

Statement of James A. Smith
On Behalf of The
Texas Society of Certified Public Accountants
Before The
National Taxpayer Advocate
Public Hearing on IRS Future State
August 30, 2016

Good morning, my name is Jim Smith. I have been a licensed CPA in Texas for over 43 years, serving individuals and entrepreneurial businesses. I am a past chairman of the Texas Society of CPAs and the Dallas CPA Society, a founding member of the TSCPA Federal Tax Policy Committee and a member of the American Institute of CPAs Tax Practice Responsibilities Committee. I am speaking on behalf of the Texas Society of CPAs whose more than 28,000 members represent all types and sizes of taxpayers and who interact regularly with the Internal Revenue Service (IRS) in serving their clients. I believe my comments reflect our members' concerns, but I should add they have not received official approval by our Executive Board.

I want to thank the Office of the Taxpayer Advocate and Congressman Doggett for giving this panel the opportunity to speak on matters that are so important to all taxpayers and tax practitioners. I also want to thank you for the great work you, as National Taxpayer Advocate, do in serving taxpayers and helping make the tax system work better for everyone.

As the IRS fulfills its responsibility for administrating the tax system, it must cope with limited funding and the resulting personnel shortages, expanded responsibilities imposed by new laws, the impact of information technology, accelerating complexities in the tax law and the negative reaction many, including members of Congress, have to it. How it manages these challenges is critical to the viability of our voluntary compliance tax system. To effectively and efficiently administer our federal tax law, the IRS should focus transparently and with public input on four important areas:

- inadequate staffing,
- identity theft,
- technology, and
- Future State Plan.

I will address each of these areas separately and hope my comments will be viewed as constructive and supportive of the IRS' essential role in our government.

Inadequate Staffing

The staff shortage manifests itself in the following:

- inordinately long "hold" times for telephone calls that are often terminated without explanation,
- reduced or eliminated IRS personnel presence in many locales,
- long waits for unscheduled face-to-face meetings,
- difficulties and delays in trying to schedule face-to-face meetings in other locales, a major problem in a state the size of Texas,
- extraordinarily long timeframes to resolve problems through IRS correspondence.

It is critical that the IRS utilize the limited funds it has efficiently in the administration of tax law while serving the taxpayer base. Online services are an essential, but not exclusive, way of serving taxpayers. Many tax issues cannot be addressed solely through technology. It is common that the answer to one question leads to another question or requires a further clarification that can be most easily resolved with direct communication either by telephone or in a face-to-face meeting. Many individual taxpayers, arguably those most in need of assistance, do not have computer skills or access to the Internet and must address an issue through personal contact either by telephone or a face-to-face meeting. Our knowledgeable members frequently complain of the great difficulty in working with the IRS website; we can only imagine the difficulties faced by taxpayers or less well trained preparers who prepare the preponderance of returns. The long waits on the telephone or long lines at IRS Taxpayer Assistance Centers contribute to reduced taxpayer compliance, which must be factored into IRS planning.

We believe having adequate numbers of well-trained personnel who can serve taxpayers and tax practitioners over the phone and in face-to-face meetings will improve the efficiency of tax administration. In the difficult task of allocating scarce resources, providing competent, timely service to the taxpaying public and the professionals who assist them in complying with the law needs to be a priority of the IRS equal to processing returns and collecting taxes due. The lack of adequate taxpayer support leads to increased involuntary non-compliance with the tax law and, in many cases, to unfair treatment of taxpayers who lack the resources to find the correct answers.

Identity Theft

Most federal tax returns are filed electronically, and it is critical to both the IRS and taxpayers that more stringent safeguards be put in place to detect and deter unauthorized access to confidential taxpayer and return information.

Identity theft is a serious issue for tax practitioners, taxpayers and the IRS. Protecting the privacy of our clients' records is a great concern for CPAs. We strive to maintain client confidentiality while processing, storing, and communicating tax and financial information. The IRS must maximize its efforts to protect taxpayer records. A security breach damages the reputation of the IRS, undermines public confidence, and costs the government and taxpayers.

In addition to more electronic safeguards, we believe identity theft could be reduced significantly if taxpayers and their representatives were able to verify their authenticity using their adjusted gross income as reported on the last return filed rather than, or in addition to, their Social Security number. This would at least limit a thief to access for only one year and would not infringe on the taxpayer's other personal information.

We believe that the IRS should further build on a partnership with the regulated financial institutions to exercise greater controls over the processing of refund checks. Positive steps have already been taken with the limits on the number of refunds that can be direct deposited to the same account or included on the same prepaid debit card, but we believe that further steps can be made. We realize that the debit card refund is important to many taxpayers who do not have a bank account, but the use of such cards has proven to be a serious weakness in controlling identity theft fraud. The continued use of these cards should be carefully reconsidered on a cost/benefit basis. Tightening the limits on direct deposits to only one per account would also be a positive step that we believe would impact very few taxpayers.

We have also encountered increasing problems with obtaining Employer ID numbers and Individual Taxpayer Identification Numbers. Some of these problems result from staffing issues, but many are the result of overly burdensome IRS procedures, on which the Taxpayer Advocate's office has previously commented. Despite concerns about identity theft and related security concerns, the process for obtaining both of these numbers should be streamlined to facilitate rapid response and efficiency for both the IRS and taxpayers. Our recommendations for improvement have been submitted in writing (which letters of comment are attached hereto) and we would reiterate those comments and recommendations.

Technology

All tax practitioners support technological improvements. However, it is important to keep in mind that many taxpayers do not have access to or are not comfortable with computers. Accordingly, technological improvements should not be undertaken assuming that doing so will enable a significant reduction in staffing.

That said, the IRS' current technology needs improvement. System outages and instances of programming deficiencies are too frequent. While many tax questions cannot be adequately addressed on a website, better programming of the IRS public website would be a step in the right direction. Many of our members have found that it is often easier to get an answer to a tax question by using a Google search rather than using an IRS website search. The IRS needs to make its website more user friendly.

Future State Plan

I also want to comment specifically on the "Future State Plan" initiative of the IRS. Attached is a comment letter dated March 4, 2016. It is important that the development process of such plans be transparent with real input from taxpayers and tax practitioners prior to adoption and certainly prior to implementation. Doing so will both improve the efficiency of the process and the "buy-in" to the plan by stakeholders. The Texas Society of CPAs is ready to support the IRS in the development process.

We call your attention to comments we have submitted recently that are directly relevant to improving IRS taxpayer services in the future. Attached letters are included as part of our testimony.

We very much appreciate the opportunity you have given us to express our concerns on these most important issues.

I will be glad to answer any questions you might have.

Attachments:

Request that the IRS Expose its "Future State" Vision and Concept of Operations for Public Comments (March 4, 2016)

Concerns with Deficiencies in the Individual Taxpayer Identification Number (ITIN) Program (April 5, 2016)

Concerns with Deficiencies in the Employer Identification Number (EIN) Program (May 2, 2016)

Preserving and Improving Access to Face-to-Face Appeals Conferences (May 13, 2016)

Request for Proposed Regulations for Public Comment before Implementing Section 7345,

Revocation or Denial of Passport in Case of Certain Tax Delinquencies (July 12, 2016)