TAXPAYER ADVOCATE SERVICE (TAS)

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OPENING REMARKS - John A Koskinen, Commissioner

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Michael Best, Senior Policy Advocate,

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PROCEEDINGS
OPENING REMARKS

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

Before we get to our first panel first I want to say I am Nina Olson, the National Taxpayer Advocate and I am convening this forum and the others around the country. Before I introduce the Commissioner of the IRS, John Koskinen, I do want to make a few remarks before he presents his welcoming remarks. As you know I raised concerns in my annual report to Congress that the IRS was developing its future state plan without adequately telling the public what it was considering or soliciting public comments.
I also raised concerns about whether the IRS would be able to achieve hoped for cost savings by transitioning taxpayers from relatively expensive telephone and face-to-face service toward relatively cheap online taxpayer accounts while still meeting taxpayer needs. In fact I designated this issue the number one most serious problem of taxpayers and announced that I would be holding public forums or hearings around the country to get taxpayers engaged in the planning for the future state vision.

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

[LAUGHTER.]

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

Seriously though, that headline, while attention getting, could not be further from the
truth. After I raised my concerns with the Commissioner last month he said he would put out more information about the IRS's plan. And the IRS just yesterday placed a considerable amount of information about the future state plan on its public website.

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

The role of the National Taxpayer Advocate in her annual report to Congress was designed to spur the IRS toward change and improvement. I am proud that this year's report has resulted in
greater transparency for and taxpayer and tax
community engagement in the IRS future state
planning process. The decisions made during this
process can alter the relationship between
taxpayers and the tax agency for decades going
forward and are not to be made lightly or in a
vacuum.

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

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

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

[APPLAUSE.]

WELCOMING REMARKS

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

[LAUGHTER.]

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

So in any event whether you bought a ticket
or snuck in on your own we are delighted you are here.

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

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

Thus I am very pleased that Nina and the Taxpayer Advocate office has organized gatherings like this across the country to give us
additional insights into the taxpayer experience
now along with suggestions for future improvements.

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

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

At the same time the environment in which we
are operating is changing. We confront a dynamic
global economy and tax compliance challenges
across the world, a complex tax code made more so
with new benefits and mandates and a growing
population of customers with challenging
expectations. We envision a future that
continues to protect taxpayers' rights, it's a
future that meets the needs of all taxpayers, and
it's one that keeps traditional lines of service
open for those who need them.

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

Our goal is to increase the availability and
quality of operations whether online or in face-
to-face transactions so taxpayers’ interactions
with us whether in service side or the
enforcement side are accomplished in a manner
that is fast, secure, accurate and complete.
Over the next five years we'll take a measured approach with feedback from stakeholders all along the way like many of you here and from the forums across the country but also on a continual basis from our standing advisory committees. All of that will play an important role in the process going forward as it has in the past.

A critical factor over the long term of course as Nina noted is the IRS budget and putting our workforce and the budget on a sustainable stable basis because it would go a long way toward improving operations to better serve the public and enforce the tax code if we had appropriate and accessible resources.

Ultimately our pace of progress hinges on the IRS budget and those of you have been stuck listening to me for over two years understand that it has been a critical part of our discussions almost from the start of my tenure.

As Nina noted we are pleased that the IRS budget for 2016 was increased significantly for
the first time in six years with an additional $290,000,000. But this is just a start and was less than half of the additional funds we requested for the three areas of focus for that money, taxpayer service, identity theft and cyber security.

The proposed President's budget for 2017 calls on Congress to fund the IRS at a level of almost $12.3 billion and basically the level we received in 2010, seven years ago. Since then, since 2010 we have ten million more taxpayers and unfunded mandates that we have to and have been implementing including the Affordable Care Act, the Foreign Account Tax Compliance Act, the ABLE Act, the Health Coverage Tax Credit and the Private Debt Collection Act. But funding at the 2010 level even though it would still be significantly below an inflationary adjusted number would be a wonderful step forward for us and we hope that the Congress having now figured out how to give us additional funding rather than cut us each year will continue that progress.
This forum is one of many public discussions on the future state of the IRS that will take place both around the country under the Advocacy of the Taxpayer Advocate but also through ongoing meetings with our standing committees and hearings and briefings on the Hill. But as a result we appreciate everybody's participation in particular all of you who have come to join us for this kick off as it were forum.

All of us at the IRS look forward to the results of these proceedings, to the suggestions, the insights you provide us and for the concerns you have about where taxpayer service is now and where it ought to go over the next three to five years. As I've said our goal is not to go to the moon, we are not trying to do something out of the blue, out of the ordinary but our goal really is to improve and expand taxpayer services for all taxpayers in particular for those who expect, in many ways demand, that they be able to deal with us online in a digital economy. Our goal is simply how to try to catch up with where
financial institutions are across the country already which means that as I've said to many of you there is not a clear plan for what five years from now should definitely look like because none of us know exactly what the world is going to look like in five years. The technology is going to change, experiences of taxpayers will change and one of the things that is critical for all of us is for the IRS to always be agile and adaptable and responsive to what the experience of taxpayers is over the course of time, what the experience is in the digital economy, what the experience is of people who need to contact us directly in their most desired mode of contact. So again I wish everybody an informative day today and appreciate your taking the time to join us and provide your insights.

Good luck.

[APPLAUSE.]

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

Our first panel includes Pam Olson who is
the Washington National Tax Services Practice
Leader at PWC and she is in Washington, D.C. She
is also the former Assistant Secretary for Tax
Policy.
And then Les Book who is a Professor of Law
at Villanova University School of Law and the co-
founder of Procedurally Taxing: a Blog on Tax
Procedure, surprisingly enough.
The format for how we are going to proceed
is that all of the panelists on panel 1 and panel
2 will be making five minute oral statements and
then I will have some questions for them. And
then after we are done with Panel 2, we'll open
up the floor, the mikes for people to come to the
microphone and have public comment if you would
like.
Also I will let you know that
taxpayeradvocate.IRS.gov to have a separate page
for our public forums. So all testimony will be
published and as soon as we can get the
transcripts transcribed of the hearings, the
forums, we will post that as well. And there will
be a way for people to post public comments and
notes that they want brought into this process as
well. And we will post them as well. We will
delete expletives and things like that.
    Pam, would you like to begin.
MS. P. OLSON: Sure. Thank you.
First I want to compliment the Commissioner
and National Taxpayer Advocate for deciding to
hold these forums because I think they are a very
important opportunity for us as taxpayers and as
tax professionals to interact with the IRS and
spend some time talking about what we need and
what we are capable of doing which I think is
essential to think about where the agency ought
to go in the future.
I've got a longer statement that I guess is
going to be out there somewhere?
MS. OLSON: Yes.
MS. P. OLSON: And I had one of those
Murphy's Law mornings, I left my driver's license
at home, realized that after I was packing up to
come over here and so I had to race home, got
caught in of course traffic, so I didn't have
time to get my statement down to five minutes, so
you'll just cut me off when I have reached the
limit.

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

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

Yesterday afternoon I was over at a forum on
the state aid discussion that is going on in
Europe and that is just one of the many
challenges that all U.S. based companies that are doing business around the world, especially in Europe, are having to deal with. So it is a complicated situation out there. And that complicated situation is going to be visited on the division of the IRS that deals with large business taxpayers as well.

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

As I see it the IRS's future state initiative represents an essential effort to find more efficient and effective ways of interacting with taxpayers, an effort that is to be applauded. I enjoyed Commissioner Koskinen's,
maybe enjoy isn't the right word, but I appreciated Commissioner Koskinen's comments that were reported in the press yesterday about the fact that the IRS can't choose its customers. Similarly we as customers can't choose the IRS. So it really is important that we find ways to work together to make it work better than it currently does.

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

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

There is much to be gained from an open and collaborative process that includes taxpayers and
tax professionals in the designs because we as
taxpayers and tax professionals have needs and
capabilities that should be taken into account.
And the best way to understand them is through an
open and transparent dialogue.

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

It may be obvious but I think it is worth
noting that the more resources that the IRS
focuses on upfront tax administration the greater
the likelihood of taxpayers correctly reporting
their income, calculating their tax liability and
paying it without the need for costly after
filing interaction. So another way of saying
that is dollars invested upfront are likely to
reap substantial rewards on the back end.

I'll say a couple more words about distrust
and suspicion and importance of collaboration. I
think that the relationship between business and
the IRS, maybe taxpayers in general and the IRS,
is often marked by distrust and suspicion and
that it is a two-way street. The large business
division is currently undergoing a re-
organization. I think it is a very important
thing for it to do. But with or without it
administration of the tax law could be improved
with a conscious effort on the part of all of us
to be transparent, to speak openly and to try to
understand opposing points of view and work
together to resolve issues. Part of this
involves being able to give and take criticism.
Criticism can be difficult to take especially when it doesn't appear to be offered constructively. But we can all do better if we learn to give and take constructive criticism.

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

The crowd sourcing concept that we hear so much about today is a good metaphor for it. My partner who leads our New York Metro practice tells of the difference between two new hires, one of whom has a network and the confidence to use it and the other whom does not and is afraid to ask for help. Given the same assignment when the project is due, the first with the network turns in a product that has had the benefit of inputs from the network, maybe a template, maybe
a precedent, maybe a model, a spreadsheet, a shortcut, some similar experience to draw on and it results in a polished work product. It has in effect been crowd sourced. The second turns in a product that reflects what the new hire has been able to figure out alone. So the first turns in a top quality work product; the second turns in a product that needs work.

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

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

Thank you.
MS. OLSON: Thank you.

Professor Book.

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

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

But the themes I'll talk about today I think apply broadly and whether in delivering service to low income taxpayers or wealthy taxpayers, individuals or corporations or financial institutions or overseas citizens trying to comply with reporting obligations.
I think a fundamental starting point in thinking about service is that the IRS needs to know whom it is serving and the characteristics and challenges associated with a particular group of taxpayer or parties it is regulating. It sounds easy enough but knowing the taxpayer actually is a very resource intensive endeavor. An agency fixated on efficiency and delivering services at lowest possible short term costs without knowing the impact and burdens of its actions may find itself pushing more serious problems down the road while at the same time jeopardizing taxpayer rights.

While taxpayers with resources can perhaps delegate responsibility to third parties to address a more distant and automated tax administrator, over time continued poor service has a potential for undermining respect and confidence in the tax system. Once the public loses trust in an agency charged with administering the tax system it is difficult to recapture. As Pam mentioned I think trust is a
fundamental theme that underlies service and thinking about service.

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

That individual taxpayer is a middle school math teacher who has returned to the workforce after a number of years outside the workforce with a teenage child. And the vignette is interesting in it goes through the way in which a taxpayer in a future state can file a tax return using third party information using online accounts and interacting with the IRS through essentially a digital form of communication for the IRS to express challenges or issues with perhaps a return that as filed including questions concerning the eligibility for the
An underlying discussion of the vignette is this notion that there can be clear guidance from the IRS and as well as partners that will be communicated to taxpayers as well as taxpayers having secure access to tax information as well as online access. There is this notion of personalized third party assistance as well as the possibility of taxpayer self-correcting with no or limited support from others and essentially taxpayers being able to manage this on their own.

