MARK HAMRICK: [sounds gavel] Good afternoon, and welcome to the National Press Club, where news happens here in the nation's capital. I'm Mark Hamrick, Washington bureau chief and senior economic analyst with Bankrate.com. I served as the 104th president of the Club, and I'm standing in today for our 110th president, Jeffrey Ballou, who's away on assignment because he still has to make a paycheck via his employer as opposed to this volunteer gig. And probably submit his tax return as well.

I'd like to welcome our Public Radio and C-SPAN audiences today. And I'd like to remind you that you can follow the action on Twitter using the hashtag #NPCLive.

Now it's time to introduce our head table guests, and I'd ask that each of you stand briefly as your name is announced. And to the audience I'd ask that you please hold your applause until I've finished introducing the entire head table.

So from your right, my left, Charles Clark, senior correspondent, Government Executive Media Group; Mark Wojno, senior associate editor at Kiplinger's Personal Finance, and proud Buffalo Bills fan; Del Quentin Wilber, reporter, the Los Angeles Times; Mark Schoeff, senior reporter at InvestmentNews; Margaret Johnson, information technology specialist for the IRS, a guest of our speaker; Ally Versprille, federal tax reporter at Bloomberg BNA; Michael Lin, digital strategist for the IRS and another guest of our speaker.

Skipping over the podium, Lisa Matthews, vice president of Hager Sharp and the NPC Headliners co-chair who organized today's luncheon. Back at the Associated Press we were colleagues. Grateful to be working with her back here today.
Skipping over our guest for the moment, Kelly Erb, a senior editor at Forbes; Carolyn Tavenner, director of the Affordable Care Act Office for the IRS, and guest of our speaker; Lori Russo, president of Stanton Communications, who is also a Headliners Committee VIP, and thank you for helping out today, Laurie; Megan O'Neil, news editor at the Chronicle of Philanthropy; and Carolyn Bloch, publisher of the Federal Telemedicine News.

Thank you. And, all, a round of applause, please [applause]

In what has become a National Press Club tradition, ahead of the annual tax filing deadline, we are grateful that the Commissioner has accepted our invitation to talk about all things associated with that five-letter word: taxes. As you'll find out in a moment, his areas of expertise run the gamut, from soccer, to taxes, to how computers react to once-in-1000-year events. The budget blueprint, unveiled last month by the administration, called for a $239 million cut to the IRS budget. Additionally, following the demise of the American Health Care Act in the House, lawmakers are said to be poised to tackle tax reform, which, if approved, would present fresh challenges to the agency.

John Koskinen was sworn in in December 2013 as the 48th Commissioner of the IRS. The agency, which collects approximately $3.3 trillion in tax revenue, with some 77,000 employees, which is about how many people it would take to fill Kansas City's Arrowhead NFL Stadium, to put that in perspective.

He is no stranger to the inner workings of Washington, for better or for worse. And that has developed something of a reputation for him as Mr. Fix-It, in both the private sector and the government. He served as the non-executive chairman of Freddie Mac during the troubled times, beginning in 2008, as well as its acting chief executive officer. Our speaker served as president of the US Soccer Federation; deputy mayor and city administrator of Washington, DC; as assistant to the President and chair of the President's Council on the Year 2000 Conversion, otherwise known as the Y2K tsar – having nothing to do with Russia, by the way [laughter]; and deputy director for management at the Office of Management and Budget.

As a man of letters other than I, R and S, he holds several degrees worth noting – a law degree from Yale, a bachelor's degree from Duke, and also studied at Cambridge.

Finally, as the Washington Post noted just a month ago, one of the mementos in his office turns out to be a doorknob from New York's old Commodore Hotel. As a corporate restructuring attorney, he sold the hotel as part of the bankruptcy of the old Penn Central Company, a holding company best known for its railroad assets. The buyer of that hotel, back in 1976, was the then-30-year-old businessman, who's now President of the United States.

We are pleased to have our guest speaker with us here today. Please give a warm National Press Club welcome to the IRS Commission, Mr. John Koskinen. [applause]

JOHN KOSKINEN: Thanks very much for that introduction and the very warm welcome. I want to thank the National Press Club for inviting me back for a fourth time. I
have to admit, one of the reasons I keep coming back is for the unusual cookies, which are terrific this year. This year, mind was a dollar sign, sort of money, which is something we worry about. But I would like to announce, those who got something that looks like a 1040 cookie, these are for eating, not for filing. [laughter]

I generally have started these talks, as a Duke guy, with a reference to the NCAA basketball tournament. But after the first weekend, my bracket was such a wreck that it was more fun for me to watch NASCAR races. And so, I have no idea how it all turned out.

But now that March Madness is over, we're focusing on April Madness at the IRS, otherwise known as the tax filing deadline, which this year is on April 18th. So I can't resist starting with a public service reminder – For anyone who hasn't filed their taxes, you have less than two weeks to do so.

Every year, tax time rolls around like clockwork. And I admit, before I was the Commissioner, I was like most people – I didn't give it much thought. I just assumed my tax return would be processed and the IRS would send me a refund every year. And they did. But after nearly three-and-a-half years as Commissioner, I can tell you I don't take that process for granted anymore.

Working for the agency has been an eye-opener, and has led me to conclude that everyone should know what I found out: that the tax filing season doesn't happen automatically or by accident. It happens because our employees spend months beforehand preparing for it, and then making sure it goes smoothly. This was a lesson I learned right away, since I came to the IRS just at the start of the 2014 tax filing season. I started at the end of 2013, as noted.

