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TAXPAYER ADVOCATE SERVICE (TAS)

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PUBLIC FORUM

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Tuesday, February 23, 2016

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Internal Revenue Service

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1111 Constitution Avenue NW

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Washington, D.C. 20004

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19 Reported by: Alexander Lee

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1 A P P E A R A N C E S

2 HOST - Nina Olson, National Taxpayer Advocate

3 OPENING REMARKS - John A Koskinen, Commissioner

4 PANELISTS

5 Pamela F. Olson, Washington National Tax

6 Services Practice Leader

7 Leslie Book, Professor of Law, Villanova

8 University School of Law

9 Jennifer MacMillan, Chair, Internal Revenue

10 Service Advisory Committee (IRSAC)

11 Timothy J. McCormally, Vice Chair, Internal

12 Revenue Service Advisory Committee (IRSAC)

13 Michael Gangwer, Chair Information Reporting

14 Program Advisory Committee (IRPAC)

15 Jim Buttonow, Chair, Electronic Tax

16 Administration Advisory Committee (ETAAC)

17 Gina Jones, Chair, Taxpayer Advocacy Panel

18 Michael Best, Senior Policy Advocate,

19 Aaron W. Smith, Associate Director, Pew

20 Research Center's Internet Project

21 Arturo Gonzalez, Chief, Consumer & Community

22 Development Research

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1 OPENING REMARKS

2 MS. OLSON: Good morning everybody on
3 this soggy D.C. morning with lots of traffic and
4 gray skies. I want to welcome everybody here and
5 I am thrilled to see so many people at this first
6 public forum on the future state of the IRS. And
7 I want to just let you all know that we are
8 printing off more copies of the testimony. We
9 had no idea there'd be this many people. So this
10 is thrilling.

11 Before we get to our first panel first I
12 want to say I am Nina Olson, the National
13 Taxpayer Advocate and I am convening this forum
14 and the others around the country.

15 Before I introduce the Commissioner of the
16 IRS, John Koskinen, I do want to make a few
17 remarks before he presents his welcoming remarks.

18 As you know I raised concerns in my annual
19 report to Congress that the IRS was developing
20 its future state plan without adequately telling
21 the public what it was considering or soliciting
22 public comments.

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1 I also raised concerns about whether the IRS
2 would be able to achieve hoped for cost savings
3 by transitioning taxpayers from relatively
4 expensive telephone and face-to-face service
5 toward relatively cheap online taxpayer accounts
6 while still meeting taxpayer needs. In fact I
7 designated this issue the number one most serious
8 problem of taxpayers and announced that I would
9 be holding public forums or hearings around the
10 country to get taxpayers engaged in the planning
11 for the future state vision.

12 Because of the concerns I expressed one tax
13 publication just yesterday led with the headline
14 Koskinen/Olson to face off on taxpayer service
15 future state. Because the IRS received such late
16 notice of this event it wasn't able to set up a
17 boxing ring in time

18 [LAUGHTER.]

19 MS. OLSON: So we can't bring you that
20 spectacle.

21 Seriously though, that headline, while
22 attention getting, could not be further from the

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1 truth. After I raised my concerns with the
2 Commissioner last month he said he would put out
3 more information about the IRS's plan. And the
4 IRS just yesterday placed a considerable amount
5 of information about the future state plan on its
6 public website.

7 The Commissioner has also made clear that
8 the IRS is not locked into any particular plan.
9 And he has made clear he believes the IRS must
10 strive to continue to meet the needs of all
11 taxpayers including taxpayers who can't or don't
12 want to interact with the agency using online
13 accounts. And he graciously, thank you, offered
14 to join us for a few minutes this morning to
15 underscore that message and to make clear he
16 welcomes these public forums as a vehicle through
17 which the IRS can learn about taxpayer needs and
18 preferences.

19 The role of the National Taxpayer Advocate
20 in her annual report to Congress was designed to
21 spur the IRS toward change and improvement. I am
22 proud that this year's report has resulted in

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1 greater transparency for and taxpayer and tax
2 community engagement in the IRS future state
3 planning process. The decisions made during this
4 process can alter the relationship between
5 taxpayers and the tax agency for decades going
6 forward and are not to be made lightly or in a
7 vacuum.

8 For my part I want to acknowledge that the
9 IRS faces some very difficult resource allocation
10 decisions because of the budget restrictions it
11 is operating under. High quality taxpayer
12 service can't be provided on the cheap. And with
13 the IRS budget down about 19% in inflation
14 adjusted terms since fiscal year 2010 its options
15 are increasingly limited.

16 Congress gave the IRS an additional
17 \$290,000,000 this year for several components of
18 taxpayer assistance and that is very helpful but
19 it doesn't get us where we need to be over the
20 long run. Over the long run it is very clear to
21 me that providing high quality taxpayer service
22 requires a commitment not only from the IRS but

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1 from the Congress as well.

2 So Commissioner I welcome you and thank you
3 for joining us.

4 [APPLAUSE.]

5 WELCOMING REMARKS

6 MR. KOSKINEN: Thanks Nina. I am delighted
7 to welcome all of you to this first as Nina said
8 in a series of forums on the future state of IRS
9 taxpayer service. As Nina noted in a little kind
10 of pre-form hype some of the press advertised
11 this as a faceoff between Nina and me on the
12 future state and my first thought was that we
13 should sell tickets because that would help with
14 our budget problem.

15 [LAUGHTER.]

16 MR. KOSKINEN: My next thought was a concern
17 though that you'd be disappointed to find out
18 that Nina and I both agree this is an important
19 issue and that any future state should insure the
20 best possible service for all taxpayers whatever
21 their inclinations.

22 So in any event whether you bought a ticket

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1 or snuck in on your own we are delighted you are
2 here.

3 The IRS has benefited greatly over the years
4 from the perspectives, insights, and concerns of
5 our stakeholders. We have standing advisory
6 groups some members of which you will hear from
7 today such as IRPAC, IRSAC, and ETAAC. We love
8 acronyms at the IRS. Those groups of outside
9 stakeholders and practitioners provide us on a
10 regular basis with suggested actions we could
11 take many of which we are able to adopt.

12 We also have informal meetings on a regular
13 basis such as a couple I attended last week with
14 representatives of practitioners and
15 organizations of tax professionals. We do
16 surveys of taxpayers to monitor their experiences
17 with our services and their satisfaction with
18 them and to learn of their interest in or desire
19 for expanded services of one kind or another.

20 Thus I am very pleased that Nina and the
21 Taxpayer Advocate office has organized gatherings
22 like this across the country to give us

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1 additional insights into the taxpayer experience
2 now along with suggestions for future
3 improvements.

4 The IRS has been on an evolutionary path for
5 many years to improve service and enforcement. In
6 fact I was intrigued to learn recently that the
7 IRS Restructuring Act of 1998 required the IRS to
8 develop an online account for taxpayers. So the
9 future state is not a new initiative but instead
10 brings together a number of initiatives into an
11 overall prospective of where we want to go over
12 the next three to five years.

13 We've already taken as many of you know,
14 most of you probably, a number of significant
15 steps in this direction with the increased use of
16 our website IRS.gov as a source of information
17 along with the development of applications that
18 allow you to determine the status of your refund,
19 get a copy of a prior year's return, make an
20 online payment, enter in an online installment
21 agreement.

22 At the same time the environment in which we

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1 are operating is changing. We confront a dynamic
2 global economy and tax compliance challenges
3 across the world, a complex tax code made more so
4 with new benefits and mandates and a growing
5 population of customers with challenging
6 expectations. We envision a future that
7 continues to protect taxpayers' rights, it's a
8 future that meets the needs of all taxpayers, and
9 it's one that keeps traditional lines of service
10 open for those who need them.

11 The IRS, as Nina noted, has no plans to walk
12 away from providing the assistance over the phone
13 or in person and in fact we are working hard to
14 free up resources in those areas so it is easier
15 for people to get access to them and get the help
16 they want.

17 Our goal is to increase the availability and
18 quality of operations whether online or in face-
19 to-face transactions so taxpayers' interactions
20 with us whether in service side or the
21 enforcement side are accomplished in a manner
22 that is fast, secure, accurate and complete.

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1 Over the next five years we'll take a
2 measured approach with feedback from stakeholders
3 all along the way like many of you here and from
4 the forums across the country but also on a
5 continual basis from our standing advisory
6 committees. All of that will play an important
7 role in the process going forward as it has in
8 the past.

9 A critical factor over the long term of
10 course as Nina noted is the IRS budget and
11 putting our workforce and the budget on a
12 sustainable stable basis because it would go a
13 long way toward improving operations to better
14 serve the public and enforce the tax code if we
15 had appropriate and accessible resources.
16 Ultimately our pace of progress hinges on the IRS
17 budget and those of you have been stuck listening
18 to me for over two years understand that it has
19 been a critical part of our discussions almost
20 from the start of my tenure.

21 As Nina noted we are pleased that the IRS
22 budget for 2016 was increased significantly for

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1 the first time in six years with an additional
2 \$290,000,000. But this is just a start and was
3 less than half of the additional funds we
4 requested for the three areas of focus for that
5 money, taxpayer service, identity theft and cyber
6 security.

7 The proposed President's budget for 2017
8 calls on Congress to fund the IRS at a level of
9 almost \$12.3 billion and basically the level we
10 received in 2010, seven years ago. Since then,
11 since 2010 we have ten million more taxpayers and
12 unfunded mandates that we have to and have been
13 implementing including the Affordable Care Act,
14 the Foreign Account Tax Compliance Act, the ABLE
15 Act, the Health Coverage Tax Credit and the
16 Private Debt Collection Act. But funding at the
17 2010 level even though it would still be
18 significantly below an inflationary adjusted
19 number would be a wonderful step forward for us
20 and we hope that the Congress having now figured
21 out how to give us additional funding rather than
22 cut us each year will continue that progress.

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1 This forum is one of many public discussions
2 on the future state of the IRS that will take
3 place both around the country under the Advocacy
4 of the Taxpayer Advocate but also through ongoing
5 meetings with our standing committees and
6 hearings and briefings on the Hill. But as a
7 result we appreciate everybody's participation in
8 particular all of you who have come to join us
9 for this kick off as it were forum.

10 All of us at the IRS look forward to the
11 results of these proceedings, to the suggestions,
12 the insights you provide us and for the concerns
13 you have about where taxpayer service is now and
14 where it ought to go over the next three to five
15 years. As I've said our goal is not to go to the
16 moon, we are not trying to do something out of
17 the blue, out of the ordinary but our goal really
18 is to improve and expand taxpayer services for
19 all taxpayers in particular for those who expect,
20 in many ways demand, that they be able to deal
21 with us online in a digital economy. Our goal is
22 simply how to try to catch up with where

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1 financial institutions are across the country
2 already which means that as I've said to many of
3 you there is not a clear plan for what five years
4 from now should definitely look like because none
5 of us know exactly what the world is going to
6 look like in five years. The technology is going
7 to change, experiences of taxpayers will change
8 and one of the things that is critical for all of
9 us is for the IRS to always be agile and
10 adaptable and responsive to what the experience
11 of taxpayers is over the course of time, what the
12 experience is in the digital economy, what the
13 experience is of people who need to contact us
14 directly in their most desired mode of contact.

15 So again I wish everybody an informative day
16 today and appreciate your taking the time to join
17 us and provide your insights.

18 Good luck.

19 [APPLAUSE.]

20 MS. OLSON: So, will our first panel come
21 up.

22 Our first panel includes Pam Olson who is

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1 the Washington National Tax Services Practice
2 Leader at PWC and she is in Washington, D.C. She
3 is also the former Assistant Secretary for Tax
4 Policy.

5 And then Les Book who is a Professor of Law
6 at Villanova University School of Law and the co-
7 founder of Procedurally Taxing: a Blog on Tax
8 Procedure, surprisingly enough.

9 The format for how we are going to proceed
10 is that all of the panelists on panel 1 and panel
11 2 will be making five minute oral statements and
12 then I will have some questions for them. And
13 then after we are done with Panel 2, we'll open
14 up the floor, the mikes for people to come to the
15 microphone and have public comment if you would
16 like.

17 Also I will let you know that
18 taxpayeradvocate.IRS.gov to have a separate page
19 for our public forums. So all testimony will be
20 published and as soon as we can get the
21 transcripts transcribed of the hearings, the
22 forums, we will post that as well. And there will

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1 be a way for people to post public comments and
2 notes that they want brought into this process as
3 well. And we will post them as well. We will
4 delete expletives and things like that.

5 Pam, would you like to begin.

6 MS. P. OLSON: Sure. Thank you.

7 First I want to compliment the Commissioner
8 and National Taxpayer Advocate for deciding to
9 hold these forums because I think they are a very
10 important opportunity for us as taxpayers and as
11 tax professionals to interact with the IRS and
12 spend some time talking about what we need and
13 what we are capable of doing which I think is
14 essential to think about where the agency ought
15 to go in the future.

16 I've got a longer statement that I guess is
17 going to be out there somewhere?

18 MS. OLSON: Yes.

19 MS. P. OLSON: And I had one of those
20 Murphy's Law mornings, I left my driver's license
21 at home, realized that after I was packing up to
22 come over here and so I had to race home, got

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1 caught in of course traffic, so I didn't have
2 time to get my statement down to five minutes, so
3 you'll just cut me off when I have reached the
4 limit.

5 I'll start by saying I think that there is
6 no agency of the federal government except
7 perhaps the Post Office that we as citizens
8 interact with more than with the IRS. And our
9 views of the government are shaped by our
10 interactions with them. And so I think what the
11 IRS is doing here is more important than just for
12 the tax system. I think it is important for us
13 as citizens of this country as well. So it is
14 really important that the IRS do what it can to
15 get this right.

16 Important point: the world is changing
17 rapidly and that means tax administrations have
18 to change rapidly as well and tax administrations
19 around the world are rushing to try to adapt.

20 Yesterday afternoon I was over at a forum on
21 the state aid discussion that is going on in
22 Europe and that is just one of the many

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1 challenges that all U.S. based companies that are
2 doing business around the world, especially in
3 Europe, are having to deal with. So it is a
4 complicated situation out there. And that
5 complicated situation is going to be visited on
6 the division of the IRS that deals with large
7 business taxpayers as well.

8 Obviously the IRS's ability to adapt to
9 change is complicated by the funding shortfall.
10 But I would say that all of us in the business
11 world deal with funding shortages as well and so
12 somehow we've got to find a way to make things
13 work more efficiently, effectively for all of us
14 because when it comes to a shortage of funds we
15 feel your pain and we do understand the need that
16 the IRS has to husband the resources that it has
17 carefully.

18 As I see it the IRS's future state
19 initiative represents an essential effort to find
20 more efficient and effective ways of interacting
21 with taxpayers, an effort that is to be
22 applauded. I enjoyed Commissioner Koskinen's,

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1 maybe enjoy isn't the right word, but I
2 appreciated Commissioner Koskinen's comments that
3 were reported in the press yesterday about the
4 fact that the IRS can't choose its customers.
5 Similarly we as customers can't choose the IRS.
6 So it really is important that we find ways to
7 work together to make it work better than it
8 currently does.

9 So there are two things that I put at the
10 top of the list as being critically important to
11 designing the IRS future state. The first is
12 opening the design process to the public which is
13 what you are doing here today. Again my
14 compliments.

15 And the second is building trust. I think
16 that the two of them lead to and reinforce each
17 other; the greater the transparency around the
18 design, the greater the trust; the greater the
19 trust, the greater the willingness to engage and
20 participate in the process.

21 There is much to be gained from an open and
22 collaborative process that includes taxpayers and

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1 tax professionals in the designs because we as
2 taxpayers and tax professionals have needs and
3 capabilities that should be taken into account.
4 And the best way to understand them is through an
5 open and transparent dialogue.

6 One comment on the future state vignettes
7 that the IRS released and that is that they are
8 premised on tax administration rather than law
9 enforcement. Those of you who know me know that
10 I've not been fond of use of the word enforcement
11 when it comes to the IRS because I think
12 enforcing the law is an action that compels
13 people to do something and it is not something
14 that has to be visited on the average taxpayer.
15 The average taxpayer wants to voluntarily comply
16 and we just need to make sure they have the tools
17 and the resources to do it. They may need advice
18 or assistance but rarely do they need an
19 enforcement action to compel them to pay their
20 tax or to punish them for failing to do so.

21 It may be obvious but I think it is worth
22 noting that the more resources that the IRS

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1 focuses on upfront tax administration the greater
2 the likelihood of taxpayers correctly reporting
3 their income, calculating their tax liability and
4 paying it without the need for costly after
5 filing interaction. So another way of saying
6 that is dollars invested upfront are likely to
7 reap substantial rewards on the back end.

8 I'll say a couple more words about distrust
9 and suspicion and importance of collaboration. I
10 think that the relationship between business and
11 the IRS, maybe taxpayers in general and the IRS,
12 is often marked by distrust and suspicion and
13 that it is a two-way street. The large business
14 division is currently undergoing a re-
15 organization. I think it is a very important
16 thing for it to do. But with or without it
17 administration of the tax law could be improved
18 with a conscious effort on the part of all of us
19 to be transparent, to speak openly and to try to
20 understand opposing points of view and work
21 together to resolve issues. Part of this
22 involves being able to give and take criticism.

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1 Criticism can be difficult to take especially
2 when it doesn't appear to be offered
3 constructively. But we can all do better if we
4 learn to give and take constructive criticism.

5 On collaboration I think that government
6 benefits significantly from what it learns from
7 external sources. I would say taxpayers and tax
8 professionals benefit significantly as well from
9 what we can learn from the IRS. And in the
10 networked world in which we operate a decision
11 not to collaborate is in reality a decision to
12 fail.

13 The crowd sourcing concept that we hear so
14 much about today is a good metaphor for it. My
15 partner who leads our New York Metro practice
16 tells of the difference between two new hires,
17 one of whom has a network and the confidence to
18 use it and the other whom does not and is afraid
19 to ask for help. Given the same assignment when
20 the project is due, the first with the network
21 turns in a product that has had the benefit of
22 inputs from the network, maybe a template, maybe

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1 a precedent, maybe a model, a spreadsheet, a
2 shortcut, some similar experience to draw on and
3 it results in a polished work product. It has in
4 effect been crowd sourced. The second turns in a
5 product that reflects what the new hire has been
6 able to figure out alone. So the first turns in
7 a top quality work product; the second turns in a
8 product that needs work.

9 Distrust and suspicion are impediments to
10 collaboration. But collaboration is essential to
11 more effective and efficient tax administration.

12 In conclusion I would say that there is
13 considerable taxpayer and tax professional
14 interest in improving tax administration and that
15 there are a lot of trade associations even out
16 there that have formed a coalition to look at
17 ways to try to improve the system of tax
18 administration. So I think there are a lot of us
19 that are willing and eager to help. And I look
20 forward to continuing the discussion about this
21 on a going forward basis.

22 Thank you.

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1 MS. OLSON: Thank you.

2 Professor Book.

3 MR. BOOK: Thank you. And thanks Nina for
4 holding this forum and Commissioner for his
5 comments this morning. It is a pleasure to be
6 here today.

7 And this morning I am going to be focusing
8 my testimony on lower income taxpayers although
9 there are themes that apply broadly and as Nina
10 mentioned I am a professor but I started my
11 career directing a low income taxpayer clinic and
12 I did that for about ten years. So I've worked
13 extensively with taxpayers who oftentimes
14 intersect with the IRS facing different
15 challenges than perhaps some other segments of
16 taxpayers face.

17 But the themes I'll talk about today I think
18 apply broadly and whether in delivering service
19 to low income taxpayers or wealthy taxpayers,
20 individuals or corporations or financial
21 institutions or overseas citizens trying to
22 comply with reporting obligations.

