

NATIONAL PRESS CLUB LUNCHEON WITH IRS COMMISSIONER JOHN KOSKINEN

SUBJECT: THE FUTURE OF THE INTERNAL REVENUE SERVICE

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**THOMAS BURR:** (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Thomas Burr. I'm the Washington correspondent for the *Salt Lake Tribune*, and the 109<sup>th</sup> President of the National Press Club. Our guest today is John Koskinen, the Commissioner of the Internal Revenue Service, who's here to talk about the future of the agency, as well as the challenges of improving customer service and dealing with the risks of hacking and identity theft. I'd like to welcome our C-SPAN and Public Radio audiences. And I want to remind you, you can follow the action live on Twitter by using the hashtag NPCLive. Once again, that's NPCLive.

Now it's time to introduce our head table guests. I'd ask each of you to stand briefly while your name is mentioned. Please hold your applause until I introduce the entire table. From your right, Christine Warnke, TV host in Maryland Public Television; Michael Phelps, the former publisher of the *Washington Examiner*; Terry Milholland, IRS chief technology officer and chief information officer; Marilyn Geewax, a senior business news editor at NPR, and a member of our Board of Governors; Bill Cressman, IRS technical communications branch chief; Kasia Klimasinska, a Bloomberg reporter and the chair of our Speakers Committee.

Skipping over our speaker for a moment, Kevin Wensing, a retired Navy captain, member of the *U.S.S. Constitution* Museum's Board of Overseers, and the Press Club member who organized today's lunch; Pat Koskinen, our speaker's better half; Kevin McCormally, chief content officer and Kiplinger Washington editor; and Ralph E. Winnie, Jr., vice president and director of the China Program at the Eurasia Center. Thank you. (Applause)

Welcome to tax season. Americans now have three weeks, ten hours and 58 minutes to get their federal returns filed, but who's counting? For our speaker, every day is tax day. John Koskinen is the commissioner of the Internal Revenue Service, where he oversees the collection of more than \$3 trillion each year in individual, corporate, employment, gift and estate taxes. It seems that every tax season generates a headline or two, just a two. This year, they include the IRS's concerns about scammers who telephone or email taxpayers and ask for identifying information, something Koskinen says the IRS would never do.

And a presidential nominee, contender, has claimed the IRS has audited his returns for at least 12 years because he is "a Christian." Last fall, a resolution calling for Koskinen's impeachment was introduced in the House. It accused him of obstructing the congressional investigation into allegations that the IRS targeted conservative groups before the 2010 and 2012 elections. The judiciary committee has taken no action on the resolution and the Treasury Secretary has vigorously defended Koskinen.

Our guest is the 48<sup>th</sup> IRS commissioner. His career has included positions as the President of the U.S. Soccer Foundation, Deputy Mayor and Administrator of the District of Columbia, acting CEO of Freddie Mac, and chairman of the President's Y2K Council. He was also in the private sector for two decades. No amount of IRS trouble is going to put John Koskinen in a bad mood this week. He is a super fan of the Duke basketball team in the NCAA Final Four this weekend. Ladies and gentlemen, please extend a warm National Press Club welcome to John Koskinen. (Applause)

**COMMISSIONER KOSKINEN:** Thanks very much for that warm welcome. After the description of what's going on at the IRS and my job, I'd be thinking, "This is a good time to leave." But I am committed to being here until the end of my term, which expires November of next year.

It's always fun to come, I really do appreciate being invited back to speak here in the middle of tax season. You've already heard our public service announcement, that the end is near. So, we hope all of you have filed. I'm also always intrigued with the desserts. I actually exchanged my cookie because I had the pig and I just didn't think that was appropriate. Much more appropriate was I have the dollar.

But I also appreciate being here during March Madness, because if I weren't speaking here today, I'd be spending a lot of money trying to figure out how to get to Anaheim for a particular game tonight that shall remain otherwise nameless. But as a way of showing my gratitude, I really will try to keep down to a minimum the reminders that your taxes are due pretty soon. Even my wife, Pat, is tired of hearing about how close we are to April 18<sup>th</sup>. But she's a good trooper and is here with us on the podium again this year, and getting through my fun-filled 27 months as the IRS commissioner wouldn't have been possible without her strong support, which I greatly appreciate. (Applause) And I never dispute the notion that she is, indeed, the better half of this partnership.

All right, that must be my daughter, Cheryl. (Laughter) That said, I'm delighted to be speaking once again to a room that includes a number of journalists. In fact, there are enough reporters here that I began to wonder a little whether there was a presidential candidate lurking somewhere in the building here.

Reporters ask me a lot of questions all the time, and believe it or not, I enjoy answering them because it gives me an opportunity to explain to the press and the public what we're trying to accomplish at the IRS, and especially what we're doing to improve the tax system and taxpayer service. One of my favorite questions so far is one I got last month during an interview when the reporter asked me, "What does the public not understand or appreciate about the IRS that you learned while you've been here?" And it was a great question, and at the time I had to give a quick answer. And so I talked about our dedicated employees and all the work they do to help people to file their returns and to be on time with it.

But that question caused me to wonder what I would say on that subject if I had a captive audience for an hour. Now, I'll pause for just a minute in case anybody would like to take the opportunity to leave before I continue. But now that I've been IRS commissioner for a little more than two years, I've come to recognize that there are a number of things taxpayers don't know or focus on about the agency. I know the IRS is not anyone's favorite government institution, and will probably never win a popularity contest, especially during an election year.