So at that time, I told the employees that, as the new kid on the block, probably the best thing I could do to help was to stay out of the way. And it turned out to be a very successful strategy. I stayed out of the way and the tax season went just fine. So while I'm more involved now than I was then, I'm pleased to report we're about to complete our fourth successful filing season in a row during my term as Commissioner. And so far, this actually appears to be the smoothest filing season we've had during that time.

One of the things that still amazes me is the sheer size of the numbers the IRS deals with. Consider some numbers that accountants sometimes dream of:

So far this filing season, we've received more than 93 million individual 1040s, on the way to an expected 152 million. We have issued more than 74 million refunds totaling more than $213 billion. That's right, that's billion. As Mark noted, we actually collect $3.3 trillion a year. By the time we're done, we will have issued well over $300 billion in refunds. And that's more than the gross domestic product of a large number of countries.

As impressive as the numbers are, the most important one may be the average size of refunds, which is running at about $2900 this year. We all like getting refunds, but we recognize that for many households, that refund is the biggest check they'll see all year.
That's especially true for people who qualify for refundable credits, particularly the Earned Income Tax Credit, or EITC as it's known. We call the EITC a refundable credit because you receive whatever amount you qualify for, even if it's more than the tax you owed. The EITC has been called one of our most important anti-poverty programs for that reason. We provide about $67 billion every year in refunds to over 27 million beneficiaries.

The numbers paint a picture that I think is often overlooked by the public. The IRS, in dealing with those numbers, has to be a flexible, can-do agency with a remarkable group of employees.

The fact is not overlooked by the Congress. Whenever they pass a new program, the IRS is often given the job of implementing the legislation, with or without related funding. These legislative mandates, as we refer to them, include not only the EITC and the Affordable Care Act, but other recent programs like the ABLE Act, the Health Coverage Tax Credit and the Private Debt Collection Act. We certainly have areas where we can improve, but, at the end of the day, Congress knows when they give us a job, we'll get it done. And that's something we've seen throughout the years.

A wonderful example of that can-do spirit is sitting up here on the dais with us, Carolyn Tavenner, who was introduced earlier. Carolyn has been an IRS employee for more than four decades, and currently heads the IRS office that administers the tax-related provisions of the Affordable Care Act. The average taxpayer has probably never heard of people like Carolyn, but she's been involved in countless initiatives to improve tax administration over the years. For example, anyone who has ever used the Form 1040-EZ, or the "short form," to file their taxes, has Carolyn to thank.

Back in the early 1980s, she was part of a small team that was asked to find a way to make tax filing simpler for taxpayers with a straightforward, uncomplicated tax situation. Carolyn and her team developed the 1040-EZ. It's one page, fewer than 20 lines, and you can fill it out in almost no time. You always hear a lot of talk around Washington about tax simplification. Thanks to Carolyn and others at the IRS, the 1040-EZ has made life simpler for millions of people. And through the years, it's also saved people millions and millions of hours because they don't have to work through the longer 1040 form.

Sometimes we joke that Carolyn is the mother of the 1040-EZ. But she's done many other things. Her long career also illustrates the nonpartisan aspect of the work we do. Carolyn had a leading role in implementing portions of the Tax Reform Act of 1986, which was passed during a Republican administration. Nearly 25 years later, she was one of those who helped implement the tax provisions of the Affordable Care Act, under a Democratic administration. And now, once again under a Republican administration, she and others at the IRS are closely watching any changes that may be made to healthcare coverage laws.

There are thousands of employees like Carolyn across our agency, with the same work ethic and dedication to their jobs. While presidential administrations come and go, our employees are still here, serving the American taxpayer and keeping our tax system running.
For many of our employees, public service is practically in their DNA. They went into government because they saw what a good experience it was for their parents. A great example is Margaret Johnson, who is up here on the dais with us. She works in our IT division here in Washington, and has been with the IRS for 32 years. Margaret credits her mother, Willianna Smith, with being her role model and showing her the value of a career in public service.

You may have seen Willianna portrayed on the big screen recently, because Willianna was one of several female mathematicians who worked for NASA in the 1960s. Their story was told in last year's movie, *Hidden Figures*. Willianna and her colleagues provided unheralded but critical support to our space missions, including John Glenn's historic orbit around the earth in 1962. Margaret's mother is a wonderful role model for public service, and the IRS is lucky that Margaret decided to follow her mother into government work. When you step beyond the stereotypes of the IRS, these people reflect the can-do nature of the agency.

Talking about the 1040-EZ made me think about how different taxes are today compared to 20 or 30 years ago, or even longer. Back then, you knew it was time to start thinking about your taxes when you got a late "gift" in the mail from the IRS just before Christmas – a package of tax forms and instructions, along with a very nice note from the Commissioner.

So you assembled all your tax documents, filled out your return, and dropped it in the mailbox. On April 15th there were always long lines at post offices, and many of the post offices stayed open late to accommodate the procrastinators. After everyone filed, they kept checking their mailbox, waiting for their refund to arrive. There were also long lines of trucks, like a military convoy you might see in one of those grainy black-and-white newsreels from the 1950s, delivering millions of paper returns to IRS campuses around the country.

Fast forward to this year, 2017. Now there is no package of forms in the mail that reminds you to start fixing and finishing your taxes. Instead, you know it's tax season when you see those commercials from H&R Block and TurboTax around the Super Bowl. Those commercials definitely are more entertaining than a package of tax forms, and the entertaining message from the Commissioner. And they definitely got people's attention. Seeing John Hamm in one of the commercials made me think tax time has made Mad Men of many of us. [laughter] See? Who saw the commercial? Very good. And you have to admit that on its challenging days, the IRS still isn't as scary as that house Kathy Bates moved into with those creepy kids. [laughter]

Nowadays, if you're like most taxpayers, you prepare your return using tax software, and then file the return electronically. In fact, we estimate that more than 87% of the people filing this year will file electronically this year. Plus, most people no longer need to wait six or eight weeks for a refund check to come in the mail. The vast majority of taxpayers choose direct deposit for their refund, which usually takes 21 days or less from the day they filed.
their return. In fact, a number of people at the reception beforehand regaled me with stories of how quickly they got their electronically filed return processed, and the tax return deposited into their accounts. Sometimes in as few as seven or eight days.