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1 I think a fundamental starting point in
2 thinking about service is that the IRS needs to
3 know whom it is serving and the characteristics
4 and challenges associated with a particular group
5 of taxpayer or parties it is regulating. It
6 sounds easy enough but knowing the taxpayer
7 actually is a very resource intensive endeavor.
8 An agency fixated on efficiency and delivering
9 services at lowest possible short term costs
10 without knowing the impact and burdens of its
11 actions may find itself pushing more serious
12 problems down the road while at the same time
13 jeopardizing taxpayer rights.

14 While taxpayers with resources can perhaps
15 delegate responsibility to third parties to
16 address a more distant and automated tax
17 administrator, over time continued poor service
18 has a potential for undermining respect and
19 confidence in the tax system. Once the public
20 loses trust in an agency charged with
21 administering the tax system it is difficult to
22 recapture. As Pam mentioned I think trust is a

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1 fundamental theme that underlies service and
2 thinking about service.

3 Now in thinking about today's testimony I
4 have extensive written remarks but I'm going to
5 talk about a couple of stories that I think
6 relate to some themes. And one of the vignettes
7 that was shared about the future service is an
8 interesting vignette talking about the role of
9 the future individual taxpayer in the IRS's
10 future world of tax administration.

11 That individual taxpayer is a middle school
12 math teacher who has returned to the workforce
13 after a number of years outside the workforce
14 with a teenage child. And the vignette is
15 interesting in it goes through the way in which a
16 taxpayer in a future state can file a tax return
17 using third party information using online
18 accounts and interacting with the IRS through
19 essentially a digital form of communication for
20 the IRS to express challenges or issues with
21 perhaps a return that as filed including
22 questions concerning the eligibility for the

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1 earned income tax credit.

2 An underlying discussion of the vignette is
3 this notion that there can be clear guidance from
4 the IRS and as well as partners that will be
5 communicated to taxpayers as well as taxpayers
6 having secure access to tax information as well
7 as online access. There is this notion of
8 personalized third party assistance as well as
9 the possibility of taxpayer self-correcting with
10 no or limited support from others and essentially
11 taxpayers being able to manage this on their own.

12 In the vignette there is this careful
13 discussion of the need for IRS outreach that is
14 particularized and pre-emptive using multiple
15 channels which I think is important. And this
16 notion of as Commissioner mentioned knowing the
17 taxpayer, knowing the customer is important.

18 At the same time yesterday in the New York
19 Times was an interesting article concerning some
20 of the challenges that school children face in
21 this country with the shift in most school
22 pushing assignments and homework online. It is

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1 an article by Cecelia Kang who writes about
2 technology and policy looking at particularly
3 school children in Texas and how children are
4 facing increasing challenges in being able to
5 meet the responsibilities of their being in
6 school and completing their homework assignments.
7 In the article there was a discussion of how some
8 school kids are doing their homework outside
9 their local elementary school on the sidewalk
10 because they don't have internet access at home.

11 Likewise there was a story of Perla Castro,
12 a 16 year old who takes an extra long three hour
13 bus trip home because the school district has
14 installed Wi-Fi in the buses. And she uses the
15 time in the bus in order for her to in fact
16 complete her homework assignments.

17 We'll hear more about this later today in
18 other testimony I'm sure in other forms, but
19 there is 31.4% of all households with incomes
20 under \$50,000 who do not have internet access.
21 That equates to about five million households
22 with children without internet access. It is

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1 significantly difficult for many individuals in
2 this country to communicate in a way when
3 communications are based upon internet access and
4 access to technology that is not evenly
5 distributed in society.

6 So what I think is important is that
7 understanding that while most Americans are, in
8 fact, able to file their tax return and
9 experience tax administration without much
10 hiccup, returns going via the cloud and refund,
11 there is a refund of excess withholdings,
12 refundable credits, it comes out increasingly via
13 direct deposit to a bank account. Millions of
14 Americans are not so lucky. Sometimes they do not
15 understand the law despite their best efforts.
16 Sometimes they are missing key facts or documents
17 that relate to their tax situation perhaps due to
18 life disruption such as a move or an illness of a
19 parent or a child. Sometimes they've received
20 letters from the IRS from a past year that they
21 do not understand including letters that suggest
22 a prior year's return was incorrect or missing

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1 some needed information. Some do not have a bank
2 account and must rely on old fashioned paper
3 checks and the possibilities of high fees to
4 convert a refund to cash.

5 As the National Taxpayer Advocate explained
6 in her most recent report to Congress the
7 taxpayer demand for service by IRS is high.
8 People place over 100,000,000 phone calls to the
9 IRS per year. There are over 5,000,000 in-person
10 visits to the IRS per year. And people send over
11 10,000,000 pieces of correspondence to the IRS in
12 response to a letter proposing or making an
13 adjustment per year.

14 How has the IRS done response to taxpayers
15 reaching out to the IRS in person, on the phone,
16 or via old fashion mail? Well, a recent GAO
17 report discusses some of the challenges the IRS
18 faces and in the interest of time I'll not go
19 through that but suffice to say that the service
20 has been challenging and at times I think it is
21 safe to say abysmal.

22 So going forward what does this mean for tax

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1 administration? I think consider how our future
2 of tax administration sees taxpayers as they
3 actually may lead to an approach that can
4 increase the trust in tax administration and
5 enhance voluntary compliance.

6 Some of the questions one might ask include
7 things like should the IRS have dedicated phone
8 lines for benefits issues when it knows that the
9 population faces more literacy and internet
10 access problems. And try to focus people to the
11 internet in areas where, in fact, people come
12 from more affluent communities. Should the IRS
13 perhaps expand its physical presence in
14 communities where there is a likelihood that
15 individuals potentially benefit from tax credits
16 may also be particularly vulnerable to predatory,
17 dishonest or incompetent preparers?

18 At a time when IRS seems focused on
19 lessening the ability to interact in person in
20 the interest of reducing direct cost and
21 increasing efficiency should instead be looking
22 at ways or perhaps leverage partnerships either

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1 with the private sector or states to facilitate
2 to greater access to walk-in sites.

3 In conclusion it is not easy to administer a
4 tax system in any country. Add in to the mix a
5 country as diverse as ours with a tax system that
6 serves multiple functions and you have a system
7 that needs constant care and attention.

8 I end this by bringing this back to issues
9 of psychology. You may be familiar with so-
10 called placebo buttons though maybe not the term
11 itself, those are buttons that literally do not
12 do anything when you press them but people are
13 comforted that in fact something is happening.
14 Think of the close door button on an elevator or
15 the button at a crosswalk that says push button
16 to walk.

17 I recently read an article that discussed
18 research originally done by psychologist Ellen
19 Langer. Ellen Langer's research introduced the
20 concept of illusion of control. The article
21 discusses how there are plenty of examples of
22 buttons which do nothing and indeed other

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1 technologies which are purposely designed to
2 deceive us. The key insight to that research is
3 that people need to feel that they have some
4 control over their lives. A button on the
5 elevator that says close door or even the fact
6 that it does not trigger the door to close gives
7 you the illusion, in fact, you have the power
8 over your external environment. That control
9 contributes to ones sense of well-being.

10 Our tax system often times doesn't even have
11 those placebo buttons to placate the people it
12 serves. As IRS builds its base on a future state
13 it must take into account the current state of
14 the growing number of citizens who feel that
15 their government does not serve them well. These
16 people feel as though they are powerless or at
17 time voiceless.

18 I do not suggest as the IRS moves forward
19 that it looks for placebos to let people feel
20 they have control when they do not. Rather IRS
21 should build a system that is based on support
22 and respect for all citizens, one that gives

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1 people a voice and can actually contribute to
2 people having the power to understand their
3 rights and responsibilities. With that support
4 and respect the people of the IRS service will
5 pay that back in kind thus contributing to a tax
6 system that can continue to be the backbone for
7 an increasingly diverse and complex society.

8 Thank you very much.

9 MS. OLSON: So as we are on the seventh
10 floor and when you all leave today and try to
11 push that button think about what Les just said.

12 [LAUGHTER.]

13 MS. OLSON: Does it make you feel better.

14 Thank you Les.

15 I have a few questions for this panel and
16 some of them I'll also be asking the second panel
17 so they can study up ahead of time.

18 But in other conversations, Ms. Olson, when
19 you and I have spoken, you have said that the tax
20 agency should meet taxpayers where they live not
21 where the IRS lives. And I've taken that to mean
22 we must deal with taxpayers as we find them not

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1 how we want them to be.

2 So of the taxpayers that you represent is
3 there a critical service above all others that
4 these taxpayers must have in order to comply with
5 the laws?

6 MS. P. OLSON: Clear rules I think would be
7 the most important thing. And clear rules is one
8 of those up front things. You put resources into
9 telling people what the rules are and then they
10 know how to construct their affairs, file their
11 returns, and you eliminate a whole lot of the
12 back end. So I would say that is the most
13 important thing.

14 The other thing about clear rules is that it
15 provides certainty and whether we are talking
16 about a low income taxpayer who wants to know I
17 am entitled to that credit and when I get it I
18 get to keep it. I'm not going to have to worry
19 about having to repay it to the government. Or a
20 large business is filing financial statements and
21 wants certainty about whether it has properly
22 calculated its tax liability. We all want

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1 certainty. We want certainty sooner. And the
2 more that we have clear rules that people
3 understand the easier it is to get there.

4 It is obviously complicated when we've got
5 Congress as opposed to people just interested in
6 designing a good tax system writing the rules.
7 But it's something that we all should be working
8 towards.

9 MS. OLSON: All right. Professor Book do
10 you want to comment on that?

11 MR. BOOK: Yeah, I think the vast majority
12 of lower income taxpayers really want to comply.
13 And they want to do the right thing. And to do
14 that in today's environment is difficult with
15 complex rules and oftentimes not an easy path to
16 understanding what rights and responsibilities
17 are. So there is not one silver bullet. There is
18 not one solution but there needs to be a more
19 targeted approach that takes into account the
20 realities on the ground, the circumstances of
21 taxpayers as well as the challenges that
22 individuals face in even trying to have their tax

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1 return prepared and the importance of insuring
2 that the IRS has the power to understand those
3 who are interfacing with taxpayers given the high
4 degree of significant number of taxpayers who for
5 example rely on commercial preparers that the IRS
6 doesn't have power to directly regulate
7 unlicensed preparers is a kind of issue which I
8 think speaks to some of the challenges the IRS
9 faces with this segment.

10 MS. OLSON: I know that you both referenced
11 the vignettes. The IRS has put four vignettes
12 online envisioning how in the future state an
13 individual taxpayer or small business taxpayer, a
14 large business and a government entity would
15 interact with the IRS. And I commend you all to
16 see them. And I have a series of questions about
17 those vignettes.

18 And one of them is when in my documents we
19 had noted that there is a key component to the
20 future state which is that the IRS will have
21 transitioned taxpayers from talking to IRS
22 employees to interacting through online accounts.

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1 And these vignettes show taxpayers working
2 through audits et cetera or making adjustments to
3 their returns without ever speaking to an IRS
4 employee. And I personally have said in my annual
5 report that I think that works fine for cookie
6 cutter transactions. But I am more concerned
7 about what happens with more complex
8 interactions.

9 So what are your thoughts and I throw this
10 out to both of you. What are your thoughts
11 regarding whether online services will supplement
12 or actually replace telephone and face-to-face
13 services.

14 And this is sort of a three-part question
15 but I'll just throw it out so you can answer it
16 in whatever way you want. In what circumstances
17 do you think online services would be most
18 helpful and in what circumstances do you think
19 online services will be least useful for
20 taxpayers?

21 MR. BOOK: So as I discussed in my opening
22 statement I think there are real challenges

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1 especially for lower income taxpayers in
2 navigating an online environment. At a starting
3 point as I mentioned there is a significant
4 segment of the population that has limited access
5 to internet. And if there is an expectation that
6 the norm is communication in an online
7 environment there is going to be a challenge for
8 those taxpayers who don't have the ability to
9 easily communicate with the IRS. And I think
10 that is going to be -- obviously as time passes
11 one hopes that the so-called digital divide will
12 lessen and there will be an opportunity for
13 people to have more opportunities to get online.

14 But even with there being an online
15 environment where more people have access to
16 internet I think my experience with this
17 community is that there is no substitute for
18 personalized engagement. And it is amazing to me
19 how limited the understanding is for many in this
20 segment in terms of what their rights and
21 responsibilities are. And without a significant
22 upfront investment in resources in education that

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1 is really personalized to direct towards specific
2 issues I think the IRS faces an uphill struggle
3 in relying exclusively or largely on an online
4 environment. And as Commissioner mentioned I
5 think that there is a sense that there is a
6 multi-faceted group of taxpayers out there some
7 of which will have more difficulty than others in
8 navigating in this online world.

9 Having said that I think it is important
10 that as people do have access, as some people
11 will have access to an online environment that
12 there is a more transparent sharing of
13 information about the kinds of issues that may
14 potentially cause tax problems down the road for
15 lower income individuals.

16 So there is a lot of research out there
17 about the kind of -- for example looking at the
18 earned income tax credit -- the kinds of claims
19 which are most likely subject to error, most
20 likely that are abused. And I think a more
21 personalized and engaged interaction between
22 claimants and individuals and IRS research and

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1 information about what, in fact, are warnings for
2 people to know that there are issues that can
3 cause problems down the road.

4 So I think that there needs to be an
5 awareness that some people just have a difficult
6 time navigating an online environment and even
7 when there is greater access that there will be a
8 need for focus and targeted communication that is
9 directed to the individuals at play. It is not a
10 one size fits all approach.

11 MS. P. OLSON: I think I am going to echo a
12 lot of what Les just said. Thinking of instances
13 I used to go to the Martin Luther King Library
14 here in D.C. to VITA site and prepare tax returns
15 for low income taxpayers and I was always amazed
16 by the complexity of their factual settings, the
17 factual situations, their living arrangements.
18 And they deal with some of the most complicated
19 rules that are out there. And I don't think I
20 ever went to the site to prepare a return when I
21 didn't end up with some factual situation that
22 would stump the VITA site coordinator in addition

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1 to stumping me; so very complicated. So then you
2 take that and you say okay how do I boil that
3 down to something that can be done online and
4 it's a real challenge to take away the personal
5 interaction.

6 I spent a day last week at, we call it
7 digital experience center down in Florida and it
8 was fascinating to look at the research there
9 about the public's inability or unwillingness or
10 a combination to deal with anything that is
11 friction in the system. So people will just hang
12 up. They'll shut down. And we have to take that
13 into account as we think about what we need in
14 the future.

15 So when I look at the low income taxpayer
16 community it is hard for me to see how we can
17 simplify things enough but I think maybe through
18 the use of some of that data to the extent that
19 there is big data that we could analyze to try
20 and figure out if there are shortcuts so that you
21 could kind of put buttons and maybe that would
22 allow you to also figure out ways to simplify

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1 returns and the whole filing process for people.

2 On the large business side there are lots of
3 leverage points out there that could be used more
4 frequently to answer questions and to minimize
5 the need for after-filing interactions.

6 So those are some of the things that I think
7 should be focused on but it is hard to take the
8 complexity that is the tax law and boil it down
9 for anybody who doesn't fit into the neat sort of
10 vignettes.

11 MR. BOOK: Right.

12 MS. OLSON: So in both of your testimony you
13 discuss the role of the IRS in delivering social
14 benefits and not just the earned income credit.
15 Ms. Olson you mention many other kinds of
16 benefits that run through the code.

17 This sort of picks up on some of your
18 opening comments about calling the IRS an
19 enforcement agency. But it has been variously
20 described as a revenue collection agency, an
21 enforcement agency, a processing agency even. I
22 haven't really heard it described as an education

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1 agency or a taxpayer service agency either.

2 So I'm going to ask you how would you
3 describe the IRS mission or missions today?

4 MS. P. OLSON: I have often thought that the
5 reality is that given everything that we've put
6 into the IRS's territory to administer for us
7 that we actually need to divide the IRS into two
8 separate agencies. We'll call one Revenue
9 America -- be responsible for collecting the tax
10 we need to fund the government. We'll call the
11 other one Finance America and it will be the one
12 that distributes all of the benefits. Because I
13 think it does get to be a very difficult
14 situation to have an agency charged with doing
15 both of those things.

16 And Les you talked about this in your
17 testimony as well. And the needs of the
18 community that relies in particular on it for
19 benefits are so different from the ones that are
20 merely paying taxes. But there are a lot of
21 other things that we put responsibility on the
22 IRS to take care of as well. Things like

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1 corporate governance and conservation policy,
2 energy policy. We have all of those things
3 running through the Internal Revenue Code. And
4 at some point we ought to step back and say
5 should we be doing all of these things. Or
6 should we put it somewhere else.

7 But so I think the most important thing is
8 for the IRS to fully embrace the multifaceted
9 responsibilities that it has with respect to both
10 collecting tax as well as administering benefit
11 system and administering lots of other things and
12 making sure that it is factoring that into how it
13 plans its service.

14 MR. BOOK: Yeah. I echo that. And when you
15 look at the importance that the IRS plays in the
16 lives of so many Americans in terms of its
17 responsibility in delivering benefits, the IRS
18 has become the principle gatekeeper in terms of
19 distributing benefits that have an effect on
20 reducing childhood poverty. When you look at,
21 for example, the earned income tax credit, its
22 impact on American lives and the importance that

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1 that plays in federal policy the IRS becomes an
2 agency that really needs to think about some of
3 the challenges that other agencies have faced in
4 administering benefit programs.

5 And thinking about the IRS as a benefits
6 administrator is really I think fundamental in
7 thinking about the IRS in the 21st century. And
8 there is a whole important non-tax base
9 literature and scholarship and research looking
10 at some of the challenges that other agencies
11 have faced in performing that function. And as
12 Pam mentions it is really very different from its
13 role, a key role, as collector of over 90% of
14 federal receipts which is obviously important and
15 fundamental. But there are complimentary in
16 terms of the IRS being able to deliver high
17 quality service. It is incumbent upon the IRS to
18 fully appreciate its different functions.

19 MS. OLSON: So this is a yes or no answer.
20 Should the IRS explicitly recognize in its
21 mission statement its responsibility for
22 delivering social benefits?

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1 MR. BOOK: Yes.

2 MS. P. OLSON: Yes.

3 MR. BOOK: And this is a --

4 MS. P. OLSON: You just couldn't -- okay,
5 never mind.

6 [LAUGHTER.]

7 MR. BOOK: I think this is a proposal that
8 came out a while back and I think that by not
9 doing so I think that some might say well it is a
10 mission statement what is the real effect of a
11 mission statement. But it really reflects
12 fundamentally from a top down perspective of what
13 the IRS is doing and how it should approach its
14 task or responsibilities. So I think it would be
15 an important move and a move that would reflect
16 reality on the ground.

17 MS. OLSON: So I just have a few more
18 questions but one of them is another component of
19 the IRS's future state vision in addition to
20 taxpayer access to online accounts is giving
21 practitioner access to online accounts. And so
22 my question is what benefits and risks do you see

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1 to providing taxpayer access to taxpayer online
2 accounts. And does your answer change if that
3 access is provided not just to tax practitioners
4 who would be enrolled agents, you know, certified
5 public accountants, attorneys, those who are
6 currently regulated under Circular 230 and you
7 expand them to tax preparers including
8 unregulated ones.

9 MR. BOOK: Yeah, I feel strongly that
10 obviously that the role of the private sector,
11 commercial return preparers is of fundamental
12 importance in thinking about the overall tax
13 administration as it relates especially to lower
14 income but across the board obviously. It is an
15 issue that spans different taxpayer segments.

