrate our focus on taxpayers across the entire income spectrum. So, because tax preparers are very quick on their feet, and they'll

notice if they have taxpayers in certain income brackets who don't get audited very often or at all. And that will simply encourage people to take risks that they otherwise shouldn't take.

So we have-- and every year we review our exam plan to see how to make it most effective. Obviously, we do audit a higher percentage of people at the top of the income stream and collect significant amounts of revenue from them. But I would stress that we always have, and always will, audit people across the entire spectrum. So, as I've said, even as our exam process slows down because of the funding constraints, the roulette wheel keeps turning. And you don't want the little white ball landing on your number, because we won't be too happy about that as we go.

But I would also say, and there had been a question often raised about how we select within that exam plan, how we select returns for review. And that process is basically automatic. It's done by computer filters that look at returns and identify those that seem to have issues or questions in them. No individual in the IRS can cause any taxpayer to be audited or reviewed. There are, at a minimum, it takes a group of three to take a look at any particular issue.

But the vast majority of audits and exams are determined by a set of computer programs that don't know who they are looking at. And I think it's important for all taxpayers to understand, even with the limitations, we'll do over a million audits this next year. And everyone should understand that that audit-- and, when you hear from us by letter the first time, when you hear from us, it's because of something in your return. And I think taxpayers need to be comfortable, they're all going to get treated fairly no matter who-- and in the same way, no matter who they are, no matter what political party they belong to, no matter who they voted for in the last election. If you hear from us, it's because of something in your return. And if someone else has that issue in their return, they're likely to hear from us as well.

JOHN HUGHES: But with these budget cuts, is it easier to cheat?

JOHN KOSKINEN: Even in the best of days, you know, we have measures, and we might be auditing one, 1.2 percent of the entire population at the high end. You know, we may be auditing 15 or 20 percent. Those percentages would cause you, particularly at the one or two percent level, to say, "Well, you know, it's only-- I've got 99, 98 chances out of 100 that I won't be in the two percent."

Over time, as I said, it's all done by computers. And so to the extent you start taking shortcuts that other people aren't taking, it's going to show up. And, as I say, we talked to a revenue agent once. And we said, "You know, we should and we do divide the world into those trying to be complaint and those trying to avoid their taxes. If you're trying to be compliant, even if you have trouble paying, we'll work with you. We're anxious to help taxpayers. If you're actually trying to dodge your obligation to pay your taxes, we'll find you, and we won't be very happy about that." And I think that's important for people to know as well.

JOHN HUGHES: As someone who is involved in implementing tax law and the tax code, what would be the best thing that Congress could do to improve the tax code?

JOHN KOSKINEN: I always preface my answer by saying tax policy is the domain of the Treasury Department, the administration and the Congress. So we are involved in tax administration. Having said that, the best thing you could do would be simplify the tax code. It is beyond being impenetrable. I don't know how anybody understands all the ramifications of it. Congressman Camp, when he was Chairman of the Ways and Means Committee, and put out his tax reform proposal last year, said, "The IRS code is longer than the Bible with none of the good news." [laughter] And I told him I would give him credit for that for a year, and then I'm just stealing it as my own line. [laughter]

But clearly, the burden on taxpayers, individually and corporate, by the tax code, makes no sense. And so the best thing that Congress could do, and which we are happy to help in a technical basis, the policy issues are theirs. But, on a technical basis, anything we could do to help simplify the tax code, we'd be delighted to do.

JOHN HUGHES: On a scale of one to ten, with ten being the most likely, how likely is it that we'll see comprehensive tax reform, say, in the next five years? And along with that, somebody is asking about your relationship with Paul Ryan, the Chairman of the House Ways and Means Committee, and whether you'll be able to work with him in getting some tax reform done.

JOHN KOSKINEN: Probably the best answer on the one to ten scale, over five years, is people who are working on this in great detail. I would simply say that it's instructive that, if you look in both the House and the Senate, at the number of individual congressmen and Senators who have taken a position that tax reform is important, either for corporations or for corporations and individuals as well, you almost think there's a quorum there if you could pull them all together for it.