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

At the same time yesterday in the New York Times was an interesting article concerning some of the challenges that school children face in this country with the shift in most school pushing assignments and homework online. It is
an article by Cecelia Kang who writes about technology and policy looking at particularly school children in Texas and how children are facing increasing challenges in being able to meet the responsibilities of their being in school and completing their homework assignments. In the article there was a discussion of how some school kids are doing their homework outside their local elementary school on the sidewalk because they don't have internet access at home. Likewise there was a story of Perla Castro, a 16 year old who takes an extra long three hour bus trip home because the school district has installed Wi-Fi in the buses. And she uses the time in the bus in order for her to in fact complete her homework assignments.

We'll hear more about this later today in other testimony I'm sure in other forms, but there is 31.4% of all households with incomes under $50,000 who do not have internet access. That equates to about five million households with children without internet access. It is
significantly difficult for many individuals in this country to communicate in a way when communications are based upon internet access and access to technology that is not evenly distributed in society.

So what I think is important is that understanding that while most Americans are, in fact, able to file their tax return and experience tax administration without much hiccup, returns going via the cloud and refund, there is a refund of excess withholdings, refundable credits, it comes out increasingly via direct deposit to a bank account. Millions of Americans are not so lucky. Sometimes they do not understand the law despite their best efforts. Sometimes they are missing key facts or documents that relate to their tax situation perhaps due to life disruption such as a move or an illness of a parent or a child. Sometimes they've received letters from the IRS from a past year that they do not understand including letters that suggest a prior year's return was incorrect or missing
some needed information. Some do not have a bank account and must rely on old fashioned paper checks and the possibilities of high fees to convert a refund to cash.

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

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

So going forward what does this mean for tax
administration? I think consider how our future
of tax administration sees taxpayers as they
actually may lead to an approach that can
increase the trust in tax administration and
enhance voluntary compliance.

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

At a time when IRS seems focused on
lessening the ability to interact in person in
the interest of reducing direct cost and
increasing efficiency should instead be looking
at ways or perhaps leverage partnerships either
with the private sector or states to facilitate to greater access to walk-in sites.

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

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

I recently read an article that discussed research originally done by psychologist Ellen Langer. Ellen Langer's research introduced the concept of illusion of control. The article discusses how there are plenty of examples of buttons which do nothing and indeed other
technologies which are purposely designed to deceive us. The key insight to that research is that people need to feel that they have some control over their lives. A button on the elevator that says close door or even the fact that it does not trigger the door to close gives you the illusion, in fact, you have the power over your external environment. That control contributes to one’s sense of well-being. 
Our tax system often times doesn’t even have those placebo buttons to placate the people it serves. As IRS builds its base on a future state it must take into account the current state of the growing number of citizens who feel that their government does not serve them well. These people feel as though they are powerless or at time voiceless. 
I do not suggest as the IRS moves forward that it looks for placebos to let people feel they have control when they do not. Rather IRS should build a system that is based on support and respect for all citizens, one that gives
people a voice and can actually contribute to people having the power to understand their rights and responsibilities. With that support and respect the people of the IRS service will pay that back in kind thus contributing to a tax system that can continue to be the backbone for an increasingly diverse and complex society. Thank you very much.

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

[LAUGHTER.]

MS. OLSON: Does it make you feel better.

Thank you Les.

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

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

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

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

The other thing about clear rules is that it provides certainty and whether we are talking about a low income taxpayer who wants to know I am entitled to that credit and when I get it I get to keep it. I'm not going to have to worry about having to repay it to the government. Or a large business is filing financial statements and wants certainty about whether it has properly calculated its tax liability. We all want
certainty. We want certainty sooner. And the
more that we have clear rules that people
understand the easier it is to get there.

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

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

MR. BOOK: Yeah, I think the vast majority
of lower income taxpayers really want to comply.
And they want to do the right thing. And to do
that in today's environment is difficult with
complex rules and oftentimes not an easy path to
understanding what rights and responsibilities
are. So there is not one silver bullet. There is
not one solution but there needs to be a more
targeted approach that takes into account the
realities on the ground, the circumstances of
taxpayers as well as the challenges that
individuals face in even trying to have their tax
return prepared and the importance of insuring
that the IRS has the power to understand those
who are interfacing with taxpayers given the high
degree of significant number of taxpayers who for
example rely on commercial preparers that the IRS
doesn't have power to directly regulate
unlicensed preparers is a kind of issue which I
think speaks to some of the challenges the IRS
faces with this segment.

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

And one of them is when in my documents we
had noted that there is a key component to the
future state which is that the IRS will have
transitioned taxpayers from talking to IRS
employees to interacting through online accounts.
And these vignettes show taxpayers working through audits et cetera or making adjustments to their returns without ever speaking to an IRS employee. And I personally have said in my annual report that I think that works fine for cookie cutter transactions. But I am more concerned about what happens with more complex interactions.

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

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

MR. BOOK: So as I discussed in my opening statement I think there are real challenges
especially for lower income taxpayers in navigating an online environment. At a starting point as I mentioned there is a significant segment of the population that has limited access to internet. And if there is an expectation that the norm is communication in an online environment there is going to be a challenge for those taxpayers who don't have the ability to easily communicate with the IRS. And I think that is going to be -- obviously as time passes one hopes that the so-called digital divide will lessen and there will be an opportunity for people to have more opportunities to get online. But even with there being an online environment where more people have access to internet I think my experience with this community is that there is no substitute for personalized engagement. And it is amazing to me how limited the understanding is for many in this segment in terms of what their rights and responsibilities are. And without a significant upfront investment in resources in education that
is really personalized to direct towards specific
issues I think the IRS faces an uphill struggle
in relying exclusively or largely on an online
environment. And as Commissioner mentioned I
think that there is a sense that there is a
multi-faceted group of taxpayers out there some
of which will have more difficulty than others in
navigating in this online world.

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

So there is a lot of research out there
about the kind of -- for example looking at the
earned income tax credit -- the kinds of claims
which are most likely subject to error, most
likely that are abused. And I think a more
personalized and engaged interaction between
claimants and individuals and IRS research and
information about what, in fact, are warnings for people to know that there are issues that can cause problems down the road.

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

MS. P. OLSON: I think I am going to echo a lot of what Les just said. Thinking of instances I used to go to the Martin Luther King Library here in D.C. to VITA site and prepare tax returns for low income taxpayers and I was always amazed by the complexity of their factual settings, the factual situations, their living arrangements. And they deal with some of the most complicated rules that are out there. And I don't think I ever went to the site to prepare a return when I didn't end up with some factual situation that would stump the VITA site coordinator in addition
to stumping me; so very complicated. So then you take that and you say okay how do I boil that down to something that can be done online and it's a real challenge to take away the personal interaction.

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

So when I look at the low income taxpayer community it is hard for me to see how we can simplify things enough but I think maybe through the use of some of that data to the extent that there is big data that we could analyze to try and figure out if there are shortcuts so that you could kind of put buttons and maybe that would allow you to also figure out ways to simplify
returns and the whole filing process for people.

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

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

MR. BOOK: Right.

MS. OLSON: So in both of your testimony you discuss the role of the IRS in delivering social benefits and not just the earned income credit.

Ms. Olson you mention many other kinds of benefits that run through the code.

This sort of picks up on some of your opening comments about calling the IRS an enforcement agency. But it has been variously described as a revenue collection agency, an enforcement agency, a processing agency even. I haven't really heard it described as an education
agency or a taxpayer service agency either.

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

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

And Les you talked about this in your testimony as well. And the needs of the community that relies in particular on it for benefits are so different from the ones that are merely paying taxes. But there are a lot of other things that we put responsibility on the IRS to take care of as well. Things like
corporate governance and conservation policy,
energy policy. We have all of those things
running through the Internal Revenue Code. And
at some point we ought to step back and say
should we be doing all of these things. Or
should we put it somewhere else.

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

MR. BOOK: Yeah. I echo that. And when you
look at the importance that the IRS plays in the
lives of so many Americans in terms of its
responsibility in delivering benefits, the IRS
has become the principle gatekeeper in terms of
distributing benefits that have an effect on
reducing childhood poverty. When you look at,
for example, the earned income tax credit, its
impact on American lives and the importance that
that plays in federal policy the IRS becomes an agency that really needs to think about some of the challenges that other agencies have faced in administering benefit programs.

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

MS. OLSON: So this is a yes or no answer. Should the IRS explicitly recognize in its mission statement its responsibility for delivering social benefits?
MR. BOOK: Yes.

MS. P. OLSON: Yes.

MR. BOOK: And this is a --

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

[LAUGHTER.]

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

MS. OLSON: So I just have a few more questions but one of them is another component of the IRS's future state vision in addition to taxpayer access to online accounts is giving practitioner access to online accounts. And so my question is what benefits and risks do you see
to providing taxpayer access to taxpayer online accounts. And does your answer change if that access is provided not just to tax practitioners who would be enrolled agents, you know, certified public accountants, attorneys, those who are currently regulated under Circular 230 and you expand them to tax preparers including unregulated ones.

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

But when you look at the research which suggests that there are significantly differing for example error rates between unlicensed preparers and those who are licensed, enrolled agents or CPAs. It suggests to me that the IRS needs to be quite concerned about who, in fact, has access to information, whether, in fact, the
parties have the best interest of the taxpayers and tax system at heart. And I think the IRS's efforts to more directly regulate that community is I think reflective of its recognition that it relies to a large extent on the private sector in administering the tax system in different ways. And with that reliance comes a responsibility and I think the IRS tried to exercise that responsibility and hopefully Congress now can step in and give the IRS the tools that itself felt it needs to more directly communicate with and assure the taxpayers are receiving the service they deserve.

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

MS. P. OLSON: I don't think I can add anything to what Les said. I'm personally a bit biased because I've been through identity theft.
with the IRS. And I've also been subject to the OPM breach. So I do think it is critically important that the IRS focus on protecting information and I fully support all the budget that you need in order to make sure that it remains safe.

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

MS. OLSON: So, in both of your testimony you have written and spoken about the importance of trust between the taxpayer and the tax agency. So can you elaborate a little bit on the role that trust plays in furthering voluntary compliance and in particular what can the IRS do to foster that trust. And if you want to focus on your particular taxpayer groups that is fine. But it sounds like trust is just a key, central to this whole thing both now and going forward. Do you want to start?

MS. P. OLSON: Sure, yes, I mean I do think
that trust is absolutely critical. And there is
a perception from time to time that the IRS kind
of goes into a shell generally speaking. It is
never good to speak with too much in the way of a
generality but sort of generally speaking there
is a feeling sometimes that the IRS goes into a
cocoon and closes down to interaction from
outside.

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

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

And it certainly can feel risky to open up
to discussion, put your ideas out there to allow
somebody to criticize them, to take the
criticism, to be willing to give criticism back.
But I think it really is an essential part of operating a tax system that functions at the highest level.