16 But when you look at the research which
17 suggests that there are significantly differing
18 for example error rates between unlicensed
19 preparers and those who are licensed, enrolled
20 agents or CPAs. It suggests to me that the IRS
21 needs to be quite concerned about who, in fact,
22 has access to information, whether, in fact, the

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1 parties have the best interest of the taxpayers
2 and tax system at heart. And I think the IRS's
3 efforts to more directly regulate that community
4 is I think reflective of its recognition that it
5 relies to a large extent on the private sector in
6 administering the tax system in different ways.
7 And with that reliance comes a responsibility and
8 I think the IRS tried to exercise that
9 responsibility and hopefully Congress now can
10 step in and give the IRS the tools that itself
11 felt it needs to more directly communicate with
12 and assure the taxpayers are receiving the
13 service they deserve.

14 So I think it is really important that
15 especially as a future state looks to third
16 parties to be able to communicate with taxpayers
17 that there is an important and explicit
18 recognition of that role and the role that that
19 community plays in tax administration.

20 MS. P. OLSON: I don't think I can add
21 anything to what Les said. I'm personally a bit
22 biased because I've been through identity theft

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1 with the IRS. And I've also been subject to the
2 OPM breach. So I do think it is critically
3 important that the IRS focus on protecting
4 information and I fully support all the budget
5 that you need in order to make sure that it
6 remains safe.

7 So I think that is what I would say is the
8 biggest constraint is whatever you do make sure
9 that you are comfortable that it doesn't invite
10 hacking into the people's accounts.

11 MS. OLSON: So, in both of your testimony
12 you have written and spoken about the importance
13 of trust between the taxpayer and the tax agency.
14 So can you elaborate a little bit on the role
15 that trust plays in furthering voluntary
16 compliance and in particular what can the IRS do
17 to foster that trust. And if you want to focus
18 on your particular taxpayer groups that is fine.

19 But it sounds like trust is just a key,
20 central to this whole thing both now and going
21 forward. Do you want to start?

22 MS. P. OLSON: Sure, yes, I mean I do think

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1 that trust is absolutely critical. And there is
2 a perception from time to time that the IRS kind
3 of goes into a shell generally speaking. It is
4 never good to speak with too much in the way of a
5 generality but sort of generally speaking there
6 is a feeling sometimes that the IRS goes into a
7 cocoon and closes down to interaction from
8 outside.

9 And those are the times when I think tax
10 administration suffers the most and taxpayers on
11 the receiving end of tax administration suffer
12 the most.

13 I think that the more we spend time talking
14 with each other the more that we realize our
15 similarities and the extent to which we have
16 mutual goals. And so the more that we can do to
17 open up the process to share information I think
18 the better off we will all be.

19 And it certainly can feel risky to open up
20 to discussion, put your ideas out there to allow
21 somebody to criticize them, to take the
22 criticism, to be willing to give criticism back.

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1 But I think it really is an essential part of
2 operating a tax system that functions at the
3 highest level.

4 MR. BOOK: Yeah, in looking at it from the
5 lower income perspective I kind of elaborated in
6 the written testimony I think sometimes the
7 elephant in the room in talking about lower
8 income taxpayers is program integrity issues and
9 so- called non- compliance rate or overpayment
10 rate. And that clearly is an issue that has
11 concerned many and I know the Commissioner has
12 called for a stakeholder summit or meeting in the
13 upcoming months to consider ways that the IRS can
14 improve its administration with respect to
15 program integrity.

16 I think, however, getting back to trust and
17 how that relates to taxpayers there is no
18 question that sanctions alone is really not the
19 way, a sanctioned based approach is not the only
20 way to encourage voluntary compliance. There
21 needs to be an emphasis on insuring that
22 interactions with taxpayers enhances trust and

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1 trust between the taxpayer and the IRS is a two-
2 way street but if the taxpayers have an absence
3 of trust in what the IRS is doing it leads to
4 kind of spirals and increases non-compliance.

5 And without going in too deep in terms of
6 the way the IRS manages its compliance with
7 respect to many lower income taxpayers it is
8 mostly done via automated correspondence
9 examinations where there is very little
10 personalized interaction between the IRS and
11 claimants. And for many individuals it causes a
12 lack of connection or understanding as to what,
13 in fact, the IRS is doing or why it is doing it.

14 So if you are looking to education and
15 educating taxpayers to comply going forward a
16 compliance based, correspondence based exam
17 approach really falls short. And my experience
18 with many individuals who may have mistakenly
19 claimed a credit or taken a position or return
20 they come out of the experience with the IRS not
21 really understanding why, in fact, their position
22 is incorrect. So I mean I guess the point is

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1 that in thinking about trust and thinking about
2 compliance it requires a more personalized
3 engagement with individuals as well as in the
4 pre- filing environment.

5 MS. OLSON: So with the online accounts it
6 would be automated correspondence exam on
7 steroids, just faster; right, digitally.

8 My closing question for you is as the IRSAC
9 noted in its testimony, its written testimony
10 which you will hear soon, during the
11 reorganization of the IRS in 1998 the IRS held
12 town halls and conferences and convened task
13 forces with IRS and private sector participation.
14 So my question to you is what can the IRS do in
15 addition to this to insure that your taxpayers
16 and all taxpayers have a role in helping craft
17 the IRS future state.

18 MS. P. OLSON: So I would say open up the
19 process from the very beginning. Don't wait
20 until things start to crystallize or heaven
21 forbid it's a proposed whatever because it is
22 very difficult to take input at that point in

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1 time particularly if there is a lot that has been
2 invested in it.

3 So I was thinking back to post-1982 TEFRA,
4 Tax Equity and Fiscal Responsibility Act
5 contained a whole bunch of provisions that were
6 going to be immediately effective or almost
7 immediately effective and were in need of
8 regulatory guidance. And IRS and treasury decided
9 to convene a gathering of the affected
10 stakeholders to talk through what was in the
11 Statutes and what was needed in the way of
12 guidance. And those upfront discussions before
13 pen was put to paper on anything were so useful
14 in helping to get the regulatory process moving
15 in the right direction. And I've thought about
16 that as a model for a long time as the best way.
17 I mean I think like the regulatory side, the IRS
18 and treasury's annual business plan that gets
19 updated regularly are ways of communicating with
20 the public, hey this is what we are working on;
21 this is what we're thinking about. But a still
22 more engaged and transparent dialogue about what

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1 is going on from the very earliest stages I think
2 would go a long ways toward making things
3 function better.

4 MR. BOOK: I agree and I think one of the
5 challenges for issues relating to lower income or
6 moderate income taxpayers is sometimes it is
7 difficult for there to be a voice that can be at
8 the table. And so even with an agency interested
9 and engaged, wanting to engage, it is more
10 challenging to understand the experiences of
11 those who have lives that may be significantly
12 different from the lives of the administrators.
13 And so that is an additional challenge that I
14 think needs to be identified up front and what
15 that means. Having the experience of the Taxpayer
16 Advocate Services is a great organization for
17 insuring that the voice of those who may not have
18 a seat at the table is heard in setting rules but
19 outreaching to others in the community and
20 directly going out to the community like you are
21 doing with these forums I think is a terrific
22 idea.

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1 But it is an additional obstacle in trying
2 to think about rules that could be best suited as
3 you oftentimes have a group of people who may not
4 be able to communicate specifically some of the
5 challenges they may face in interacting with the
6 government.

7 MS. OLSON: Okay.

8 MS. P. OLSON: I just want to say one more
9 thing. I think about the tax world and
10 everything being in taxese and taxese is
11 something that is difficult for those of us who
12 are tax professionals to understand. When you
13 take it and you send it out to the general public
14 it is even more of a challenge.

15 So there is, I think it is a Dave Berry joke
16 the IRS is now printing forms in Spanish can
17 English be far behind.

18 [LAUGHTER.]

19 MS. P. OLSON: You know it is just very
20 difficult for people to take taxese and figure
21 out what's it mean for their lives. And so the
22 more the IRS can do to help people understand

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1 what does this mean for the average setting as
2 well as the unaverage setting the better off it
3 will be.

4 MS. OLSON: There is a Facebook page called
5 I got my refund and people can post their
6 experiences and it is actually, you talk about
7 taxese but there is IRSese and it is actually
8 terrifying to see people saying I am in status
9 you know 1 2 1 2 and this is where I am and you
10 are thinking I don't know what that means, I'm so
11 upset that you know what that means that your
12 live is driven by our tax transaction codes.

13 Okay. Well thank you very much Ms. Olson
14 and Professor Book.

15 And now we will bring the second panel up.
16 Thank you so much.

17 [APPLAUSE.]

18 (WHEREUPON, a brief recess was taken.)

19 MS. OLSON: Now we are starting with our
20 second panel. And again we are going to go
21 through all the oral statements and then we will
22 come back with a series of questions some of

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1 which you've heard and some of which will be
2 different so just to change it up a little bit
3 for you all who thought that you had taken little
4 notes about how to answer my questions.

5 So on our panel and I guess we are starting
6 going in this direction. We have Jennifer
7 McMillan who is an Enrolled Agent and she is
8 Chair of the Internal Revenue Service Advisory
9 Committee or IRSAC. Next to her is Timothy J.
10 McCormally who is Vice Chair of IRSAC and he is
11 the Director of Washington National Tax for KPMG
12 in Washington, D.C. We have Michael Gangwer who
13 is Chair of the Information Reporting Program
14 Advisory Committee or IRPAC and he is tax advisor
15 for the Vanguard Group in Valley Forge,
16 Pennsylvania. And next to him is Jim Buttonow
17 who is Chair of the Electronic Tax Administration
18 Advisory Committee or ETAAC and he is with H & R
19 Block in Greensboro, North Carolina. And finally
20 very far over there, hello, we have Gina Jones
21 who is an Enrolled Agent and she is Chair of the
22 Taxpayer Advisory Panel and she is from Delhi,

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1 Louisiana.

2 And just so everyone knows these are all
3 representatives of the Federal Advisory
4 Committees, some of the Federal Advisory
5 Committees that the IRS has. And these folks are
6 charged to make recommendations in their
7 particular subject areas to the Commissioner and
8 in the TAP to the National Taxpayer Advocate as
9 well.

10 So I think we are going to start with Ms.
11 McMillan; is that correct?

12 MS. MacMILLAN: Yes.

13 MS. OLSON: Yes.

14 PANEL 2

15 MS. MacMILLAN: Good morning. As Chair of
16 the Internal Revenue Service Advisory Council or
17 IRSAC, I am honored and pleased to be invited to
18 participate in today's discussion as the IRS
19 moves to its future state.

20 IRSAC which dates to 1953 is chartered to
21 provide private sector representatives a forum to
22 discuss tax administration issues with IRS

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1 officials. IRSAC currently has 18 members who
2 were appointed to convey the public's views on
3 various IRS activities and offer constructive
4 suggestions on current and proposed IRS policies,
5 programs, and procedures. IRSAC operates on a
6 consensus basis with its annual report to the
7 Commissioner being reviewed and approved by the
8 entire group.

9 The principal general recommendation in our
10 2014 and 2015 reports relates to the IRS's need
11 to have sufficient funding and documented the
12 adverse effects of inadequate funding on taxpayer
13 service and compliance.

14 We commend the Commissioner and the Taxpayer
15 Advocate for their efforts to persuade Congress
16 to increase IRS's 2016 fiscal year budget. It
17 would be a mistake, however, to consider
18 enactment of the first budget increase in six
19 years as signaling the end of IRS's budget woes.

20 The changes necessitated by the long- term
21 constriction of IRS's budget have significantly
22 impaired the IRS's ability to recruit, train and

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1 retain experienced employees, threatening a
2 serious void in both skilled leadership and
3 experienced front-line employees. The IRS has
4 acknowledged that its future state efforts have
5 been informed by, among other thing, the current
6 funding environment.

7 This acknowledgment coupled with lack of
8 certainty and specificity has prompted many
9 questions about the future state initiatives and
10 engendered anxiety about how the new structure
11 will affect taxpayers, tax practitioners, and IRS
12 employees themselves.

13 Based on our knowledge and experience, we
14 view the IRS's plans as not secret but
15 incomplete. To a certain extent this is
16 understandable since there may be legitimate
17 issues of sequencing, and in many instances the
18 premature release of tentative or undeveloped
19 proposals could be counterproductive - bringing
20 not light but heat to the discussion and cutting
21 off communication rather than facilitating it.

22 That said, we agree that the planning

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1 process could benefit from greater transparency
2 and continuing engagement. Not only might
3 taxpayers and other stakeholders identify issues
4 or offer perspectives that have not yet been
5 considered, but they may have suggestions or even
6 solutions to seemingly vexing problems.

7 We believe that opening up the discussion,
8 and decision-making process will contribute to
9 the development of a better, more balanced
10 system, and that greater outreach and respect of
11 all aspects of the future state initiative could
12 lead to greater taxpayer confidence in the
13 fairness and integrity of the tax system.

14 Outreach to taxpayers and stakeholders
15 clearly characterize the Internal Revenue
16 Service's major reorganization following the
17 enactment of the Restructuring and Reform Act of
18 1998. At that time, the IRS created task forces
19 which teamed IRS employees and stakeholders, held
20 hearings, briefings, and town hall meetings, and
21 kept taxpayers and the tax community involved in
22 its plans.

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1 The goal of these outreach efforts was and
2 with respect to the future state initiative
3 should be not merely to share the IRS's decisions
4 but rather to inform them, even if a consequence
5 of greater engagement is delay.

6 We appreciate that the IRS recognizes the
7 indispensable role of tax representatives and we
8 are confident that the IRS will continue to team
9 with tax professionals as it develops digital
10 tools, and greater efficiencies in delivering
11 taxpayer service. Practitioners can and do play
12 an important role in insuring taxpayer compliance
13 and we encourage expansion of practitioner e-
14 services to provide more tools, including
15 automated disclosure authorization capabilities.

16 While enhancement of digital tools may
17 create new efficiencies, it does not justify
18 cutting the level of other account-specific
19 services such as the practitioner priority
20 support hotline.

21 Digital tools and electronic communications
22 which are fully accessible to unrepresented

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1 taxpayers are also critically important, but we
2 cannot overemphasize that the need for face-to-
3 face, voice-to-voice communications and
4 interactions will not disappear regardless of the
5 depth, breadth, and quality of digital tools
6 deployed by the IRS.

7 Whether working directly with taxpayers or
8 with their representatives, the range of
9 necessary explanations, guidance, and problem
10 resolution will always require knowledgeable
11 assistants who can advise on the best solutions to
12 a vast array of issues particularly in the post-
13 filing environment.

14 That is my comments and Mr. McCormally will
15 fill in the rest of our report.

16 MR. McCORMALLY: Thanks so much Jennifer.

17 And thanks for the opportunity to be here.

18 Both Jennifer and Nina have made reference
19 to the meetings, task forces, and work groups
20 that came up after the Restructuring Act in '98.
21 As I look around I have a feeling I am not the
22 only one that went through that reorganization or

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1 thinks the tax system is better for the process
2 that was used.

3 I want to talk a little bit more about what
4 we think can be done especially with respect to
5 the LB&I restructuring because LB&I is where I
6 practice.

7 But I want to begin with a couple of general
8 observations. First, I think that we all need to
9 be careful about how we speak and what we speak
10 of and the motives we try to thrust on other
11 people. And that works both sides of the debate.
12 I think it is only presidential candidates that
13 seem to have no regard at all for the words they
14 use. But we should.

15 If you pull up that huge cache of documents
16 that the IRS released in connection with this
17 hearing you see a lot of gobbledygook, you see a
18 lot of consultant speak, you see a lot of things
19 that could well conjure up images of George
20 Orwell or Philip K. Dick -- future state, con
21 ops, things of that sort.

22 And then if you turn to the National

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1 Taxpayer Advocates report, you will find
2 references to a class system, pay to play, secret
3 plan and, of course, it does get attention not
4 only in the tax press but more generally. The
5 question really is what are we trying to
6 accomplish here? If what we are trying to
7 accomplish is attention, then we've done it, but
8 what are our next steps? For the IRS, I would
9 urge to them to maybe not only translate it into
10 tax but into English what the consultants have
11 given them.

12 That is what we spent a lot of time doing
13 after RRA '98 was enacted and I worked for a
14 group that represented what were then LMSB
15 Taxpayers, now LB&I Taxpayers. When the process
16 is opened up, the result has got to be progress.
17 And when LB&I announced its reorganization last
18 September and the organization stood up
19 officially two weeks ago, a lot of questions
20 arose not only from IRSAC members and members of
21 other stakeholder groups but from IRS employees
22 themselves of what this major shift mean for

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1 well-regarded programs, such as the Compliance
2 Assurance Process program, which Pam Olson
3 mentioned it in her written statement, the pre-
4 filing agreement program in our written
5 statement. These programs that have at their core
6 encouraging early compliance and as I say my
7 focus tends to be on LB&I taxpayers but I think
8 if there is one thing that I would urge everyone
9 who is focused on the future state to not lose
10 sight of it is the need to develop programs and
11 means of delivering programs that, in fact,
12 recognizes as Pam and Les and Nina and the
13 Commissioner himself recognize that compliance is
14 the goal of everyone. Voluntary compliance is
15 what we want to get to.

16 We think there are some instances where the
17 Service in an effort to be "efficient," has, in
18 fact, taken away some of the incentives for self-
19 correction and compliance.

20 One of the major areas of concern in IRSAC's
21 last report was penalty administration and the
22 fact that there are more and more assessable

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1 penalties throughout the Internal Revenue Code
2 that may lead many taxpayers to say maybe it is
3 not worth coming forward and correcting an error
4 rather than doing the right thing and self-
5 correcting. So we would urge the future state to
6 focus as much on that as on anything else.

7 And with respect to engagement generally
8 I'll just conclude, Nina, by saying that because
9 of all of the trade-offs that you have in tax
10 administration between secrecy and transparency
11 between privacy and speed that opening up the
12 process can help get the sunlight on all of those
13 issues. The answer for you may not be the same
14 answer for me but we have to identify the issues
15 before we can sort out what the answer should be.

16 And I think I want to go back to one comment
17 that Les made in his comment which is the role of
18 social psychology and social science. What I find
19 astounding is the research with respect to the
20 difference in veracity of people who give you a
21 real signature versus an e- signature. And think
22 about the number of times these days when we

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1 either give or are requesting an e-signature and
2 it's kind of mind boggling that we kind of take
3 for granted that the result is going to be the
4 same.

5 Thank you.

6 MS. OLSON: Thank you. Great.

7 MR. GANGWER: So good morning. My name is
8 Mike Gangwer. And I am the Chair of the IRPAC.
9 So many of you might be asking so what is IRPAC.
10 It is a group of about 20 tax professionals and
11 we are from various different parts of the tax
12 process. Some come from large companies who
13 create tax information returns and others from
14 the side who consume them so enrolled agents and
15 tax practitioners on that side. And what we do
16 is we partner with the IRS to help make the end-
17 to-end process for creating those information
18 returns as smooth as possible.

19 So some pretty common examples that everyone
20 here should be familiar with would be 1099s and
21 W2s. So has very far and wide reaching
22 implications for all taxpayers. And I think as I

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1 speak a little bit here this morning I think it
2 helps to note that the real tie-in here is if you
3 think about service; right, for the individual
4 taxpayers you can have a great person at the IRS
5 who picks up the phone and can answer questions.
6 You could have a fabulous website that is able to
7 interact well with the taxpayer. But if the
8 information that the taxpayer and the IRS
9 receives on these information returns isn't clear
10 and correct the whole process won't work as
11 designed.

12 So I want to talk about a couple of
13 challenges that are out there today and I think
14 are in danger of sort of being long term unless
15 they are dealt with. And some are outside of
16 the IRS's control but I think it is important to
17 talk about them.