I think, obviously, as people on the Hill have said, if it doesn't get done this year, next year will be difficult because it's a Presidential election year. But the question was over five years. I think the pressure is building from the public to do something about the complexity of the tax code. In particular, I have spent some time internationally. I worked with tax administrators and commissioners around the world. On the international front, the progress is moving quickly to try to attack zero taxation by international companies. And the result of that is going to be that FATCA is the first platform for the exchange internationally of tax information focused on individuals. The next move will be to get to country by country reporting.

As you move in that direction, the complexities of our corporate tax code are going to come back to create great problems for corporations in this country. So I think

the political pressure from individuals and corporations will build over the next five years.

With regard to Chairman Ryan, who's Chairman of the Ways and Means Committee in the House, who has been a vigorous supporter of tax reform, I have had good discussions with him. We are actually working with his staff, trying to provide them any support that they need in this area. I think that, again, the tax policy issues are going to be discussions between the administration and the Congress.

But, in terms of the implementation-- implications of any policy change, we already are having, I think, very positive discussions and stand ready with both the House Ways and Means and the Senate Finance Committee, and Chairman Hatch, who also has taken a very strong stand supporting tax simplification and tax reform, we stand ready to help them all.

JOHN HUGHES: You made reference to the issue of targeting groups in the 501c3 area, based on political beliefs, changes that have been put in place. Do you really believe, from your position atop the agency, that that issue is totally in the past? And what gives you confidence that this issue won't creep up again?

JOHN KOSKINEN: It was actually the IG said the use of improper criteria to screen companies or organizations trying to get C4 status. The reason I'm confident is that, first, we've taken all the recommendations thus far from the IG to provide better training, better review of the entire process. As I said, I do think, though, it's important to understand that even the best controls don't self-execute.

So it is important for every employee in the IRS to feel, as I said, that it's their responsibility and they are empowered to let us know when things aren't going the way we thought they should go, or way they are supposed to go, or the way we predicted they would go. Because the only way any organization, but certainly a large organization can effectively function and deal with problems as they occur, is if there is a free flow of information.

And I am confident, with the dedication and professionalism of our employees, that if anything looks like it is creating a problem or is about to, that we'll hear from them the next time around. And people understand it's important for that issue not to be raised just in the middle of the organization, it's important for everybody at the top, most especially the Commissioner, to know about it. And I think there has been a rededication to the longstanding commitment of the IRS to be involved in tax administration, not be involved in politics.

The final recommendation of the Inspector General was that, in fact, the "facts and circumstances" test used to sort through who is eligible to be a tax-exempt organization and not needs to be clarified. And I have said, from the start, we need a process that's clear, fair to everyone, every organization that applies, and easy to administer. And we're working on that as well.

JOHN HUGHES: There has been interest in the issue of using private email accounts as government officials. Have you ever discussed IRS business on a private email account, or used a private email server to store emails that are government records? And when this issue came up, how did you address this at the IRS? Did you do anything to make sure that people weren't using private email for public discussion?

JOHN KOSKINEN: The longstanding IRS policy is employees are not to do business on their private email systems. We monitor our systems regularly for security purposes. And I discovered early, I mean very early in my career, when I was preparing testimony, and I wanted to work at home, I sent the testimony home to my home computer so I could print it out and edit it. Within a couple days, I had a visitor from IT security noting that I had been sending a couple emails to my home computer. They assumed, correctly, that I was actually trying to edit my testimony. And they therefore gave me a computer and a printer for home from the IRS so that I would have my account available to me at home, because, in fact, our strong policy is you can't do personal business on your personal email account.

So, back to the first part of the question, I have never, other than sending a couple pieces of draft testimony to my email account, I've certainly never discussed IRS business on my own personal account. And I am confident that we continue to enforce and remind people about that policy across the agency. Now again, we have 87,000 people. Does that mean no one is doing it? I can't guarantee you that. But I can guarantee we're keeping a close watch on it. And if somebody is doing it, they'll hear from us pretty soon.

JOHN HUGHES: I have several questions on cyber security and tax scams. A recent GAO report reviewed IRS's IT security and found a significant deficiency in its financial reporting systems. How vulnerable are taxpayers because of the IT system? And, if you could comment in general on how challenging it is to keep up with the scammers, and if that kind of activity-- it seems to be on the increase.