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

I think, however, getting back to trust and how that relates to taxpayers there is no question that sanctions alone is really not the way, a sanctioned based approach is not the only way to encourage voluntary compliance. There needs to be an emphasis on insuring that interactions with taxpayers enhances trust and
trust between the taxpayer and the IRS is a two-way street but if the taxpayers have an absence of trust in what the IRS is doing it leads to kind of spirals and increases non-compliance. And without going in too deep in terms of the way the IRS manages its compliance with respect to many lower income taxpayers it is mostly done via automated correspondence examinations where there is very little personalized interaction between the IRS and claimants. And for many individuals it causes a lack of connection or understanding as to what, in fact, the IRS is doing or why it is doing it. So if you are looking to education and educating taxpayers to comply going forward a compliance based, correspondence based exam approach really falls short. And my experience with many individuals who may have mistakenly claimed a credit or taken a position or return they come out of the experience with the IRS not really understanding why, in fact, their position is incorrect. So I mean I guess the point is
that in thinking about trust and thinking about compliance it requires a more personalized engagement with individuals as well as in the pre-filing environment.

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

My closing question for you is as the IRSAC noted in its testimony, its written testimony which you will hear soon, during the reorganization of the IRS in 1998 the IRS held town halls and conferences and convened task forces with IRS and private sector participation.

So my question to you is what can the IRS do in addition to this to insure that your taxpayers and all taxpayers have a role in helping craft the IRS future state.

MS. P. OLSON: So I would say open up the process from the very beginning. Don't wait until things start to crystallize or heaven forbid it's a proposed whatever because it is very difficult to take input at that point in
time particularly if there is a lot that has been
invested in it.

So I was thinking back to post-1982 TEFRA,
Tax Equity and Fiscal Responsibility Act
contained a whole bunch of provisions that were
going to be immediately effective or almost
immediately effective and were in need of
regulatory guidance. And IRS and treasury decided
to convene a gathering of the affected
stakeholders to talk through what was in the
Statutes and what was needed in the way of
guidance. And those upfront discussions before
pen was put to paper on anything were so useful
in helping to get the regulatory process moving
in the right direction. And I've thought about
that as a model for a long time as the best way.
I mean I think like the regulatory side, the IRS
and treasury's annual business plan that gets
updated regularly are ways of communicating with
the public, hey this is what we are working on;
this is what we're thinking about. But a still
more engaged and transparent dialogue about what
is going on from the very earliest stages I think would go a long ways toward making things function better.

MR. BOOK: I agree and I think one of the challenges for issues relating to lower income or moderate income taxpayers is sometimes it is difficult for there to be a voice that can be at the table. And so even with an agency interested and engaged, wanting to engage, it is more challenging to understand the experiences of those who have lives that may be significantly different from the lives of the administrators.

And so that is an additional challenge that I think needs to be identified up front and what that means. Having the experience of the Taxpayer Advocate Services is a great organization for insuring that the voice of those who may not have a seat at the table is heard in setting rules but outreaching to others in the community and directly going out to the community like you are doing with these forums I think is a terrific idea.
But it is an additional obstacle in trying to think about rules that could be best suited as you oftentimes have a group of people who may not be able to communicate specifically some of the challenges they may face in interacting with the government.

MS. OLSON: Okay.

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

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

[LAUGHTER.]

MS. P. OLSON: You know it is just very difficult for people to take taxese and figure out what's it mean for their lives. And so the more the IRS can do to help people understand
what does this mean for the average setting as well as the unaverage setting the better off it will be.

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

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

And now we will bring the second panel up.

Thank you so much.

[APPLAUSE.] (WHEREUPON, a brief recess was taken.)

MS. OLSON: Now we are starting with our second panel. And again we are going to go through all the oral statements and then we will come back with a series of questions some of
which you've heard and some of which will be
different so just to change it up a little bit
for you all who thought that you had taken little
notes about how to answer my questions.

So on our panel and I guess we are starting
going in this direction. We have Jennifer
McMillan who is an Enrolled Agent and she is
Chair of the Internal Revenue Service Advisory
Committee or IRSAC. Next to her is Timothy J.
McCormally who is Vice Chair of IRSAC and he is
the Director of Washington National Tax for KPMG
in Washington, D.C. We have Michael Gangwer who
is Chair of the Information Reporting Program
Advisory Committee or IRPAC and he is tax advisor
for the Vanguard Group in Valley Forge,
Pennsylvania. And next to him is Jim Buttonow
who is Chair of the Electronic Tax Administration
Advisory Committee or ETAAC and he is with H & R
Block in Greensboro, North Carolina. And finally
very far over there, hello, we have Gina Jones
who is an Enrolled Agent and she is Chair of the
Taxpayer Advisory Panel and she is from Delhi,
And just so everyone knows these are all representatives of the Federal Advisory Committees, some of the Federal Advisory Committees that the IRS has. And these folks are charged to make recommendations in their particular subject areas to the Commissioner and in the TAP to the National Taxpayer Advocate as well.

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

MS. MacMILLAN: Yes.

MS. OLSON: Yes.

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

IRSAC which dates to 1953 is chartered to provide private sector representatives a forum to discuss tax administration issues with IRS
officials. IRSAC currently has 18 members who were appointed to convey the public's views on various IRS activities and offer constructive suggestions on current and proposed IRS policies, programs, and procedures. IRSAC operates on a consensus basis with its annual report to the Commissioner being reviewed and approved by the entire group.

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

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

The changes necessitated by the long-term constriction of IRS's budget have significantly impaired the IRS's ability to recruit, train and
retain experienced employees, threatening a serious void in both skilled leadership and experienced front-line employees. The IRS has acknowledged that its future state efforts have been informed by, among other thing, the current funding environment.

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

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

That said, we agree that the planning
process could benefit from greater transparency and continuing engagement. Not only might taxpayers and other stakeholders identify issues or offer perspectives that have not yet been considered, but they may have suggestions or even solutions to seemingly vexing problems.

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

Outreach to taxpayers and stakeholders clearly characterize the Internal Revenue Service's major reorganization following the enactment of the Restructuring and Reform Act of 1998. At that time, the IRS created task forces which teamed IRS employees and stakeholders, held hearings, briefings, and town hall meetings, and kept taxpayers and the tax community involved in its plans.
The goal of these outreach efforts was and with respect to the future state initiative should be not merely to share the IRS's decisions but rather to inform them, even if a consequence of greater engagement is delay.

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

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

Digital tools and electronic communications which are fully accessible to unrepresented
taxpayers are also critically important, but we cannot overemphasize that the need for face-to-face, voice-to-voice communications and interactions will not disappear regardless of the depth, breadth, and quality of digital tools deployed by the IRS.

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

That is my comment and Mr. McCormally will fill in the rest of our report.

MR. McCORMALLY: Thanks so much Jennifer. And thanks for the opportunity to be here.

Both Jennifer and Nina have made reference to the meetings, task forces, and work groups that came up after the Restructuring Act in '98. As I look around I have a feeling I am not the only one that went through that reorganization or
thinks the tax system is better for the process that was used.

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

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

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

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

That is what we spent a lot of time doing after RRA '98 was enacted and I worked for a group that represented what were then LMSB Taxpayers, now LB&I Taxpayers. When the process is opened up, the result has got to be progress. And when LB&I announced its reorganization last September and the organization stood up officially two weeks ago, a lot of questions arose not only from IRSAC members and members of other stakeholder groups but from IRS employees themselves of what this major shift mean for
well-regarded programs, such as the Compliance Assurance Process program, which Pam Olson mentioned it in her written statement, the pre-filing agreement program in our written statement. These programs that have at their core encouraging early compliance and as I say my focus tends to be on LB&I taxpayers but I think if there is one thing that I would urge everyone who is focused on the future state to not lose sight of it is the need to develop programs and means of delivering programs that, in fact, recognizes as Pam and Les and Nina and the Commissioner himself recognize that compliance is the goal of everyone. Voluntary compliance is what we want to get to.

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

One of the major areas of concern in IRSAC's last report was penalty administration and the fact that there are more and more assessable
penalties throughout the Internal Revenue Code that may lead many taxpayers to say maybe it is not worth coming forward and correcting an error rather than doing the right thing and self-correcting. So we would urge the future state to focus as much on that as on anything else.

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

And I think I want to go back to one comment that Les made in his comment which is the role of social psychology and social science. What I find astounding is the research with respect to the difference in veracity of people who give you a real signature versus an e-signature. And think about the number of times these days when we
either give or are requesting an e-signature and it's kind of mind boggling that we kind of take for granted that the result is going to be the same.

Thank you.

MS. OLSON: Thank you. Great.

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

So some pretty common examples that everyone here should be familiar with would be 1099s and W2s. So has very far and wide reaching implications for all taxpayers. And I think as I
I think it helps to note that the real tie-in here is if you think about service; right, for the individual taxpayers you can have a great person at the IRS who picks up the phone and can answer questions. You could have a fabulous website that is able to interact well with the taxpayer. But if the information that the taxpayer and the IRS receives on these information returns isn't clear and correct the whole process won't work as designed.

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

So there has been a lot of discussion already this morning on budget, the budget shortfall. And so you can look at different numbers. In our written testimony we talk about in sort of non-inflation adjusted numbers the IRS
is down about 11% over the past five or six years. In and of itself that is not a huge deal. People have to do with less all over the place. But I think the real mitigating factor here is that the IRS has been given increased responsibilities far in excess of what they are really able to handle. So a couple of examples would be the Affordable Care Act and FACTA and Cost Basis; these are all very real burdens to the IRS to have to implement given the situation of having reduced funding levels.

So what does that mean for information reporting? Well our concerns are that because so many resources have to be devoted to implementing these large new programs that other areas for which much guidance, and you've heard other panelists talk about this, much guidance is needed are really missing out on the resources that they need. So the information reporting process suffers. The ambiguity that is inherent in many of the different types of information returns that have to be generated remains. And
our committee works hard with the IRS to try and
clear some of those things up as much as we can.
But the reality is that there is only so much
funding to go around and so until that funding
gap is closed we think there is a very real
danger that the IRS won't be able to accomplish
its mission of collecting the right amount of
revenue and that individual taxpayers won't be
able to comply with their obligations because the
tax information returns that they receive won't
be as clear and contain the right information
that they would need to be able to do that.

Just another general note about information
reporting is that it is part of the compliance
process. One could look at it as if the IRS has
deputized businesses and employers to take on
part of the compliance process. So what we do in
effect is we are the beginning of the process,
information return preparers will store
information on people's earnings and wages and
the dividends and all the different things that
they receive and we put that on paper. We put
that into some type of form in which the taxpayer
and the IRS consume.

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

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

Now in more detail in our annual reports you
can go back if you are really looking for some
scintillating tax information go to our reports
and take a look. We have a number of
recommendations that we make across the board on
different types of information returns. And I
guess from our perspective we think that a future
state of the IRS from a service prospective won't
be fully fixed until we make sure that the
information reporting process has everything that
it needs and that the IRS and taxpayers get the
information that they need in a clean and easy to
read and understand format.