18 So there has been a lot of discussion
19 already this morning on budget, the budget
20 shortfall. And so you can look at different
21 numbers. In our written testimony we talk about
22 in sort of non-inflation adjusted numbers the IRS

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1 is down about 11% over the past five or six
2 years. In and of itself that is not a huge deal.
3 People have to do with less all over the place.
4 But I think the real mitigating factor here is
5 that the IRS has been given increased
6 responsibilities far in excess of what they are
7 really able to handle. So a couple of examples
8 would be the Affordable Care Act and FACTA and
9 Cost Basis; these are all very real burdens to
10 the IRS to have to implement given the situation
11 of having reduced funding levels.

12 So what does that mean for information
13 reporting? Well our concerns are that because so
14 many resources have to be devoted to implementing
15 these large new programs that other areas for
16 which much guidance, and you've heard other
17 panelists talk about this, much guidance is
18 needed are really missing out on the resources
19 that they need. So the information reporting
20 process suffers. The ambiguity that is inherent
21 in many of the different types of information
22 returns that have to be generated remains. And

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1 our committee works hard with the IRS to try and
2 clear some of those things up as much as we can.
3 But the reality is that there is only so much
4 funding to go around and so until that funding
5 gap is closed we think there is a very real
6 danger that the IRS won't be able to accomplish
7 its mission of collecting the right amount of
8 revenue and that individual taxpayers won't be
9 able to comply with their obligations because the
10 tax information returns that they receive won't
11 be as clear and contain the right information
12 that they would need to be able to do that.

13 Just another general note about information
14 reporting is that it is part of the compliance
15 process. One could look at it as if the IRS has
16 deputized businesses and employers to take on
17 part of the compliance process. So what we do in
18 effect is we are the beginning of the process,
19 information return preparers will store
20 information on people's earnings and wages and
21 the dividends and all the different things that
22 they receive and we put that on paper. We put

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1 that into some type of form in which the taxpayer
2 and the IRS consume.

3 And there has been a huge shift in this over
4 the years and that now for example cost basis,
5 brokers and mutual funds are required to now
6 track the basis and report it. And this
7 additional information can create a huge burden
8 on the payer community if the rules aren't clear.

9 And so what we would like to point out is
10 that the IRS has a responsibility if they are
11 going to sort of deputize businesses and
12 employers to do this function to make sure that
13 the rules are clear and that where possible the
14 burdens are reduced.

15 Now in more detail in our annual reports you
16 can go back if you are really looking for some
17 scintillating tax information go to our reports
18 and take a look. We have a number of
19 recommendations that we make across the board on
20 different types of information returns. And I
21 guess from our perspective we think that a future
22 state of the IRS from a service prospective won't

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1 be fully fixed until we make sure that the
2 information reporting process has everything that
3 it needs and that the IRS and taxpayers get the
4 information that they need in a clean and easy to
5 read and understand format.

6 Thank you.

7 MS. OLSON: Thank you.

8 MR. BUTTONOW: Scintillating tax
9 information. I don't know if I can follow that.

10 Well, thanks Nina, thanks to your office for
11 inviting the Electronic Tax Administration
12 Advisory Committee or here is the acronym ETAAC,
13 it is a hard one, ETAAC to discuss the future
14 state of the IRS.

15 And if you have read our reports in the past
16 few years you know that ETAAC has a lot to say
17 about shaping the future state of the IRS
18 especially as it relates to taxpayer service.

19 So first I'd like to start with a
20 confession. I do Chair the Electronic Tax
21 Administration Advisory Committee. I can tell
22 you secretly we believe that all the world's

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1 problems could be solved through automation and
2 programming; right.

3 [LAUGHTER.]

4 MR. BUTTONOW: No, just kidding, full
5 disclosure, ETAAC, our job is to provide Congress
6 with strategies on how to improve electronic or
7 tax administration through electronic means. And
8 so as a member of ETAAC I'm going to fully
9 disclose that most of my comments here are
10 focused on a more digitally enabled Internal
11 Revenue Service.

12 Now I want to be clear digitally enabled
13 Internal Revenue Service is only part of an
14 overall holistic taxpayer service strategy.

15 So what has ETAAC been working on the last
16 few years? Well, ETAAC has been and continues to
17 focus on what we believe are the two biggest
18 challenges in tax administration today. The first
19 one: the erosion of our tax system due to tax
20 identity theft. And the second one: the one that
21 we are really here to talk about today, is the
22 inadequate levels of taxpayer service at the IRS

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1 caused by an antiquated customer service model.

2 And so the committee naturally believes that
3 the key solution to most of these problems is a
4 more innovative digitally enabled Internal
5 Revenue Service. Now, I am not going to talk
6 about the tax ID theft issue here today. That is
7 for another really important session. I know the
8 Security Summit is doing a good job with that. I
9 do want to applaud though and ETAAC does applaud
10 the IRS for collaborating with industry and
11 states to go ahead and combat tax identity theft.
12 Ultimately we know that in a future state of the
13 IRS that innovative solutions are going to allow
14 the IRS to verify taxpayer identities before or
15 at the time they file a tax return. The IRS just
16 needs to get there.

17 So today we are going to focus on the second
18 big problem. What does the future state of
19 service look like to address the needs of today's
20 and tomorrow's taxpayers? So here is ETAAC's
21 vision, all right.

22 Four components to it: the future state is a

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1 taxpayer experience that allows taxpayers to
2 fully understand their tax obligations, have
3 transparent access to their tax information
4 status with the IRS, and effectively and securely
5 allows taxpayers to interact with their tax
6 administrator that is the IRS, and here is the
7 one for Nina, in a way that they want to be
8 served. All right.

9 So that is a really big vision statement.
10 But it aligns too much of what we know about
11 customer service organizations today. So a lot in
12 that vision statement but there are four key
13 components I can mention. Let me give you a
14 little more detail on each of those components.

15 First it is a focus on the taxpayer
16 experience. This mean the service is
17 personalized. It is not a one size fits all
18 model. The future IRS understands who you are as
19 a taxpayer, what you need, and how you want to be
20 served.

21 Second component, taxpayers have access and
22 understanding to their tax information and status

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1 with the IRS. That is not a novel concept. But
2 does anybody know what an IRS transcript is?
3 Anybody ever get their IRS transcript lately?
4 Anybody try to understand it? All right. Well,
5 in future state taxpayers have greater
6 transparency and definitely greater clarity of
7 their tax information and circumstances. In the
8 future state taxpayers feel more empowered which
9 inspires confidence about the fairness of the tax
10 laws and trust in the IRS and encourages
11 voluntary compliance.

12 Third, third component, taxpayers are able
13 to effectively and securely interact with the
14 Internal Revenue Service. The current
15 unpredictable model that we have today that
16 produces long waiting times and extended answer
17 periods especially in short budget years is
18 replaced with real time service.

19 And lastly and again this one is for you,
20 Nina. The IRS serves taxpayers in the way they
21 want to be served, right. So whether it is
22 online, phone, chat, taxpayer assistance center,

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1 VITA site, or through a tax professional the IRS
2 should provide all of these options to meet the
3 variety of taxpayer preferences.

4 Now this is a big shift. This is a shift
5 away from the one size fits all model; right,
6 taxpayers will have to work in a manner that the
7 IRS wants them to serve to a model in which the
8 IRS work with taxpayers in the way taxpayers want
9 to be served.

10 All right. So most of what I described here
11 today, these capabilities they don't exist today
12 at the Internal Revenue Service. For most
13 taxpayers dealing with the IRS it is not quick,
14 it is not easy, and it is mostly done by paper
15 and phone. And for most taxpayers they have no
16 idea about their tax information or their status
17 at the IRS.

18 Now is this a big problem? Absolutely
19 especially for the 45% of taxpayers who have to
20 interact with the Internal Revenue Service
21 outside of filing a tax return.

22 On top of that need there's preferences of

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1 consumers. Modern customer service companies
2 tell us that today's consumer demands digitally
3 enable real time information and online services.
4 It has become the standard.

5 So what about those taxpayers who want to
6 deal with the IRS in person or on the phone?

7 Well, by creating these digital capacities for
8 taxpayers and tax preparers the IRS can meet the
9 growing digital service expectations of taxpayers
10 but also they can free up the phone lines and IRS
11 employees for issues that require human
12 interaction and for taxpayers who really need and
13 prefer a person.

14 So now is a bit of a reality check, where
15 are we at today? Well, the current state of
16 service and the lack of digital tools that the
17 IRS could leave us feeling very, very pessimistic
18 about the near term possibility of modernizing
19 taxpayer service at the IRS.

20 I actually have some good news. I do and
21 ETAAC goes to Congress every year. We give them
22 good news, right. We hopefully give them good

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1 news. The IRS does have a long-term plan and a
2 plan that lays out an iterative approach and I
3 can stress an iterative approach to building
4 taxpayer service features that will create a 21st
5 century experience when taxpayers interact with
6 the IRS. Some know of this evolving plan, this
7 iterative plan is the IRS concept of operations
8 or CONOPS as it's referred to internally at the
9 IRS.

10 Now ETAAC has looked very closely at the
11 CONOPS strategy and its digital service
12 components. Remember we are the Electronic Tax
13 Administration Advisory Committee. We look
14 closely at the digital service components. We've
15 actually endorsed implementation of the digital
16 service components in the plan.

17 We actually took it a step further. When we
18 met with Congress this past year we actually
19 advocated that the IRS accelerate its digital
20 service plans. We know this is not going to be
21 easy. The IRS faces a lot of obstacles. Some of
22 them we've talked about already today. They need

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1 to overcome a lot of these obstacles in order to
2 accelerate these plans. We'll have some time
3 hopefully to talk about those here today.

4 But let me sum it all up. The future state
5 of the IRS enables technology as part of a
6 holistic taxpayer service strategy. The future
7 state embraces digital solutions to allow the IRS
8 to maximize its limited resources. It creates
9 targeted capacity to serve all taxpayers the way
10 they want to be served.

11 Now isn't that what we expect of all of our
12 service providers today? Of course it is. So
13 now it is time to make these digital service
14 capabilities a reality at the IRS and build a
15 modern taxpayer service platform that has room
16 for every taxpayer to be served in the manner
17 they want to be served.

18 So if you want to read more about how to get
19 there and what those accounts look like I implore
20 you to read our report. The ETAAC report the
21 past two years talks about online accounts
22 extensively and how the IRS can overcome

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1 obstacles to getting there.

2 We don't have printed copies, again we are
3 electronic, you can get digital ones in IRS.gov

4 [LAUGHTER.] Let me turn over to Gina.

5 MS. OLSON: Just before we will be linking
6 to all of the advisory committee reports from our
7 future state website so people can go and see all
8 that you've said.

9 MS. JONES: Thank you.

10 I also want to thank our National Taxpayer
11 Advocate, Nina Olson, for hosting this important
12 public hearing and for including the Taxpayer
13 Advocacy Panel or TAP to discuss tax
14 administration needs from a taxpayers'
15 perspective. TAP is an advisory group
16 representing you as citizens and it is composed
17 of 75 volunteer members representing every state,
18 Puerto Rico and one international member
19 representing citizens living abroad.

20 Our mission is to listen to taxpayers,
21 identify taxpayer issues and make suggestions for
22 improving the IRS service and customer

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1 satisfaction. This panel acts as a liaison
2 between the IRS and the general public.

3 We hear a recurring theme that is neither
4 complicated nor isolated and it is that the
5 agency is failing to provide the services that
6 ordinary taxpayers want and need. And we believe
7 that this undermines the integrity of the entire
8 voluntary compliance system.

9 I'd like to share a few concerns that have
10 been expressed to TAP members. There are
11 tremendous wait times to receive help on the toll
12 free telephone lines. Sometimes taxpayers are
13 told that the issue is outside of the
14 department's scope or that it is an issue that
15 the IRS has chosen not to address. Some calls
16 have even been terminated before being answered.

17 Even the practitioner priority service
18 telephone lines have had hold times in excess of
19 an hour. Tax professionals naturally pass this
20 on to their clients and these calls can cause a
21 hardship to their clients.

22 Many of the taxpayer assistance centers have

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1 moved to an appointment system to increase
2 efficiency. But many taxpayers aren't aware that
3 they need these appointments. Even after
4 traveling long distances taxpayers have been
5 turned away and told to come back and make an
6 appointment for another day.

7 Our international panelist shared the
8 hardship caused by closing of the IRS offices
9 overseas. The Agency is continuing its move to
10 online informational services and limited
11 personal assistance. Yet in many remote areas
12 the internet service is slow, limited or not
13 available. One size does not fit all either
14 abroad or domestically.

15 In 2014 TAP requested that an online lookup
16 tool be created for informational purposes
17 regarding the American Opportunity Tax Credit.
18 The IRS responded that although the idea had good
19 merit it could not be implemented because of
20 funding constraints and the issue was rejected.

21 The TAP Committee pressed to research the
22 number of tax returns filed with incorrect

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1 information regarding the education credit. We
2 were told that the exam program which addresses
3 that credit as a primary audit issues reported
4 opening over 13,000 cases during fiscal year 2014
5 at an average cost of \$281 each. That is
6 approximately \$3.7 million in 2014 alone.

7 The IRS is incurring enforcement
8 expenditures which could arguably be reallocated
9 to preventing the erroneous calculations. That
10 portal might possibly provide the ounce of
11 prevention that is necessary to avoid compliance
12 errors. And we think it is especially important
13 given that the tax credit has been made
14 permanent.

15 Budget shortfalls not only hamper services
16 to taxpayer but it also impacts TAP's operation.
17 Our funding is provided by the Taxpayer Advocate
18 Service. While generous in providing staff and
19 other resources for project committees to meet
20 once a year, the budget crunch has prompted the
21 decision to cancel the face-to-face meeting for
22 the 2016 joint committee or JC.

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1 The JC has historically met once each year
2 to perform a critical review of the past year and
3 align the strategic plan for the coming year.

4 While we will meet virtually it is not as
5 conducive to development or engaging important
6 dialogues.

7 IRS has improved processes to protect
8 taxpayers with identity theft issues but there is
9 still more to be done. We recognize the expense
10 and the pains associated with the protection and
11 the return of the transcript delivery program.

12 There is much improvement in online services with
13 more options available for information and self-
14 help.

15 Our caution would be that these online
16 services should not eliminate other more personal
17 services and should not preclude the use by
18 taxpayer representatives. IRS cannot pick and
19 choose its customers. It needs to serve all of
20 them and there is still a segment of the
21 population that does not embrace computer use.

22 Another very positive accomplishment was

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1 enactment of the Taxpayer Bill of Rights, a
2 clear, precise description to all taxpayers of
3 their tax- related rights. These rights must be
4 real and held dear by the Agency in order for the
5 taxpayers to truly be heard and to pay only the
6 correct amount of tax just to reference to.

7 I'd also like to acknowledge and thank the
8 Taxpayer Advocate Service for the availability of
9 the various Affordable Care Act calculators that
10 assist taxpayers as it pertains to their tax
11 returns.

12 And in conclusion I appreciate the
13 opportunity to share the insights of the Taxpayer
14 Advocacy Panel. We look forward to continuing a
15 positive and impactful relationship with the IRS
16 as we search for ways to insure that essential
17 and quality service is provided to the American
18 taxpayers.

19 Thank you.

20 MS. OLSON: Thank you all.

21 So now I've got a few questions for you all.
22 And I'd like you to not answer in treatises so I

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1 can get -- since there are a lot of you up there
2 and I want people to have a chance and then I
3 also want to open it up before we close this
4 session at 12:30 so people from the floor can
5 make comments and I hope not treatises.

6 So my first question is one that I asked the
7 previous panel but you all represent different
8 groups and advocate for different groups and have
9 different interests and I also mean both in our
10 professional lives as well. So this is really
11 the prioritizing question. There are so many
12 things that the IRS needs to do. Is there a
13 critical service above all else that your
14 taxpayers need in order to comply with the tax
15 laws?

16 So I'll start on this side and then we just
17 go down.

18 MS. MACMILLAN: Well I can keep this very
19 brief, personal service I think is the number one
20 thing and you know as we said in our comments and
21 I think everyone has said here today moving into
22 a more digital realm is a good thing. There are

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1 so many places where that can be helpful. But
2 the number one issue that I think builds trust
3 among taxpayers and practitioners with the IRS is
4 to have a person that they can deal with either
5 by phone or face-to-face. I think that is the
6 most crucial thing required. And I don't see
7 that going away even with advances in the digital
8 tools.

9 MR. McCORMALLY: The only thing I would add
10 to that because it is hard to choose which of
11 your children you love most --

12 [APPLAUSE.]

13 MR. McCORMALLY: -- but I think I go back to
14 something that Pam Olson mentioned earlier that
15 guidance up front on what your obligations are
16 makes understanding and complying with those
17 obligations easier. So I would say that that
18 clearly has to get a full complement of attention
19 as well.

20 MR. GANGWER: Yeah, I guess my comment might
21 be a little bit biased. But I think that having
22 very clear, concise information returns. So being

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1 able to put information out to our taxpayers in a
2 way that they can consume it, they can understand
3 it and then either like me, I'm ashamed, I use
4 TurboTax, it is okay, use software, they know
5 what they are inputting or with a good
6 professional they will be able to pay the right
7 tax. So from I think IRPAC's prospective it is
8 making sure that we are able to provide the right
9 information.

10 MR. BUTTONOW: So what can I have first?

11 Well, the first thing I would have is assurance
12 that the IRS is a taxpayer service first
13 organization. We mention compliance enforcement,
14 a very, very tough term when, here's the data,
15 98% of people pay their taxes voluntarily, right.
16 So enabling taxpayer service first and foremost
17 at the sacrifice of everything else is absolutely
18 paramount to feeding the treasury. So that would
19 be it.

20 Again meeting taxpayers where they want to
21 be, right. So certain segments want to be served
22 personally. I want to be served electronically.

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1 So that requires creating digital service
2 capacity.

3 MS. JONES: I concur also with the personal
4 service. And maybe that extra Christmas gift or
5 the icing on the cake however you want to refer
6 to it would be published departmental telephone
7 numbers so that when a taxpayer needed to reach
8 an IRS agent they wouldn't have to wade through
9 all of the press this and press that and press
10 that. And by the time they have done that for
11 ten minutes. I hope no one is in the Post Office
12 here in that career so I don't want to offend you
13 but by the time they've done that they've gone
14 postal already and they are angry and they are
15 upset because they can't reach that person so
16 personal service, but also that quick telephone
17 number that will get you exactly who you want to
18 talk to.

19 MS. OLSON: That has been an administrative
20 recommendation of my office for several years. I
21 can cite the annual reports where I've made that
22 recommendation to publish a directory online.

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1 You can also look at the IRS's response to that
2 and why they won't do that.

3 So then moving to, okay, if we do have these
4 digital online accounts, what types of
5 transactions are they useful for? And where
6 would they be the least useful?

7 Shall we start on the other end and go back
8 this way, how about that?

9 MS. JONES: Sure. Well, you've heard from
10 my oral testimony I'm advocating for more
11 informational lines from IRS so that if you
12 needed to look up what somebody did, for example
13 the First- time Homebuyers Credit. They provided
14 us with a source of information where we could
15 look for that individual taxpayer and see if they
16 owed the First- time Homebuyers Credit back or
17 what year they were in. So my biggest point
18 would be informational sources that we don't have
19 at our hands as practitioners sometimes.

20 MR. BUTTONOW: I think Gina is right. I
21 mean if you look at the data and IRS has a lot of
22 analytics on this. We have it in our report last

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1 year. Transactions are very easy components to
2 go online and get information that is very
3 difficult to do right now with the IRS. You have
4 to sit on hold or get something faxed or mailed
5 to you, things that you don't want to do really
6 with electronic accounts are thing in which
7 taxpayers have to engage with the IRS. We are
8 talking about examinations and luckily those are
9 small, not insignificant, but they are small in
10 terms of the overall components. Consider that
11 the IRS only does 1.4 million audits every year
12 but they send out 200,000,000 notices. So most
13 people need information and be able to transact
14 with the IRS. So those are classic capabilities
15 that you need to do electronically and online
16 which really are not a heavy lift for most
17 taxpayers.