In fact, in a recent poll that came out I think earlier this week, actually, I'd even share that 12 percent of taxpayers like Vladimir Putin better than the IRS. But, don't look for a shot of me on CNN without a shirt riding a horse. (Laughter) Obviously, we're the nation's tax collector, but that's not the whole picture. I believe the public needs to have a clearer idea of how important the IRS is to the nation and to taxpayers. People also need to know the challenges we face in moving our agency into the future. In other words, I wish everyone could see first hand the IRS that I see and have come to know and appreciate over this time of my tenure.

First, let me begin with where I was during the interview, focusing on our workforce. In all of my years leading organizations in the public and private sectors, I can honestly say that no group of people I've worked with has been more dedicated to their mission than the employees of the Internal Revenue Service. I've also been amazed by the number of people who have spent entire careers serving the public as IRS employees. Let me give you one example.

When I went to visit our Detroit office a while back, I met Angelo Francesca, a revenue agent who was retiring after 60 years with the agency, 60 years of service. I asked Angelo if the IRS had violated child labor laws when we hired him, and he assured me he was older than 10 years old when he started. But then I asked him why he didn't retire when he was eligible 20 years earlier, and said that he liked his job at the IRS so

much that he wanted to keep working because he really believed in public service. And that to me was a great indication of dedication.

But we see this across the IRS. When people come to work at the agency, they want to stay because they love their work and the opportunity to provide service to the nation. Another employee I want to mention is sitting here at our head table, you already heard him introduced, Bill Cressman, who's been with the IRS for 40 years. Bill is a good example of people we often see at the IRS who come into the agency and then develop careers eventually doing something very different than they did when they first started out.

Bill began by "carrying the bag," which at the IRS is shorthand for working in the field as a revenue officer. These are the people who actually collect past due taxes. Bill's career path eventually lead him into our communications area where he is a whiz now at putting technical tax information into plain English for taxpayers. He's scheduled to retire in June and I'm delighted to have the opportunity to thank him here and to honor him for his service to the IRS and to the nation. (Applause)

Angelo and Bill are two terrific public servants, and both are very typical of our workforce. Without such dedicated employees, the IRS could not do its most important job every year, and that's delivering a smooth filing season. For most people, their only interaction with the IRS and possibly with the U.S. government each year is to file their tax returns, and in most cases receive a refund. To the average person, the IRS may, in fact, seem almost like a vending machine. You put your return in, push a button and out pops a refund.

What I've been trying to remind Congress and the public for the last two years, it's a lot more complicated than that. Processing 150 million individual tax returns and issuing refunds isn't automatic, and it doesn't happen by accident. It happens because of the commitment, expertise and can-do attitude of the IRS workforce.

To illustrate my point, I'm going to check up on the people in the room here, anonymously of course, but consider this your chance to engage in audience participation. By a show of hands, how many of you have already filed your tax return? Oh, very impressive. Well, you're in good company. We've already received more than 80 million individual tax returns so far on the way to that 150 million total.

Now, of those of you who filed a return, how many are claiming a refund? Also pretty typical there. How many of you have gotten your refund already? Oh, very good. Okay, I won't ask you whether you spent it all. So far this year, we've already issued more than 65 million refunds out of the 80 million returns we processed for a total of almost \$190 billion. Last question. If you received a refund, did it come in less than 21 days, or three weeks? If so, you're like most people because even with the increased efforts we put forth to stop identity theft and refund fraud in the battle against criminals from around the world, the IRS still issues 90 percent of its refunds in 21 days or less.

Now, as you pause for a moment to think about it, those are amazing numbers. And if we're doing our job right, the average person won't really notice how much work it takes to make things go smoothly like issuing millions of refunds. In fact, another thing that has impressed me since I arrived at the IRS is the amount of time and effort and resources we devote to assisting taxpayers. Almost 40 percent of our budget goes to helping taxpayers comply with the law by providing critical services and investing in taxpayer-friendly technology.

For example, this year we've already had 248 million hits on our website, IRS.gov. And we've answered more than eight million calls from taxpayers this filing season seeking help or answers to their questions. Something else that I think gets overlooked along the lines of taxpayer service is the amount of effort we put in to protecting taxpayer data and the security of our IT system. Safeguarding taxpayers in the tax system from the growing problem of identify theft is one our top priorities. So much so that about a year ago, we convened a security summit to bring together the private sector tax industry, the States and the IRS so we could form a real partnership, joining forces against the threat of identity theft and refund fraud.

All of us understood, whether in the private sector, the state tax commissioners or the IRS, that each of us couldn't continue to try to deal with the problem on our own if we were going to be successful. Since then, this unprecedented partnership has focused our joint efforts on making sure the tax filing experience would be safer and more secure for taxpayers during this filing season and beyond.

Over the course of the year, we've put in place a number of new protections including certifications when you actually log in to file your returns, which is a huge step for taxpayers and for tax administration. It's giving us a better defense against criminals trying to use stolen taxpayer information to file tax returns and claim a fraudulent refund.

Because of these new procedures, those of you who've already filed with tax software may have noticed there were new sign-in requirements to access your account. Many other new safeguards we put in place are invisible to taxpayers, but they're all invaluable to us because they will help us do a better job of protecting everyone during this tax filing season.

But while the security summit group has made progress, we also came to realize that we were missing an important partner in this effort, the taxpaying public. So last November, with the strong support of all the members of the security summit, we launched the Taxes Security Together initiative to raise awareness about things people can do to protect themselves and avoid becoming victims of identity theft.

Many of the steps we talked about in this regard are basic, really common sense. But I think we all know someone who may be technologically challenged in one way or another. And given that 150 million households file tax returns every year, the chances are good that someone right now is clicking on a link they shouldn't, is skipping a computer security update leaving them vulnerable to hackers. That's why having the

public's help on this effort will greatly strengthen and improve the new tools we're putting in place to stop the crime of identity theft.

