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**WRITTEN STATEMENT
OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**For the Record of the
February 5, 2014 Hearing
of the**

HOUSE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

on the

STATE OF THE INTERNAL REVENUE SERVICE

February 19, 2014



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FEBRUARY 19, 2014

As Congress considers oversight issues and the budget of the Internal Revenue Service this year, the American Institute of Certified Public Accountants (AICPA) offers the following comments on the state of the Internal Revenue Service (IRS or “Service”). These comments are submitted for the record of the February 5, 2014 hearing of the House Committee on Ways and Means Oversight Subcommittee on the state of the IRS. The AICPA appreciates the opportunity to provide comments as part of the IRS oversight and budget process.

The AICPA is the world’s largest member association representing the accounting profession, with more than 394,000 members in 128 countries and a 125-year heritage of serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

We welcome the opportunity to discuss these comments on the state of, and funding of, the IRS or to answer any questions.

The AICPA understands that Congress has several important issues to address in regard to the Administration’s Fiscal Year (FY) 2014 and upcoming FY 2015 Budgets, including funding for the IRS. Because our members and our members’ clients have extensive interaction with the agency and are recipients of many of the IRS’s services, we respectfully offer our thoughts on the budgetary funding matter. We address:

- Continuing Oversight and Adequate Funding of IRS Needed
- IRS Fiscal Years 2014 and Upcoming 2015 Budget Appropriations
- Resources Needed to Efficiently and Effectively Administer Tax Laws and Collect Taxes
- Serious Problem of Limited Resources to Handle the Expanding Workload
- A Reduction in Taxpayer Service Resources Would Negatively Impact Taxpayers and Practitioners

- Decreased IRS Employee Training Is A Concern
- IRS Needs Funds for More Advanced and Reliable Technology

Continuing Oversight and Adequate Funding of IRS Needed

The AICPA expects that the IRS would continue to identify responsible ways to allocate the resources it receives; and that Congress, through its oversight responsibilities, would ensure that those resources are properly utilized. Unfortunately, the budget process has become much more complicated for federal agencies in general and especially challenging for the IRS.

We recognize that the IRS budget is oftentimes the subject of debate, and may be even more so now given last year's inquiries regarding expenses incurred by the IRS and the handling of certain taxpayer matters. Congressional oversight of the IRS, as is evidenced by this hearing, is a critical function and one that contributes to the success of the system and elevates the American taxpayer's perception of the IRS's objectivity and its ability to effectively manage the tax administration process. Likewise, we believe that adequate funding of the IRS's budget is essential to the IRS's ability to carry out its mission. The collection of tax revenues and the administration of tax laws, as well as the need to provide assistance to taxpayers and tax practitioners, are important responsibilities. Therefore, we urge Congress to provide the IRS with sufficient financial resources to perform such duties.

IRS Fiscal Year 2014 and Upcoming Fiscal Year 2015 Budget Appropriations

The AICPA continues to express our strong support for the adequate funding of the IRS's fiscal year 2014 and upcoming fiscal year 2015 budget.¹ Unfortunately, the IRS's fiscal year 2014 budget in the [Bipartisan Budget Act of 2013](#) includes only \$11.3 billion funding for the IRS, a \$526 million cut in the IRS funding.² The \$11.3 billion IRS funding for fiscal year 2014 is less than the level of funding in FY 2009, yet the demands and needs of the organization have grown tremendously over the last five years. The \$526 million IRS budget cut from the prior year is in addition to the IRS budget being severely challenged in recent years. The IRS received an overall budget allocation of approximately \$11.8 billion in FY 2012, down from approximately \$12.1 billion in FY 2011. The challenge for the Service is even more dramatic as the approximately \$5.3 billion enforcement budget the Service received for FY 2012, was reduced by approximately \$200 million from the prior year.³ These statistics are further highlighted by the reduction in IRS employment levels from 104,000 in FY 2011 to 98,000 in FY 2012 and 87,000 in FY 2013 (a decrease of eight percent from FY 2012).⁴

We point out that IRS Commissioner Koskinen is quite concerned as well, as he stated at this hearing:

In discussing the state of the IRS, no challenge facing our agency is greater than the significant reduction in funding that has occurred over the last several years. Later in this testimony, I will outline the important work that our agency has done recently to reduce costs and increase efficiencies. But even with these efforts, which are ongoing, I am deeply concerned about the ability of the IRS to continue

to fulfill its mission if the agency lacks adequate funding. Our current level of funding is clearly less than what the agency needs, especially to provide the level of taxpayer services the public has a right to expect....For the IRS to keep making progress in all the areas mentioned above, it is critical for us (the IRS) to receive adequate resources. The agency continues to be in a very difficult budget environment, with our funding for FY 2014 now set at \$11.29 billion....Since FY 2010, IRS appropriations have been cut by approximately \$900 million. This represents a 7 percent cut in our (the IRS) annual budget since 2010 while the total population of individual and business filers grew by more than 4 percent over the same time period....I believe that it is vital for the IRS to receive adequate resources going forward in order for us to deliver on our dual mission of enforcing the tax laws and providing excellent taxpayer service. This view is shared by the IRS Oversight Board, the National Taxpayer Advocate, TIGTA, and the Internal Revenue Service Advisory Council.⁵

In addition, the IRS Oversight Board Electronic Filing 2013 Annual Report to Congress states that federal budget sequestration and related funding cuts reduced the IRS budget in Fiscal Year 2013 by approximate \$600 million or 5.2 percent, compared to Fiscal Year 2012, concluding that “such an unstable budgetary operating environment for the IRS is a disservice to the nation.”⁶

We note that the Bipartisan Budget Act of 2013 also includes \$92 million that has been set aside for IRS to use to improve taxpayer services and address refund fraud, identity theft, and overseas compliance.

Resources Needed to Efficiently and Effectively Administer Tax Laws and Collect Taxes

The AICPA has long advocated for funding levels for the IRS that would allow the IRS to efficiently and effectively administer the tax laws and collect taxes. Giving the IRS the resources necessary to properly process tax returns and enforce the tax laws is vital to maintaining our voluntary compliance tax system.

The AICPA believes that the IRS should be provided with the adequate resources to fund its mission, which will in turn empower the agency to fulfill its customer service and enforcement responsibilities. Any increase in enforcement funding must be balanced with positive responses to the taxpaying public as customers, a balancing act that has become even more challenging for the IRS when faced with the current era of “mission creep” beyond its core tax administration functions. As we have stated in the past, all taxpayers must have access to resources that enable them to fulfill their tax responsibilities, and adequate IRS budgetary funding must be provided to ensure this access.

Serious Problem of Limited Resources to Handle the Expanding Workload

The IRS has stated in its most recent strategic plan that one of its primary objectives is to “provide taxpayers with targeted, timely guidance and outreach.”⁷ However, the growing burden being placed on the agency significantly reduces its efficiency and impedes its effective

interactions with taxpayers and their advisers. As mentioned earlier, the IRS Commissioner stated at this hearing that the number of individual and business filers has grown by more than 4 percent since 2010. In addition, the onslaught of new issues, including administration of the Affordable Care Act (ACA) and extensive new reporting requirements under the Foreign Account Tax Compliance Act (FATCA), and the alarming increase in taxpayer identity theft cases are substantially encumbering the IRS's already limited resources. In his testimony at this hearing, the IRS Commissioner stated that "the resources needed for implementation activities for ACA and FATCA, taken together, represent roughly 4 percent of the IRS' budget for FY 2014."⁸

In this context, National Taxpayer Advocate Nina Olson stated recently in her [2013 Annual Report to Congress](#), released January 9, 2014, that IRS budget cuts are a serious problem at the IRS.⁹ The Taxpayer Advocate continues to consider as a serious challenge facing American taxpayers the combination of the IRS's expanding workload and the agency's limited resources to handle that workload.¹⁰ In addition, the December 2013 Treasury Inspector General for Tax Administration (TIGTA) report notes that in Calendar Year 2015, the IRS will need to provide customer service (including face-to-face assistance at its 390 Taxpayer Assistance Centers) when individuals begin filing their 2014 tax returns, including the amount of any Advance Premium Tax Credit payments on their tax returns, and reconciling that reported amount to the allowable amount, and TIGTA reported concerns that changes in ACA implementation would create additional challenges.¹¹

We agree with IRS, the National Taxpayer Advocate, and TIGTA and urge Congress to reconsider the IRS's need to administer an increasing number of aspects of ACA implementation when addressing the agency's budget for the upcoming fiscal year 2015 and the next few years.