18 MR. GANGWER: Putting the maybe small
19 business lens on this. One of the things we
20 talked about in our report was providing the
21 ability for small business owners who really are
22 sort of jack of all trades, so they do wear many

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1 hats in operating a small business. So giving
2 them for example in an account like this the
3 ability to input 1099 information for whoever
4 they need to give them to, these are small
5 numbers of forms, allowing them to do that, print
6 them, hand them off to either employees or others
7 they need to give them to. It gets information
8 into the process into the system cleanly and it
9 takes away a burden that a small business owner
10 has of tracking down all these things if it
11 weren't available. So I think there are a lot of
12 ways that we could reduce the burden on
13 taxpayers, individuals, small business by really
14 thinking smart about how we use the technology
15 that is available

16 MR. McCORMALLY: I really don't have
17 anything to add.

18 MS. MACMILLAN: One of the things that I
19 actually learned from looking at these vignettes
20 was some of the potential uses. And I thought
21 the self-correction tool as part of an online
22 account was probably my favorite -- I got very

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1 excited about that. And I thought taxpayers at
2 least those who understand what they are doing
3 and can understand the language and what their
4 account is telling them - the fact that they will
5 be able to self-correct - will be a huge advance.

6 But I also know I am on the IRS website
7 daily and I know what I'm looking for and where
8 to find it and how to read what's on there. In
9 IRSAC's 2014 report, we had looked at the
10 language and how difficult it is to understand
11 notices and Flesch-Kincaid reading level of both
12 notices and all the letters that come from the
13 IRS are somewhere around a 12th grade level,
14 whereas most American taxpayers read at a 9th
15 grade or lower level. And I think the lower-
16 income population is probably on the low end of
17 that scale. So there is a need to make it
18 understandable, but it is a really complex tax
19 code and regulations, it is going to be very hard
20 for the average taxpayer to understand complex
21 principles and complex regulations. Those things
22 are always going to require human assistance.

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1 MS. OLSON: Okay. So to continue with the
2 online accounts this is sort of more about
3 practitioner use of the online accounts. And I
4 asked the previous panel but certainly because
5 you are all practitioners what are the benefits
6 of you being able to see your client's activities
7 and, as they extend to unregulated return
8 preparers, what are the risks of that.

9 And I also had another question, these are
10 more practical questions. But if you were to
11 have access to an online account should the
12 taxpayer receive notice every time you've done
13 something on that account? And simultaneously or
14 similarly should you receive notice if the
15 taxpayer has done something on the account? You
16 know, just like an email or something like that.
17 I mean, I've been trying to think about how these
18 accounts would be used.

19 So we will start with you this time?

20 MS. MacMILLAN: Wow that is so many
21 questions.

22 MS. OLSON: There is a lot in the question.

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1 MS. MACMILLAN: There is a lot in that
2 question. I might ask you to repeat parts of
3 that.

4 MS. OLSON: Yes, no problem.

5 MS. MACMILLAN: The first thing that you
6 asked about --

7 MS. OLSON: It is really what benefits and
8 risks do you see on the online accounts and --

9 MS. MACMILLAN: Okay.

10 MS. OLSON: -- what does that mean also with
11 unregulated preparers.

12 MS. MACMILLAN: Okay. I'm a big proponent
13 of e-services and I know this is just speaking
14 for myself not for IRSAC. The disclosure
15 authorization ability on e-services was a huge
16 benefit. It really streamlined things for both
17 the IRS and for practitioners. But I also know
18 there were unregulated preparers that were faking
19 their way into that system and people were
20 posting powers of attorney that their clients
21 either didn't know about or had no --

22 MS. OLSON: They also do that with paper, so

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1 --

2 MS. MACMILLIAN: But I think that it is
3 dangerous to be allowing unregulated preparers
4 full access to their client's information because
5 they really can't represent that taxpayer. Of
6 course that is coming from someone who has the
7 ability to represent taxpayers.

8 The one thing that I would like to see in e-
9 services is more information about clients,
10 because in my practice I spend a lot of time on
11 the phone calling ACS to find out what the status
12 of my client's matter is, whether or not if
13 they've been issued a CP-504 yet. My clients call
14 to tell me that they are receiving notices from
15 the IRS and I have to spend the IRS's time and my
16 own time just to find out what the status is. If
17 there were more extensive transaction information
18 on e-services, that that would really assist with
19 the electronic end of it.

20 Was there another part of that question?

21 MS. OLSON: Well, there was just do you want
22 notice if a taxpayer does --

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1 MS. MACMILLAN: In California they've just
2 brought up "MyFTB account" and it is really
3 fantastic. We can see all notices the clients
4 have received. The client does also get a letter
5 that says "your tax preparer or your tax
6 professional has created an online account for
7 you; is that okay?" The very first person who
8 received one of those came running into my
9 office, asking "what is this?" So there is an
10 upside and a downside. I think it is good if
11 clients are informed that there is an account
12 that has been set up for them. But it also may
13 create some confusion.

14 MR. McCORMALLY: Just building upon
15 Jennifer's comment, it is the taxpayer's account
16 so my own view is that if a taxpayer accesses her
17 or his account it is not the practitioner's
18 business.

19 On the other hand, when the taxpayer
20 authorizes a practitioner, she or he is often
21 saying, it is your problem now. A balance has to
22 be struck but I would always err on the side of

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1 giving the taxpayer the information, the notice
2 rather than not.

3 I agree the data security point is the big
4 one, just is it open to breaches.

5 MS. OLSON: Right.

6 MR. GANGWER: I think I'll speak first to a
7 benefit that I see that would be really helpful.
8 So in just listening to tax preparers for example
9 talk about how they interact with their clients,
10 clients will come in maybe with a box or an
11 envelope with just information stuffed into it
12 and the tax preparer is sort of left to sort it
13 out. So I think an online account could help a
14 taxpayer organize their information, hoping that
15 information returns could be sent direct into
16 this account so that a client or a taxpayer would
17 be able to see a digital copy of their 1099 or W-
18 2 right in there. And so it helps the tax
19 preparer know that their client has given them
20 all the relevant information and gives them a
21 little bit more comfort in knowing that they are
22 filing the return the right way on behalf of

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1 their client. So I think that could be really a
2 good thing.

3 In terms of notification I think
4 notification would be really important especially
5 when there is a third party involved because I
6 have heard again a number of times where a
7 taxpayer goes to a preparer and says ah-ha I've
8 found somebody to do this for me and then they
9 really sort of lose -- they think the
10 responsibility is now somebody else's. So
11 keeping them in the loop that their tax preparer
12 is doing something on their behalf and giving
13 them some sort of impetus to go and look at it
14 occasionally is a really good thing and a
15 positive thing.

16 MR. BUTTONOW: So you are swimming in my
17 lane here, Nina.

18 MS. OLSON: Okay. Yes.

19 MR. BUTTONOW: So we've spoken a lot about
20 the importance of tax professionals in this and
21 so let me give you the data point. The IRS is
22 not going to solve the taxpayer service problem

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1 unless it enables tax pros. 57% of all tax
2 returns are done by tax professionals. When it
3 gets to small business it is three out of four.
4 So if you disenfranchise the tax professional
5 what is going to end up happening? You are not
6 going to solve the taxpayer service problem.

7 So how do you do that? Well, you enable
8 them with technology. There is a solution to
9 create a tax pro account. I'm disappointed that
10 the IRS has put this on the back burner. They
11 are going to do the individual account first and
12 the tax pro account is going to come sometime
13 later.

14 But the issue on whether or not you should
15 give them or whether or not there should be
16 notifications back and forth, it depends upon the
17 taxpayer. So technology can allow you to go
18 ahead and create event driven notifications of
19 all different types of things, right. Not just
20 when somebody else accessed your account. But
21 say perhaps a payment hits your account, any type
22 of different things that hit your account. That

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1 is the beauty of technology, right. And you are
2 right we need to make it very secure. I think
3 that is a common theme. Everybody would agree
4 with that. And that is why I think the IRS is
5 very focused on secure authentication. It is a
6 service-wide, enterprise-wide strategy the IRS is
7 developing here.

8 Now here is the other statistic that is
9 going to bite you on here though. So 57% of all
10 tax returns are done by a paid professional. But
11 out of those paid professionals a majority of
12 them are unlicensed. So they are unlicensed.
13 They can come and go as they please. So you talk
14 about the need for tax preparer regulation and
15 registration, absolutely the need before we would
16 ever give the unlicensed access to these account
17 we would want to know who they are. We would
18 want to vet them. So maybe an expansion even
19 before we get legislation in that area of the
20 AFSP, the new AFSP, strengthen that, have them
21 come in and vet that will perhaps maybe get more
22 tax professionals to go --

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1 MS. OLSON: So you would use it as a
2 leverage?

3 MR. BUTTONOW: Absolutely as a benefit. If
4 you come in under Circular 230 you allow the IRS
5 to vet you, we know who you are, then we don't
6 need legislation we will give you the benefit of
7 this online account. It's a good solution for
8 it.

9 MS. OLSON: Thank you. All right. Ms.
10 Jones?

11 MS. JONES: I'm a big advocate also for
12 online accounts. In my own practice I do
13 everything that I can do online that I have
14 vetted and I trust it to be safe and secure.

15 My concern would be that this information is
16 given to the IRS on a timely basis so that they
17 would actually have this information maybe even
18 before the client did. Just last week in my own
19 practice I had a client come back that I had
20 already done their tax return, and after the 15th
21 of February he got another 1099 in the mail. So
22 now I am looking at an amended tax return because

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1 he didn't remember it. And so that is the thing
2 to me with online is the taxpayer may not
3 remember this oh, yeah at the first of the year I
4 just worked for this come for only like three
5 weeks so he just thought he had worked his new
6 employer all year long. So sometimes it is just
7 that matter of information.

8 I do think it definitely needs to be
9 safeguarded and secure. And the taxpayer should
10 have to give permission for their practitioner or
11 representative to go online and get their
12 information. And I think they should be given
13 that initial notice. But as far as every time
14 that you log onto that account I don't think it
15 has to be noticed to that taxpayer for
16 everything. But the fact that they do have
17 access and it has been set up.

18 The unregulated, I'm like the rest of these
19 I think you need to prove your expertise in a
20 particular field especially in income taxes and
21 tax related products and I'm an advocate for the
22 regulation of tax preparers as well.

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1 MS. OLSON: Okay. So now I've got specific
2 questions for each one of you. And I'm actually
3 going to start with Mr. Gangwer. In your written
4 testimony you talked about IRPAC's concern about
5 business identity theft. And as I understand it
6 IRPAC recommended that the IRS truncate employer
7 identification numbers in communications and
8 documents to protect business entities. So what
9 was the IRS response to your recommendation? And
10 if it agreed with your recommendation, has it
11 given you a time frame for implementation?

12 MR. GANGWER: Yeah, that was in our report
13 published in October so we haven't received an
14 official response yet. I will tell you that the
15 Commissioner, we even talked about it some this
16 morning in the IRPAC meeting, we're here right
17 now in Washington working with IRS personnel.
18 But we talked about just how the Commissioner has
19 been very responsive to the recommendations that
20 we make, takes them very seriously. And we do
21 expect fully to get a response or disposition on
22 what they will do.

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1 I guess by way of a little bit of background
2 one of the real dangers we are concerned about
3 here is that you are a small business, maybe you
4 close down, you don't operate anymore, when you
5 send out W-2s for your employees or 1099s to
6 others on there is your employer identification
7 number which is akin to like a social security
8 number. And it is out there and it is displayed
9 for everyone. So if a fraudster tries to create
10 fake W-2s or 1099s a lot of the information that
11 they would need would be right there on that
12 form. So we are interested in seeing that
13 truncated in a very similar way that social
14 security numbers are now truncated in most cases.
15 And this is really designed to keep small
16 businesses away from getting hit with fraud.

17 So we do expect and hope that some movement
18 will be taken here.

19 MS. OLSON: So I also have a follow up
20 question for that because in your oral statement
21 and your written testimony you talked about the
22 fillable digital 1099 form for use by small

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1 businesses. So have you received an IRS response
2 on that yet or is that a new recommendation, too?

3 MR. GANGWER: Yeah that was also in our 2015
4 report and I'm concerned on this one. My sense
5 is the IRS is interested in it but going back to
6 a lot of our very early comments I just don't --
7 I'm concerned about there being the available
8 budget to be able to work on the project.

9 MS. OLSON: Right. So, let me see where I
10 am going. Okay. Mr. Buttonow, tell me what the
11 obstacles are to accelerating the digital
12 taxpayer service model? I mean, if we are trying
13 to get there what are the obstacles to getting
14 there in your opinion?

15 MR. BUTTONOW: We talked about first a
16 minute ago the taxpayer service first mindset.
17 First of all if the IRS has that mindset every
18 obstacle doesn't feel like an obstacle. So it
19 starts with that.

20 The second one and this is hard for most big
21 organizations but it's a culture of innovation
22 right. How does the IRS get there? Ten years

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1 ago when I used to work for the IRS we described
2 the speed at which the IRS worked as glacial
3 velocity.

4 [LAUGHTER.]

5 MR. BUTTONOW: So you can imagine how slow
6 that is. So the IRS needs to recognize that it
7 needs to change and it needs to set up a way to
8 go ahead and do that organizationally
9 institutionally. So there is some good news here.
10 The IRS after we did a report last year the IRS
11 set up a digital subcommittee made up of senior
12 IRS executives. So can that clear the path to go
13 ahead and allow for innovation that is yet to be
14 seen.

15 The second component I think the one big
16 obstacle is and we talked about funding here and
17 we talk a lot about funding. And ETAAC has never
18 gone to Congress and say IRS needs more funding
19 because it stops the communication. It stops the
20 communication. What Congress needs to hear is
21 and I was very happy in Candice's meeting last
22 week with National Public Liaison, the

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1 Commissioner came in and said that he is going to
2 start providing Congress with the details of what
3 they are going to spend and where the benefit is;
4 right. So Congress when we use to go speak to
5 Congress they don't know a lot about the plans of
6 what's working behind the IRS. The IRS needs to
7 be more transparent with them, tell them about if
8 you spend this, you are going to get this out of
9 it, right. That is going to build trust. Is it
10 going to happen next year? Absolutely not. But
11 it will happen over time.

12 Now as a result of that I believe a lot of
13 what the IRS plans to go forward will actually
14 get implemented.

15 MS. OLSON: So I have a follow-up question
16 about that. And it sort of picks up on the
17 IRPAC's recommendation about the fillable form
18 1099. The IRS is going to be getting W-2s and
19 1099 information much earlier in the filing
20 season. So would you support whether we had a
21 fillable 1099 or not but we had all this W-2 and
22 1099 information, would you support the IRS

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1 making that data available to taxpayers so they
2 could download it into their software programs?

3 MR. BUTTONOW: Absolutely.

4 MR. OLSON: And free fillable forms and all
5 those other places.

6 MR. BUTTONOW: Yeah, Mike's suggestion is
7 right in par with what ETAAC is recommending.
8 We're still working on this year. The concept of
9 front-loaded compliance is and I think Pamela
10 brought that up is ultimately the future state
11 right? So information now that we get it later,
12 it's going to come earlier and earlier. The IRS
13 used to compile your information statements and
14 have it available to you in May. Now you can
15 actually get some wage and income information in
16 February. It is not far until we get to a point
17 where we are at front-loaded. Are we there
18 today? Absolutely not. The IRS in fact is
19 probably some of the biggest challenges with
20 that. I'd probably venture to guess that industry
21 could make it happen a lot quicker than the IRS
22 could in terms of doing that front-loaded

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1 compliance. But it is essential. That is the
2 long term play.

3 This back end compliance system is a broken
4 system. Nobody would ever set it up that way
5 let's put it that way.

6 MS. OLSON: Okay. That is great. So Ms.
7 Jones in your written and your oral testimony you
8 talked about a proposal that the TAP had for the
9 American Opportunity Tax Credit. So I know you
10 said that the IRS said this was a reasonable idea
11 but we can't do it for resources, resources,
12 resources. But would you briefly describe what
13 that recommendation specifically was and did the
14 IRS other than no resources did they give you a
15 reason when you pointed out that it would save
16 sort of to go to Jim's response about the back
17 end -- you know weighting it on back-end
18 compliance rather than giving taxpayers a tool
19 that would avoid the non-compliance in the first
20 place?

21 MS. JONES: The American Opportunity Tax
22 Credit is limited to the first four years per

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1 individual, not per primary taxpayer of the
2 household. It used to be called the HOPE credit.
3 And so when a client, sometimes they change
4 practitioners, they come in and you know they
5 have - - part of your questionnaire is do you
6 have students over 17 and do they attend college
7 and you go through this questionnaire with them.
8 And they know their child has been in college two
9 or three years but I'm not sure and you say well,
10 did they take the HOPE credit or the American
11 Opportunity Credit? You get that deer in the
12 headlight look. And they don't know.

13 Well sometimes as a new client they'll bring
14 one tax return to you, the prior year, but they
15 don't bring four. And so you look back at last
16 year and you say well I know you took the
17 American Opportunity Credit for this child last
18 year because it is on here. What about the prior
19 year? Then they don't know. They've got to go
20 back and get that other tax return. So we were
21 asking for an online look up tool similar to that
22 first time Homebuyer credit where you could put

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1 that -- not the primary taxpayer or the head of
2 the household or -- but that student's social
3 security number in there and the IRS has that
4 information. So they could put it on an online
5 look-up tool so that you could look and see that
6 hey, Mary Jane had the American Opportunity
7 Credit in 2013 and 2014 and so that you don't
8 make errors in that calculation.

9 We submitted the recommendation and I admit
10 we failed to put all the costs associated with
11 that in the first referral and it was rejected
12 because IRS said it is a good idea but we just
13 don't have the budget. So we went back with a
14 request for reconsideration. We put all the info
15 in there, part of which you heard today in my
16 oral testimony and part is in our written
17 testimony that it is costing you more to go back
18 and correct or notify these taxpayers than it
19 would have been hopefully to set up the online
20 look-up tool where we can see that they've
21 already had it four years. So we can't take the
22 American Opportunity Credit we can only take the

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1 Lifetime Credit.

2 We did get -- I'm very proud that we got
3 word back from IRS that they are taking it under
4 consideration and we were supposed to have been
5 notified in January of this year about their
6 second response. And as of today we have not
7 heard that.

8 MS. OLSON: Maybe you will get a response
9 after today.

10 MS. JONES: Oh, that would be great.

11 [LAUGHTER.]

12 MS. OLSON: Okay. So Mr. McCormally in your
13 testimony you discuss LBI's reorganization, Large
14 Business & International's reorganization which
15 is really the first to come out of the gate about
16 looking at the future state and that it caused
17 many questions from the community that are
18 impacted by this.

19 So you've called for greater transparency
20 and engagement given the uncertainty and lack of
21 specificity. So how can we achieve greater
22 transparency?

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1 MR. McCORMALLY: That is a great question. I
2 think the answer is multi-fold. As we mentioned
3 in our written statement there have been
4 briefings that not only IRSAC but other
5 stakeholder groups- ABA, AICPA, TEI- have
6 received; there are also a lot of public speeches
7 that are being given these days. In addition,
8 Pam Olson said, this could represent an
9 opportunity for crowd sourcing, though there may
10 be some procurement or legal issues to be
11 resolved. But I think that some type of
12 invitation to taxpayers and other stakeholders
13 for input, asking what are the types of issues
14 that need to be considered? What are the
15 possible solutions to the challenge that exists?

16 I think one of the things that we all have
17 to be careful of is and I think back at a prior
18 job that I had when we consider okay we used to
19 only take cash, then we only take credit cards, I
20 mean we only took checks, now we are going to
21 take credit cards. And people said oh, wow, that
22 is great. But then you realized that taking

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1 credit cards and taking online credit cards and
2 telephone credit cards makes your job as an
3 organization much more difficult. The challenge
4 the Service has is there are lots of moving parts
5 and it's where do you say all right we want your
6 input.