Another answer to the question of what people may not think about or appreciate is the IRS's role in providing revenue for the nation. As I said a moment ago, people think of the IRS simply as the tax collector. But what does that really mean? The IRS brings in about 92 percent of all federal revenue that funds the operations of the government. We collect almost 50 to 60 billion dollars a year through our enforcement activities, but another \$3.3 trillion, that's right trillion, comes in from people who voluntarily file returns and pay what they owe year in and year out.

One of the most interesting things I learned about this organization is how efficient we are in collecting those revenues. And I'll show you what I mean. All right, everyone, did you find the envelopes on your chair or plate that look like this? I'm assuming you all followed the instructions that say, "Please do not open until commissioner explains." So the commissioner is now about to explain.

If you don't have one of these, ask your neighbor what he did with yours. (Laughter) Now, if this were in a television situation and you were the studio audience, either for the Ellen DeGeneres Show or Oprah when she was on, you could have hoped, or even expected or supposed, that the envelope might hold something interesting like a key to a new car. Well, you got to remember this is the IRS we're talking about, so nobody should get their hopes up.

But, if you've opened your envelope, everybody open their envelope, what did you see? Well, 35 cents. That's not even enough to mail a letter these days. My 35 cents shine, actually. And by the way, before anybody calls for an investigation into the use of taxpayer funds for this 35 cents, let me assure you the coins come from our media staff, and I want to thank all of them, and their children, for emptying their cookie jars and looking behind all the sofa cushions at home to allow us to collect the 35 cents for everybody.

Now you've got your 35 cents in your hand, let me show what the IRS does with that money. Suppose I said give me that 35 cents and I'll give you back this hundred dollar bill. How many of you would take the deal? Everybody, right? What could be a better deal? Well, that's the deal you get with the IRS. It may sound like a magic trick, but it's simply the result of good, efficient tax administration. If you add up all the work we do for the tax system, issuing forms, helping taxpayers, send out notices, conducting audits and everything else, it now costs us about 35 cents to collect \$100 in federal revenue. I think it's a pretty good deal for the American public.

It's even a better deal when you put it into context. Another fact that often gets overlooked is that the U.S. is much more efficient as a tax collection agency than the agencies in virtually every other country in the world. According to statistics compiled by the Organization for Economic Cooperation and Development, the average OECD member company spends almost twice as much as the United States to collect a dollar of

revenue. This includes countries like Germany, France, the United Kingdom, Canada and Australia.

So it costs the IRS about 35 cents to collect \$100. Now, if Congress were to give us the \$1 billion increase requested in the President's budget for fiscal year 2017, that means we'd be able to do even more. If Congress were able to fund the President's budget we estimate that the additional enforcement actions we take and have planned would yield \$64 billion over the ten year budget window that is commonly used. That would average out to about \$6 billion a year. Now, keep in mind I'm not talking about new taxes, this is money that's already owed and not collected due to our staffing shortages.

So, \$6 billion. It's hard to picture that amount of money, but let's try. My crack research staff, in their spare time, tell me that a stack of 100 \$100 bills, \$10,000, is a little less than half an inch high. You'll note that we don't have a real life example of what that half inch looks like. But if you multiply that \$10,000 stack out, a stack of \$6 billion of \$100 bills would be higher than the length of 60 football fields. Those stacks of hundred dollar bills don't go just to the major programs we hear about all the time, like social security or national defense. They fund many other activities and programs that many of us take for granted but would not want to lose. Things like maintaining our beautiful national parks, insuring the safety of the food we eat, guarantees on loans to small businesses and homeowners, benefits for our military veterans and upkeep of the nation's highways and bridges.

All of this is captured in a quote from the great Supreme Court Justice, Oliver Wendell Holmes, which is inscribed over the entrance to the IRS headquarters building here in D.C. Justice Holmes said, "Taxes are what we pay for a civilized society."

Which brings me to why I'm so concerned about the funding cuts the IRS has had to absorb since 2010. Our budget for this fiscal year is about \$900 million below what it was six years ago in 2010. Since 70 percent of our budget is personnel, we've absorbed these cuts primarily by not replacing employees who leave for other jobs, or who retire like Angelo and Bill. As a result, we expect the IRS workforce to shrink by another two to three thousand employees this year, which will bring us to a total of 17,000 full time employees lost through attrition since the year 2010.

Those losses have been felt all across the IRS. For example, our compliance programs have suffered as a result of under-funding. The portion of our fulltime workforce that has been lost since 2010 includes over 5,000 enforcement personnel. These are people who audit returns and perform collection activities, as well as the special agents in our criminal investigation division who investigate stolen identity, refund fraud, and other major tax crimes.

As you might imagine, these staffing losses have translated into a steady decline in the number of individual audits over the past six years. Last year, in fact, we completed the fewest audits in a decade. Plus, our audit coverage rate in 2015 was the

lowest it's been since 2004. And that trend line of future audits, because of the funding constraints, will continue this year.

Not surprisingly, audit revenue has continued to decline as well. Historic collection results suggest that in cutting the IRS budget, the government is foregoing more than \$5 billion a year in additional enforcement revenue just to achieve those budget savings of a few hundred million dollars, is costing us \$5 billion a year. In weakening our compliance programs, these cuts also create risk for our system of voluntary compliance.