A Reduction in Taxpayer Service Resources Would Negatively Impact Taxpayers and Practitioners

We are concerned that a reduction in taxpayer service resources would negatively impact both taxpayers and our members alike. Specifically, we believe another decrease in the IRS's budget would likely:

- Increase wait times for incoming telephone calls from taxpayers and tax practitioners;
- Create excessive delays in responding to taxpayers' written inquiries and responses to IRS notices;
- Lead to the inability of Service staff to meet and assist with the needs of taxpayers who visit walk-in taxpayer assistance centers;
- Result in the failure to keep taxpayers informed of tax law changes (via customer outreach, printed and online materials, webcasts, etc.);
- Exacerbate the problem of excessive delays in the issuance of administrative guidance; and
- Delay the release and update of tax forms.

Additional details on the specific effects of a reduced IRS budget are found in our previous testimony on tax fraud¹² and the 2013 tax return filing season.¹³

Decreased IRS Employee Training Is A Concern

We are also concerned about any decrease in the amount or quality of IRS employee training and development. It is important that IRS employees are kept up-to-date on the ever-changing tax laws to properly administer those laws, as well as provide adequate guidance to taxpayers and tax practitioners. The Taxpayer Advocate similarly expressed particular concern about the magnitude and impact of cuts to the IRS's training budget.¹⁴

Unfortunately, the IRS is not excluded from our country's aging workforce and may continue to lose its most experienced staff to retirement.¹⁵ A new, less experienced staff will likely require substantial training to maintain the same quality of service that taxpayers expect.

IRS Needs Funds for More Advanced and Reliable Technology

Finally, we believe it is also important to consider the IRS's need for more advanced and reliable technology. While the IRS has made strides to update online services and internal computer processing, its systems are still outdated. It is not uncommon for taxpayers or practitioners to call and wait for assistance only to hear that files are not accessible due to computer outages. In fact, the modernized e-file system was unavailable intermittently throughout last tax season due to technological problems, which caused a significant burden on tax practitioners needing to submit returns on behalf of their clients. Now, due to outdated IRS technology and inadequate technology resources, IRS no longer provides certain e-services, such as electronic requests for Disclosure Authorizations, making the process much longer and inefficient.¹⁶ We agree with the IRS Oversight Board when it stated in its February 2014 Report to Congress, "an inadequate budget for the IRS also forces undesirable trade-offs among critically needed electronic services that would otherwise be delivered to advance the agency's mission. The inability of the IRS to fund the replacement systems for the DA and EAR applications are but examples of needed ETA products and services that were precluded due to resource constraints."¹⁷

Concluding Remarks

In summary, while we acknowledge the importance of the IRS efficiently utilizing its resources and appropriately administering the law, the AICPA is deeply concerned about the adverse impact to taxpayers and tax practitioners from a decrease in the IRS's budget. The IRS needs sufficient operating funds to properly administer and enforce our complex tax laws, as well as provide assistance to taxpayers and their advisers. We respectfully urge Congress to fully fund the IRS budget in order for it to carry out its mission effectively and efficiently.

¹ See prior AICPA comments on the IRS budget submitted on [April 16, 2013](#), [May 6, 2013](#) and [September 4, 2013](#).

² See [text](#) of the legislation.

³ See Department of the Treasury, [FY 2013 Budget in Brief](#), [IRS Budget Information](#).