Though the years and all the changes to the way we file our taxes, there is one thing at the IRS that has stayed around, though some have wondered how much longer it will survive in its current form.

Let me stop there and leave you in suspense and tell everybody I want you to open the envelope that was left on your chair. If you look inside and take it out, what you should have is your very own personal copy of a 1040 form, the basic return. [laughter]

Now, take a look at the top of the form. Since I couldn't send you a note with the tax return forms that you get in the mail, this one has a note from me. Those watching or listening at home, it says, "Thanks for filing," and is signed by none other than yours truly. And as the head table has already noted, this does not come with a check. [laughter/applause]

Now I'll admit we can't personally thank all 152 million people who file every year. We didn't even send Oprah a note when she mentioned a few years ago that no one thanked her for filing her return. I would like to note that I was not Commissioner then. [laughter] But I'd like everyone to know in all seriousness that we really do appreciate the millions and millions of people who do their civic duty and file their taxes. Without their voluntary cooperation, our tax system simply couldn't function properly. And we also appreciate the work of the private-sector tax community, which helps people file their taxes.

Let me explain why I wanted everyone to have their own copy of a 1040 as a souvenir. Since 1913, you couldn't file your taxes without using the 1040, or later on one of its shorter versions, like the famous 1040-EZ I mentioned earlier, or the 1040A. Years ago, seeing these forms every April was a little like seeing flags on the Fourth of July. But not anymore. Think about the last time, other than today, you saw a blank 1040. It's probably been a while.

At this point, I should stop for another public service announcement to remind everyone you're supposed to hold on to either a printed or electronic copy of your completed return for your records. It's an important financial record and you ought to keep it in a safe and secure place.

So anyone over a certain age, which includes me, knows that filing your taxes used to mean grabbing a pen and filling out one of these blank forms, line by line, signing it and mailing it in – in some cases, along with a check, if you owed money. And just like those days in school, lots of people made mistakes filling out the paper forms, either transposing numbers, sometimes not having the columns add up.

My crack research staff tells me that today, only a little more than three million 1040s are completed by hand each year. That may sound like a lot, but it's only about 2% of the returns that we actually get. Most taxpayers – or the professionals they hire – use tax
software, as I said, to prepare their taxes, and the vast majority of them then file their return electronically, as noted. So they normally wouldn't work from a 1040 at all. And if you think about it, there probably are some millennials that have never seen a 1040. The form itself is no longer central to the average person's tax filing experience, as it was in days gone by.

So I'm not here to tell you I know what's going to happen. But I do know that the space crunch on the 1040 has gotten to a critical point. Over the years, as the tax code has been changed numerous times, we've added lines and kept shrinking the font size, so everything could still fit on two pages. But there's a limit to what our experts in our Forms and Publications division can squeeze onto two pages.

Now let me be clear, and I'd like all my friends in the press at the front table or elsewhere to note that we don't have a plan to do away with the 1040 yet. Unlike Crayola's dandelion crayon, the 1040 won't be retiring any time soon. [laughter]

You all are really a with-it group! [laughter]

I think the folks at Crayola would agree that finding a replacement color is a lot simpler than determining how you would replace the 1040. I'm just making the point that the IRS has to keep evolving, long after I'm gone from the agency, and keep innovating in how it provides services to taxpayers. What happened to the 1040 is symbolic of all the changes to the tax filing experience we've seen as people have increasingly embraced electronic filing. More changes to the tax filing experience will inevitably occur in the years ahead.

So, what do we do besides tax filing season? We spend quite a bit of time helping taxpayers. It's a big part of our mission; in fact, it's a critical part of our mission. One area where we have been trying to improve is in the online services we provide, in response to the changing needs of taxpayers. Our research has shown that many people want to interact with the IRS through digital channels, just as they do already with their financial institution, mortgage firms or investment companies.

The IRS has been working very hard to give people the types of things they need online. Because believe it or not, many people would prefer to avoid talking to the IRS at all if they could

Now, taxpayers can go to our website, IRS.gov, to find a wealth of helpful tax information, and for many other things as well. Last year, there were more than 500 million visits to IRS.gov.

For example, you can pay your taxes online using Direct Pay. Or maybe you need to set up a payment plan – you can do that on our website using our Online Installment Agreement tool. Or, let's say you're applying for a mortgage and you need a copy of last year's tax return. You can use our Get Transcript application to download it, again from IRS.gov. And if you ever get an unexpected call from someone claiming to be from the IRS saying you owe money, you can even check that online too. We've added these and other digital services because this is what people have told us they want.
Speaking of IRS.gov, you might be surprised to know it's one of the most widely-used federal agency websites, as measured by Google Analytics. At one point earlier this year we had more than 25 million page views and over six million unique visitors – and that was just in one day. Over a recent 30-day period, we were the number-one government website. We even had more visitors than the National Weather Service. The IRS more popular than the weather forecast? It's true, but perhaps hard to believe.

For some time now, we've been working toward the development of an online account at the IRS, where a taxpayer or their tax professional can log in securely, get information about their account and interact with the IRS as needed.