Thank you.

MS. OLSON: Thank you.

MR. BUTTONOW: Scintillating tax
information. I don't know if I can follow that.
Well, thanks Nina, thanks to your office for
inviting the Electronic Tax Administration
Advisory Committee or here is the acronym ETAAC,
it is a hard one, ETAAC to discuss the future
state of the IRS.
And if you have read our reports in the past
few years you know that ETAAC has a lot to say
about shaping the future state of the IRS
especially as it relates to taxpayer service.
So first I'd like to start with a
confession. I do Chair the Electronic Tax
Administration Advisory Committee. I can tell
you secretly we believe that all the world's
problems could be solved through automation and
programming; right.

[LAUGHTER.]

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

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

So what has ETAAC been working on the last
couple of years? Well, ETAAC has been and continues to
focus on what we believe are the two biggest
challenges in tax administration today. The first
one: the erosion of our tax system due to tax
identity theft. And the second one: the one that
we are really here to talk about today, is the
inadequate levels of taxpayer service at the IRS
caused by an antiquated customer service model.

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

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

Four components to it: the future state is a
taxpayer experience that allows taxpayers to fully understand their tax obligations, have transparent access to their tax information status with the IRS, and effectively and securely allows taxpayers to interact with their tax administrator that is the IRS, and here is the one for Nina, in a way that they want to be served. All right.

So that is a really big vision statement.

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

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

Second component, taxpayers have access and understanding to their tax information and status
with the IRS. That is not a novel concept. But does anybody know what an IRS transcript is? Anybody ever get their IRS transcript lately? Anybody try to understand it? All right. Well, in future state taxpayers have greater transparency and definitely greater clarity of their tax information and circumstances. In the future state taxpayers feel more empowered which inspires confidence about the fairness of the tax laws and trust in the IRS and encourages voluntary compliance.

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

And lastly and again this one is for you, Nina. The IRS serves taxpayers in the way they want to be served, right. So whether it is online, phone, chat, taxpayer assistance center,
VITA site, or through a tax professional the IRS should provide all of these options to meet the variety of taxpayer preferences. Now this is a big shift. This is a shift away from the one size fits all model; right, taxpayers will have to work in a manner that the IRS wants them to serve to a model in which the IRS work with taxpayers in the way taxpayers want to be served. All right. So most of what I described here today, these capabilities they don't exist today at the Internal Revenue Service. For most taxpayers dealing with the IRS it is not quick, it is not easy, and it is mostly done by paper and phone. And for most taxpayers they have no idea about their tax information or their status at the IRS. Now is this a big problem? Absolutely especially for the 45% of taxpayers who have to interact with the Internal Revenue Service outside of filing a tax return. On top of that need there's preferences of
consumers. Modern customer service companies tell us that today's consumer demands digitally enable real time information and online services. It has become the standard. So what about those taxpayers who want to deal with the IRS in person or on the phone? Well, by creating these digital capacities for taxpayers and tax preparers the IRS can meet the growing digital service expectations of taxpayers but also they can free up the phone lines and IRS employees for issues that require human interaction and for taxpayers who really need and prefer a person. So now is a bit of a reality check, where are we at today? Well, the current state of service and the lack of digital tools that the IRS could leave us feeling very, very pessimistic about the near term possibility of modernizing taxpayer service at the IRS. I actually have some good news. I do and ETAAC goes to Congress every year. We give them good news, right. We hopefully give them good
The IRS does have a long-term plan and a plan that lays out an iterative approach and I can stress an iterative approach to building taxpayer service features that will create a 21st century experience when taxpayers interact with the IRS. Some know of this evolving plan, this iterative plan is the IRS concept of operations or CONOPS as it's referred to internally at the IRS. Now ETAAC has looked very closely at the CONOPS strategy and its digital service components. Remember we are the Electronic Tax Administration Advisory Committee. We look closely at the digital service components. We've actually endorsed implementation of the digital service components in the plan. We actually took it a step further. When we met with Congress this past year we actually advocated that the IRS accelerate its digital service plans. We know this is not going to be easy. The IRS faces a lot of obstacles. Some of them we've talked about already today. They need
to overcome a lot of these obstacles in order to accelerate these plans. We'll have some time hopefully to talk about those here today. But let me sum it all up. The future state of the IRS enables technology as part of a holistic taxpayer service strategy. The future state embraces digital solutions to allow the IRS to maximize its limited resources. It creates targeted capacity to serve all taxpayers the way they want to be served. Now isn't that what we expect of all of our service providers today? Of course it is. So now it is time to make these digital service capabilities a reality at the IRS and build a modern taxpayer service platform that has room for every taxpayer to be served in the manner they want to be served. So if you want to read more about how to get there and what those accounts look like I implore you to read our report. The ETAAC report the past two years talks about online accounts extensively and how the IRS can overcome
obstacles to getting there.

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

[LAUGHTER.] Let me turn over to Gina.

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

MS. JONES: Thank you.

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

Our mission is to listen to taxpayers, identify taxpayer issues and make suggestions for improving the IRS service and customer
satisfaction. This panel acts as a liaison between the IRS and the general public. We hear a recurring theme that is neither complicated nor isolated and it is that the agency is failing to provide the services that ordinary taxpayers want and need. And we believe that this undermines the integrity of the entire voluntary compliance system.

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

Even the practitioner priority service telephone lines have had hold times in excess of an hour. Tax professionals naturally pass this on to their clients and these calls can cause a hardship to their clients. Many of the taxpayer assistance centers have
moved to an appointment system to increase efficiency. But many taxpayers aren't aware that they need these appointments. Even after traveling long distances taxpayers have been turned away and told to come back and make an appointment for another day.

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

In 2014 TAP requested that an online lookup tool be created for informational purposes regarding the American Opportunity Tax Credit. The IRS responded that although the idea had good merit it could not be implemented because of funding constraints and the issue was rejected. The TAP Committee pressed to research the number of tax returns filed with incorrect
information regarding the education credit. We were told that the exam program which addresses that credit as a primary audit issues reported opening over 13,000 cases during fiscal year 2014 at an average cost of $281 each. That is approximately $3.7 million in 2014 alone. The IRS is incurring enforcement expenditures which could arguably be reallocated to preventing the erroneous calculations. That portal might possibly provide the ounce of prevention that is necessary to avoid compliance errors. And we think it is especially important given that the tax credit has been made permanent.

Budget shortfalls not only hamper services to taxpayer but it also impacts TAP's operation. Our funding is provided by the Taxpayer Advocate Service. While generous in providing staff and other resources for project committees to meet once a year, the budget crunch has prompted the decision to cancel the face-to-face meeting for the 2016 joint committee or JC.
The JC has historically met once each year to perform a critical review of the past year and align the strategic plan for the coming year. While we will meet virtually it is not as conducive to development or engaging important dialogues.

IRS has improved processes to protect taxpayers with identity theft issues but there is still more to be done. We recognize the expense and the pains associated with the protection and the return of the transcript delivery program. There is much improvement in online services with more options available for information and self-help.

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

Another very positive accomplishment was
enactment of the Taxpayer Bill of Rights, a clear, precise description to all taxpayers of their tax-related rights. These rights must be real and held dear by the Agency in order for the taxpayers to truly be heard and to pay only the correct amount of tax just to reference to.

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

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

Thank you.

MS. OLSON: Thank you all.

So now I've got a few questions for you all. And I'd like you to not answer in treatises so I
can get -- since there are a lot of you up there
and I want people to have a chance and then I
also want to open it up before we close this
session at 12:30 so people from the floor can
make comments and I hope not treatises.

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

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

MS. MACMILLAN: Well I can keep this very
brief, personal service I think is the number one
thing and you know as we said in our comments and
I think everyone has said here today moving into
a more digital realm is a good thing. There are
so many places where that can be helpful. But the number one issue that I think builds trust among taxpayers and practitioners with the IRS is to have a person that they can deal with either by phone or face-to-face. I think that is the most crucial thing required. And I don't see that going away even with advances in the digital tools.

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

[APPLAUSE.]

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

MR. GANGWER: Yeah, I guess my comment might be a little bit biased. But I think that having very clear, concise information returns. So being
able to put information out to our taxpayers in a way that they can consume it, they can understand it and then either like me, I'm ashamed, I use TurboTax, it is okay, use software, they know what they are inputting or with a good professional they will be able to pay the right tax. So from I think IRPAC's prospective it is making sure that we are able to provide the right information.

MR. BUTTONOW: So what can I have first?

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

Again meeting taxpayers where they want to be, right. So certain segments want to be served personally. I want to be served electronically.
So that requires creating digital service capacity.

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

MS. OLSON: That has been an administrative recommendation of my office for several years. I can cite the annual reports where I've made that recommendation to publish a directory online.
You can also look at the IRS's response to that and why they won't do that. So then moving to, okay, if we do have these digital online accounts, what types of transactions are they useful for? And where would they be the least useful? Shall we start on the other end and go back this way, how about that?

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

MR. BUTTONOW: I think Gina is right. I mean if you look at the data and IRS has a lot of analytics on this. We have it in our report last
year. Transactions are very easy components to go online and get information that is very difficult to do right now with the IRS. You have to sit on hold or get something faxed or mailed to you, things that you don't want to do really with electronic accounts are things in which taxpayers have to engage with the IRS. We are talking about examinations and luckily those are small, not insignificant, but they are small in terms of the overall components. Consider that the IRS only does 1.4 million audits every year but they send out 200,000,000 notices. So most people need information and be able to transact with the IRS. So those are classic capabilities that you need to do electronically and online which really are not a heavy lift for most taxpayers.

MR. GANGWER: Putting the maybe small business lens on this. One of the things we talked about in our report was providing the ability for small business owners who really are sort of jack of all trades, so they do wear many
hats in operating a small business. So giving them for example in an account like this the ability to input 1099 information for whoever they need to give them to, these are small numbers of forms, allowing them to do that, print them, hand them off to either employees or others they need to give them to. It gets information into the process into the system cleanly and it takes away a burden that a small business owner has of tracking down all these things if it weren't available. So I think there are a lot of ways that we could reduce the burden on taxpayers, individuals, small business by really thinking smart about how we use the technology that is available.

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

MS. MACMILLAN: One of the things that I actually learned from looking at these vignettes was some of the potential uses. And I thought the self-correction tool as part of an online account was probably my favorite -- I got very
excited about that. And I thought taxpayers at least those who understand what they are doing and can understand the language and what their account is telling them - the fact that they will be able to self-correct - will be a huge advance.