There's also a deeper issue here, and it goes to the heart of our tax system. I believe that taxpayer service and enforcement must be seen as two sides of a compliance coin. I mentioned a minute ago that over \$3 trillion comes in every year as a result of people meeting their tax obligations under the law without being asked further. Even at the IRS, we don't delude ourselves into thinking that people enjoy paying taxes. In fact, a recent poll, the one I just mentioned, showed that 27 percent of people would be willing to get an IRS tattoo to avoid paying taxes. (Laughter)

As an additional public service announcement, I would like to advise you that my tattoo has been totally ineffective on that score. So no matter what your tattoo says, you still owe us the money. But tattooed or not, people keep paying their taxes because they believe in the essential fairness of the system. If people begin to think that many other people are not paying their taxes and their fair share, or that if they cheat they're not going to get caught, or they're just frustrated because they can't get the help they need from us to file our taxes, our tax system will be put at risk. And when that happens, you're talking about losing real money.

Consider that a one percent drop in the compliance rate translates into a revenue loss of over \$30 billion a year, or \$300 billion over the usual ten year measuring period. When we do get funding, I want to emphasize the IRS will continue to put it to good use. As evidence, Congress back in December approved a \$290 million additional boost to IRS funding for fiscal year 2016, this fiscal year. The funds were designated for improving taxpayer service, protecting against identity theft and strengthening cyber security, all top priorities for the IRS as well as for the Congress.

This was the first time in six years that the IRS has received significant additional funding and it's a step in the right direction. To illustrate how helpful the additional funding has been, we used a portion of it to hire a little over one thousand extra temporary employees to help improve our service on the phones. As a result, we're already seeing service improvements this filing season. So far, the level of service on our toll-free line is over 70 percent. And the average for the entire filing season will probably be at or above 65 percent, a vast improvement over the somewhat miserable level of service last year.

Once the seasonal employees are gone, however, we can expect the number to drop significantly simply because we don't have funding to keep them on longer. And

our average for the year will probably be in the 47 to 50 percent range, which is still a significant improvement over last year.

But we want everybody to understand that this isn't where we think we ought to be or where the taxpayers would like us to be. If we receive again the President's fiscal 2017 year budget request, our phone level of service next year for the entire year would be 75 percent, as I say, for the entire year.

I should mention another critical challenge for our agency that has been made worse by our budget situation. Last year when I spoke to the Press Club, I said a large portion of our workforce would be eligible for retirement soon and the number of younger employees was dwindling to the point where the IRS was facing its own version of a baby bust. So I'm here today to provide an update and I will tell you the age demographics of the IRS look no better than they did a year ago, and some actually look worse.

We expect more than 40 percent of the IRS workforce will be able to retire in 2019. Looking at the other end of the age spectrum, I said last year the IRS had only 650 employees under age 25. Since then, that number has dropped to about 200, and that's out of a workforce of 85,000. Things have gotten so bad that we worry our under 25 group may end up on the endangered species list. But, and especially for those, on behalf of those for whom age 25 is a bit of a foggy memory, let me say that I know how important it is for any organization to have older workers with their experience and institutional knowledge. So the fact that our agency skews a little older is not the problem. What I worry about is if we don't have enough young workers in the pipeline, the IRS will have great difficulty developing the next group of leaders it needs five or ten years down the road.

Ultimately, continued under funding of the IRS threatens to erode its effectiveness. My concern is that we're getting dangerously close to that point. And at a minimum, I don't want anyone to say after my term is over that they didn't understand the seriousness of the situation. They can continue to ignore it, if they so choose, but at least they won't be able to say that they weren't warned.

But I don't want to give anyone the impression we're trying to go back in time. It's important for people to understand that our goal isn't to get enough funding to perform the way we did in 2010 with the same number of employees. We're not going to build the IRS back to that stage, although it's clear we do need more staff. What we need to be doing and what we are doing is looking forward to a new, improved way of doing business.

If you attended last year's luncheon, or tuned into C-SPAN, you heard me talk about our intention to move the IRS forward into the future and to improve the taxpayer experience. This is driven, in part, by business needs. Consider that it costs 40 to 60 dollars to provide assistance to a taxpayer in person, and less than \$1 to provide that assistance online. So we have to take a fresh look at how we provide the best possible

taxpayer experience in response to taxpayer expectations and demands while not losing sight of providing one on one help for people who need it or desire it.

What we're talking about is a new, but natural, outgrowth of modernization made to our business systems over many years. Modernizations that I might add are mostly invisible to the average taxpayer, but have revolutionized their interactions with the Internal Revenue Service. A great example of this is the customer accounting data engine, or CADE2 as it's known, the first phase of which was put in place a few years ago. CADE2 now allows us to process taxpayer account information daily instead of on a weekly basis so we're generating faster refunds, notices and account updates for better customer service.

We converted the old master file data stored on our tape drives with 250 million individual taxpayer accounts and more than 1.2 billion individual tax modules, to a modernized and secure, so-called rational database for taxpayer accounts and data models. This is transforming tax administration and paving the way for new digital self services for taxpayers.

But don't take my word for how important CADE2 is. The GAO was so impressed with its development that it removed our business systems modernization program from its high risk list a couple of years ago, citing CADE2 as the reason. We'd been on that high risk list since 1995 and many insiders at the agency thought we'd never be removed from it and get off.

Another major advance was modernized e-file. With this system, we can process tax returns electronically in near real time, so we can accept a return, send out an acknowledgement much faster than we were ever able to do in the past. And the numbers are amazing. To give you an idea, on our busiest day thus far earlier in the filing season, our systems accepted 4.4 million tax returns with nearly 450,000 accepted in one hour at the peak. That's 125 returns accepted every second.

Changes like this don't come about without the expertise and know-how to make them happen. In our case, we were fortunate to have the guiding hand of our chief technology officer, whom you've already met, Terry Milholland, who is here with us today. Terry came to us in 2010 after a distinguished career in the private sector. In six years with the IRS, Terry has overseen not only CADE2 and modernized e-file, but many other critical IT projects as well.