We have many, many people across the IRS involved in this initiative, and one of them is here on the dais with us: Mike Lin, a manager in our Online Services division. You met Mike earlier. Mike and his team have been supporting the effort to bring you all those wonderful new tools on IRS.gov that I just mentioned. This includes helping and developing the online accounts. Not only that, but they're also looking at how we can provide a better experience across all of our service channels. To do that, they have been soliciting feedback from taxpayers and tax professionals. It's people like Mike who are making things happen.

Mike's been with us only a few years, after more than a decade in the private sector, and he's got an interesting story about what convinced him to leave the private firm where he was to work for the IRS. When someone he knew at the IRS asked him if he'd be interested in joining us, Mike noted that he was happy where he was. But then this person asked Mike to imagine the impact he could have working on just one of our products, such as our smartphone application, IRS2Go, which has been downloaded more than 40 million times. At that point, Mike said, he was sold.

So where are we, exactly, with online accounts? Although we've been talking about this for a while, and certainly I've been talking about it in my speeches here since I started, I'm delighted to report now that we're putting some of the building blocks in place.

At the end of last year, we took the first step toward establishing new online accounts for individual taxpayers by introducing the first feature that lets you check how much, if any, taxes you actually owe. We recently launched a second feature that allows you to view your payment history as well. Going online to check your balance at your financial institution has been around so long that people take it for granted. But for the IRS, this is a major step forward.

Over time, we'll be adding many other features as resources permit. One that's in the testing phase will allow for secure online messaging between taxpayers and the IRS, to communicate about issues that come up on their return. This will help us resolve the issues much faster than the current way we deal with most people, which is to send a letter to the taxpayer and then wait patiently for a response through the mail.
As interesting and exciting as these developments are for us, we are just as committed to making sure all taxpayers get the help they need, no matter what way they communicate with us. Last year, we received more than 63 million calls and answered nearly eight million letters from taxpayers needing assistance. And we provided help in-person to more than four million people who visited one of our walk-in sites, called Taxpayer Assistance Centers.

These centers are, in fact, a great example of how we're working to improve, for all taxpayers, services, not just those who go online. Over the last few years, the demand for service at our walk-in sites during the filing season had been growing tremendously. In some locations, people were lining up hours before the center opened, sometimes before dawn, just to try to make sure they could get in the door. It was a terrible situation for taxpayers and frustrating for our employees, who want to be able to provide really good customer service.

Two years ago, after a conversation I had with the Canadian tax commissioner about how they handle this situation, we began testing the idea that Canada had implemented of letting people make appointments to visit a taxpayer assistance center. When we tried this out at a few walk-in sites in 2015, it was so successful we've now expanded it to all of our walk-in sites for this year. And guess what? This year, we've had no report of lines out the door, a major improvement over the experience in years gone by. So we'll leave the long lines for Apple's rollout of the next generation of the iPhone this fall.

We discovered other benefits from the appointment process as well. First, when a person calls for an appointment, we can tell them what documents they need to bring with them. That way, we can avoid and they can avoid the aggravation of a second trip to the IRS. Secondly, the IRS employee making the appointment can often help the taxpayer resolve their issue over the phone, eliminating altogether the need to visit us. We have found that about half of the taxpayers who call for an appointment resolve their issues during the initial phone contact and don't have to show up in person.

So that's our vision for the future of taxpayer services. And I'm often asked why we can't move faster to develop online accounts. It's something that will take time, because it has to be done carefully. A big challenge facing us is making sure these accounts are secure and well protected.

The IRS needs to know whether the person trying to access our systems is legitimate. Anyone who's ever gotten a call from a scammer – and I suspect everyone here has had at least one; me, too – knows that criminals are out there trying to steal personal financial information, and more.

To stop identity thieves, the IRS has been working to improve methods for verifying the identity of all taxpayers using our online services. Let me be clear: before we offer a fully functioning online account, we must have, and are committed to having, a strong authentication process built in, to protect taxpayers from identity theft. This may mean some added time and extra steps for people, but it's worth it to keep these accounts secure. At the IRS, there's no argument about how to balance convenience and security, because security is now our highest priority, and that's how it has to be.
Experience has also shown us we can't take security for granted, and can't let up in our efforts in our battle against the online criminals, especially the criminal syndicates around the world that we're battling every day. We have to continuously work to protect our main computer systems from cyberattacks. These systems currently withstand more than one million attempts every day to maliciously attack and access the system.

We're also waging an ongoing battle to protect taxpayers and their personal information from identity thieves and refund fraud. The storyline on this has improved dramatically from just a few years back. The problem of stolen personal data being used to file fraudulent returns increased significantly from 2010 to 2012, and for a time overwhelmed the IRS and others in law enforcement. Since then, we have been making steady progress against identity thieves. And the progress accelerated in 2015, thanks to the collaborative efforts of what we call the Security Summit Group.

The Summit Group is a unique partnership involving the IRS, the states and the private-sector tax community. It's been a model of collaboration between the public and private sectors. Some of our Security Summit partners are here in the room today, and I want to publicly take the opportunity to thank them for their great work helping to protect the nation's taxpayers.

Working together, we were able to put in place many new safeguards for last year's tax filing season that produced real results for taxpayers. One example is, in 2016 the number of people who identified themselves to us as victims of identity theft was down by 46% from 2015. That's a stunning number, and shows we've improved our ability to stop criminals from filing fraudulent returns using someone else's personal information.

There's a flip side to the progress, though. While we're keeping more identity thieves out, they're trying harder and harder to get in. The fraud filters in our processing system are still catching a large number of false returns. That shows that identity theft continues to be a major threat to tax administration and taxpayers. Last year in fact, our systems stopped $6.5 billion in fraudulent refunds on nearly one million tax returns, confirming what we knew – identity thieves are still out there actively. That number of 6.5 billion we stopped is more than half of the annual IRS budget.