But I also know I am on the IRS website daily and I know what I'm looking for and where to find it and how to read what's on there. In IRSAC’s 2014 report, we had looked at the language and how difficult it is to understand notices and Flesch-Kincaid reading level of both notices and all the letters that come from the IRS are somewhere around a 12th grade level, whereas most American taxpayers read at a 9th grade or lower level. And I think the lower-income population is probably on the low end of that scale. So there is a need to make it understandable, but it is a really complex tax code and regulations, it is going to be very hard for the average taxpayer to understand complex principles and complex regulations. Those things are always going to require human assistance.
MS. OLSON: Okay. So to continue with the online accounts this is sort of more about practitioner use of the online accounts. And I asked the previous panel but certainly because you are all practitioners what are the benefits of you being able to see your client's activities and, as they extend to unregulated return preparers, what are the risks of that.

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

So we will start with you this time?

MS. MacMILLAN: Wow that is so many questions.

MS. OLSON: There is a lot in the question.
MS. MACMILLAN: There is a lot in that question. I might ask you to repeat parts of that.

MS. OLSON: Yes, no problem.

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

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

MS. MACMILLAN: Okay.

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

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

MS. OLSON: They also do that with paper, so
MS. MACMILLIAN: But I think that it is dangerous to be allowing unregulated preparers full access to their client's information because they really can't represent that taxpayer. Of course that is coming from someone who has the ability to represent taxpayers.

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

Was there another part of that question?

MS. OLSON: Well, there was just do you want notice if a taxpayer does --
MS. MACMILLAN: In California they've just brought up “MyFTB account” and it is really fantastic. We can see all notices the clients have received. The client does also get a letter that says “your tax preparer or your tax professional has created an online account for you; is that okay?” The very first person who received one of those came running into my office, asking “what is this?” So there is an upside and a downside. I think it is good if clients are informed that there is an account that has been set up for them. But it also may create some confusion.

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

On the other hand, when the taxpayer authorizes a practitioner, she or he is often saying, it is your problem now. A balance has to be struck but I would always err on the side of
giving the taxpayer the information, the notice rather than not.

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

MS. OLSON: Right.

MR. GANGWER: I think I'll speak first to a benefit that I see that would be really helpful.

So in just listening to tax preparers for example talk about how they interact with their clients, clients will come in maybe with a box or an envelope with just information stuffed into it and the tax preparer is sort of left to sort it out. So I think an online account could help a taxpayer organize their information, hoping that information returns could be sent direct into this account so that a client or a taxpayer would be able to see a digital copy of their 1099 or W-2 right in there. And so it helps the tax preparer know that their client has given them all the relevant information and gives them a little bit more comfort in knowing that they are filing the return the right way on behalf of
their client. So I think that could be really a
good thing.

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

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

MS. OLSON: Okay. Yes.

MR. BUTTONOW: So we've spoken a lot about
the importance of tax professionals in this and
so let me give you the data point. The IRS is
not going to solve the taxpayer service problem
unless it enables tax pros. 57% of all tax
returns are done by tax professionals. When it
gets to small business it is three out of four.
So if you disenfranchise the tax professional
what is going to end up happening? You are not
going to solve the taxpayer service problem.
So how do you do that? Well, you enable
them with technology. There is a solution to
create a tax pro account. I'm disappointed that
the IRS has put this on the back burner. They
are going to do the individual account first and
the tax pro account is going to come sometime
later.
But the issue on whether or not you should
give them or whether or not there should be
notifications back and forth, it depends upon the
taxpayer. So technology can allow you to go
ahead and create event driven notifications of
all different types of things, right. Not just
when somebody else accessed your account. But
say perhaps a payment hits your account, any type
of different things that hit your account. That
is the beauty of technology, right. And you are right we need to make it very secure. I think that is a common theme. Everybody would agree with that. And that is why I think the IRS is very focused on secure authentication. It is a service-wide, enterprise-wide strategy the IRS is developing here.

Now here is the other statistic that is going to bite you on here though. So 57% of all tax returns are done by a paid professional. But out of those paid professionals a majority of them are unlicensed. So they are unlicensed. They can come and go as they please. So you talk about the need for tax preparer regulation and registration, absolutely the need before we would ever give the unlicensed access to these account we would want to know who they are. We would want to vet them. So maybe an expansion even before we get legislation in that area of the AFSP, the new AFSP, strengthen that, have them come in and vet that will perhaps maybe get more tax professionals to go --
MS. OLSON: So you would use it as a leverage?

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

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

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

My concern would be that this information is given to the IRS on a timely basis so that they would actually have this information maybe even before the client did. Just last week in my own practice I had a client come back that I had already done their tax return, and after the 15th of February he got another 1099 in the mail. So now I am looking at an amended tax return because
he didn't remember it. And so that is the thing to me with online is the taxpayer may not remember this oh, yeah at the first of the year I just worked for this come for only like three weeks so he just thought he had worked his new employer all year long. So sometimes it is just that matter of information.

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

The unregulated, I'm like the rest of these I think you need to prove your expertise in a particular field especially in income taxes and tax related products and I'm an advocate for the regulation of tax preparers as well.
MS. OLSON: Okay. So now I've got specific questions for each one of you. And I'm actually going to start with Mr. Gangwer. In your written testimony you talked about IRPAC's concern about business identity theft. And as I understand it, IRPAC recommended that the IRS truncate employer identification numbers in communications and documents to protect business entities. So what was the IRS response to your recommendation? And if it agreed with your recommendation, has it given you a time frame for implementation?

MR. GANGWER: Yeah, that was in our report published in October so we haven't received an official response yet. I will tell you that the Commissioner, we even talked about it some this morning in the IRPAC meeting, we're here right now in Washington working with IRS personnel. But we talked about just how the Commissioner has been very responsive to the recommendations that we make, takes them very seriously. And we do expect fully to get a response or disposition on what they will do.
I guess by way of a little bit of background one of the real dangers we are concerned about here is that you are a small business, maybe you close down, you don't operate anymore, when you send out W-2s for your employees or 1099s to others on there is your employer identification number which is akin to like a social security number. And it is out there and it is displayed for everyone. So if a fraudster tries to create fake W-2s or 1099s a lot of the information that they would need would be right there on that form. So we are interested in seeing that truncated in a very similar way that social security numbers are now truncated in most cases. And this is really designed to keep small businesses away from getting hit with fraud.

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

MS. OLSON: So I also have a follow up question for that because in your oral statement and your written testimony you talked about the fillable digital 1099 form for use by small
MR. GANGWER: Yeah that was also in our 2015 report and I'm concerned on this one. My sense is the IRS is interested in it but going back to a lot of our very early comments I just don't -- I'm concerned about there being the available budget to be able to work on the project.

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

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

The second one and this is hard for most big organizations but it's a culture of innovation right. How does the IRS get there? Ten years
ago when I used to work for the IRS we described
the speed at which the IRS worked as glacial velocity.

[LAUGHTER.]

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

The second component I think the one big obstacle is and we talked about funding here and we talk a lot about funding. And ETAAC has never gone to Congress and say IRS needs more funding because it stops the communication. It stops the communication. What Congress needs to hear is and I was very happy in Candice's meeting last week with National Public Liaison, the
Commissioner came in and said that he is going to start providing Congress with the details of what they are going to spend and where the benefit is; right. So Congress when we use to go speak to Congress they don't know a lot about the plans of what's working behind the IRS. The IRS needs to be more transparent with them, tell them about if you spend this, you are going to get this out of it, right. That is going to build trust. Is it going to happen next year? Absolutely not. But it will happen over time.

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

MS. OLSON: So I have a follow-up question about that. And it sort of picks up on the IRPAC's recommendation about the fillable form 1099. The IRS is going to be getting W-2s and 1099 information much earlier in the filing season. So would you support whether we had a fillable 1099 or not but we had all this W-2 and 1099 information, would you support the IRS
making that data available to taxpayers so they could download it into their software programs?

MR. BUTTONOW: Absolutely.

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

MR. BUTTONOW: Yeah, Mike's suggestion is right in par with what ETAAC is recommending. We're still working on this year. The concept of front-loaded compliance is and I think Pamela brought that up is ultimately the future state right? So information now that we get it later, it's going to come earlier and earlier. The IRS used to compile your information statements and have it available to you in May. Now you can actually get some wage and income information in February. It is not far until we get to a point where we are at front-loaded. Are we there today? Absolutely not. The IRS in fact is probably some of the biggest challenges with that. I'd probably venture to guess that industry could make it happen a lot quicker than the IRS could in terms of doing that front-loaded
This back end compliance system is a broken system. Nobody would ever set it up that way let's put it that way.

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

MS. JONES: The American Opportunity Tax Credit is limited to the first four years per
individual, not per primary taxpayer of the household. It used to be called the HOPE credit. And so when a client, sometimes they change practitioners, they come in and you know they have -- part of your questionnaire is do you have students over 17 and do they attend college and you go through this questionnaire with them. And they know their child has been in college two or three years but I'm not sure and you say well, did they take the HOPE credit or the American Opportunity Credit? You get that deer in the headlight look. And they don't know.

Well sometimes as a new client they'll bring one tax return to you, the prior year, but they don't bring four. And so you look back at last year and you say well I know you took the American Opportunity Credit for this child last year because it is on here. What about the prior year? Then they don't know. They've got to go back and get that other tax return. So we were asking for an online look up tool similar to that first time Homebuyer credit where you could put
that -- not the primary taxpayer or the head of
the household or -- but that student's social
security number in there and the IRS has that
information. So they could put it on an online
look-up tool so that you could look and see that
hey, Mary Jane had the American Opportunity
Credit in 2013 and 2014 and so that you don't
make errors in that calculation.

We submitted the recommendation and I admit
we failed to put all the costs associated with
that in the first referral and it was rejected
because IRS said it is a good idea but we just
don't have the budget. So we went back with a
request for reconsideration. We put all the info
in there, part of which you heard today in my
oral testimony and part is in our written
testimony that it is costing you more to go back
and correct or notify these taxpayers than it
would have been hopefully to set up the online
look-up tool where we can see that they've
already had it four years. So we can't take the
American Opportunity Credit we can only take the
We did get -- I'm very proud that we got word back from IRS that they are taking it under consideration and we were supposed to have been notified in January of this year about their second response. And as of today we have not heard that.

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

MS. JONES: Oh, that would be great.

[LAUGHTER.]

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

So you've called for greater transparency and engagement given the uncertainty and lack of specificity. So how can we achieve greater transparency?
MR. McCORMALLY: That is a great question. I think the answer is multi-fold. As we mentioned in our written statement there have been briefings that not only IRSAC but other stakeholder groups- ABA, AICPA, TEI- have received; there are also a lot of public speeches that are being given these days. In addition, Pam Olson said, this could represent an opportunity for crowd sourcing, though there may be some procurement or legal issues to be resolved. But I think that some type of invitation to taxpayers and other stakeholders for input, asking what are the types of issues that need to be considered? What are the possible solutions to the challenge that exists? I think one of the things that we all have to be careful of is and I think back at a prior job that I had when we consider okay we used to only take cash, then we only take credit cards, I mean we only took checks, now we are going to take credit cards. And people said oh, wow, that is great. But then you realized that taking
credit cards and taking online credit cards and telephone credit cards makes your job as an organization much more difficult. The challenge the Service has is there are lots of moving parts and it's where do you say all right we want your input.