7 My own view and Jennifer talked about this
8 in her oral statement is that we can't be afraid
9 of delay because we want to get it right. And
10 while we shouldn't be wedded to how we've always
11 done it we should be able to give voice to those
12 concerns that we sure would like to do it that
13 way some more. The challenge that we all have as
14 tax people and that tax administrators have, is
15 deciding how many options do I give people
16 because somebody is always going to want to call,
17 somebody is always going to want to do it by
18 email or by fax or by telex. People can look up
19 in Wikipedia what telex was.

20 [LAUGHTER.]

21 MR. McCORMALLY: And but my sense is that
22 some type of avenue for soliciting comments would

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1 be helpful, forums like this, though historically
2 the Taxpayer Advocate is not seen as the advocate
3 for the large business tax community.

4 MS. OLSON: I've got a lot of clients,
5 customers.

6 MR. McCORMALLY: Agree and I would hope
7 would hope that you would get input from all of
8 them in forums like that. Your imagination can
9 run wild about the different ways to seek input
10 and where it could lead. If I might give you an
11 example LB&I, LMSB at the time, did a working
12 group where they asked people from different
13 stakeholder groups to come in and let's build
14 upon this idea that then Commissioner Rossotti
15 called the archeological dig that was large case
16 taxpayer audits-where they were looking back six,
17 seven, eight years to audit. And out of that
18 experience came the CAP program. And I can
19 assure you, based on the reports out at the end
20 of the day, the CAP program as it developed was
21 nothing like any of the recommendations that were
22 made. But there were ideas germinated during

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1 that people much smarter than I came together and
2 said how about if we move this piece over here
3 and that piece over there, and all of a sudden
4 the jigsaw puzzle made sense.

5 So I mean I think that today we don't know
6 what the answer is going to be but somebody out
7 there is going to say something that will make
8 someone else say something else and we'll get
9 there.

10 MS. OLSON: So, Ms. MacMillan, listening to
11 that, what lessons can the IRS learn from the
12 LB&I roll out as it moves forward with a vision
13 for individual, small business and self-employed
14 taxpayers.

15 MS. MACMILLAN: Well, that is a good
16 question. I was going to claim to be a mere
17 child in 1998 but --

18 [LAUGHTER.]

19 MS. MACMILLAN: -- my bio says otherwise.
20 And I was a fairly new enrolled agent in '98 but
21 I do remember the massive amounts of outreach IRS
22 did as they were restructuring. And I think just

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1 looking through all of the voluminous information
2 on Hearings reports and town halls and other
3 outreach efforts, I was shocked at how much was
4 actually done in '98 to get feedback on and help
5 refine that restructuring. And I think maybe not
6 to that same extent but there needs to be much
7 more of that and I do think that it may make
8 sense to delay it.

9 I don't necessarily think you need to delay
10 all of the electronic administration moving
11 forward. We should get those things in place as
12 soon as humanly possible. But I think also just
13 learning how to deal better with taxpayers is
14 important. Les Book and Pam Olson this morning
15 talked a lot about how taxpayers perceive the
16 IRS. The perception of mistrust is always going
17 to be there because the IRS is who you pay your
18 taxes to. And IRS employees are the people who
19 can come assess you if you do something wrong. So
20 it is never going to be anyone's favorite
21 organization except for maybe the people up here.

22 [LAUGHTER.]

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1 MS. MACMILLAN: But I do think that the
2 minimum requirement would be to get a lot of
3 input on how customer service is going to evolve
4 in the future state.

5 MS. OLSON: So my last question; I'll just
6 throw it out to the whole panel and then we will
7 open up the floor for a few minutes. We talked
8 in the previous panel about trust and the
9 importance of trust. So I'm going to actually
10 ask this question a little bit of a different way
11 because to me whenever you are talking about
12 online accounts it's the risk of identity theft,
13 the risk of security is the elephant in the room.
14 So I'm really going to say to you, based on your
15 experience or your knowledge, how do people react
16 when they read that these e-file PIN's have been
17 exposed or that the online transcript tool has to
18 be taken down. What does it do to the trust and
19 their behavior then going forward? I'm not
20 asking you for statistically significant things
21 but more just what you've observed.

22 So maybe let's start with you and we'll work

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1 down to the end.

2 MS. MACMILLAN: Oh good.

3 MS. OLSON: Yeah.

4 MS. MACMILLAN: I think just from what I
5 hear from clients in my office is that they
6 believe what the media has said, that these were
7 security breaches on the IRS's part. And I'm
8 just one little practitioner explaining to them
9 that no, these are "out of wallet" questions.
10 Their identity has been stolen elsewhere and used
11 to get their transcript. I'm not really sure how
12 else to answer that question other than I think -
13 -

14 MS. OLSON: That is good information.

15 MS. MACMILLAN: -- there is a basic mistrust
16 of the IRS and so people are very quick to say
17 "ah-ha the IRS has disclosed my information and I
18 am powerless against them".

19 MS. OLSON: Okay.

20 MR. McCORMALLY: I had the same reaction
21 Jennifer does and as someone who has had to
22 change credit cards for let's see the Target

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1 breach, the Home Depot breach, and oh, the --
2 because I serve on IRSAC - the OPM breach.

3 MS. OLSON: Right.

4 MR. McCORMALLY: I think we forget that it
5 happens all over the place. The key is
6 transparency in letting people know. My wife is
7 a government contractor and it took eight months
8 for them to tell her, not working for the
9 Internal Revenue Service, but another agency that
10 her account had been breached. The answer that we
11 all give, initially is that I need to know all
12 the facts before I let me client or my
13 constituents know what it is and so it is a hard
14 balance to make but I think that I would err on
15 the side of a transparency and that also goes
16 back to this issue of whether, what and when we
17 find out about what is next for W&I or SBSE or
18 electronic tax administration or LB&I. True the
19 plans may not be quite ready for prime time but
20 all of us are hearing whispers of what might be
21 and lack of transparency can undermine the
22 agency's creditability. And so it is a tough job

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1 and I think that what is really called for and I
2 think when you are dealing with something as
3 fragile which is confidence in if you will the
4 electronic infrastructure that holds not just a
5 tax system together but the financial system in
6 the United States. I mean I think all of us who
7 have worried about Target and Home Depot or
8 whatever always in the back but this isn't going
9 to cost me anything but inconvenience. It is not
10 going to cost me money. And that decision by
11 financial institutions to say it is more
12 important for us to build up confidence in the
13 core integrity of the system. Well, I think that
14 is important for the IRS to do too. And so I
15 share or I feel the pain of practitioners who say
16 well this is just terrible that they've shut down
17 this electronic service while the IRS gets a
18 handle on it. I think it was probably a good
19 thing to do.

20 MR. GANGWER: Yeah, so I'll talk about it in
21 the context of assuming that these wonderful new
22 individual accounts are out there and available.

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1 And it is interesting because with a lot of the
2 account types that Americans face today they
3 often have the option of signing up for some type
4 of electronic interaction. And in this case it
5 sounds like everybody would have an online
6 account whether they used it or not. So it is a
7 little bit kind of a different situation. To me
8 it seems like it would be more about helping
9 people see the difference between there is this
10 online account, everything is contained in there
11 and it may be more secure than paper floating
12 around in your mailbox that somebody could grab
13 or steal. So part of it is I think education;
14 helping them understand what are the pitfalls of
15 either or both. And that one actually may be
16 more secure even though the headlines may steer
17 people a different way. And then I think it is
18 just as we've heard, if something happens the
19 best way to keep people's trust is to be open and
20 make sure they understand what happened and what
21 action they need to take.

22 MR. BUTTONOW: Ahh, trust in the IRS; that's

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1 a big issue.

2 [LAUGHTER.]

3 MR. BUTTONOW: So let me be clear, the IRS,
4 when it comes to taxpayer's information, their
5 bar is higher than everybody else. And here is
6 why. So everybody has a general distrust to the
7 IRS for one reason or the other. I mean you hear
8 it in the media, you hear it in Congress. I mean
9 half of our people running for office right now
10 want to get rid of the IRS for one reason or the
11 other. The bar is higher. So any excuse to say
12 hey, your information can get compromised is
13 probably a non-starter.

14 Now when I say that online accounts are the
15 future; we all need to understand that. That's
16 the future. Retracting and going back is not the
17 answer. Going forward and some of the obstacles
18 we talk about innovating. Innovating means you
19 may need to move quicker rather than slower. In
20 an iteration solve big problems. One big problem
21 that the IRS did not solve was authentication.
22 They didn't solve authentication. By the way it

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1 was on their roadmap to get solved. But moving
2 slower in this day and age of innovating is not
3 the answer. You need to move quicker. So
4 retracting is things I always get afraid of when
5 these things happen.

6 Now we have another thing. Once these
7 online accounts come in we have a whole other
8 thing. Now all of a sudden the IRS deals with you
9 electronically. Does anybody here get an email
10 from the IRS right now? No, they do not. When
11 event driven notifications come out, emails are a
12 reality for taxpayers; right. That opens
13 phishing, malware, everything else which actually
14 increases the amount of threats to the system for
15 taxpayers. So we need to understand that the bar
16 is high, the IRS needs to understand that.
17 Authentication has always been the primary
18 concern but we need not retract and go backwards.
19 We actually need to go faster.

20 MS. JONES: Again, I am an advocate for
21 online information. I use it in my practice in
22 every way I can imaginable but people do not

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1 trust the IRS and some of the reasons are no
2 fault at all of the IRS.

3 I know in my area in Louisiana and I know
4 all across the United States there has been a big
5 scam going on of individuals contacting taxpayers
6 saying they are the IRS and you owe them money
7 and you've got to pay it today or we're sending
8 the sheriff or the police deputy out there.
9 We've already got the warrant made up because it
10 is so overdue. If you don't pay it right now we
11 are going to send them out there and arrest you.
12 And they are very adamant; they are very strong.
13 And for a taxpayer who doesn't realize that hey,
14 the IRS will never contact me this way they fall
15 for it.

16 So a lot of times taxpayers don't trust IRS
17 and it has nothing to do with IRS. So I think
18 transparency is going to be very important in
19 telling taxpayers this is what we are going to
20 do. There are going to be safeguards in place.
21 If you authorize someone else to access that
22 information, I mean you have to authorize

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1 somebody else to access that information. So I
2 think you are going to have to take those
3 individual what some may think baby steps but hit
4 every little step to make sure that it truly is
5 the IRS and this is plausible and it is not some
6 prankster out there trying to get your info.

7 MS. OLSON: Okay. So before I thank the
8 panel and close this phase of the public forum I
9 want to give the folks in the audience who have
10 been patiently sitting here an opportunity to go
11 to the mike if you want to comment on any aspect
12 of the future state of the IRS and your concerns,
13 certainly, go to the mike. I do ask that you not
14 talk about specific taxpayer cases because this
15 is being taped and there are reporters in the
16 room and we want to protect your confidentiality.

17 MR. LOPEZ: Hello. Is it working?

18 MS. OLSON: Yes, there it is.

19 MR. LOPEZ: Good morning. My name is
20 Alberto Lopez (ph). Thank you very much for
21 inviting my organization to this great event. I
22 represent the oldest and greatest organization in

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1 the United States of America. We are the largest
2 taxpayer in the United States. Just this year we
3 filed \$63,000,000 in tax paying. And we have
4 great news for you. You have been talking about
5 budgetary constraint. We have set aside for you
6 for the IRS one hundred billion dollars to pay
7 all your needs. So you have to talk with us.

8 President Obama sent us a letter that he is
9 very interested because we want to pay the
10 national debt of the United States of America.
11 We have that capacity. Our organization is 260
12 years old in America before the establishment of
13 the United States so if you are interested to
14 receive the one hundred billion dollars from our
15 organization just meet with us. I'm meeting with
16 Barak Obama this week. So you don't have more
17 budgetary constraint.

18 Okay. Thank you very much. And the
19 Commissioner of the IRS received my communication
20 this morning, Ms. Olson also. So if you are
21 interested call back today. No more budgetary
22 constraint, talk with us. We are 100% America to

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1 help you. Thank you.

2 MS. OLSON: Thank you very much. I have
3 your letter. Thank you very much.

4 Who is this?

5 MR. AMES: Well, if no one else is
6 interested I'll be talking with you about that
7 hundred million.

8 [LAUGHTER.]

9 MR. AMES: Hi, I'm John AMES, National
10 Society of Accountants. As I listen to this
11 panel I found myself agreeing with Jim because a
12 lot of my members deal with small business. I
13 agreed with Jennifer. I agreed with everyone.

14 But here is what I didn't hear. We talk
15 about dealing with taxpayers as they live. We
16 heard some people talk about low income because
17 they don't have the internet. And yet low income
18 folks get hold of the IRS, send me a fax. Why
19 are we assuming these people who don't have the
20 internet have a fax machine? You know there are
21 different kinds of technology and even now tax
22 preparers you are required to file electronically

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1 except that some returns you can't file
2 electronically. And what we've done I think is
3 taken various technologies and put them on top of
4 one another so that a taxpayer who you are
5 dealing with Jim who wants to be electronic, he's
6 got to go ahead and find a fax machine. If that
7 is not working he's got to get on the telephone.
8 If that is not working he's got to send something
9 in by mail. So we have all the different
10 technologies. And somehow that translates at the
11 IRS level someone at the IRS is going to have to
12 take the faxes and the telephones and the this
13 and the that and somehow put it all together in
14 one file. And that is not happening.

15 So I agree with the panel, we've got to deal
16 with taxpayers as they live but it's got to be
17 all one technology. We've got to look at the
18 back end and make sure that all of these various
19 piece of communication get together because I
20 don't want to have to call when the IRS finally
21 answered my phone call and they haven't received
22 the fax, they don't have this, they don't have

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1 that and you know power of attorney, never saw
2 it. It is not working so we need to make sure
3 that all of this is coordinated and works
4 together.

5 MS. OLSON: I think that brings up also
6 another point. I think that Jim has talked about
7 the need for a strategy, taking a strategic
8 approach to this. And I think the commissioner
9 is trying to do that through this online vision
10 but there are so many bits and pieces, both
11 existing pieces and then pieces that will be
12 added.

13 I would add to that process and I know that
14 we talked briefly about self-correction. But if
15 you read very carefully the vignettes, and I have
16 plans to ask about this in future public forums,
17 there are whole questions about what these
18 transactions really are online. When you do a
19 self-correction as part of the process of filing
20 an income tax return and it comes in and then the
21 IRS says oh, but you left off a W-2 and you get a
22 notice saying correct that. Is that an amended

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1 return? Is that the original return? Was that
2 original return accepted for processing but now
3 you've done a self-correction? If everything is
4 done in a pre-refund environment, when do you get
5 to go to Appeals if you disagree? If it is in a
6 pre-refund environment then the notice that you
7 are going to get if you disagree is going to be a
8 notice of deficiency. It is not going to be an
9 audit letter that says here is the proposed
10 assessment and you have the right to go to
11 Appeals.

12 And I've been saying for about four years
13 now we need to really think about the legal
14 implications of this online account. And I
15 thought we'd have a separate public forum about
16 that and really dissect what are the steps here
17 and what does this mean exactly to taxpayer
18 rights as Gina had noted. And these are things
19 just like you are saying, we need a strategy for
20 bringing all these electronic things together.
21 We need to talk about this stuff now before we
22 start saying the IRS of the future is going to

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1 look like this and then go oops, my bad, we just
2 undermined the right to challenge the IRS and be
3 heard.

4 MR. BUTTONOW: But Nina I would emphasize
5 one thing. It starts with getting started. So
6 this device right here, this device right here,
7 Steve Jobs didn't conceive of this device and
8 build its final product on its first iteration.
9 It starts with an innovative approach to looking
10 at how do we get there every day. Every day and
11 how do we improve and how do we improve for
12 adoption. Your issue is about adoption. How do
13 we make it simple for the user to use? So we've
14 studied this in other states and we found out
15 yeah as these states added more capabilities and
16 they streamlined their processes, this device or
17 their online account got easier and easier to
18 adopt and was a better solution for them. I can't
19 emphasize that and that is why I said accelerate
20 the strategy. We could start it now. If we
21 don't get started now we'll have the idea, the
22 technology will change and then we'll always be

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1 starting now, the big plan is to start later. We
2 need to start today.

3 MS. OLSON: So I'm going to close this forum
4 now. The third panel this afternoon, which will
5 start at 2:00 includes three panelists from non-
6 tax organizations: PEW Research Center which will
7 talk about online technology; the Consumer
8 Federation of America will talk about preparers;
9 and the Federal Reserve which will discuss the
10 practices of mobile banking users and their
11 preferences for other channels.

12 So I think this is good statistical
13 information to show what people's use of online
14 services are, things that might help the IRS
15 understand how to move going forward.

16 A little announcement, we obviously want you
17 to stay for the afternoon panel because I think
18 it is very important and then we will also take
19 comments after that as well.

20 About lunch, if you are not an IRS employee
21 you have a couple of options. You can leave the
22 building and return for the 2:00 p.m. program or

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1 you can eat in our glorious IRS cafeteria which
2 is on this floor. And if you decide to leave the
3 building you need to congregate outside here and
4 we'll take you outside. If you want to go to the
5 cafeteria you need to congregate outside and
6 there will be someone who is saying I'm helping
7 you get into the cafeteria because you can't
8 wander around the IRS unescorted.

9 [LAUGHTER.]

10 MS. OLSON: Thank you all very much and I
11 hope you will come back for two o'clock.

12 And thank you to this panel which was an
13 excellent panel.

14 [APPLAUSE.]

15 (WHEREUPON, a lunch recess was taken.)

16 MS. OLSON: This third panel and the closing
17 panel is really focusing on what data, what
18 research do we have about taxpayers and
19 particular taxpayer segments both regarding use
20 of return preparers, use of online accounts, and
21 I shouldn't have said taxpayers because it is
22 more about human beings. And so this panel

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1 really does have no one directly related to tax
2 really. So it is bringing some different
3 perspectives to this whole discussion of what the
4 future state of the IRS might be or should be.

5 So who we have this afternoon is Michael
6 Best who is the Senior Policy Advocate for the
7 Consumer Federation of America. We have Aaron
8 Smith who is the Associate Director of Research
9 for PEW Research Centers Internet Project. And
10 we have Arturo Gonzalez who is the Chief of
11 Consumer & Community Development Research for the
12 Board of Governors of the Federal Reserve System.

13 And I have cited each of their work in my
14 annual reports and so I was thrilled that they
15 were willing to come and share with us some of
16 their perspectives because they are all about
17 research. They all have slides which is just like
18 really neat after lunch.

19 So without further ado the way this will go
20 is that each panelist will make a five minute or
21 so presentation and then I have some questions
22 and we can open it up for the floor.

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1 So Michael, do you want to go.

2 MR. BEST: Happy to.

3 MS. OLSON: I think we have to wait, you are
4 going to turn on that microphone.

5 MR. BEST: Hi, as Nina said I'm the Senior
6 Policy Advocate at the Consumer Federation of
7 America. I'm here to talk to you about why it is
8 time to regulate paid preparers.

9 CFA is a non-profit association of
10 approximately 280 pro-consumer groups founded in
11 1968 to advance the consumer interest through
12 advocacy and education. One of my main issues
13 there is to work on establishing consumer
14 protections in the paid preparer industries
15 simply around unenrolled, unregulated paid
16 preparers.

17 I want to talk to you about three main
18 things today very briefly. The instance of use
19 of paid preparers, the problems that we know
20 exist in the paid preparer industry, and our
21 recent 2016 national poll showing broad public
22 support for consumer protections within the

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1 industry.