Because we can't let up against this threat, we made an important decision last year to make the Security Summit Group permanent. With their help, we added more taxpayer protections for the current tax season, and will continue working on new ways to safeguard taxpayers in the coming years.

It's important to understand that everyone has a stake in stopping identity thieves. The IRS can't do it alone. We need everybody to keep their personal and financial information secure and out of the hands of identity thieves. People need to be actively safeguarding that data, whether on their personal devices or in their personal interactions.
This is so important, in fact, that we developed with our Security Summit partners a public awareness campaign called "Taxes. Security. Together." This was to let taxpayers know they have a critical role to play in making sure the tax filing process is as safe as possible. I'd ask all of you watching and listening to take a moment to review a set of basic security steps that you can find on the IRS.gov, our home page. Many of these are simple, commonsense things, like using security software on your laptop or knowing how to spot a suspicious email message.

And I would also ask that you make sure your loved ones are aware as well. I think we all know someone – perhaps a parent, a close friend, or a relative – who may be technologically challenged or behind the curve in some way. There may be some in this room. Take me, for example – here's my cell phone. [laughter] Now, you laugh. It's actually relatively new. When I replaced my last one, I just asked the customer service rep, "Where do you keep the Model Ts?" And they pointed to the far corner.

So regardless of where you stand on smartphones, everyone should encourage friends and family to check that their passwords and security software are up to date. The more people we can get to protect their information, the harder we make it for the criminals who are trying to steal this data.

Ensuring the security of taxpayers and their data is only one challenge the IRS faces as we work to improve taxpayer service. Another is obviously our resource situation. We were gratified for the additional $290 million Congress gave us for fiscal year 2016. We used this to strengthen cybersecurity, increase our efforts against identity theft, and improve taxpayer service.

For the average person, the improvement in service was especially noticeable on the phones. If you called us for help during the 2015 filing season, I've consistently described that as an abysmal experience. Wait times were extremely long, and the majority of people couldn't even get through. But the additional funds provided by the Congress allowed us to hire an extra 1000 people during filing season to answer the phones. And as a result, our level of service leaped up and we cut wait times on the phone significantly.

This is especially important because, even with the additional funding we received in 2016, the IRS remains under significant resource constraints. In fact, we're still under, in effect, an agency-wide hiring freeze that began in 2011. For the last six years, we've been unable to replace most of the employees we have lost when they retired or left to take another position. As a result, our full-time workforce has shrunk by more than 17,000 since 2010. That works out to a loss, a net loss of around 50 employees every week – a pace that has continued for 350 weeks, or seven years.

While our workforce has been declining, the IRS's workload has increased. The number of individual returns filed grew by more than ten million between 2010 and 2015. And the tax code keeps growing, too. At well over 10,000 pages, the tax code is now the most complicated it's ever been. Even our nifty 1040-EZ is no match for it.
For the system to function properly, the IRS needs to be able to fulfill its mission, not only to enforce the tax laws, but to help taxpayers meet their obligations. As former IRS Commissioner Larry Gibbs once said, there are three types of taxpayers: Those who comply, those who are trying to comply, and those who are actively trying not to comply. It's our responsibility to make sure everyone in those first two groups – those trying to comply – have everything they need to file their taxes as quickly and easily as possible. It's also our responsibility to pursue those taxpayers who have decided not to comply.

We know many people have difficulties fulfilling their tax obligations. And we want to work with them if they're trying to become compliant. As I've often said, if you have a problem but are trying to comply, you don't have to hire someone off late-night TV to contact us. We're here to help you become compliant, whether it's through an installment agreement or an offer in compromise.

Along with taxpayer service, our compliance programs have suffered as a result of constrained hiring. Included in the more than 17,000 employees we've lost since 2010 are 7000 key enforcement personnel. They are the people who audit returns, collect taxes and investigate tax-related crimes.

Take just one group within our enforcement ranks: revenue officers. These are the people who go door to door collecting back taxes. These frontline employees who go out into the community to bring in taxes owed represent one of the core parts of our mission. So you would think we would add more of them over time, as the number of returns has increased.

And we did, for a while. In 1956, we had about 5700 revenue officers. That number grew steadily to nearly 7400 in 1996. But 20 years later, we have only about 3500 revenue officers. That's over 50% decline from where we were 20 years ago, and 38% below where we were in 1956. Let me repeat that: 38% below where we were 60 years ago. It's a stunning number, given the size and complexity of our economy and the tax system today.

To see how serious this situation has become, consider the number of audits we're doing now. Last year, we audited about a million people. That may sound like a lot, but it's less than 1% of the individual returns filed. It's also the lowest number of audits in more than a decade.

For some people, that might sound like good news. But a big part of the reason we do compliance activities is to make sure those folks who are trying to comply can be confident that the system is fair and that everyone is paying their taxes. If someone paying their fair share of taxes sees others who don't, and those others get away with it, that taxpayer may be a lot less motivated to be tax compliant the next time around. If the situation continues, the risk is to the nation's overall compliance rate. We'll have a real problem if the IRS doesn't have enough employees to help people figure out what they owe or to fairly enforce the tax code.

And the impact will be the ability of the government to fund itself. A 1% drop translates more than $30 billion a year in lost revenues. Think about what a loss of $300
billion over ten years would mean to the federal deficit. And if the notion takes hold that the
tax system is unfair, reversing that notion – and that decline in the compliance rate – won't be
easy to do.

So, as we move forward, I think it's important for us to understand that the hiring
freeze has a negative impact on our ability to build a workforce for the future. And I've talked
in the last couple of years about the Baby Bust. We 122 people under age 25. We have fewer
than 2000 people under age 30. So five to ten years from now when we look for the next
group of managers and leaders of the agency, we're going to have a void.