In fact, it's fair to say we've had a renaissance in our information technology because of his leadership. Terry, I'm delighted to be able to salute you and your team here today for your infinite patience and dedication in meeting the never-ending challenge of improving our IT systems even in the face of ongoing funding costs. Thank you, Terry. (Applause)

Terry was also symbolic of an important change at the IRS. When Congress reorganized the agency in 1998, lawmakers recognized the need to bring in the best

minds from the private sector to help modernize the IRS aging technology. So Congress gave us a special tool called streamline critical pay authority. The most significant part of that authority is it lets us recruit and hire technical and talented IT experts as if we were a private sector company. Otherwise, we have to tell a great candidate, “You know, we really want to hire you, and if you'll just sit still for three to six months while we process you through the government hiring system, we can make this all work.” Needless to say, IT experts, particularly cyber experts, and those interested and expert in online services, have a lot of competing opportunities that don’t come with those limitations or challenges.

Unfortunately, this special hiring authority expired at the end of fiscal year 2013. The loss of that authority seriously harms our ability to recruit the best IT and cyber security talent out there. More immediately, 10 of the last 14 people on this authority are senior IT executives who turn into pumpkins by this time next year when their four year terms under the authority run out. In fact, Terry himself, his term will expire in a little over three months if the authority is not renewed, and one of our key cyber security directors just accepted another position outside of the government rather than wait to see what happens.

This has real world implications for the IRS and the government because the IRS has one of the largest and most sensitive databases in the world. If Congress wants to help taxpayers, one of the best things it could do is renew this special hiring authority.

Our next step on the journey into the future is to improve our operations to the point where taxpayers can do business with the IRS online in a manner, as I've said, that's fast, secure and convenient. However, as we improve the online experience, we understand the responsibility we have to serve the needs of all taxpayers, whatever their age, income or station in life. We recognize there will always be taxpayers who do not have access to the digital economy or simply prefer not to conduct their transactions with the IRS online. We remain committed and dedicated to providing the services all taxpayers need in whatever channel or form of communication they desire.

For example, while we will continue to offer more web based services, taxpayers will always be able to call our toll free help lines or obtain in-person assistance if that’s what they prefer. In fact, improving the online experience for those who want to deal with us that way will free up resources to make it easier for those who want to call us or visit us in person to obtain help.

In building towards this improved online experience for taxpayers, one of our biggest challenges will be making sure taxpayers online accounts are properly protected. Our concern is that cyber criminals are becoming increasingly sophisticated and global in their activities. They continually find new methods of stealing personal information and gain access to even more sensitive data than in the past on a regular basis.

For that reason, we will need to insure our authentication protocols become more sophisticated. For authentication, we're moving beyond asking for information that used

to be only known to individuals, but now in many cases is readily available to criminal organizations that have stolen it from other sources. And I would note that those sources are outside of the Internal Revenue Service. But there's a delicate balance here, we need to provide the strongest possible authorization processes that protect taxpayer data without making it almost impossible for legitimate taxpayers to safely access their own data and the new IRS services online.

So as you can see, there are interesting challenges but it's an exciting journey we're on, especially if you're someone in the tax business. We believe the end result will be a more practical, effective, and efficient approach to tax administration and the IRS will be able to do an even better job of helping people meet their obligations quickly and easily.

So that's our story. I know I speak for the entire IRS workforce when I say I look forward to continuing to improve our agency and the administration of the tax system.

Finally, I'll leave you with one last public service announcement. If you haven't done your taxes yet, remember April 18<sup>th</sup> will be here before you know it. So I began by saying I enjoy answering questions, so I'm happy to answer as many as I can in the time remaining. Thank you. (Applause)

And I would like to announce the chances of Terry Lemmons getting back the \$100 bill are fairly slim.

**MR. BURR:** Thank you, Commissioner. I would like to thank you for the 35 cents as well. It's also a great opportunity to mention the National Press Club Journalism Institute is a 501(c)(3) tax deductible organization.

**COMMISSIONER KOSKINEN:** And if you make the contribution because it's under \$250, you do not need an acknowledgement.

**MR. BURR:** I also want to apologize for butchering your name as I was introducing you. I look forward to this year's audit. (Laughter)

**COMMISSIONER KOSKINEN:** I always tell people, it took me four years to learn so you got more time.

**MR. BURR:** My first question, and you mentioned this, you referenced it, with the numerous budget cuts, staff reductions and fewer audits, won't the compliance rates naturally fall, costing the federal government revenue and ultimately making it more expensive to collect taxes?

**COMMISSIONER KOSKINEN:** It is our ultimate concern. Our experience is, and we do a lot of research on this and review of audits, is that while we are a tax compliant society, as I say it's primarily because people think the system is fair. But it's also because they know we have a lot of information. Our studies show we have

withholding, we have the money already, and we have third party information. Our compliance rate is about 98 percent. If we don't have the withholding, so we have to actually ask for the money, but we have third party information, the compliance rate is about 92 percent.

If we don't have the money and we don't have the information, the compliance rate is in the range of 50 percent. So it does remind you that it is important and why I say that taxpayer service and enforcement are two sides of a compliance coin, is that we need to insure the system is fair, but we also need to insure the people understand that if you're trying to become compliant, we really want to work with you. If you're trying to cut corners or cheat, we really be coming after you.