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

MR. McCormally: And but my sense is that some type of avenue for soliciting comments would
be helpful, forums like this, though historically
the Taxpayer Advocate is not seen as the advocate
for the large business tax community.

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

MR. McCORMALLY: Agree and I would hope
would hope that you would get input from all of
them in forums like that. Your imagination can
run wild about the different ways to seek input
and where it could lead. If I might give you an
example LB&I, LMSB at the time, did a working
group where they asked people from different
stakeholder groups to come in and let's build
upon this idea that then Commissioner Rossotti
called the archeological dig that was large case
taxpayer audits—where they were looking back six,
seven, eight years to audit. And out of that
experience came the CAP program. And I can
assure you, based on the reports out at the end
of the day, the CAP program as it developed was
nothing like any of the recommendations that were
made. But there were ideas germinated during
that people much smarter than I came together and  
said how about if we move this piece over here  
and that piece over there, and all of a sudden  
the jigsaw puzzle made sense.  

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

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

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

[LAUGHTER.]

MS. MACMILLAN: -- my bio says otherwise.  

And I was a fairly new enrolled agent in '98 but  
I do remember the massive amounts of outreach IRS  
did as they were restructuring. And I think just
looking through all of the voluminous information on Hearings reports and town halls and other outreach efforts, I was shocked at how much was actually done in '98 to get feedback on and help refine that restructuring. And I think maybe not to that same extent but there needs to be much more of that and I do think that it may make sense to delay it.

I don't necessarily think you need to delay all of the electronic administration moving forward. We should get those things in place as soon as humanly possible. But I think also just learning how to deal better with taxpayers is important. Les Book and Pam Olson this morning talked a lot about how taxpayers perceive the IRS. The perception of mistrust is always going to be there because the IRS is who you pay your taxes to. And IRS employees are the people who can come assess you if you do something wrong. So it is never going to be anyone's favorite organization except for maybe the people up here. [LAUGHTER.]
MS. MACMILLAN: But I do think that the minimum requirement would be to get a lot of input on how customer service is going to evolve in the future state.

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

So maybe let's start with you and we'll work
MS. MACMILLAN: Oh good.

MS. OLSON: Yeah.

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

MS. OLSON: That is good information.

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

MS. OLSON: Okay.

MR. McCORMALLY: I had the same reaction Jennifer does and as someone who has had to change credit cards for let's see the Target
breach, the Home Depot breach, and oh, the --
because I serve on IRSAC - the OPM breach.

MS. OLSON: Right.

MR. McCORMALLY: I think we forget that it happens all over the place. The key is transparency in letting people know. My wife is a government contractor and it took eight months for them to tell her, not working for the Internal Revenue Service, but another agency that her account had been breached. The answer that we all give, initially is that I need to know all the facts before I let me client or my constituents know what it is and so it is a hard balance to make but I think that I would err on the side of a transparency and that also goes back to this issue of whether, what and when we find out about what is next for W&I or SBSE or electronic tax administration or LB&I. True the plans may not be quite ready for prime time but all of us are hearing whispers of what might be and lack of transparency can undermine the agency’s creditability. And so it is a tough job
and I think that what is really called for and I think when you are dealing with something as fragile which is confidence in if you will the electronic infrastructure that holds not just a tax system together but the financial system in the United States. I mean I think all of us who have worried about Target and Home Depot or whatever always in the back but this isn't going to cost me anything but inconvenience. It is not going to cost me money. And that decision by financial institutions to say it is more important for us to build up confidence in the core integrity of the system. Well, I think that is important for the IRS to do too. And so I share or I feel the pain of practitioners who say well this is just terrible that they've shut down this electronic service while the IRS gets a handle on it. I think it was probably a good thing to do.

MR. GANGWER: Yeah, so I'll talk about it in the context of assuming that these wonderful new individual accounts are out there and available.
And it is interesting because with a lot of the account types that Americans face today they often have the option of signing up for some type of electronic interaction. And in this case it sounds like everybody would have an online account whether they used it or not. So it is a little bit kind of a different situation. To me it seems like it would be more about helping people see the difference between there is this online account, everything is contained in there and it may be more secure than paper floating around in your mailbox that somebody could grab or steal. So part of it is I think education; helping them understand what are the pitfalls of either or both. And that one actually may be more secure even though the headlines may steer people a different way. And then I think it is just as we've heard, if something happens the best way to keep people's trust is to be open and make sure they understand what happened and what action they need to take.

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

Now when I say that online accounts are the future; we all need to understand that. That's the future. Retracting and going back is not the answer. Going forward and some of the obstacles we talk about innovating. Innovating means you may need to move quicker rather than slower. In an iteration solve big problems. One big problem that the IRS did not solve was authentication. They didn't solve authentication. By the way it
was on their roadmap to get solved. But moving slower in this day and age of innovating is not the answer. You need to move quicker. So retracting is things I always get afraid of when these things happen.

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

MS. JONES: Again, I am an advocate for online information. I use it in my practice in every way I can imaginable but people do not
trust the IRS and some of the reasons are no fault at all of the IRS.

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

So a lot of times taxpayers don't trust IRS and it has nothing to do with IRS. So I think transparency is going to be very important in telling taxpayers this is what we are going to do. There are going to be safeguards in place. If you authorize someone else to access that information, I mean you have to authorize
somebody else to access that information. So I think you are going to have to take those
individual what some may think baby steps but hit every little step to make sure that it truly is
the IRS and this is plausible and it is not some prankster out there trying to get your info.

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

MR. LOPEZ: Hello. Is it working?

MS. OLSON: Yes, there it is.

MR. LOPEZ: Good morning. My name is Alberto Lopez (ph). Thank you very much for inviting my organization to this great event. I represent the oldest and greatest organization in
the United States of America. We are the largest taxpayer in the United States. Just this year we filed $63,000,000 in tax paying. And we have great news for you. You have been talking about budgetary constraint. We have set aside for you for the IRS one hundred billion dollars to pay all your needs. So you have to talk with us.

President Obama sent us a letter that he is very interested because we want to pay the national debt of the United States of America.

We have that capacity. Our organization is 260 years old in America before the establishment of the United States so if you are interested to receive the one hundred billion dollars from our organization just meet with us. I'm meeting with Barak Obama this week. So you don't have more budgetary constraint.

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

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

Who is this?

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

[LAUGHTER.]

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

But here is what I didn't hear. We talk about dealing with taxpayers as they live. We heard some people talk about low income because they don't have the internet. And yet low income folks get hold of the IRS, send me a fax. Why are we assuming these people who don't have the internet have a fax machine? You know there are different kinds of technology and even now tax preparers you are required to file electronically
except that some returns you can't file electronically. And what we've done I think is taken various technologies and put them on top of one another so that a taxpayer who you are dealing with Jim who wants to be electronic, he's got to go ahead and find a fax machine. If that is not working he's got to get on the telephone. If that is not working he's got to send something in by mail. So we have all the different technologies. And somehow that translates at the IRS level someone at the IRS is going to have to take the faxes and the telephones and the this and the that and somehow put it all together in one file. And that is not happening.

So I agree with the panel, we've got to deal with taxpayers as they live but it's got to be all one technology. We've got to look at the back end and make sure that all of these various piece of communication get together because I don't want to have to call when the IRS finally answered my phone call and they haven't received the fax, they don't have this, they don't have
that and you know power of attorney, never saw it. It is not working so we need to make sure that all of this is coordinated and works together.

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

I would add to that process and I know that we talked briefly about self-correction. But if you read very carefully the vignettes, and I have plans to ask about this in future public forums, there are whole questions about what these transactions really are online. When you do a self-correction as part of the process of filing an income tax return and it comes in and then the IRS says oh, but you left off a W-2 and you get a notice saying correct that. Is that an amended
return? Is that the original return? Was that original return accepted for processing but now you've done a self-correction? If everything is done in a pre-refund environment, when do you get to go to Appeals if you disagree? If it is in a pre-refund environment then the notice that you are going to get if you disagree is going to be a notice of deficiency. It is not going to be an audit letter that says here is the proposed assessment and you have the right to go to Appeals.

And I've been saying for about four years now we need to really think about the legal implications of this online account. And I thought we'd have a separate public forum about that and really dissect what are the steps here and what does this mean exactly to taxpayer rights as Gina had noted. And these are things just like you are saying, we need a strategy for bringing all these electronic things together. We need to talk about this stuff now before we start saying the IRS of the future is going to
look like this and then go oops, my bad, we just undermined the right to challenge the IRS and be heard.

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

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

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

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

About lunch, if you are not an IRS employee you have a couple of options. You can leave the building and return for the 2:00 p.m. program or
you can eat in our glorious IRS cafeteria which is on this floor. And if you decide to leave the building you need to congregate outside here and we'll take you outside. If you want to go to the cafeteria you need to congregate outside and there will be someone who is saying I'm helping you get into the cafeteria because you can't wander around the IRS unescorted.

[LAUGHTER.]

MS. OLSON: Thank you all very much and I hope you will come back for two o'clock. And thank you to this panel which was an excellent panel.

[APPLAUSE.]

(WHEREUPON, a lunch recess was taken.)

MS. OLSON: This third panel and the closing panel is really focusing on what data, what research do we have about taxpayers and particular taxpayer segments both regarding use of return preparers, use of online accounts, and I shouldn't have said taxpayers because it is more about human beings. And so this panel
really does have no one directly related to tax really. So it is bringing some different perspectives to this whole discussion of what the future state of the IRS might be or should be.

So who we have this afternoon is Michael Best who is the Senior Policy Advocate for the Consumer Federation of America. We have Aaron Smith who is the Associate Director of Research for PEW Research Centers Internet Project. And we have Arturo Gonzalez who is the Chief of Consumer & Community Development Research for the Board of Governors of the Federal Reserve System. And I have cited each of their work in my annual reports and so I was thrilled that they were willing to come and share with us some of their perspectives because they are all about research. They all have slides which is just like really neat after lunch.

So without further ado the way this will go is that each panelist will make a five minute or so presentation and then I have some questions and we can open it up for the floor.
So Michael, do you want to go.

MR. BEST: Happy to.

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

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

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

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

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

As you can see, this is actually 2014, 55% of all the paid preparers in 2014 were unregulated. So we know it is a large segment of the market. We know there is a high instance of use particularly among low income consumers. And that is what makes this issue particularly important. I think for a lot of Americans their tax return, they are owed money back on what they paid or they are getting an earned income tax credit. It is an extremely important financial event for them. And we need to make sure that the folks that they are going to are honest or educated or making sure they are getting every dollar that they are entitled to and don't end
up, say, losing the EITC credit because for
instance it was claimed and then it turns out
that they weren't allowed to claim it and they
could lose access to it for up to a decade.

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

So what do we need? We need a regulatory
regime with three main components. Price and
transparency, a detailed explanation of services
and prices before the return is prepared. One of
the things that all of these consumer mystery
shopper tests have shown is the variability in
pricing. So one tax return that is identical to
the second tax return could be hundreds of
dollars apart when they are going to two
different preparers. And oftentimes people are
not told upfront what this will cost. So that is
one we'd like to see addressed.