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⁴ The 2013 Annual Report of the Taxpayer Advocate states: “In addition, the number of local enforcement personnel has also declined. From FY 2010 through FY 2013, the number of Revenue Agents, who conduct field audits, decreased by 12 percent (from 13,879 to 12,270). The number of Revenue Officers, who perform field collection, declined by 21 percent (from 6,042 to 4,748).” [National Taxpayer Advocate’s 2013 Annual Report to Congress](#), Volume 1, MSP #2 “IRS Budget: The IRS Desperately Needs More Funding to Serve Taxpayers and Increase Voluntary Compliance,” pages 25 and 31.

⁵ See [Written Testimony of John A. Koskinen](#), Commissioner, Internal Revenue Service, before the House Ways and Means Committee Subcommittee on Oversight hearing on the State of the IRS, February 5, 2014, pages 2 and 10.

⁶ The recent IRS Oversight Board Report further notes:

As part of the cost-cutting efforts needed to meet the sequestered level, the IRS placed its entire workforce on furlough for three days during FY2013. Aggravating this troubled budget posture for the agency, most IRS employees were furloughed again during October 2013, during a 16-day federal government shutdown at the start of FY2014. In the view of the Board, such an unstable budgetary operating environment for the IRS is a disservice to the nation. The IRS delayed the start of the 2014 filing season as a result of the lost time during the government shutdown that would otherwise have been devoted to testing the tax processing systems for 2014. In addition, the Office of Management and Budget estimated the halted IRS operations in October 2013 delayed collections of enforcement revenue by about \$1 billion per week.

[IRS Oversight Board Electronic Filing 2013 Annual Report to Congress](#), February 2014, pages 13-14.

⁷ [IRS Strategic Plan 2009-2013 \(Goal 1, Objective 3, page 15\)](#).

⁸ Regarding the IRS implementation of enacted legislation, the Commissioner stated:

ACA Implementation Efforts....The IRS has been working to implement the ACA’s tax provisions, most of which are already in effect, such as the branded prescription drug fee, the tanning tax and the medical device excise tax. We continue to focus on two significant tax provisions that go into effect in 2014: the premium assistance tax credit and the individual shared responsibility provision. These two provisions will have a profound impact on IRS forms and procedures beginning with the 2015 filing season, and will require additional taxpayer service and education activities. Preparations are already well underway to modify forms and instructions, enhance education and outreach to taxpayers and their advisors, and update our systems and processes in time for the 2015 filing season. The IRS is also focusing on ensuring that returns that erroneously or fraudulently claim refundable premium tax credits (or fail to reconcile advance payments of the credit) are efficiently identified and addressed, using Marketplace information available during the filing season as well as the ever-improving IRS anti-fraud tools used for all returns.... *FATCA implementation efforts*. FATCA is an important new tool in our offshore compliance efforts, as it requires foreign financial institutions (FFIs) to report information to the IRS about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. Withholding requirements under FATCA go into effect on July 1, 2014, and additional regulatory guidance will be issued soon. It is important to note, however, that legal restrictions in some countries prevent FFIs from fulfilling the reporting, withholding and account disclosure requirements. For that reason, Treasury, with assistance from the IRS, is advancing an intergovernmental approach to FATCA implementation that is focused on bilateral agreements that address these legal impediments, simplify practical implementation and reduce the costs to FFIs. Currently, there are 20 signed Intergovernmental Agreements. The IRS FATCA registration website opened in August 2013 allowing financial institutions to begin to enter data. In January 2014 financial institutions were able to begin submitting their electronically signed FATCA agreements.

[Written Testimony of John A. Koskinen](#), pages 6-8.

⁹ IRS Information Release [IR-2014-3](#), National Taxpayer Advocate Delivers Annual Report to Congress; Focuses on Taxpayer Bill of Rights and IRS Funding.