And so to the extent that people begin to feel either that everybody's not paying their fair share because people at the country club or the water cooler are saying, "Hey, I did this, and nobody showed up," or because they think that maybe they won't get caught, either, when the compliance rate starts to drop, as I say, a one percent drop, it's now about 81 percent when you add everything together, a one percent drop costs you \$30 billion a year. But we'll never notice at one percent. It will be a little while before people suddenly say it doesn't appear that the revenues are tracking the way they used to. And when the drop is two or three percent, you're talking about \$90 billion a year. And more importantly, once the psychology changes and people begin to think that the system's not fair, why should I be the only paying my full share when nobody else is, you then begin to look a lot more like Greece, Italy and other places where compliance rates plummet and the revenues drop.

So I think it is not an idle concern that we all ought to have, and that is the integrity of the system has to be maintained because as noted in my talk, we fund basically the entire government. And if the revenues drop, either the deficit's going to continue to go up, or we're going to have more service cuts across the board.

**MR. BURR:** Thank you, sir. While the FBI found no criminal intent with the political targeting investigation, they did find many people did things wrong. Did you find anything wrong and was anyone disciplined?

**COMMISSIONER KOSKINEN:** In reverse order, the chain of command around the C4 issue is all gone, and they were gone very promptly. So you can start-- the permanent commissioner had already left, the acting commissioner left, and the people down to the senior executive level, the five levels, all left. So, I think there has been accountability. People did leave. I said from the start that it's clear, and that's what all the reviews found, that there was a significant management failure. Applicants should not have to wait months or years to get a response from the Internal Revenue Service. And when there is that kind of backlog and that kind of problem, the problem should be identified early and it should be known, the larger the problem the farther up the chain of command it should go.

So, one of the things I've tried to do and with the strong support of the senior executives at the IRS, is as we created an enterprise risk management organization, get every employee to understand that they really should view themselves as a risk manager and that they should understand if they see a problem, if somebody makes a mistake, as I've said if it's a problem, it's my problem. If somebody's made a mistake, it's my mistake. The critical thing is to make sure we know about it because the only problem we can't fix is one we don't know about.

So as I said in my confirmation hearing 2 ½ years ago, it would be terrific to say we'll never have a problem, nobody will ever make a mistake. But, you've heard about the 150 million taxpayers we deal with, we still have 85,000 employees and we have the world's most complicated tax code. So it's illusory to think we're never going to have a problem. The better standard of performance is if we have a problem, or someone makes a mistake, we'll find it quickly, we'll fix it quickly and we'll be transparent about it, and that's not what happened in the C4 situation. We've accepted all of the IG's recommendations, we've accepted all of the recommendations in the bipartisan report from the Senate Finance Committee designed to insure that that problem doesn't happen again.

But a key factor going forward is for people to feel comfortable that bad news is good news and that if they report a problem, report a mistake, our answer won't be who gets fired, our answer will be let's fix it and try to make sure it doesn't happen again.

**MR. BURR:** You mentioned the complicated tax codes. Do you think that tax reform could actually pass Congress? And what about the idea of a flat tax to make it easier for Americans to pay taxes?

**COMMISSIONER KOSKINEN:** I always preface my answer about the tax code by saying tax policy is the domain of the Congress and the White House and the Treasury. We do tax administration. But as I tell people, the minute that I tell you that, you know I'm about to start talking about tax policy. I just want to remind you, it's not our domain. I have said from the start from my experience as just an individual taxpayer and also in the 20 years I spent in the private sector on corporate boards and running large companies, if we could simplify the tax code, it would be in everybody's interest; for taxpayers and the Internal Revenue Service. I don't think anybody gains from the complexity of the tax code.

So while again the decisions of how you do it are the domain of other people, I have tried to make it clear, in all of my meetings on the Hill, that we'll do anything we can to provide the technological assistance to analyze if you were going to move the code one way or the other, simplify it one way or the other, what would the administrative impact be on the agency. But most important, what would be the impact on taxpayers?

And so I'm a strong believer in tax reform and tax simplification. I think there is, interestingly enough, a growing coalition of people in the Congress and really around the country, in favor of tax reform. Some people are looking at it primarily from the

standpoint of international tax policy for corporations, other people understand that you can't deal with just corporations without dealing with so-called pass-through entities. A lot of companies and businesses are run as partnerships or what are called sub-chapter S corporations where they don't pay a corporate tax. So if you only fix the corporate system, you're leaving everybody else in the same boat as individual taxpayers.

But I'm intrigued and to some extent optimistic about the fact that there is a growing consensus that something has to be done. With regard to flat taxes, that tax, doing away with various deductions one way or the other, as I say, those are policy issues that the Congress and the administration now and the next administration need to deal with. We are prepared to be supportive from the tax administration standpoint in any direction people want to go.

**MR. BURR:** Thank you, Commissioner. As you referenced in your speech, there are many cyber threats and scams out there today. How many millions of dollars are lost in fraudulent tax returns or refunds stolen from taxpayers each year, and what solutions is the IRS looking for?

**COMMISSIONER KOSKINEN:** Figuring out exactly how much got out the door is kind of the famous what you don't know is what you don't know. Our estimates, GAO did a review with us a couple of years ago, estimated that slightly over \$5 billion was going out with fraudulent returns. Ironically, we've been making significant progress every year since the whole problem exploded in 2010 to 2012. So the irony is we make more progress. At the same time, it's become a more visible problem partially because it's cumulative. So someone whose return is stolen this year remembers it and talks about it next year. We now have 2.7 million people we've sent identity protection pins to.

So we think that-- and we won't have the numbers for this year, we don't even have the numbers for last year yet because we have to take a look at all the returns filed, all of the issues going forward, we think the number is decreasing significantly. But even if it's in the billions, still whether it's two, three or four billion, that's a significant problem. We are equally concerned, if not more concerned, through, about the aggravation and angst created for a taxpayer who legitimately files their return and then discovered somebody has stolen their personal identification information and now has filed before them and we can't accept their return until we work through the process.