So, given all the challenges I've described, I find it all the more remarkable that our
employees continue to be energetic, enthusiastic and innovative. They continue finding new
ways of delivering on our mission. A great example comes from our IT division. To me, they
do a really heroic job, year-in and year-out, given that we're running antiquated information
technology systems. We estimate that about 60% of IRS hardware and 28% of our software
is out of date and needs an upgrade. Would you be satisfied running 50-year-old applications
in your home or at your office?

Since we have to rely on outdated software programs to run some of our systems,
we're still using very old programming languages, more outdated than COBOL or
FORTRAN. That's presented a problem because, of course, we're losing people who
understand those languages.

Last year, two IRS employees were part of a team in our IT engineering function that
found an innovative way to meet this challenge. The employees, Mark Yu and Jian Wang,
along with several contractors, developed a method for translating the programming language
used in our legacy tax processing applications into the JAVA language, which is the current
standard. It was a big technological breakthrough and so unique that we've actually applied
for a patent for the methodology.

Mark and Jian are a great illustration of the fact that our talented and dedicated
workforce hasn't gotten discouraged with all the challenges we face. Our employees remain
dedicated to serving the American taxpayer. In fact, the IRS workforce, as I've said on
numerous occasions, is as good a group of employees as I've ever had the privilege of dealing
with in the 50-plus years I've spent in the private and public sectors.

I hope I've given you an idea of where the IRS is and where we're going. Next year at
this time, with any luck, there will be a new Commissioner who can give you the annual tax
season update. Although I still have several months to go as Commissioner, I've encouraged
the administration to begin the search for a candidate to follow me as soon as possible. That
way, he or she can be confirmed by the time my term ends in November. And I will be happy
to advise my successor that the Press Club is a terrific group, and the cookies are great.
[laughter]

But I should warn you that although this is my last visit to the Press Club as IRS
Commissioner, don't necessarily assume you've seen the last of me. While I plan to retire in
November, I could come back in some other position one of these days. Because, after all, I've already failed retirement twice. [laughter]

And since I still have the floor, one more public service reminder: Make sure to file your taxes, if you haven't done so. Remember, April 18th is just around the corner.

Thanks very much. [applause]

MR. HAMRICK: Thank you, Commissioner. And obviously, we'd like to get to some questions, so we appreciate the opportunity to do that. I felt as if in your speech you were using the carrot-and-stick approach on the budgetary question to some degree; in other words, having a positive message. But obviously, there is this proposed budget which would have dramatic implications. If you had to live with that budget, what would that mean for taxpayers and the mission that you have?

MR. KOSKINEN: Well, we, as I say, look forward to continue discussions with the administration. The Treasury Secretary has been very supportive. And the budget process has a way to go. And we will have discussions with appropriators in the House and Senate.

But I do think in light of the – it should be obvious – in light of the cuts we've absorbed over the last seven years, any further cuts are not going to be helpful. Our funding comes for taxpayer service, enforcement, information technology. So when we have to take a cut, it's got to come from somewhere; we can't make it up out of whole cloth.

So one of the things we're looking at is, how would you be able to adjust responsibly and reasonably to that cut, which is $239 million. But there's another 175 million in pay raises and inflation we have to deal with.

So we need to be efficient. I would note, one of the things I've been trying to get everybody to understand is, according to the OECD's biannual study of tax administrations around the world, we are by far the most efficient tax system in the world of any developed country. Germany, France, England, Canada, Australia spend 50-100% more than we do to collect a dollar of revenue.

So the idea that somehow in here we can squeeze a lot more money out of the system after seven years of cuts just isn't going to work.

MR. HAMRICK: So what have those communications been like between you and, say, the Treasury Secretary?

MR. KOSKINEN: Treasury Secretary, and I've told him everybody at the IRS appreciates that, from the time of his confirmation hearing, as noted, that he was surprised at the cuts the IRS had taken. And his position in his confirmation hearing and since then has been that we need more resources and more people. We are the revenue arm of the government, and his experience in the private sector is mine. And that is, when you're
running an operation, you don't take the revenue arm and say, I think I'll starve it of funds just to see how it does.

**MR. HAMRICK:** I'm given word of a tweet, which did not seem to come from the White House.

**MR. KOSKINEN:** Needless to say, I am not tweeting. [laughter]

**MR. HAMRICK:** Senator Widen said within the last couple of hours that IRS enforcement resources should be restored. Is this an issue that breaks down on one side of the aisle or the other? In other words, are Republicans more hostile toward enforcement than Democrats?

**MR. KOSKINEN:** No, I think everyone understands. That's why I've spent some time here, and I've seen spending time on the Hill. Compliance is a two-sided coin. On one side is taxpayer service. We need to help taxpayers figure out what they owe and how to pay it. The other side is enforcement. Because if the system's not viewed as fair, overall compliance rates are going to drop. And I think everyone understands that, basically.

And as I noted, the Congress on a bipartisan basis provided us an increase in 2016 of $290 million for taxpayer service, identify theft and cybersecurity. And I think we've demonstrated to the Congress we spent those funds carefully and wisely, and they had a very positive impact on our ability to provide taxpayer service, but also on our ability to deal with cyberattacks.

**MR. HAMRICK:** You're talking about the legacy of those who have dedicated their lives toward government service. Apparently, among the legacies that continue at the IRS is legacy computer systems, including computer mainframes. Michael tells me, as he works on these apps, there are still these virtually obsolete computer systems. Tell us about the state of technology broadly at the IRS, and how in the world do you continue to work with technology like that?

**MR. KOSKINEN:** It's a challenge. Again, thanks to Michael and a wonderful group of people in IT, we have been modernizing the system as quickly as we could. And we've gotten support over time from the Congress in a business systems modernization appropriation. So a significant part of our system is now modernized.