2 So here's a tax year 2011 snapshot of the
3 use of paid preparers. So 56% of returns were
4 done by paid preparers in 2011. 59% of EITC
5 returns were done by paid preparers in 2011. And
6 of those, 74% of those EITC returns were done by
7 unenrolled paid preparers who weren't regulated
8 in some way.

9 As you can see, this is actually 2014, 55%
10 of all the paid preparers in 2014 were
11 unregulated. So we know it is a large segment of
12 the market. We know there is a high instance of
13 use particularly among low income consumers. And
14 that is what makes this issue particularly
15 important. I think for a lot of Americans their
16 tax return, they are owed money back on what they
17 paid or they are getting an earned income tax
18 credit. It is an extremely important financial
19 event for them. And we need to make sure that
20 the folks that they are going to are honest or
21 educated or making sure they are getting every
22 dollar that they are entitled to and don't end

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1 up, say, losing the EITC credit because for
2 instance it was claimed and then it turns out
3 that they weren't allowed to claim it and they
4 could lose access to it for up to a decade.

5 So we know how it's used. We also know
6 through a long history now of mystery shopper
7 tests, both by consumer groups on the left in the
8 yellow and by government groups on the right in
9 the red, that there is a high instance of
10 problems with paid return preparers. These are
11 the instances of mistakes and probably some
12 fraud. But it is always hard to tell that through
13 mystery shopping tests. The percentage of returns
14 tested that were incorrect and so as you can see
15 it is really high; the most recent consumer one,
16 93%, most recent government one, GAO, 89%.

17 So what do we need? We need a regulatory
18 regime with three main components. Price and
19 transparency, a detailed explanation of services
20 and prices before the return is prepared. One of
21 the things that all of these consumer mystery
22 shopper tests have shown is the variability in

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1 pricing. So one tax return that is identical to
2 the second tax return could be hundreds of
3 dollars apart when they are going to two
4 different preparers. And oftentimes people are
5 not told upfront what this will cost. So that is
6 one we'd like to see addressed.

7 Education requirements and competency
8 standards, tax education, skills testing,
9 continuing education. We'd also like to see
10 regulation of credit products and ancillary fees.
11 I mean though refund participation loans are
12 largely a thing of the past. I mean we
13 definitely worry about seeing new tax-time
14 financial products that take advantage of lower
15 income taxpayers to fund their tax returns with.
16 So we'd like to see the ability with any sort of
17 a consumer protection regime to regulate those as
18 well.

19 This isn't in my graphic but I should also
20 add on that there should be a strong enforcement
21 mechanism with whatever we do. Some of you may
22 have read recently that the controller of

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1 Maryland recently stopped taking returns from 23
2 Liberty Tax Franchises and a handful of other
3 independent tax franchises. I think they would
4 have probably liked to have been able to take
5 more action than that. Maryland actually does
6 regulate unenrolled paid preparers but didn't
7 have a sort of strong enforcement regime. But
8 there is now a bill going through the Maryland
9 Legislature to give them those powers. So that
10 is a fourth piece we should always be thinking
11 about when we are developing this.

12 So currently four states do regulate
13 unenrolled preparers. As I am sure you know, the
14 Loving decision in 2014 invalidated IRS
15 regulations of unenrolled paid preparers. I
16 think ideally we'd like to see a federal
17 solution, but given certain timeline on that, me
18 and our coalition of groups that we work with on
19 this issue are working at the state level to
20 pursue consumer protections there.

21 So to our 2016 poll which we are really
22 excited about. So we know clients are abused,

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1 especially by low income taxpayers. We know
2 there are a lot of problems but what we didn't
3 know is does the public see the problem; does the
4 public want to see consumer protections. And it
5 turns out they really do. So we got really great
6 numbers on this national poll.

7 So, of course, we first asked who is using
8 paid preparers. And half of the public uses paid
9 preparers from time to time and nearly a third
10 uses them frequently. 80% of the public supports
11 requiring paid tax preparers to pass a competency
12 test. I lost my value, sorry. We even tested
13 power point. But 80% do support it. The yellow
14 is 59% strongly support. 83% of the public
15 support paid tax preparer licensing. Nine out of
16 ten respondents supported an upfront list of fees
17 before the work is done. That was a really good
18 number for us. And again this is something that
19 comes up over and over in the mystery shopping
20 testing where you are often not told until your
21 return is done and you are probably not going to
22 go somewhere else what the return is going to

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1 cost you. And you can go to multiple places and
2 it will be a different price. So people really
3 want to see that.

4 A majority of the public believes that paid
5 preparers should have special training but don't
6 need a degree. I lost my number there, look at
7 my hard copy. 86% which is good. I mean that is
8 sort of the regime that we are talking about;
9 right.

10 The second highest value they need to have a
11 college degree in accounting which actually kind
12 of surprised us is 31%. So we weren't expecting
13 to see that. But the majority of people support
14 what we are talking about on these unenrolled
15 preparers that they don't have to necessarily
16 have a college degree but they have to have some
17 kind of special training in tax preparation.
18 That is what people want to see.

19 So where does this lead us? We have high
20 instances of use, we have high instances of
21 problems, we have public support of regulations
22 that bring consumer protections that equals it is

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1 time to regulate. I mean I feel like all the
2 pieces are there. We've been working on this for
3 a couple of years now and we are getting more and
4 more information I think supports this happening.

5 What it doesn't equal is increased
6 unregulated preparer access and involvement I
7 think within the tax system. The National
8 Taxpayer Advocates last report talked about the
9 future state vision having online tax accounts
10 that unregulated preparers would have to have
11 access to to make sort of the system they are
12 envisioning work. I find that pretty troubling.
13 I mean I really think that before we're expanding
14 the role for unregulated preparer or unenrolled
15 preparers we should be first making sure the role
16 they have now even is working. We have to
17 establish some kind of minimum standards for
18 these folks.

19 So with that please feel free to email me
20 with any questions. If you want to see our
21 materials, they are printed out there, our two
22 reports including the slides. And you can always

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1 go to consumerfed.org.

2 MS. OLSON: Thank you.

3 MR. SMITH: As Nina said I'm Aaron Smith.

4 I'm with a group called the Pew Research Center.

5 We are a subsidiary of the Pew Charitable Trust

6 and we do public interest survey research on a

7 number of social topics. My group studies the

8 impact of the internet and other digital

9 technologies and I am actually a former client of

10 the Taxpayer Advocate. And so I am very happy to

11 be here --

12 [LAUGHTER.]

13 MR. SMITH: -- since they were so nice to me

14 when I was having problems that nobody else in

15 the IRS could fix.

16 MS. OLSON: This is not a quid pro quo.

17 [LAUGHTER.]

18 MR. SMITH: And so when Nina asked me to do

19 this I was very happy to help out. And so what

20 I'm going to be talking about obviously there is

21 a big push towards moving client services online.

22 And so I'm going to talk about some of the broad

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1 trends that we're seeing in the population as
2 pertains to how people access the internet and
3 online information.

4 So it is showing on my screen but not --
5 sorry.

6 MS. OLSON: This is an advertisement for the
7 online accounts.

8 [LAUGHTER.]

9 MR. SMITH: I feel like it is just me
10 standing here watching my power point.

11 So at a broad level the first thing I think
12 is worth noting is that even in the year 2016 15%
13 of Americans when we asked them if they use the
14 internet from any device from any location tell
15 us that they do not do that. So if you leave
16 with nothing else the notion that everyone out
17 there is even online regardless of what type of
18 device they are using that should hopefully
19 disabuse you of that notion.

20 And when we look at internet usage by
21 different demographic groups there are some
22 variations by various demographic factors. But

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1 age is by far the most prominent. So if you look
2 at Americans under the age of 50 well over 90%
3 say that they go online. If you look at
4 Americans age 80 older fewer than half of those
5 older Americans tell us that they are internet
6 users.

7 And when you look at the barriers to
8 adoption for people who are not currently online
9 what you find is that most of them have a number
10 of challenges to accessing the online world. So
11 many of them face challenges around digital
12 literacy or technology skills so for instance if
13 you ask people who don't currently use the
14 internet whether they would be able to do that on
15 their own the vast majority of them tell you that
16 they would not be able to do that without
17 assistance. Many of them have physical
18 disabilities or chronic health conditions that
19 make it difficult to use a keyboard or a mouse
20 much less a small smart phone screen without a
21 physical keyboard. And many of them particularly
22 for much older users, I am thinking about my 92

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1 year old grandmother who has made it through her
2 nine decades of life without ever going online or
3 using a computer. Someone like her certainly
4 doesn't see the reason why she should spend her
5 time, effort, money learning how to use the
6 seemingly complicated technology to a limited
7 potential benefit.

8 So that is a very quick gloss on one part of
9 the equation which is people who are completely
10 divorced from all of these things that I think
11 most of us in this room take for granted.

12 If you look kind of at the opposite end of
13 that spectrum you'll find that about two thirds
14 of Americans say they have broadband at home and
15 so obviously broadband at home is kind of the
16 gold standard for online access. The FCC and
17 various government entities have spent a lot of
18 effort promoting increased broadband adoption.

19 And when you look at the data that we've
20 collected what we've found is that broadband
21 adoption has really plateaued in many ways in the
22 last couple of years. So broadband adoption

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1 today is about what we found it to be three or
2 four years ago.

3 And there is sort of an interesting kind of
4 trend going on here. So we've seen broadband
5 adoption plateau. At the same time when we ask
6 people about the importance they place on
7 broadband we see significantly more non broadband
8 adopters today saying that a lack of broadband at
9 home is a real disadvantage for doing various
10 things. So whether that is getting access to
11 government services, getting health information,
12 accessing job information over the last five
13 years we've see a big uptick in the perceived
14 importance of broadband to non-broadband
15 adopters. Broadband is seeming more important at
16 the same time adoption has actually plateaued.

17 What is going on? In many cases the answer
18 is cost. So when we ask people who don't
19 currently have broadband at home, why that is the
20 case. The number one reason they tell us that
21 either the cost of the monthly service is too
22 expensive or the cost of a computer is too

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1 expensive. So 43% of non-broadband adopters say
2 that cost is the primary reason why they don't
3 currently have broadband. Two thirds tell us
4 that cost plays some factor in addition to
5 others.

6 So the story there is increased perceptions
7 of the importance of broadband, flat- lining in
8 actual adoption of broadband in many cases as a
9 result of financial and economic constraints.

10 What we are seeing is many of those non-
11 broadband adopters are now turning to their smart
12 phones and other mobile devices to bridge those
13 gaps. You can sort of think of it as a spectrum.
14 We've got a group of people who aren't online at
15 all. You've got a group of people who have sort
16 of gold standard access. And then there is a
17 group of people in the middle who don't have gold
18 standard but also say that they go online and for
19 many of those Americans their smart phone is
20 their primary access point to online information.

21 So to put the numbers on this 13% of
22 American adults tell us that they don't have

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1 broadband at home but that they do have a smart
2 phone. That is a five point increase from what
3 we found a couple of years ago. And for certain
4 subsets of the population that number is even
5 higher. So if you look at for instance low
6 income Americans, if you look at communities of
7 color as well as a few others as many as one in
8 five members of those communities say that their
9 smart phone is their primary access point to
10 online information.

11 In many cases those financial factors that
12 are preventing people from getting sort of gold
13 standard service they are using smart phones as a
14 way to get sort of next best service. You might
15 want to think of it that way.

16 Obviously some access is better than no
17 access. But we definitely see in our work that
18 relying on one's smart phone for internet access
19 as opposed to a more traditional set up can
20 really have some real challenges.

21 I'm going to talk about some research that
22 we did in the context of job seeking. We looked

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1 at this in a couple of different ways. We first
2 asked people would it be easy or not easy if you
3 needed to do a variety of things. So everything
4 from look up job postings online to submit an
5 application or build a resume. And across the
6 board people without broadband were much more
7 likely to say that it would be challenging or not
8 easy for them to do that. One impact of this is
9 that people's ability to engage with sort of
10 complex activities or kind of cognitively
11 challenging things that they need to do online
12 can be much more difficult when they don't have
13 access to a broadband subscription at home either
14 because they are operating through a small smart
15 phone screen or because they have to re-route
16 their lives in order to get to a library or a
17 coffee shop or I don't know if any of you read
18 the New York Times article on school children
19 without broadband And they are literally sitting
20 up against the wall of the school after hours
21 trying to access the public Wi-Fi from the school
22 so that they can do their homework.

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1 So that is one impact of lack of adoption in
2 a meaningful sense; it is just much more
3 challenging for people to do anything beyond sort
4 of basic activities.

5 The other impact is that we are seeing
6 people do very challenging activities on their
7 smart phones. So we've asked a set of questions
8 about how people use their smart phones in job
9 searches. And that smart phone only group that I
10 mentioned a moment ago a quarter of that group
11 has used their smart phone to fill out a job
12 application and more than one in ten have used
13 their smart phone to create a resume or a cover
14 letter. And I think we can all probably agree
15 that is maybe not the ideal way you'd like to be
16 building your resume or cover letter is on your
17 smart phone. But for people for whom this is the
18 primary mode of access to online information in
19 many cases they are having to use that option
20 that is available to them as opposed to maybe the
21 best option that we would like them to be using.

22 That is a really quick gloss on a lot of

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1 data and I am very happy to fill in any gaps in
2 the Q & A but I believe that's all.

3 MS. OLSON: All right.

4 MR. GONZALEZ: Thank you for having me here.
5 I'm actually going to be reading my presentation.
6 I usually am very much about numbers, graphs,
7 tables but I think a report which I am going to
8 reference has such wealth of information that it
9 would be doing an injustice if I was to only show
10 you three or four slides.

11 My motivation here is to give you an
12 overview of what the Board has been doing and get
13 you so intrigued that you are going to rush home
14 either to a mobile device or to your internet and
15 take a look at our reports --

16 [LAUGHTER.]

17 MR. GONZALEZ: -- download their data, begin
18 doing all the data analysis that we've done and
19 you can do it for yourself.

20 First of all thank you for the invitation to
21 provide information about the Federal Reserve
22 Board's ongoing research to better understand

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1 consumer access to and interaction with mobile
2 financial services. First I would like to say
3 that the views expressed today are my own and do
4 not necessarily represent the views of the Board
5 of Governors of Federal Reserve System.

6 Mobile phones have become increasingly tools
7 that consumer use for banking, payments,
8 budgeting and shopping. Given the rapid pace of
9 evolution in the area of mobile finance the
10 Federal Reserve began conducting annual surveys
11 of consumer's use of all financial services in
12 2011. The series of online surveys focuses on
13 consumer's use of technology to access financial
14 services and make financial decisions. Topics
15 include consumer access to bank services using
16 mobile phones, that is what we call mobile
17 banking and consumer payments for goods and
18 services using mobile phones what we call mobile
19 payments.

20 The survey provides insights into trends in
21 the adoption and use of mobile banking, payments
22 and shopping behavior and how mobile financial

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1 services affects consumer's interaction with
2 financial institutions. The latest survey was
3 fielded in November 2015 and a report summarizing
4 its findings will be published in March 2016.

5 Details of each survey, its methodology
6 locations are included in every report. All
7 reports and data from all years of the survey are
8 available on the Board's website.

9 First I'd like to clarify what we mean by
10 mobile payments, mobile banking because I think
11 that is a very important grounding that we need
12 for our discussion. The Federal Reserve Survey
13 defines mobile banking as using a mobile phone to
14 access your bank or credit union account.
15 Similarly mobile payments are purchases, bill
16 payments, charitable donations, payments to
17 another person or any other payment made using a
18 mobile phone. Both activities are accomplished
19 by using a mobile phone to access a web page by
20 sending a text message or by using a downloadable
21 app.

22 So next what I'd like to do is briefly

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1 highlight the key findings from the fourth and
2 latest report called the Consumers and Mobile
3 Financial Services 2015. As of December 2014 39%
4 of adults with mobile phones and bank accounts
5 reported using mobile banking, this is an
6 increase from 33% a year earlier. The most
7 common use of mobile banking is looking up
8 account balance or recent transactions.
9 Transferring money between accounts is a second
10 most common mobile banking activity. More than
11 half of mobile banking users received an alert
12 from their financial institution through either
13 text message, push notification or an email
14 making this the third most common use of mobile
15 banking. Remote deposit capture or depositing a
16 check to a bank account electronically using a
17 mobile phone camera was also a very common mobile
18 phone activity. The 2014 survey showed that 51%
19 of mobile banking users deposited a check using
20 their mobile phones. This was up from 38% the
21 year before.

22 Turning now to mobile payments. As of

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1 December 2014 22% of mobile phone users had made
2 a mobile payment. This is up from 17% the year
3 before. For smart phone owners who reported
4 using mobile payments the most common types of
5 mobile payments were 1) paying bills through an
6 online system or the mobile app; 2) making online
7 or in app purchase; and 3) paying for a product
8 or service at a store.

9 Besides a mobile phone people interact with
10 a bank through various channels such as visiting
11 a branch, an ATM, telephone, or online banking.
12 Mobile banking is the fourth most common banking
13 channel in 2014. This is up from fifth the
14 previous year. So number one may not be
15 surprising to everyone here is banking at a
16 branch which is at 87%, second was going to an
17 ATM at 75%, third is online banking at 74%,
18 fourth as I mentioned mobile banking at 35% this
19 is up from 30% the previous year, and telephone
20 banking at 33%. So as I mentioned mobile banking
21 has moved up from five to four from the previous
22 survey.

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1 The main impediments to the adoption of
2 mobile financial services from our survey
3 continue to be 1) a preference for other methods
4 of banking and making payments, and 2) concerns
5 about security. Of those not using mobile banking
6 the primary reason given for not using mobile
7 banking was a belief that their banking needs
8 were already being met. This was 86%. The
9 primary reason given by non-mobile payment users
10 for not using mobile payments was that they
11 believe it is easier to pay with cash or credit
12 or debit cards; this was at 75%. Concern about
13 security of the technology was a common reason
14 given by non-users for not using mobile banking;
15 this is 62% and mobile payments at 59%.

16 However concern over security by non- users
17 was down from 2013 where in that year 69% was
18 concern given for mobile banking and 63% for
19 mobile payment.

20 Lastly let me finish by saying that for the
21 first time the 2014 survey looked at difference
22 in mobile banking and mobile payment use in rural

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1 areas versus urban areas. Residents of non-metro
2 areas have lower incidence of using mobile
3 banking at 33% and mobile payments at 17% than
4 residents of metro areas 39% and 23%
5 respectively. The 2014 survey was conducted
6 December 2014 and the report was published in
7 March of 2015. The survey was conducted on
8 behalf of the Board by GJK which is an online
9 consumer research firm. More than 2900
10 respondents completed the survey.

11 So I look forward to answering any questions
12 and participating in the Q & A.

13 Thank you.

14 MS. OLSON: All right. I think that these
15 three panelists have sort of shown some
16 information about online users, people who don't
17 have access and some of the implications for the
18 IRS future state vision. And so I have a few
19 questions and I've sort of asked everybody on the
20 panels this particular question, one version of
21 it or another. Even if your own research hasn't
22 been quite on point about it I'd actually like

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1 your personal opinion about this.

2 The IRS's future state vision sort of
3 describes moving taxpayers from talking to IRS
4 employees directly to communicating with the IRS
5 online. And it has posted some vignettes that
6 you all have seen showing some of these
7 interactions. And in my personal opinion I've
8 thought this could work maybe for cookie cutter
9 type issues but not for more complex ones. So
10 I'm really wondering what your thoughts are
11 regarding will online services supplement or
12 actually replace telephone or face-to- face?
13 What you are seeing in your own areas? What you
14 are seeing in trends? And then I'll ask some
15 follow up questions. I know you've all touched
16 on it. But I wanted to really ask that question
17 directly. Do you think it will supplement or do
18 you think it will replace?