¹⁰ The 2013 Annual Report of the Taxpayer Advocate states:

More work and less funding means taxpayers needs are not being met.... The combination of more work and less funding has left the IRS stretched too thin, compromising its capacity to meet taxpayer needs....Over the past ten years, the workload of the IRS has increased significantly. The upward trend has continued during the last three years. Since FY 2010, however, IRS funding has declined. The combination of more work and less funding predictably has impaired the IRS's ability both to meet taxpayer needs and to collect tax....The increase in the IRS's workload can be demonstrated in several ways. For one, the IRS is receiving significantly more individual and business tax returns today than ten years ago. For individual income tax returns, the number rose from about 131.3 million in FY 2004 to about 146.0 million in FY 2013, an increase of 11 percent. About one-third of that increase has occurred since FY 2010, when about 141.2 million returns were filed....For business income tax returns, which include the returns of C corporations, S corporations, and partnerships, the number rose from about 8.6 million in FY 2004 to about 10.5 million in FY 2013, an increase of 23 percent.

[National Taxpayer Advocate's 2013 Annual Report to Congress](#), Volume 1, MSP #2 "IRS Budget: The IRS Desperately Needs More Funding to Serve Taxpayers and Increase Voluntary Compliance." Pages 22-23.

¹¹ The TIGTA December 2013 Audit Report regarding the IRS implementation of the ACA stated:

The IRS's customer service strategy is a collaborative and coordinated effort between the IRS and multiple Federal and State agencies. The strategy includes sufficient plans to 1) perform outreach and education; 2) update or develop tax forms, instructions, and publications; and 3) provide employee training to assist individuals in understanding the requirement to maintain the MEC and the tax implications of obtaining the tax credit to offset the cost of health care insurance....Changes in ACA implementation will create challenges. Depending on the nature of any changes made to ACA tax provisions, the IRS's strategy and plans to provide customer service, outreach, education, and employee training could be affected. Changes to the provisions could also affect the IRS's plans to update its tax forms, instructions, and publications.

[TIGTA Audit Report Reference Number: 2014-43-006](#), "Affordable Care Act: The Customer Service Strategy Sufficiently Addresses Tax Provisions; However, Changes in Implementation Will Create Challenges," December 30, 2013. Reference Number: 2014-43-006.

¹² [AICPA Testimony: April 16, 2013, Public Hearing on Tax Fraud, Tax ID Theft and Tax reform: Moving Forward.](#)

¹³ [AICPA Testimony: April 25, 2013, Hearing on Internal Revenue Service Operations and the 2013 Tax Return Filing Season.](#)

¹⁴ According to an IRS Information Release on the Taxpayer Advocate 2013 Annual Report:

Since FY 2010, the IRS's training budget has been cut from \$172 million to \$22 million (a staggering 87 percent reduction). 'If IRS customer service representatives are not well trained, taxpayers calling for help are more likely to receive incorrect information or no information,' the report says. 'If IRS enforcement employees are not well trained, auditors may make inappropriate adjustments and assessments, and collection employees may issue inappropriate levies or file inappropriate liens.'

IRS Information Release [IR-2014-3](#), National Taxpayer Advocate Delivers Annual Report to Congress; Focuses on Taxpayer Bill of Rights and IRS Funding.

¹⁵ According to the IRS Commissioner testimony at this hearing:

By closely managing hiring and limiting replacement behind attrition, the IRS has reduced the total number of full-time, permanent employees by about 10,000, or more than 11 percent, since 2010....Since 2010, the IRS has limited employee travel and training to mission-critical projects. By our estimates, training costs have been reduced by 83 percent and training-related travel costs have been reduced by 87 percent since 2010. We have expanded the use of alternative delivery methods for in-person meetings, training, conferences, and operational travel, but we need to restore some of the funds to ensure that IRS employees interacting with the public are properly trained and able to provide the answers and assistance expected.

[Written Testimony of John A. Koskinen](#), page 10.

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¹⁶ The IRS Commissioner’s testimony at this hearing also addressed this concern: “We announced earlier this year, for example, the elimination of two e-service offerings for professional tax preparers: Disclosure Authorization and Electronic Account Resolution. Although we worked to eliminate offerings with the lowest historical usage rates, this change still generated a great deal of concern among preparers who used the services. Unfortunately, given how tight our budget situation is, and will continue to be, we were not able to reconsider the decision.”

[Written Testimony of John A. Koskinen](#), page 12.

¹⁷ See [IRS Oversight Board 2013 Electronic Filing Report to Congress](#), page 14.