Part of our problem is, as we put in new applications to support those, those come out of our kind of standard operations and maintenance fund. And that never seems to go up. So we keep loading on more systems to be supported.

But we are running, as I said, applications that were running when John F. Kennedy was President. And to some extent, what we've got is– I used to kid Terry Milholland, our CTO, that we're kind of driving – he wanted me to call it a Chevrolet rather than a Model T – a Chevrolet, and it's got a great sound system and a GPS system, but it's still got an antiquated drive train and drive system.
So in a lot of ways, we worry every filing season that to some extent part of the system is held together with baling wire, and there are more challenges and more outages every year. And at some point, our concern is, if we can't complete the upgrades and the modernization of it, the system is simply going to stop.

MR. HAMRICK: From the audience we had a question: With all the great technical advances that you're implementing, including those online, is there still any benefit to filing forms by paper, including perhaps some that have your autograph? Or maybe we should knock those out of the pool?

MR. KOSKINEN: We are intrigued by the number of people who actually use software to prepare their return and then print out the return and mail the paper to us. It takes you longer to get your refund if you do that. And I think there must be some view that you're more secure. But we have identity thieves, and the identity thieves are generally filing electronically. By the time your paper process gets filed, you've increased the window of opportunity for someone to file before you.

So even if you think it's a great way to have a record, you can print out the record and still file electronically. So we're not quite sure why people do that. But I would stress there are some people who simply are not comfortable with the digital economy and digital services. As I say, we've got 87% filing electronically, which means we have close to 20 million people still filing on paper.

Our view is, if that's the way you want to communicate with us, that's fine. We have an obligation that we willingly accept to deal with all 152 million taxpayers in whatever form they come, and however they want to deal with us.

MR. HAMRICK: We had a number of questions on this notion that the administration and Congress will next be moving into tax reform efforts. What are your observations about that? I know that you're agnostic about policy, at least in terms of the execution of your job. As you look at the challenge of simplification, quote/unquote, is that every bit as complicated, if not more so, than healthcare?

MR. KOSKINEN: I think it is. As someone noted, healthcare reform, as people have discovered, is complicated. But you're dealing with a segment of the economy, the insurance companies and companies providing healthcare. When you're talking about tax reform, you're dealing with everybody in the economy. And so, it is complicated. We haven't done significant tax reform, as everybody knows, in over 30 years. And as you know, we don't have, as I said, a dog in the fight of healthcare, we don't have a dog in the fight of what goes on in tax policy.

We have a great interest in tax administration. And I've tried to make it clear with the Hill, with the new leadership at Treasury that we are delighted to provide support, once you decide what the policy is, in terms of how to implement it most effectively and simply for taxpayers, as well as for us. And so, we look forward to cooperating with them.
I do view tax simplification as not policy so much as administration. And I've been trying to get everybody to understand it's a once-in-a-lifetime opportunity, apparently, to do tax reform. And I hope we don't lose the opportunity to do tax simplification at the same time.

People, I've asked them over several months to pull together their suggestions, where you could just streamline the code, not policy-wise, just streamline and get rid of some of the complexity, and we've provided that into the system. And we stand ready, both with the Hill and the administration, to provide whatever technical support we can to try to make sure that as we reform the tax code, we do it in a way that simplifies it, rather than complicates it.

MR. HAMRICK: Obviously, as you just said, it's a very difficult problem or challenge to tackle. So perhaps we don't want to bet our own homes on whether that'll be accomplished or not. But let's just say, rhetorically speaking, that some sort of major tax reform and/or simplification occurs. Is there a scenario out there where in theory the IRS could do with fewer resources, less personnel, if indeed sufficient changes were made?

MR. KOSKINEN: Well, I've always said, and try to get the appropriators to understand, we're down, headed to 18,000 employees. The plan or the goal isn't to hire 18,000 more people back. With the efficiencies we've built in, we are much more efficient than we would have been seven or eight years ago.

On the other hand, it is clear, when you go across your operation, even with a simplified code, we don't have enough people anywhere in the organization. So whether it's 3000, 5000, actually it's a start. If we could just hold our own and quit losing people, it would be a start. But we do need more people. Our IT groups are understaffed. Enforcement. Hopefully if you made it really simple, we'd have fewer enforcement issues.

But in light of all of the discussions going on, there's not a scenario I see that's going to markedly lower the burden we have. And of course, at the front end, we'll have a significant challenge implementing whatever the changes are.

MR. HAMRICK: And also in the world of things that probably would never happen: if there were literally a flat tax, would you not require fewer people?

MR. KOSKINEN: Ah, not if we could get to—well, by a flat tax, you mean a simple one-page form.

MR. HAMRICK: Yes.

MR. KOSKINEN: Some time ago it was suggested you could do the one-page form and get rid of the IRS. And I said, well, you have to understand, even with a one-page 1040-EZ, somebody has to make sure the numbers are right, and somebody has to collect the money. If you want to call it something other than the IRS and it makes you feel better, that's okay with me. [laughter]
But it is clear that—somebody asked in the transition, well, if there were real simplification, is there anybody at the IRS who would be opposed? And the answer is, everyone at the IRS would be delighted if you could make the tax code simpler. And you can't make it too simple for us. Because ultimately our goal is to try to make it as easy as possible for taxpayers to know what they owe and to file it.

So if we ended up with the one-pager and everybody could fill it out without worrying about a lot of deductions—we have tax expenditures of a trillion-300-billion-dollars or more a year. So you could lower rates a lot, get rid of all of that, and have a much simpler process for taxpayers. And at that point, we would be able to do with fewer people.