19 Do you want to weigh in on that at all?

20 MR. BEST: Sure. I mean it isn't touching
21 my work directly. I guess my fear is that if
22 they are sort of angling, which you are sort of

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1 analysis of this in your last report went to,
2 they are sort of angling to do cost saving hoping
3 to replace some of those you are going to need
4 again this third party. Most of the third parties
5 are unregulated. We know there are a lot of
6 problems with them. We also know that what you
7 said cookie cutter examples, if you just have a
8 W- 2 you can probably do your own stuff, you can
9 probably interact with them. If it is a more
10 complex tax return, which I think includes things
11 like the EITC, you see a greater uptick on use of
12 these paid preparers. So I think you are going
13 to see more -- you are going to end up having to
14 see more interaction. And I definitely find that
15 troubling without any kind of regulation.

16 MR. SMITH: So I actually went back to the
17 vaults a little bit on this. This is about five
18 year old data so take it with the appropriate
19 grains of salt but we did a study in 2010 looking
20 at people's interactions in a general sense with
21 government. And we asked them sort of how they
22 preferred to get in touch with government when

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1 they had an issue or a problem. And at that
2 point 35% said that they would prefer to talk on
3 the phone. 20% would prefer to talk in person.
4 And 28% would prefer online. So more than half
5 mention some sort of offline approach.

6 What was interesting is when we asked them
7 sort of how they had gotten in touch with
8 government in the last year and you would think
9 that -- well I guess one possibility is that
10 people who had more online interactions with
11 government would have correspondingly fewer
12 offline interactions. And what we found was
13 actually the opposite. So the people who had the
14 most online interactions whether that was online
15 or email also had the most phone calls and the
16 most in person visits. And so I think we sort of
17 have to extrapolate a little bit but I think what
18 is going on there is that people are happy to do
19 online and chats or things like that to a certain
20 level of complexity. But once things get very
21 complicated, once things start impacting their
22 money or their retirement, get a little more sort

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1 of a high level they want to be able to speak
2 with an actual person and sort all that out.

3 MS. OLSON: As someone who tried to make an
4 airline reservation this past Saturday online and
5 then ended up spending two hours on the phone
6 after I made that attempt between Saturday and
7 Sunday I can understand that --

8 MR. SMITH: Right.

9 MS. OLSON: -- evolution of the transaction.

10 MR. SMITH: It is great until it breaks.

11 MS. OLSON: Right.

12 MR. SMITH: And then maybe it is not so
13 great anymore. So we certainly again this is a
14 little bit long in the tooth at this point but
15 certainly we saw online as a supplement to rather
16 than replacement for traditional ways of getting
17 service.

18 MR. GONZALEZ: I think our surveys speaks to
19 the same point which is that consumers have
20 various options about how they interact with
21 their bank. You know we visit a branch, go to an
22 ATM, online banking, mobile phone, telephone.

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1 And what we find was that consumers like them all
2 to a varying degree. So we found that about 82%
3 of reported using four or five of the channels,
4 that is again over 80% use combination of
5 channels. Only two percent used one or two. So
6 very few people stick to one type or two types;
7 most use various combinations.

8 You would think well what about mobile
9 banking people, those are kind of slightly self-
10 selected in terms of technology maybe that is how
11 they choose to interact with financial
12 institutions. Well among them usage of other
13 channels is still quite high. We asked them what
14 kind of channels they use. 95% said that they
15 used online banking, not surprising, 92% used an
16 ATM, 85% visited a branch and spoke with a
17 teller, 36% used a telephone. So all those other
18 channels aside from the telephone seem to be
19 utilized by mobile bankers throughout the
20 previous 12 months of the survey, telephone less
21 likely to be used than the other ones. But this
22 again suggests as already has been mentioned that

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1 channels are more than likely used and viewed as
2 substitutes rather than as compliments for each
3 other.

4 MS. OLSON: To me that data from the Federal
5 Reserve is really important because the IRS has
6 often said it needs to model itself after what
7 people expect of the financial industry. And you
8 are surveying users of the financial industry per
9 se and you know what their use is. So that is
10 very important.

11 So this is a question for Mr. Best. So
12 we've talked a little bit about the impact of the
13 IRS using preparers as intermediaries, giving
14 them access to the online accounts both during
15 the actual filing of the returns, if there are
16 questions about what entry was put on the return.
17 Maybe the IRS has information that says we think
18 you've left off a W-2 statement or something from
19 your return. And then also post-filing. So and
20 that preparers would be able to do on behalf of
21 their clients if they were given authorization to
22 do corrections on the returns. So my first

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1 question about that is, based on your experience
2 surveying and researching the tax preparation
3 industry, what do you think the impact on pricing
4 would be if taxpayers are encouraged to interact
5 with the IRS more extensively through their
6 preparers using preparers as intermediaries?

7 MR. BEST: Well, I mean it is always hard to
8 talk about pricing because of course nobody knows
9 what the price is so there ought to be -- all the
10 studies that have been done you can never say
11 well this is what the reasonable price is because
12 there is no like reasonable mean of what it costs
13 to do anything. So my first sort of instinct is
14 to say it is going to cause more confusion
15 because it is already confused unless we do
16 something about that. And secondly I just can't
17 imagine a world in which it is cheaper for you to
18 use an intermediary to pay them to do this for
19 you. So it will cost more and because the
20 pricing in the unregulated sphere is so
21 problematic to begin with it will just exacerbate
22 that problem.

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1 MS. OLSON: So you touched on this briefly
2 but maybe you would elaborate. So what is the
3 risk to you in your mind of expanding online
4 access to taxpayer account interactions to return
5 preparers when so much of the population is
6 unregulated and has no requirement to demonstrate
7 tax knowledge or competency. And more
8 importantly, how could we minimize that risk?
9 And if we can't get Congress to do it, what else
10 could we do?

11 MR. BEST: Well, I mean number one just
12 reiterate what I already said. We shouldn't take
13 sort of a broken piece of this which I think is
14 unregulated sphere and increase their
15 participation in the system because we know it is
16 broken. So we shouldn't do that until we fix
17 them.

18 What else can we do if Congress won't do
19 that? I mean I think there is still work to be
20 done at the state level. Four states do
21 regulate, we are going to work there to get more
22 state consumer protections. I mean I think we

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1 could push the IRS to say well only enrolled and
2 credentialed preparers can access these accounts
3 and restrict access.

4 But I think as you touched upon in your own
5 report that is going to make this very difficult
6 if they are talking about really expanding use of
7 these online accounts and most preparers are
8 unregulated, they are going to need unregulated
9 preparers. And so it feels like a Catch 22 to
10 me. Then you don't want to bring in these
11 unregulated preparers because we know that is a
12 broken piece of the system.

13 MS. OLSON: Okay. So this is a question to
14 Mr. Smith. So in your testimony you noted that
15 about 30% of Americans, if I have this right,
16 don't have broadband and that broadband access
17 had plateaued over the last few years. So how do
18 these taxpayers access the internet?

19 MR. SMITH: Well, a lot of them do not. So
20 if you take that roughly third of the population
21 that doesn't have broadband, a little less than
22 half of those just tell us I don't go online at

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1 all. If you look at that remaining segment of
2 the population it is really kind of a grab bag.
3 A lot of them have smart phones. A number of
4 them are using say public institutions like
5 libraries, so for instance 27% of Americans have
6 used a computer or Wi-Fi at a public library in
7 the last year. I mentioned the New York Times
8 article on children in what they call the
9 homework gap. You know a lot of them are using
10 just sort of wherever they can get either a Wi-Fi
11 signal or access to a computer whether that is at
12 a friend or family member's house, sitting at the
13 McDonald's parking lot or in their public library
14 or using their smart phones. So there is not
15 necessarily sort of a consistent set of tools
16 that people use. It is really a sort of a group
17 of tools that they implement as best they can
18 given the limitations around their time and their
19 effort.

20 MS. OLSON: So I sort of have a follow up
21 question but this is for basically everybody if
22 you can just put yourselves in the shoes. As

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1 we've just discussed a lot of people don't have
2 access to broadband and you just said 27% of that
3 group end up going to the public library using
4 Wi- Fi in a cafe or something like that. So
5 we're sitting there with someone who is going to
6 log onto an online account on a publically shared
7 computer and hope that they actually log off or
8 things like that. So I'm really wondering what
9 you think about that, or even a computer owned by
10 friends or family. So what are the risks of
11 doing those kinds of transactions when you are
12 actually accessing your personal data, not just
13 ordering something online but accessing your
14 account and your information and even your social
15 security number something on screen. I don't
16 know who wants to take the lead on that but I am
17 very interested in that if you can imagine it.

18 MR. SMITH: So I'm actually going to pivot a
19 little bit on this because I'm not a technical
20 expert and don't necessarily understand exactly
21 what the risks of that are but I think from the
22 point of view of my research its sort of less a

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1 matter of risk and more just one of logistical
2 difficulty.

3 MS. OLSON: Right. Okay.

4 MR. SMITH: So I was thinking about examples
5 of this that I could talk about in this
6 discussion and picturing myself as a single mom
7 whose got her kids home all day and needs to be
8 able to talk to a representative during 8:00 to
9 5:00 business hours so that she can address her
10 issue that she is having with her return. And
11 you know for someone like me that is super easy;
12 right. I've got a computer in front of my face
13 literally 24 hours a day if I wanted one. For
14 someone like that if they don't have a computer
15 in the house they are going to have to find a way
16 to park the kids somewhere for a few hours so
17 they can go to a library or manage their kids
18 running around at McDonald's. That is kind of a
19 subpar user experience in a lot of way and
20 doesn't really lend itself to being able to
21 engage with sort of in many cases sort of crucial
22 life decisions in a thoughtful informed way. So

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1 I think that would be my kind of take on what's
2 the impact of that in terms of people's lives and
3 how they can navigate these types of services.

4 MS. OLSON: Anybody else want to -- yeah.

5 MR. GONZALEZ: Yeah, the board survey
6 addresses security concerns directly for mobile
7 so I can at least speak to what the survey says
8 with regard to this question. We asked those who
9 have not adopted a mobile payment, mobile banking
10 why they have not done so. One of the reasons is
11 or one of the possible explanations and reason we
12 give respondents is concerns over security. And
13 we find that the reasons for security tend to be
14 very much non-specific. We give them many
15 options including having their phone stolen,
16 their phone hacked, their information being
17 misused. And of course consumers check those off
18 when they say they have concerns or have not been
19 using mobile banking, mobile payments. But the
20 majority say all of the above. Over 60% say all
21 of the above.

22 And then we have a follow up question

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1 because we're interested in how people might be
2 adapting and changing their sentiment about these
3 concerns. We ask them if their concerns that
4 they've already stated were addressed and that if
5 there was a magic solution somehow provided to
6 them would they then undertake mobile banking,
7 mobile payments. What do you think people said?
8 That is right, they say they are not interested.

9 So it is a conundrum. We ask those who are
10 using mobile banking, mobile payments how secure
11 they feel with their transactions and they seem
12 pretty comfortable, very confident that some of
13 their transactions which are done in public, they
14 are using mobile phones in some of these could be
15 done while they are commuting, while they are in
16 a public space and they feel comfortable that
17 their transactions are safe, that they are not
18 being hacked and so forth.

19 While on the other hand those who are not
20 using mobile banking or not doing mobile payments
21 are not comfortable. So it is an interesting set
22 of results that is very much binomial depending

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1 on whether you are a user or not. What I find
2 intriguing is that non-users feel that the
3 transactions that they are not undertaking are
4 unsafe. So they are making an assessment about a
5 transaction that has not occurred or methods that
6 have not occurred. Second when you give them an
7 option of saying well, those transactions have
8 now been magically made more secure they are
9 still not interested.

10 So it is a very telling set of results. But
11 I'm not sure I am ready to make conclusions about
12 those results.

13 MR. BEST: I'm not sure if this relates to
14 my work. I can give you my opinion as a consumer
15 if that is helpful. I mean I will say that I
16 think that every sort of like new interface as a
17 consumer does make me nervous. I feel like I
18 deal with a bit of security. So for instance
19 actually just yesterday my wife's and I's bank
20 account had some very significant spurious
21 charges on it. Now Bank of America is going to
22 cover those, no question asked because I assume

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1 they want me to keep doing things online and
2 buying things like that. And we have no idea how
3 it was compromised. My email has been hacked. I
4 have no idea how that has been compromised. A
5 password came from somewhere, it is not like my
6 email got phished or anything like that. So I
7 mean this has happened to me four or five times
8 in the last decade and it has probably happened
9 to a lot of you too. And every time you have a
10 new portal like that it makes me worry. So if I
11 am using the same email password that I use like
12 for my other accounts compromise my IRS account.
13 Is this really sensitive information going to be
14 taken and is the government going to make me
15 whole the way the Bank of America does? Do they
16 have the incentive or the capability to do that?
17 So that makes me nervous as a consumer just as
18 sort of a general take.

19 MR. SMITH: And actually if I could just add
20 one thing. We've done a little bit of work on
21 this front and one of the things that we've seen
22 in some of our recent privacy research is that

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1 people really have a sense that they don't have a
2 lot of control over what happens to their data
3 once it leaves. And you know like you said
4 everyone has had their credit card company, their
5 insurance company, OPM, you name it all of these
6 supposedly secure entities let their data that
7 was supposedly locked down as tight as could be
8 get breached. And so what we see is that A)
9 people are really sort of resigned to the fact
10 that they just don't have a lot of impact over
11 what happens to their data once it leaves --

12 MS. OLSON: It doesn't change, it doesn't
13 change their behavior like they go offline?

14 MR. SMITH: Well, it is sort of on a case by
15 case basis. So they really in the context of
16 individual transactions they sort of weigh the
17 pros and the cons of is this individual
18 transaction or this vendor that I'm working with,
19 is the deal that I'm getting good enough to
20 overcome my sort of latent concern that this
21 information could get out there and it really is
22 done, we've ask the people the tradeoffs that

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1 they make and there are not sort of privacy
2 absolutists or there are a very small number.
3 There are by comparison a very small number of
4 people who just hand out everything to anybody.
5 So it is very much done on a case by case basis.
6 And that is something that we've seen just in the
7 last year or so so that rings true to me what
8 we've seen in our work.

9 MR. GONZALEZ: A survey has found that since
10 we started asking questions about security and
11 password protection specifically more people are
12 saying that they password protect their phone for
13 example. This could be an industry response
14 where that becomes enabled by default rather than
15 the consumer taking that action. But
16 nevertheless that is one thing that we've seen.

17 We also say that when people sign up for
18 mobile banking they sign up to get alerts when
19 cases of fraud or other notification. So in that
20 sense consumers are now more aware of
21 transactions, potentially fraudulent transactions
22 than they have ever been. I know that before

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1 there was mobile banking people's accounts were
2 getting accessed and charges being charged to.
3 So the counterfactual that we need to ask is
4 well what would have happened in the absence of
5 the technology. And we cannot say that people's
6 financial lives would not have been at risk.
7 They have always been at risk. It is just a
8 matter that now there is a different kind of risk
9 and the question is is the opportunity for
10 prevention is that enhanced, is that something
11 that is available for consumers.

12 MS. OLSON: So just one of the points that
13 you made in the study or that came out in your
14 study, Mr. Gonzalez, is there is a difference in
15 mobile banking and mobile payment use between
16 rural and urban areas. Why is that?

17 MR. GONZALEZ: It is a really intriguing
18 result. We unfortunately did not have the
19 opportunity to do a deep dive into this
20 interesting question because of the logistical
21 and resources were not there. But we find at
22 least a couple of titillating possibilities

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1 explanations. One is that folks in more rural
2 areas tend to have about the same ownership of
3 mobile phones, slightly less but not much
4 different. But we see a large difference in the
5 ownership of smart phones. Much lower incidence
6 of smart phone ownership among rural Americans.
7 It is about, if I can find that number, 54% smart
8 phone ownership in rural areas as opposed to 63%
9 in more urban areas. You need a smart phone to
10 undertake more complicated transactions quite
11 frankly. And then also once you do have a smart
12 phone you need to have that mobile broadband
13 access and folks in more rural areas say that
14 they are less likely to always have available
15 online access than those in urban areas. So at
16 least these two factors might be contributing but
17 of course there could be other reasons like are
18 people in rural areas older? That alone is a
19 demographic factor that explains overall lower
20 usage in mobile banking, mobile payments, smart
21 phone ownership, et cetera.

22 MS. OLSON: Did your study come up with

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1 observations about rural?

2 MR. SMITH: Certainly in terms of overall
3 smart phone incidence, broadband adoption, all of
4 those factors, certainly it's much to a little
5 lower for rural as compared to urban or suburban
6 certainly.

7 MS. OLSON: So the other question I have for
8 Mr. Gonzalez is what factors are driving adoption
9 of the mobile banking and mobile payments. Like
10 we know that if you address all the security
11 things these non-users are not going to - - that
12 is not going to drive them to it. So what is
13 sort of driving people to adopt them?

14 MR. GONZALEZ: Well, one is definitely the
15 increase in smart phone ownership. While overall
16 mobile ownership has been around 86%, 87% for the
17 last five, six years that we have been studying
18 this question, what has been rising has been
19 smart phone ownership. And we see a concurrent
20 increase in mobile banking among those who are
21 smart phone owners. So the ability to actually
22 undertake the service is a condition necessary.

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1 The second is some demographic factors are
2 explaining some of the rise. For example age, if
3 you are under 45 you are more than likely going
4 to be at least experimenting with mobile banking,
5 mobile payments. As has been mentioned already
6 folks who are perhaps more experimental, more
7 interested in new things might. Take those who
8 are set in our ways you know no thanks I'm not
9 going to be following that new-fangled internet
10 thing. And then another interesting finding from
11 our survey is minorities. Being a minority
12 results in higher mobile banking, mobile payments
13 as well as smart phone ownership perhaps because
14 it is an issue of broadband access at home.

15 So those demographic factors are driving the
16 adoption. But to the extent that it becomes
17 something that is more commonplace that might
18 filter through to the older generation as well.

19 MS. OLSON: So those complete my questions.
20 I don't know if you have other points that you
21 want to make that I haven't inquired about.

22 I will note that the IRS website has 140,000

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1 web pages and not a single one of them is mobile
2 adapted. The Taxpayer Advocate Service does have
3 a website that adapts to mobile devices but we
4 just will point that out.

5 So I leave the floor open to people if they
6 want to ask questions of the panel or make
7 comments, observations.

8 With that our third panel is complete. I
9 want to thank them very much for coming and
10 sharing this valuable information.

11 [APPLAUSE.]

12 MR. GONZALEZ: I do want to say that I
13 brought a limited number of copies of the report
14 in case people are interested in picking one up.

15 MS. OLSON: I want one. I want an
16 autograph.

17 MS. BEST: Thanks so much.

18 MS. OLSON: Thank you for coming.

19 (WHEREUPON, the public forum ended.)

20

21

22

CERTIFICATE OF NOTARY PUBLIC

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1 I, ALEXANDER LEE, the officer before whom the
2 foregoing deposition was taken, do hereby certify
3 that the witness whose testimony appears in the
4 foregoing deposition was duly sworn by me; that
5 the testimony of said witness was recorded by me
6 and thereafter reduced to typewriting under my
7 direction; that said deposition is a true record
8 of the testimony given by said witness; that I am
9 neither counsel for, related to, nor employed by
10 any of the parties to the action in which this
11 deposition was taken; and, further, that I am not
12 a relative or employee of any counsel or attorney
13 employed by the parties hereto, nor financially
14 or otherwise interested in the outcome of this
15 action.

16 ALEXANDER LEE
17 Notary Public in and for the
18 DISTRICT OF COLUMBIA

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2 the Court Reporter who reported the following
3 proceeding and that I have typed the transcript
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5 notes and recordings. The foregoing/attached
6 transcript is a true, correct, and complete
7 transcription of said proceeding.

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