JOHN KOSKINEN: The GAO report, which has been ongoing, is about our financial systems, not individual taxpayer information. And that's not a security problem so much, as we just need-- we have a complicated financial system, because we process all of these funds and all of the activities. And we're working to, in fact, correct that weakness. But it is in just our financial management side, and it's really in the reporting of funds that flow through the IRS. It has nothing to do, and it's not connected with our day in and day out processing of taxpayer information.

As I said in my talk, it's a high priority for us to not only protect taxpayer information, but do whatever we can to increase the ability of those security systems to ensure us that there won't be any breaches of taxpayer information. Clearly, as I said, identity theft and refund fraud are an ongoing challenge for us. We have thrown almost 2,000 people in jail over the last two or three years, as we've increased significantly our

policing of this area. So, as I said, we've gotten a lot of the amateurs off the street. But we are clearly dealing with organized crime syndicates here and around the world.

And, particularly, one of the scams that has surprised me with its longevity was, about a year ago, we began to hear that there were people on the phone calling people impersonating IRS agents and threatening people if they didn't immediately give up their personal information or make a payment, with jail, with criminal prosecutions, with seizures of their houses.

We have tried to make it clear that, as a general matter, as I have said for the last year, if you're surprised to be hearing from us, you're not hearing from us. That our way of contacting you is by letter. And if we ever talk to you on the phone, the last thing you'll ever hear from an IRS agent of any kind is threats that we're about to throw you in jail unless you pay us immediately or put money into a particular account.

Now the good news about that, the Inspector General collects all of those reports. And I get a weekly report from the IG. Good news about that is, while the number of reported calls is going up, the number of people who have fallen prey to this scam is down significantly as a percentage of those calls. But the IG has a record of over 400,000 reported scam phone calls. And that's obviously not all of them, unless a lot of people don't call.

So it is part of our effort, whether it's YouTube videos or information or tax tips to remind taxpayers of the way that people will try to take advantage of them. We put out-- Last year, and the last couple years, we put out the "dirty dozen" we called it of the tax scams. This year, to try to get more visibility about that, Terry Lemons[?] and our group put them out one a week, so that we would get people focusing on not only the people who call you impersonating the IRS, phishing expeditions, where you get an email. And it looks like an IRS website. If you go up to the details, you'll see it's not from the IRS. But people, again, reaching out to try to get information from you that will allow them to steal your identity.

There are unscrupulous tax preparers. We've said, if anybody ever doing your taxes says, "Just sign the blank form and I'll take care of it for you," you should go find another tax preparer quickly. But it's an ongoing issue. This year, our filters, thanks to our expenditure of some of our constrained resources on improved ID theft are catching more refunds at the door. More people are now getting letters from us questioning their 1040 filing, who didn't file yet. And I've told them, "The good news about that, it means we've stopped the refund at the door, not paid the refund, and haven't contaminated your account with that false information."

So we'll continue. It's a high, major issue for us. We get millions of attacks on our system every year. And thus far, knock on wood, we've been able to defend against those. It is one of my concerns about funding constraints, is that we could become even more secure with more funding in those areas. But it is a high priority. And we'll do and

continue to do whatever we have to do to secure taxpayer information from any threats of breach or theft.

JOHN HUGHES: What has been the impact so far on the Affordable Care Act? Americans now either have to have insurance or pay a tax penalty. So has the administration of that tax penalty proven to be a burden so far?

JOHN KOSKINEN: Well going back to my earlier comment, the filing season has gone swimmingly. As I've told people, you could have made a lot of money betting last January or 15 months ago on that result. The ability to implement all of the new statutory requirements and changes and have the season run smoothly has surprised almost everybody. We are delighted with it.

Part of the reason is, I think that about last year, about 91 percent of people used software to fill in their returns. And 85 percent of people filed electronically. And we worked very hard for the last couple years with software producers and tax preparers to make sure that those systems worked appropriately. So, for the average taxpayer, the Affordable Care Act is just another item in their questions that they get asked by the software.