So our goal is as much to protect taxpayers as it is to protect the fiscal revenues of the government. They're both important and equally important. What we've put in place is, thanks to Terry and the systems we've been developing, we have now-- depending on whom you ask and how you count them-- well over almost 200 filters in our systems that look at every return to see what are the anomalies, what it is, what is it that we are-- should stop. We stopped over four million suspicious returns last year as we go forward. But one of the reasons I reached out to the CEOs of all the tax preparers, the tax software developers, the payroll providers and the state tax commissioners was, as I said, it had become clear that we have to get our arms around the entire system. We don't see taxpayers when they're filing. They file with software, they file with return preparers.

The return preparers have a line of sight into what computer is that coming from, how long were you on that computer, how many returns are coming from that computer? So there's a lot of important data we are now collecting from the private sector that we're sharing with states. But more importantly, or equally importantly, we are now in real time sharing information about suspicious patterns of activity. The private sector's just as concerned as we are about protecting taxpayer identity, so we're not sharing information about particular taxpayers. We are collecting information and sharing information about patterns of filing, suspicious concerns that we have, and we do that regularly now in a way that we've never done before.

So it is important for us to continue to improve our filters in our systems. It's important for us to build upon that partnership. Interestingly enough, the private sector members of that partnership went beyond requesting and demanded that we make it permanent because it has worked so well and we've agreed that we're going to do that. And as I've said, it was not a partnership where we're giving them instructions, it's a real partnership where we are jointly, with the States, trying to figure out what are the next steps.

Our biggest challenge, and one of the discussions I'm having on the Hill is our need for additional funding as we've gotten to be pretty good about responding and reacting to what the criminals are doing next. What we need to do, because they're not going away, is begin to be able to anticipate more where are they going next? So that's why last summer we began to talk with our private sector partners about, as we get better at closing down our system, one of the logical next places for them to go was to, in fact, go and hack into and attack preparers. Because if they can't get data from us, they could get-- if they could get the data from a preparer with a hundred or two hundred clients, they have all of that information.

And sure enough, we've all been working together. They've been increasing their security, but we've had incidents and examples of preparers being hacked. The great thing about the partnership is as soon as anyone discovers that, either the preparer or in one case we had a state that said, "This looks odd that we're getting strange refund requests from a single preparer," we were able to go back with the preparer and discover, to their surprise and dismay, they'd been hacked.

But it meant we could protect all the other taxpayers in that account. We could, in fact, mark all of those accounts. So we need to be in a position where we can anticipate where people are going next. The reason criminals wanted to get into our get transcript application wasn't to get more data. They already had all the data they needed about individuals; they wanted to get your copy of last year's return so when they file a fraudulent return this year, it would look more logical. It would track better because they know our filters are getting more and more sophisticated at picking out the anomalies.

The reason they were interested in trying to attack our IP pin site was because as the IP pin stopped returns, they were discovering that more and more returns were being stopped, so their next thought is, okay, how do we get at the IP pins?

So one of the things that our partners brought to our attention had nothing to do with us directly, but we've been for the last two or three months warning private sector companies that one of the most recent fishing expeditions is for an email to go to the human capital or payroll department looking like it's from the CEO saying, "I need the following data and information on the following employees, or all of the employees." And a number of companies have discovered that they've given away W2 information and other information on their employees thinking it went to the CEO, and instead it went to my pals in organized crime all around the world.

So this has never been, and it certainly is not just an IRS problem, it's not a tax problem only. It is, in fact, a problem of the digital economy with the criminals well funded, very sophisticated, and is in some ways like a video game. As you push it down here, it comes up over there. And as I say, we need to be more and more aggressive about anticipating how do we close them down at the next point of interface?

**MR. BURR:** Thank you. The IRS has had, speaking of which, the IRS has had some data breaches that have been publicly disclosed. Have all the data breaches been publicly disclosed?

**COMMISSIONER KOSKINEN:** As I have said, one of the things we want to be is as transparent as we can, particularly because if there is ever an issue, we want to make sure individual taxpayers are aware of it. I would stress, because we use the words breach in a lot of different ways, there's not been a breach of the IRS data system. Terry's done a great job of protecting it, although we knock on wood because we are attacked over a million times a day. If you got a flash of light every time somebody attacked our system, it would just be a beam of light, there would be no break in it. So it's a serious problem which we are dealing with seriously. And we've gotten, as I say, more funding from the Congress and we need more funding.

What we've had is very sophisticated criminals masquerading as taxpayers and getting more and more sophisticated about how they masquerade as a taxpayer to get access to particular applications. It doesn't get them access into our data system. And the reason they're doing it, as I say, is trying to figure out how to get around our filters. The good news about those is that we were able to discover those. We had a bot attack on what are called e-file pins where, again, the systems we've been able to put in place and the software allowed us to determine that we had that attack. And you could see it as we shut it down moving from country to country as the attacks continue to come on.

So it's an important question. Every time we've had one of those problems, in effect, we've tried to respond to them quickly and publicly. Sometimes, we get yelled at because, well, on get transcript, for instance, we saw the problem, we looked at it within last filing season, and gave the numbers out. Then it turned out if you did more analysis

of the year before, which the IG did, which we appreciated, there were another set of taxpayers affected. But our position has been we need to let people know as quickly as we can, even though we may not know the final numbers. If we wait until we know the final numbers, that's several months down the road and we think we have an obligation to taxpayers as soon as we have the information to let them know.

**MR. BURR:** Treasury Secretary Lew has said he wants to limit inversions. Do you have any advice for him on how to do so?