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

This isn't in my graphic but I should also
add on that there should be a strong enforcement
mechanism with whatever we do. Some of you may
have read recently that the controller of
Maryland recently stopped taking returns from 23 Liberty Tax Franchises and a handful of other independent tax franchises. I think they would have probably liked to have been able to take more action than that. Maryland actually does regulate unenrolled paid preparers but didn't have a sort of strong enforcement regime. But there is now a bill going through the Maryland Legislature to give them those powers. So that is a fourth piece we should always be thinking about when we are developing this.

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

So to our 2016 poll which we are really excited about. So we know clients are abused,
especially by low income taxpayers. We know there are a lot of problems but what we didn't know is does the public see the problem; does the public want to see consumer protections. And it turns out they really do. So we got really great numbers on this national poll.

So, of course, we first asked who is using paid preparers. And half of the public uses paid preparers from time to time and nearly a third uses them frequently. 80% of the public supports requiring paid tax preparers to pass a competency test. I lost my value, sorry. We even tested power point. But 80% do support it. The yellow is 59% strongly support. 83% of the public support paid tax preparer licensing. Nine out of ten respondents supported an upfront list of fees before the work is done. That was a really good number for us. And again this is something that comes up over and over in the mystery shopping testing where you are often not told until your return is done and you are probably not going to go somewhere else what the return is going to
cost you. And you can go to multiple places and it will be a different price. So people really want to see that.

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

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

So where does this lead us? We have high instances of use, we have high instances of problems, we have public support of regulations that bring consumer protections that equals it is
time to regulate. I mean I feel like all the pieces are there. We've been working on this for a couple of years now and we are getting more and more information I think supports this happening.

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

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

MR. SMITH: As Nina said I'm Aaron Smith. I'm with a group called the Pew Research Center. We are a subsidiary of the Pew Charitable Trust and we do public interest survey research on a number of social topics. My group studies the impact of the internet and other digital technologies and I am actually a former client of the Taxpayer Advocate. And so I am very happy to be here --

[LAUGHTER.]

MR. SMITH: -- since they were so nice to me when I was having problems that nobody else in the IRS could fix.

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

[LAUGHTER.]

MR. SMITH: And so when Nina asked me to do this I was very happy to help out. And so what I'm going to be talking about obviously there is a big push towards moving client services online. And so I'm going to talk about some of the broad
trends that we're seeing in the population as pertains to how people access the internet and online information.

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

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

[LAUGHTER.]

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

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

And when we look at internet usage by different demographic groups there are some variations by various demographic factors. But
age is by far the most prominent. So if you look at Americans under the age of 50 well over 90% say that they go online. If you look at Americans age 80 older fewer than half of those older Americans tell us that they are internet users.

And when you look at the barriers to adoption for people who are not currently online what you find is that most of them have a number of challenges to accessing the online world. So many of them face challenges around digital literacy or technology skills so for instance if you ask people who don't currently use the internet whether they would be able to do that on their own the vast majority of them tell you that they would not be able to do that without assistance. Many of them have physical disabilities or chronic health conditions that make it difficult to use a keyboard or a mouse much less a small smart phone screen without a physical keyboard. And many of them particularly for much older users, I am thinking about my 92
year old grandmother who has made it through her nine decades of life without ever going online or using a computer. Someone like her certainly doesn't see the reason why she should spend her time, effort, money learning how to use the seemingly complicated technology to a limited potential benefit.

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

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

And when you look at the data that we've collected what we've found is that broadband adoption has really plateaued in many ways in the last couple of years. So broadband adoption
today is about what we found it to be three or
four years ago.

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

What is going on? In many cases the answer
is cost. So when we ask people who don't
currently have broadband at home, why that is the
case. The number one reason they tell us that
either the cost of the monthly service is too
expensive or the cost of a computer is too
expensive. So 43% of non-broadband adopters say that cost is the primary reason why they don't currently have broadband. Two thirds tell us that cost plays some factor in addition to others.

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

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

So to put the numbers on this 13% of American adults tell us that they don't have
broadband at home but that they do have a smart phone. That is a five point increase from what we found a couple of years ago. And for certain subsets of the population that number is even higher. So if you look at for instance low income Americans, if you look at communities of color as well as a few others as many as one in five members of those communities say that their smart phone is their primary access point to online information.

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

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

I'm going to talk about some research that we did in the context of job seeking. We looked
at this in a couple of different ways. We first 
asked people would it be easy or not easy if you 
needed to do a variety of things. So everything 
from look up job postings online to submit an 
application or build a resume. And across the 
board people without broadband were much more 
likely to say that it would be challenging or not 
easy for them to do that. One impact of this is 
that people's ability to engage with sort of 
complex activities or kind of cognitively 
challenging things that they need to do online 
can be much more difficult when they don't have 
access to a broadband subscription at home either 
because they are operating through a small smart 
phone screen or because they have to re-route 
their lives in order to get to a library or a 
coffee shop or I don't know if any of you read 
the New York Times article on school children 
without broadband And they are literally sitting 
up against the wall of the school after hours 
trying to access the public Wi-Fi from the school 
so that they can do their homework.
So that is one impact of lack of adoption in a meaningful sense; it is just much more challenging for people to do anything beyond sort of basic activities.

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

That is a really quick gloss on a lot of
data and I am very happy to fill in any gaps in
the Q & A but I believe that's all.

MS. OLSON: All right.

MR. GONZALEZ: Thank you for having me here.

I'm actually going to be reading my presentation.

I usually am very much about numbers, graphs,
tables but I think a report which I am going to
reference has such wealth of information that it
would be doing an injustice if I was to only show
you three or four slides.

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

[LAUGHTER.]

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

First of all thank you for the invitation to
provide information about the Federal Reserve
Board's ongoing research to better understand
consumer access to and interaction with mobile financial services. First I would like to say that the views expressed today are my own and do not necessarily represent the views of the Board of Governors of Federal Reserve System.

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

The survey provides insights into trends in the adoption and use of mobile banking, payments and shopping behavior and how mobile financial
services affects consumer's interaction with financial institutions. The latest survey was fielded in November 2015 and a report summarizing its findings will be published in March 2016. Details of each survey, its methodology locations are included in every report. All reports and data from all years of the survey are available on the Board's website.

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

So next what I'd like to do is briefly
highlight the key findings from the fourth and latest report called the Consumers and Mobile Financial Services 2015. As of December 2014 39% of adults with mobile phones and bank accounts reported using mobile banking, this is an increase from 33% a year earlier. The most common use of mobile banking is looking up account balance or recent transactions. Transferring money between accounts is a second most common mobile banking activity. More than half of mobile banking users received an alert from their financial institution through either text message, push notification or an email making this the third most common use of mobile banking. Remote deposit capture or depositing a check to a bank account electronically using a mobile phone camera was also a very common mobile phone activity. The 2014 survey showed that 51% of mobile banking users deposited a check using their mobile phones. This was up from 38% the year before.

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

Besides a mobile phone people interact with a bank through various channels such as visiting a branch, an ATM, telephone, or online banking. Mobile banking is the fourth most common banking channel in 2014. This is up from fifth the previous year. So number one may not be surprising to everyone here is banking at a branch which is at 87%, second was going to an ATM at 75%, third is online banking at 74%, fourth as I mentioned mobile banking at 35% this is up from 30% the previous year, and telephone banking at 33%. So as I mentioned mobile banking has moved up from five to four from the previous survey.
The main impediments to the adoption of mobile financial services from our survey continue to be 1) a preference for other methods of banking and making payments, and 2) concerns about security. Of those not using mobile banking the primary reason given for not using mobile banking was a belief that their banking needs were already being met. This was 86%. The primary reason given by non-mobile payment users for not using mobile payments was that they believe it is easier to pay with cash or credit or debit cards; this was at 75%. Concern about security of the technology was a common reason given by non-users for not using mobile banking; this is 62% and mobile payments at 59%. However concern over security by non-users was down from 2013 where in that year 69% was concern given for mobile banking and 63% for mobile payment.

Lastly let me finish by saying that for the first time the 2014 survey looked at difference in mobile banking and mobile payment use in rural
areas versus urban areas. Residents of non-metro areas have lower incidence of using mobile banking at 33% and mobile payments at 17% than residents of metro areas 39% and 23% respectively. The 2014 survey was conducted December 2014 and the report was published in March of 2015. The survey was conducted on behalf of the Board by GJK which is an online consumer research firm. More than 2900 respondents completed the survey.

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

Thank you.

MS. OLSON: All right. I think that these three panelists have sort of shown some information about online users, people who don't have access and some of the implications for the IRS future state vision. And so I have a few questions and I've sort of asked everybody on the panels this particular question, one version of it or another. Even if your own research hasn't been quite on point about it I'd actually like
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
analysis of this in your last report went to, they are sort of angling to do cost saving hoping to replace some of those you are going to need again this third party. Most of the third parties are unregulated. We know there are a lot of problems with them. We also know that what you said cookie cutter examples, if you just have a W-2 you can probably do your own stuff, you can probably interact with them. If it is a more complex tax return, which I think includes things like the EITC, you see a greater uptick on use of these paid preparers. So I think you are going to see more -- you are going to end up having to see more interaction. And I definitely find that troubling without any kind of regulation.

MR. SMITH: So I actually went back to the vaults a little bit on this. This is about five year old data so take it with the appropriate grains of salt but we did a study in 2010 looking at people's interactions in a general sense with government. And we asked them sort of how they preferred to get in touch with government when
they had an issue or a problem. And at that point 35% said that they would prefer to talk on the phone. 20% would prefer to talk in person. And 28% would prefer online. So more than half mention some sort of offline approach.

What was interesting is when we asked them sort of how they had gotten in touch with government in the last year and you would think that -- well I guess one possibility is that people who had more online interactions with government would have correspondingly fewer offline interactions. And what we found was actually the opposite. So the people who had the most online interactions whether that was online or email also had the most phone calls and the most in person visits. And so I think we sort of have to extrapolate a little bit but I think what is going on there is that people are happy to do online and chats or things like that to a certain level of complexity. But once things get very complicated, once things start impacting their money or their retirement, get a little more sort
of a high level they want to be able to speak with an actual person and sort all that out.

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

MR. SMITH: Right.

MS. OLSON: -- evolution of the transaction.

MR. SMITH: It is great until it breaks.

MS. OLSON: Right.

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

MR. GONZALEZ: I think our surveys speaks to the same point which is that consumers have various options about how they interact with their bank. You know we visit a branch, go to an ATM, online banking, mobile phone, telephone.
And what we find was that consumers like them all to a varying degree. So we found that about 82% of reported using four or five of the channels, that is again over 80% use combination of channels. Only two percent used one or two. So very few people stick to one type or two types; most use various combinations.