Thus far, this year, about 77 percent is pretty much what we predicted of people have just checked the box that said they had insurance. So, for the vast majority of people filing, the Affordable Care Act has been no problem whatsoever. Thus far as well, the people seeking exemptions, the people making a shared responsibility payment do not appear to have a problem with that. We monitor the questions that come in on our call centers. We monitor the questions in our walk-in sites to make sure that we catch any questions that were not covered adequately in our website, generally or the ACA portion of it. And we've not seen any indication that the information out there doesn't answer the bulk of the questions. We still get calls with people asking questions, but there's no gaps that we have found.

But the test of it is, thus far, as I say, the system has worked flawlessly. It's gone smoothly. And everyone seems to be comfortable, preparers and taxpayers, in preparing their returns. Again, low income taxpayers can go to any one of our 12,000 Vita sites, staffed by over 80,000 trained volunteers. Last year, they prepared three million returns. A lot of people use free file on our website. And about three million returns were prepared that way as well.

So there's a lot of assistance available to taxpayers, no matter what the complexity of their particular situation is.

JOHN HUGHES: We are almost out of time. But before I close, I'd like to remind everyone about upcoming speakers. Ayaan Hirsi Ali, a bestselling author, an outspoken critic of radical Islam, will address a luncheon next Tuesday. Ban Ki-Moon, Secretary-General of the United Nations, will speak on April 16th. And Navy Secretary Ray Mabus will address the Club on April 30th.

We might have time for a couple more questions. But the IRS is considering including Section 527 organizations in its upcoming guidance on 501c exempts. What form would this guidance take?

JOHN KOSKINEN: As I noted throughout the last year, one of our goals is to in fact treat everybody fairly across the spectrum of C organizations. There are 501c3s, which are your normal charitable organizations, colleges, universities, schools. 501c4 is our social welfare organizations, which have been the focus of a lot-- most of the discussion. Then you have C5s and 6s and 7s, who are business organizations, labor organizations. Congress established so-called 527 organizations to be organizations that basically can spend all of their money on politics.

And so one of the things that we have been doing is looking at how all of those provisions of the 501c section of the Code, plus the 527 organizations fit together in terms of creating a pattern created by Congress to rationalize your choice as to where you want to be. So the point has been, we're not going to regulate 527s any more than they already are regulated. The reference to it has been that you need to understand that that's a possible place an organization could decide to go, or end up, if it spent more than half of its money on politics, end up being regulated.

So the goal here is just to include the 527s in our review of all of the other exempt organizations, not to provide a new set of regulations or constraints on the 527s themselves.

JOHN HUGHES: And your final question. Will Duke win its game this coming weekend?

JOHN KOSKINEN: Well, with luck, we'll have two games this coming weekend. It's a wonderful time. I grew up in Kentucky. So I've always had mixed emotions about how to deal with Kentucky and its success. Obviously, they're the favorite, although Las Vegas, from the start, has always said, you could take Kentucky against the field as a 50-50 bet. So that some people have said, "But they're so good. How could it only be 50-50?" Well nobody else has ever been about 30 against the field, 30 percent chance.

And it continues. Apparently, I'm told, that they're going to have an interesting set of games. Wisconsin is a great team. The first game, Duke and Michigan State have had a series of games. At this stage, they're all great, and they're all playing well. And so anybody predicting probably is, to some extent, throwing darts against the wall. And I think, but if you stepped back, you'd have to say that Kentucky still seems to be the favorite as they go forward.

But there are those of us who think the other boys in blue, known as Duke, will do well. So we'll see. As I tell my son, it's why they play the games rather than letting you just mail in the results. [laughter]

Thanks so much for your time.

[applause]

JOHN HUGHES: Thank you Mr. Koskinen. And before you step away, I wanted to present you with the honorary National Press Club mug. And I believe this falls under the limit for needing to disclose it on tax forms. So you're good in that regard.

JOHN KOSKINEN: Right. You can either get a gift that you can eat or share with people you're going to eat, or under \$25 dollars. So I can't eat this, but I'm assuming it's less than \$25 dollars. [laughter]

JOHN HUGHES: Thank you so much for coming.

[applause]

JOHN HUGHES: I would also like to thank the National Press Club Staff, including its Journalism Institute and Broadcast Center for organizing today's event. And if you would like a copy of today's program or to learn more about the National Press Club, go to our website, press.org. Thank you. We are adjourned. (gavel)

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