**COMMISSIONER KOSKINEN:** If we had any advice to him, we would have given it to him by now, obviously. Again, I think the Secretary's made it clear there's a limit to what the IRS and the Treasury Department can do under existing statutory authority. So that Treasury and the Secretary have made it clear that if we're going to deal with this problem effectively, we need legislation from the Hill. Ultimately, and it's one of the driving forces, if we're going to deal with the problem effectively, we really have to revise our tax code as it affects corporations who deal with it internationally, which increasingly includes virtually everybody who's in business these days. They're either buying or selling or doing something internationally.

So, that Treasury has done everything they can. We're still looking at another step or two we can take, but it actually-- and to go further, we actually have to have legislation.

**MR. BURR:** This will be the fun question or two. Presidential candidate Senator Ted Cruz, has said he would like to abolish the IRS. I know you probably don't want to weigh in on the presidential contest, but is that even possible? Could one abolish the IRS and what repercussions would happen from that?

**COMMISSIONER KOSKINEN:** Well, that position has evolved, I've said from the start, what that represents, and there are other people talking about what can we do, is a frustration with the complexity of the code and how difficult it is for individuals or corporations to work their way through. As I say, most people want to be compliant whether it's out of fear of being caught, or basically feeling it's a fair system and it is the price of democracy.

But the more difficult you make it, the more complicated you make it, the less seen it makes. I mean, the estimate, the last one I saw, was that we spend six billion hour with individuals filing their taxes and you thought what constructive use could those six billion hours be put to if they didn't fight their way through the tax code? It's stunning to think about as we go.

So clearly, something needs to be done. We haven't revised the tax code in a significant way, or simplified it in 30 years. So when you get to the point then of-- and there are proposals all over the place in the presidential primaries of what to do with the tax code and what to do with taxes, my sense has been that the idea of abolishing it is shorthand for we got to fix the tax code. And then people talk about it, you could have

flat taxes. The suggestion has been made, well it'd be nice if everybody could fill out their return on a post card or one page. And the answer is that certainly would be, but somebody, as I said, still got to read the numbers to make sure they're right and call people up or collect additional taxes if the numbers aren't quite right. And somebody's got to collect the \$3.3 trillion.

So as I said, in response to the question after my speech last year here, if you want to call it something other than the IRS and that makes you feel better, that's okay with me. But ultimately, I think most of the people talking about let's abolish the IRS or let's make it simpler all understand you got to have somebody somewhere who collects the information, audits it and makes sure it's accurate and valid and collects the funding.

**MR. BURR:** Another president candidate, Donald Trump, you might have heard of him.

**COMMISSIONER KOSKINEN:** I've heard of him.

**MR. BURR:** Says he would like to release his tax returns but cannot during an IRS audit. Do presidential candidates have to wait for an audit to be completed to release their tax returns?

**COMMISSIONER KOSKINEN:** Well, as I've said on other occasions, and it's important for people, we take seriously our obligation to protect taxpayer information, their private information, whether it's their name, their activity. Whatever they're doing with us is private and it's protected by statute. So I can't comment on anybody's comments, particularly about their own situation. What I have said is that even when we're dealing with someone, their tax return is their own possession and they can do what they would like with it.

And I would note along the way, presidents are audited every year. So, you know, anybody running for president or who's going to be president, can look forward to having their tax returns audited every year.

**MR. BURR:** What is the IRS doing to remind those million or so people to file returns and claims that leave about \$1 billion of refunds on the table every year?

**COMMISSIONER KOSKINEN:** It's a problem we have every year that we try to give as much visibility to and the situation arises, if you have a part time job or don't get paid a lot, you may not have an obligation to file. But many people forget that they has withholding taxes paid, that money was withheld from their-- even if they were making a very small amount. And they're eligible to file and get a refund. And there's a three-year statute of limitations, you got three years to catch up with that. And every year we publish the amount that's not been collected and we go by state to the extent we can showing where all those people are trying to get people to understand that if they have had those funds withheld, they can file even three years later.

But just as you all are going to file by April 18<sup>th</sup>, or at least an extension, April 18<sup>th</sup> will be the end of the three-year statute of limitations for those people. And we're doing the best we can to alert them, or to think back, even if you didn't file, did I work somewhere where they took taxes out of my pay?

**MR. BURR:** Thank you, sir. Before I ask the last question, I have a few announcements. A quick reminder, the National Press Club is the world's leading professional organization for journalists and we fight for a free press worldwide. For more information about the Club, please visit our website, [www.Press.org](http://www.Press.org).

I would also like to remind you about some upcoming programs. On Tuesday, the Club's International Correspondents Committee will host a panel discussion on the challenges American journalists face in covering conflicts around the world. On April 1<sup>st</sup>, CNN security analyst, Peter Bergen, will discuss his new book, *The United States of Jihad: Investigating America's Homegrown Terrorists*.

I would like to present our guest with the traditional National Press Club mug, although I would like to say this is priceless, you should probably list it on your tax return.

**COMMISSIONER KOSKINEN:** That's right. Or have somebody review it to make sure I can accept it.

**MR. BURR:** Last question. You earned your bachelor's degree at Duke, but you received your law degree at Yale. Which team were you rooting for last weekend?

**COMMISSIONER KOSKINEN:** I thought the Yale team had done a great job competing. They obviously played a spectacular game against Baylor. And I wish them well, but not too well. And I actually cheered for Duke.

**MR. BURR:** Thank you, Commissioner, for being here.

**COMMISSIONER KOSKINEN:** My pleasure, thank you all. (Applause)

**MR. BURR:** Thank you, we are adjourned. (Sounds gavel.)

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