

**PREPARED REMARKS OF  
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BEFORE THE  
COUNCIL FOR ELECTRONIC REVENUE COMMUNICATION ADVANCEMENT  
ARLINGTON, VIRGINIA  
OCTOBER 19, 2017**

I'm delighted to be back one last time with my friends at CERCA, and to have another chance to thank you for everything you do to help maintain our tax system. At least, I think it's my last time. I've already flunked retirement twice, so you never know – although my term as IRS Commissioner ends soon, I could show up again in some other capacity.

It's hard to believe it's been three years since I first spoke to this group. When I look back over that time, it's great to think about all we have accomplished together to improve tax administration and help taxpayers.

The operative word is “together.” You've heard me say it before, but it's worth repeating: CERCA has consistently been a great partner to the IRS in so many ways. The IRS can't run the tax system by itself, but relies on the support of groups like this one.

Along those lines, I'm especially grateful for the critical support CERCA has provided in the battle against stolen identity refund fraud. As you know, the problem of personal data being used to file fraudulent tax returns and illegally obtain refunds was exploding just a few years ago. It threatened to overwhelm the tax system, but together we fought back.

We fought back by forming the Security Summit in March 2015. CERCA was there at the beginning, and has been heavily involved ever since. This unique partnership of the IRS, the private sector and state tax commissioners has been a great success. In fact, some of you even joined IRS executives for a roundtable discussion about the Security Summit Group last week with the House Ways and Means Committee. I'm sure the committee appreciated the outside perspective you could provide on this initiative.

Working together through the Summit, we have improved our ability to protect taxpayers and their data, to make the act of filing a tax return as safe and secure as possible.

When I last spoke to CERCA back in May, I said the number of people who reported to the IRS that they were victims of identity theft had dropped 46 percent from 2015 to 2016. Today I'm delighted to report that decline wasn't an aberration, but has continued in 2017. During the first eight months of this year, reports from victims declined at a rate of about 40 percent. So, when you look at the last two years, the number of taxpayers reporting they are victims of tax-related identity theft has dropped by nearly two-thirds. And the number of confirmed identity theft returns is down by a similar percentage. Those are amazing statistics, given what a grim situation we faced just a few years ago.

This continuing decline is the direct result of ongoing good work by IRS employees and the collaborative efforts of our Security Summit partners. So, on behalf of America's taxpayers, I want to thank CERCA for everything you do to safeguard our tax system.

Our efforts to combat stolen identity refund fraud are especially relevant when you look at what happened with the Equifax data breach. Equifax made headlines in part because the breach exposed the personal information of a huge number of people – more than 145 million.

But one thing people need to understand is that this is not the first time that many, or most, of those 145 million people have had their personal information exposed. Over the last several years, data breaches at major organizations – including financial institutions, retailers and government agencies – have given criminals around the world access to the personal data of millions of people. So, it's very likely a significant percentage of those 145 million in the Equifax breach already had their personal information exposed.

The best thing about the Equifax incident – no wonder I am called an incorrigible optimist – is that it sent an important reminder to people that everyone needs to do everything possible to protect their data from identity thieves. That's why a big part of the Security Summit's focus has been on outreach and communications. Early on, we realized that to successfully battle identity thieves, we needed to make the taxpaying public a partner in this effort.

So, we will continue the taxpayer-focused campaign we began two years ago, "Taxes. Security. Together." to increase public awareness about protecting sensitive personal data. We're also continuing the campaign aimed at tax professionals, "Protect Your Clients – Protect Yourself." And the Security Summit partners will again sponsor National Tax Security Awareness Week in late November to remind everyone about the importance of data security during the holiday shopping season.

Going forward, I'm delighted the Security Summit was made permanent. It allows the IRS to continue working with the states and the private sector to address problems as they crop up, to respond to changing circumstances. In fact, the Equifax incident was a clear illustration of the need for rapid response when you detect any vulnerability in the system.

As we announced at the Security Summit press briefing earlier this week, the IRS and its Security Summit partners are already looking at how to refine existing protections and add new ones for the 2018 filing season. For example, we will be expanding our W-2 verification code pilot program to include 66 million W-2s. This program helps confirm the accuracy and integrity of electronically filed returns. It's been very successful, thanks to the support provided by CERCA members and others in the tax community.

While we're on the subject of the upcoming filing season, I'd like to mention some other issues that will be important to CERCA members as we head into 2018.

For one, the IRS has made a change involving the Affordable Care Act. Under the ACA, individual taxpayers must indicate on their return whether they had health insurance or an exemption from coverage during the year. Otherwise, they need to make a shared responsibility payment. Beginning with the 2018 filing season, the IRS will not accept electronically filed returns where the taxpayer does not address the health coverage requirements. Returns filed on paper that do not address these requirements may face delays until we receive additional

information. We are working with software developers so that taxpayers using tax software will be reminded to check the appropriate box before they complete their return.

I would ask CERCA members to help reinforce this message in their work with taxpayers.