The likelihood of that probably is not great.

MR. HAMRICK: So if all these deductions went away, it probably would not be that important in the future for politicians to release their tax returns. On that subject, one of the waiters in the Club asked me to ask you this question.

MR. KOSKINEN: Those are always the tough questions.

MR. HAMRICK: Is there an equivalent of a top-secret security clearance to see Donald Trump's tax returns? Or who within the agency, for example, would have a view of those?

MR. KOSKINEN: As a general matter, I think what's important for everybody to understand, taxpayers to understand is, no IRS employee can willy-nilly go look at anybody's tax return. You have to have a reason to look at that return. Otherwise, you're subject to dismissal. And we monitor that.

So it's not just the President's tax return. Any taxpayer's return is sacrosanct. And the only employees allowed to look at it are people who have some need to actually see that particular return. And we take that very seriously. The employees understand that. And as a result, we have very few—in fact, most of what we call the UNAX violations are employees looking at their own return, which is not allowed, or looking at a relative's return, which is not allowed.

MR. HAMRICK: So for example, you haven't seen any of the President's tax returns?

MR. KOSKINEN: Fortunately, I'm not allowed to look at anybody's tax return. So if you've filed any time in the last four years, I have no idea what you said.

MR. HAMRICK: As a matter of general policy, leaving the personalities out of the question, do you think it would be a good idea to require politicians seeking high office to release their returns?
MR. KOSKINEN: That gets into a policy question that I think— we'd administer whatever anybody would want to deal, however they wanted to deal with it. Our view is, whatever the policy decisions are, we'll administer them. And we really don't have a view. It's really a political judgment as to whether candidates ought to or ought not be revealing their tax returns.

MR. HAMRICK: Obviously, you deal on a day-to-day basis with cybersecurity issues, but these issues have become prevalent really across all of our daily lives. I remember a few years ago, the Defense Secretary talked about the equivalent risk of a Pearl Harbor event occurring in our daily lives. Do you worry about that? And going back to your Y2K experiences, are we winning this battle or losing it, broadly speaking?

MR. KOSKINEN: Well, I think any time you think in cybersecurity you're winning the battle, you're probably losing it. You have to always assume whatever's going on, you need to do whatever you can to catch up with it.

But I have worried about it since Y2K. One of the advantages of worrying about putting together private sector partnerships across all the critical infrastructure, not only the United States, but then we ultimately did it through the UN around the world, it was clear then – this was in 1998, ’99, and 2000 – if you wanted to shut down the grid, you didn't have to blow up a power plant. All you had to do was hack in to the system and turn the grid off that way.

And so, I've been concerned about it for some time. There was a group that, four or fives years after that, said, Hey, chemical plants are a problem in cybersecurity. And I thought, boy, it took you an awful long time to find that out. There is, if you look at the critical infrastructure, transportation, telecommunications, finance, energy, all of them increasingly rely on and run on technology. And all of that technology increasingly is under attack.

When I say we're under attack a million times a day, that's not an exaggeration. The actual number is three to four times that. But I told our CTO, okay, I can at least then say a million because I'm being cautious. It is a real battle.

We are dealing no longer with individuals sitting in Miami Beach with an iPad trying to figure out how to hack in to our systems or get a refund. We are literally dealing with organized crime syndicates around the world. When people are talking about who's hacking in to who, which government is operating, people we're dealing with are working on occasion with state governments, and oftentimes just on their own, collecting billions of dollars that goes to fund drug runners, goes to fund terrorists, goes to fund people trying to attack democracies around the world.

So it is, I think, a critical problem now, and will continue to be.

MR. HAMRICK: Before I ask the final question, a few quick reminders. The National Press Club is, of course, the world's leading professional organization for journalists
fighting for a free press worldwide. For more information about the Club and that topic, you can check our website at Press.org.

A reminder about some upcoming events: April 17th is an NPC Newsmaker Breakfast with famed ballet dancer Misty Copeland. April 22nd is a luncheon with the Chairman of the Joint Chiefs.

And now, as is our tradition, before I get to that last question, I would like to present our guest with a traditional National Press Club mug. And as elegant and as important it is, it would never be confused with actual income or honoraria. So this makes a set. So thank you so much, Mr. Commissioner. [applause]

MR. KOSKINEN: Thank you.

MR. HAMRICK: So a bit of homage to my mother ship Bankrate. We did a survey that found that 47% of taxpayers anticipated a tax refund this year. Thirty-four percent planned to save or invest; 29% were going to spend that on necessities; 27% paying down debt; and 6% splurging, a vacation or shopping spree. Do you get a refund yourself? And if so, what would you do with it? Or what would you advise others to do with it?

MR. KOSKINEN: Actually, I do get a refund myself. And what I usually do is then figure out how much of it I can use to start paying my estimated taxes for the next year, as that goes. So I'm just like everybody else – confused a little by the tax code. I do not do my own tax return, even though I went to law school and took tax courses. But the code, compared to when I was in law school, is phenomenally more complex and more difficult to understand.

My life is fairly simple. You become the IRS Commissioner and you give up a lot of stuff and get rid of a lot of stuff. So I'm a relatively simple economic being. But the annual return is still much more complicated than it needs to be.

MR. HAMRICK: I mentioned just a moment ago about the Press Club's mission in promoting press freedom and transparency. And your continued presence here over these number of years has not gone unnoticed. And so, on behalf of the Club, our members, our board, all of our officers, we want to thank you for making yourself available during your term, and wish you all the best in what sounds like will be at least retirement from the IRS.

So how about a warm round of applause for the IRS Commissioner. Thank you so much. [applause]

MR. KOSKINEN: Thank you so much. And we are adjourned. Thank you. [sounds gavel]