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

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

So this is a question for Mr. Best. So we've talked a little bit about the impact of the IRS using preparers as intermediaries, giving them access to the online accounts both during the actual filing of the returns, if there are questions about what entry was put on the return. Maybe the IRS has information that says we think you've left off a W-2 statement or something from your return. And then also post-filing. So and that preparers would be able to do on behalf of their clients if they were given authorization to do corrections on the returns. So my first
question about that is, based on your experience
surveying and researching the tax preparation
industry, what do you think the impact on pricing
would be if taxpayers are encouraged to interact
with the IRS more extensively through their
preparers using preparers as intermediaries?

MR. BEST: Well, I mean it is always hard to
talk about pricing because of course nobody knows
what the price is so there ought to be -- all the
studies that have been done you can never say
well this is what the reasonable price is because
there is no like reasonable mean of what it costs
to do anything. So my first sort of instinct is
to say it is going to cause more confusion
because it is already confused unless we do
something about that. And secondly I just can't
imagine a world in which it is cheaper for you to
use an intermediary to pay them to do this for
you. So it will cost more and because the
pricing in the unregulated sphere is so
problematic to begin with it will just exacerbate
that problem.
MS. OLSON: So you touched on this briefly but maybe you would elaborate. So what is the risk to you in your mind of expanding online access to taxpayer account interactions to return preparers when so much of the population is unregulated and has no requirement to demonstrate tax knowledge or competency. And more importantly, how could we minimize that risk? And if we can't get Congress to do it, what else could we do?

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

What else can we do if Congress won't do that? I mean I think there is still work to be done at the state level. Four states do regulate, we are going to work there to get more state consumer protections. I mean I think we
could push the IRS to say well only enrolled and
credentialed preparers can access these accounts
and restrict access.

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

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

MR. SMITH: Well, a lot of them do not. So
if you take that roughly third of the population
that doesn't have broadband, a little less than
half of those just tell us I don't go online at
all. If you look at that remaining segment of
the population it is really kind of a grab bag.
A lot of them have smart phones. A number of
them are using say public institutions like
libraries, so for instance 27% of Americans have
used a computer or Wi-Fi at a public library in
the last year. I mentioned the New York Times
article on children in what they call the
homework gap. You know a lot of them are using
just sort of wherever they can get either a Wi-Fi
signal or access to a computer whether that is at
a friend or family member's house, sitting at the
McDonald's parking lot or in their public library
or using their smart phones. So there is not
necessarily sort of a consistent set of tools
that people use. It is really a sort of a group
of tools that they implement as best they can
given the limitations around their time and their
effort.

MS. OLSON: So I sort of have a follow up
question but this is for basically everybody if
you can just put yourselves in the shoes. As
we've just discussed a lot of people don't have access to broadband and you just said 27% of that group end up going to the public library using Wi-Fi in a cafe or something like that. So we're sitting there with someone who is going to log onto an online account on a publically shared computer and hope that they actually log off or things like that. So I'm really wondering what you think about that, or even a computer owned by friends or family. So what are the risks of doing those kinds of transactions when you are actually accessing your personal data, not just ordering something online but accessing your account and your information and even your social security number something on screen. I don't know who wants to take the lead on that but I am very interested in that if you can imagine it.

MR. SMITH: So I'm actually going to pivot a little bit on this because I'm not a technical expert and don't necessarily understand exactly what the risks of that are but I think from the point of view of my research its sort of less a
manner of risk and more just one of logistical
difficulty.

MS. OLSON: Right. Okay.

MR. SMITH: So I was thinking about examples
of this that I could talk about in this
discussion and picturing myself as a single mom
whose got her kids home all day and needs to be
able to talk to a representative during 8:00 to
5:00 business hours so that she can address her
issue that she is having with her return. And
you know for someone like me that is super easy;
right. I've got a computer in front of my face
literally 24 hours a day if I wanted one. For
someone like that if they don't have a computer
in the house they are going to have to find a way
to park the kids somewhere for a few hours so
they can go to a library or manage their kids
running around at McDonald's. That is kind of a
subpar user experience in a lot of way and
doesn't really lend itself to being able to
engage with sort of in many cases sort of crucial
life decisions in a thoughtful informed way. So
I think that would be my kind of take on what’s the impact of that in terms of people's lives and how they can navigate these types of services.

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

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

And then we have a follow up question
because we're interested in how people might be adapting and changing their sentiment about these concerns. We ask them if their concerns that they've already stated were addressed and that if there was a magic solution somehow provided to them would they then undertake mobile banking, mobile payments. What do you think people said? That is right, they say they are not interested. So it is a conundrum. We ask those who are using mobile banking, mobile payments how secure they feel with their transactions and they seem pretty comfortable, very confident that some of their transactions which are done in public, they are using mobile phones in some of these could be done while they are commuting, while they are in a public space and they feel comfortable that their transactions are safe, that they are not being hacked and so forth.

While on the other hand those who are not using mobile banking or not doing mobile payments are not comfortable. So it is an interesting set of results that is very much binomial depending
on whether you are a user or not. What I find intriguing is that non-users feel that the transactions that they are not undertaking are unsafe. So they are making an assessment about a transaction that has not occurred or methods that have not occurred. Second when you give them an option of saying well, those transactions have now been magically made more secure they are still not interested.

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

MR. BEST: I'm not sure if this relates to my work. I can give you my opinion as a consumer if that is helpful. I mean I will say that I think that every sort of like new interface as a consumer does make me nervous. I feel like I deal with a bit of security. So for instance actually just yesterday my wife's and I's bank account had some very significant spurious charges on it. Now Bank of America is going to cover those, no question asked because I assume
they want me to keep doing things online and buying things like that. And we have no idea how it was compromised. My email has been hacked. I have no idea how that has been compromised. A password came from somewhere, it is not like my email got phished or anything like that. So I mean this has happened to me four or five times in the last decade and it has probably happened to a lot of you too. And every time you have a new portal like that it makes me worry. So if I am using the same email password that I use like for my other accounts compromise my IRS account. Is this really sensitive information going to be taken and is the government going to make me whole the way the Bank of America does? Do they have the incentive or the capability to do that? So that makes me nervous as a consumer just as sort of a general take.

MR. SMITH: And actually if I could just add one thing. We've done a little bit of work on this front and one of the things that we've seen in some of our recent privacy research is that
people really have a sense that they don't have a lot of control over what happens to their data once it leaves. And you know like you said everyone has had their credit card company, their insurance company, OPM, you name it all of these supposedly secure entities let their data that was supposedly locked down as tight as could be get breached. And so what we see is that A) people are really sort of resigned to the fact that they just don't have a lot of impact over what happens to their data once it leaves --

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

MR. SMITH: Well, it is sort of on a case by case basis. So they really in the context of individual transactions they sort of weigh the pros and the cons of is this individual transaction or this vendor that I'm working with, is the deal that I'm getting good enough to overcome my sort of latent concern that this information could get out there and it really is done, we've ask the people the tradeoffs that
they make and there are not sort of privacy
absolutists or there are a very small number.
There are by comparison a very small number of
people who just hand out everything to anybody.
So it is very much done on a case by case basis.
And that is something that we've seen just in the
last year or so so that rings true to me what
we've seen in our work.

MR. GONZALEZ: A survey has found that since
we started asking questions about security and
password protection specifically more people are
saying that they password protect their phone for
example. This could be an industry response
where that becomes enabled by default rather than
the consumer taking that action. But
nevertheless that is one thing that we've seen.
We also say that when people sign up for
mobile banking they sign up to get alerts when
cases of fraud or other notification. So in that
sense consumers are now more aware of
transactions, potentially fraudulent transactions
than they have ever been. I know that before
there was mobile banking people's accounts were getting accessed and charges being charged to. So the counter factual that we need to ask is well what would have happened in the absence of the technology. And we cannot say that people's financial lives would not have been at risk. They have always been at risk. It is just a matter that now there is a different kind of risk and the questions is is the opportunity for prevention is that enhanced, is that something that is available for consumers.

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

MR. GONZALEZ: It is a really intriguing result. We unfortunately did not have the opportunity to do a deep dive into this interesting question because of the logistical and resources were not there. But we find at least a couple of titillating possible
explanations. One is that folks in more rural areas tend to have about the same ownership of mobile phones, slightly less but not much different. But we see a large difference in the ownership of smart phones. Much lower incidence of smart phone ownership among rural Americans. It is about, if I can find that number, 54% smart phone ownership in rural areas as opposed to 63% in more urban areas. You need a smart phone to undertake more complicated transactions quite frankly. And then also once you do have a smart phone you need to have that mobile broadband access and folks in more rural areas say that they are less likely to always have available online access than those in urban areas. So at least these two factors might be contributing but of course there could be other reasons like are people in rural areas older? That alone is a demographic factor that explains overall lower usage in mobile banking, mobile payments, smart phone ownership, et cetera.

MS. OLSON: Did your study come up with
observations about rural?

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

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

MR. GONZALEZ: Well, one is definitely the increase in smart phone ownership. While overall mobile ownership has been around 86%, 87% for the last five, six years that we have been studying this question, what has been rising has been smart phone ownership. And we see a concurrent increase in mobile banking among those who are smart phone owners. So the ability to actually undertake the service is a condition necessary.
The second is some demographic factors are explaining some of the rise. For example age, if you are under 45 you are more than likely going to be at least experimenting with mobile banking, mobile payments. As has been mentioned already folks who are perhaps more experimental, more interested in new things might. Take those who are set in our ways you know no thanks I'm not going to be following that new-fangled internet thing. And then another interesting finding from our survey is minorities. Being a minority results in higher mobile banking, mobile payments as well as smart phone ownership perhaps because it is an issue of broadband access at home.

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

MS. OLSON: So those complete my questions.

I don't know if you have other points that you want to make that I haven't inquired about.

I will note that the IRS website has 140,000
web pages and not a single one of them is mobile adapted. The Taxpayer Advocate Service does have a website that adapts to mobile devices but we just will point that out. So I leave the floor open to people if they want to ask questions of the panel or make comments, observations. With that our third panel is complete. I want to thank them very much for coming and sharing this valuable information. [APPLAUSE.]

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

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

MS. BEST: Thanks so much.

MS. OLSON: Thank you for coming.

(WHEREUPON, the public forum ended.)
I, ALEXANDER LEE, the officer before whom the
foregoing deposition was taken, do hereby certify
that the witness whose testimony appears in the
foregoing deposition was duly sworn by me; that
the testimony of said witness was recorded by me
and thereafter reduced to typewriting under my
direction; that said deposition is a true record
of the testimony given by said witness; that I am
neither counsel for, related to, nor employed by
any of the parties to the action in which this
deposition was taken; and, further, that I am not
a relative or employee of any counsel or attorney
employed by the parties hereto, nor financially
or otherwise interested in the outcome of this
action.

ALEXANDER LEE
Notary Public in and for the
DISTRICT OF COLUMBIA

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I, CHERYL LaSELLE, hereby certify that I am not the Court Reporter who reported the following proceeding and that I have typed the transcript of this proceeding using the Court Reporter's notes and recordings. The foregoing/attached transcript is a true, correct, and complete transcription of said proceeding.

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