We're also asking CERCA to support our effort to remind taxpayers that the PATH Act changes that went into effect last year are a permanent part of the tax law. That means the IRS will not be able to issue refunds for tax returns claiming the Earned Income Tax Credit or the refundable portion of the Child Tax Credit before mid-February.

We greatly appreciate CERCA's help last year in getting the word out on this change. That effort worked extremely well. We will need to repeat that effort for the upcoming filing season. These are the biggest checks of the year for many people, and it's important for them to know in advance when they can expect these refunds. At this point, we believe the first EITC refunds will be issued around the end of February. We are still working on pinpointing a specific week for refunds to start going out. We hope to announce something on that in the near future, so stay tuned.

Our message about refund delays next February will be similar to what it was for this past filing season: taxpayers should file as they normally do, and return preparers should also submit returns as normal. In other words, people who usually file in January should do that again next year. Delaying filing until after February 15 will just put a taxpayer farther back in the processing queue and mean a longer delay for their refund.

Another issue for the IRS as we approach the next filing season is the hurricane relief legislation signed into law at the end of last month. This legislation contains some challenging retroactive tax relief provisions. We're studying them to determine what we will need to do to revise forms and update our systems in time for the filing season. And obviously, we are keeping a close eye on any other tax changes that Congress could pass between now and the end of the year. We don't yet know whether the need to implement the hurricane relief changes or any others that may come will have an impact on the start of filing season, so stay tuned.

Looking beyond the next filing season, we're continuing to make longer-term plans for the future of taxpayer service and tax administration. I would note that how fast we can make progress on these initiatives and other taxpayer service improvements will depend on our resource situation. As you've heard me say before, our funding is now \$900 million below the 2010 level.

We are still waiting to find out what our funding for Fiscal Year 2018 will be. For now, we are operating under a Continuing Resolution, or CR, at least through early December. While we wait to see what our full-year funding will be, it's important to realize the IRS is now beyond a discussion about how the agency does not have adequate resources. We have moved into an area of high risk in terms of how our lack of funding is undermining our operations.

If the IRS budget continues to be cut, I'm concerned that tax administration will fail in one of two ways. And this is not a question of "whether," but of "when."

The first significant risk involves the IRS's information technology systems, which have long been operating with antiquated hardware and software. About 64 percent of our IT hardware

systems are aged and out of warranty, and 32 percent of software products are two or more releases behind the industry standard, with 15 percent more than four releases behind.

We are concerned that the potential for a catastrophic system failure is increasing as our infrastructure continues to age. If this failure were to occur during the filing season, we could be looking at an interruption in processing returns and issuing refunds. Thus, replacing our aging IT infrastructure is a high priority for the IRS. But securing sufficient resources to accomplish this modernization remains a major challenge for the agency.

The second way the tax system is at significant risk involves the ability to ensure tax compliance. As a result of our declining budgets, we have lost more than 18,000 full-time employees through attrition since 2010. Nearly 7,000 of those were key enforcement personnel. These are the people who audit returns, perform collection activities and investigate tax-related crimes.

Simply put, without adequate resources, we don't have enough people to perform all the audits we think are necessary. And that has been showing up in our enforcement statistics. The IRS audited just over 1 million individual income tax returns in Fiscal Year 2016, which is the lowest in more than a decade.

The problem created by this decline in audits goes to the heart of our tax system. I believe taxpayer service and enforcement are two sides of the same compliance coin. The IRS collects more than \$3 trillion each year as a result of people meeting their tax obligations under the law without being asked.

If people think that many others are not paying their fair share, or that they're not going to get caught if they cheat, or they're just frustrated because they can't get the help they need from us to file their taxes, our voluntary compliance system will be put at risk. And when that happens, you're talking about losing serious money. A one-percent drop in the compliance rate translates into a revenue loss of over \$30 billion a year, or \$300 billion over the 10-year budget window often used.

Neither of the two problems I just mentioned can be turned around overnight. I think it's important for us to talk about this now and to keep talking about it. If the funding situation isn't corrected, and a major failure does occur at some point in the future, I don't want anyone to say they weren't warned, or that the problem occurred because IRS employees weren't doing their jobs. Our workforce is as dedicated and talented as any I've ever worked with, and our employees continue to do everything they can for taxpayers, even within our constrained resources.

As I've said from the start, you can do more with less for a while, and then you do less with less. Over time, doing less with less threatens the effectiveness of tax administration.

As some of the controversy of the past recedes, I'm hopeful that, in the future, the IRS and Congress can have a more rational and reasonable discussion of the resources the agency needs to meet its very critical responsibilities. I took the job of IRS Commissioner four years ago because of the critical role this agency plays in our government. The IRS touches virtually every

American, and we collect more than 90 percent of the revenue that funds the government. To put either of those activities at risk seems to be something we ought to work to avoid.

In closing, I want to once again thank CERCA for being such a great partner with the IRS, both as part of the Security Summit and on a whole range of issues. It has been an honor for me to serve as the IRS Commissioner, and a great pleasure to work alongside all of you to maintain and improve our tax system. I wish you great success as you continue your efforts to serve the American taxpayer.

Thank you.