

DEPARTMENT OF THE TREASURY
Internal Revenue Service
FY 1986 Supplemental
Statement of Roscoe L. Egger, Jr.
Commissioner of Internal Revenue
before the
Committee on Appropriations
Subcommittee for Treasury, Postal Service
and General Government

Mr. Chairman and members of the Committee, I am pleased to be here today to present the proposed supplemental for fiscal year 1986 for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner, Jim Owens; Fred Goldberg, Chief Counsel; Jean Owens, Deputy Chief Counsel, Associate Commissioner Phil Coates for Operations; Associate Commissioner Ed Heironimus for Data Processing; Associate Commissioner Norm Bolz for Policy and Management; and our Finance Division Director, Steve Taylor.

Mr. Chairman, as you know, today I am making my final appearance before this Committee. During my five years as Commissioner, I have enjoyed working with the Committee. I want to take this opportunity to express my sincere appreciation for your understanding and consistent, high level of support for the Internal Revenue Service.

Status of Tax Administration

When I became Commissioner, I had no illusions about what I was getting into. I learned from my years as a practicing professional in the private sector that IRS is a large and complex organization. One of my basic objectives as Commissioner has been to lay the groundwork for IRS to enter the 21st century in the use of information technology. My dedication to the place of information technology in tax administration is even stronger today than the day I came to IRS. The computer problems we had last filing season were serious. There's no question about that. But, we have learned a great deal about managing massive system conversions, and we have learned from our mistakes. So too, we believe that others will benefit from our experiences. But with it all, our commitment to continue modernizing and improving Service operations remains. We do not, certainly, intend to let last

year's experience repeat itself and, quite frankly, we believe the Service will be stronger and better in the future as a result of the lessons we have learned. Our path to restoring effectiveness to tax processing can best be described in three simple words -- back to basics.

The "back to basics" theme will be carried throughout IRS operations. We need to assure that we do not lose sight of our overall mission: the business of being there when the taxpayer calls with a question; of processing the vast number of returns, information documents, and refund checks timely and accurately; and of enforcing the tax laws to identify and collect revenues that are currently owed to the Government. It has become clear that we are unable to carry out these responsibilities within current resources. The budget base is simply inadequate to deal with the complexities faced by tax administration today. The needs of the tax system are great, but the benefits work directly toward the objectives of deficit reduction and a balanced budget. We have been working closely with the Administration to identify the basic needs of the tax system.

Gramm-Rudman-Hollings

Along with other agencies, the IRS fiscal year 1986 operating budget is being cut by 4.3 percent under the Balanced Budget and Emergency Deficit Control Act of 1985. In our case this amounts to \$157 million. As you know, these cutbacks make no distinction between agencies that produce revenue and agencies that spend revenues. We expect to make reductions by sharply reducing administrative and support expenditures, such as supplies, office equipment, contracts, overtime, and travel, and by restricting hiring where this can be done without direct impact on filing season and revenue producing work. We do not expect to curtail direct filing season operations or direct revenue producing operations where planned levels of trained staff are critical. However, we are in a position where any reductions to our proposed budget would force us to cut back our workforce, including the likelihood of furlough. Because of the overriding priority of processing and taxpayer service, these staffing cutbacks must fall first to our revenue operations. Serious deterioration of taxpayer service and processing could also occur.

Supplemental Request

In these difficult budget times, we have been through an extensive and rigorous review of what is needed to carry out our basic responsibilities. As I stated earlier, we have worked closely with the Treasury Department and OMB to establish the clearly essential needs to get tax administration back on a sound foundation. These needs total 6,950 positions and \$340 million in supplemental funding for fiscal year 1986.

There is no question that this request is substantial. There is also no question that it represents an investment that must be made if we are to treat taxpayers as they deserve to be treated and collect the revenues. Congressional approval of these resources will be decisive in this regard. Early and favorable action on our supplemental is of urgent importance to the tax filing season which is now under way.

Restore Effectiveness to Tax Processing

The major part of this request, 5,558 positions and \$140 million, is required to overcome deficiencies in our tax processing system and restore it to full effectiveness. With these resources, we are implementing realistic production rates in our ten service centers. We are improving the quality of processing operations across-the-board by enhancing review of taxpayer notices before they are issued; improving management oversight; assuring quality control; increasing key verification of tax return data; stepping up the monitoring and control of refund returns; and increasing computer room staffing at our ten service centers to provide for continuous 24-hour-a-day, seven-day-a-week operation. In addition, resources are needed to clear up inventories of unpostable accounts, adjustments and taxpayer correspondence, and also to compensate for the decline in recall and retention of experienced seasonal employees.

Improve Taxpayer Service

An additional 670 positions and \$41 million are needed to keep pace with the increased demand of taxpayers for assistance. This request includes funds to cover toll-free telephone circuitry and to phase in the capability for on-line, immediate tax account adjustments -- resolving difficulties and avoiding repeat notices and calls.

Meet Unanticipated Mandatory Cost Increases

An essential part of this supplemental is to fund certain basic costs of doing business. Additional resources of \$42 million are required to cover mandatory costs to reimburse GSA for rent of space IRS currently occupies, to finance higher costs of employee relocation resulting from changes in laws and regulations and to meet rate increases in toll-free telephone circuitry and lease of toll-free equipment systems for taxpayer service. These resources represent a correction to budget deficiencies that OMB has reviewed and approved. We have no choice but to incur these costs.

Strengthen Tax Enforcement

In last year's Appropriations hearings, I spoke of a major revenue initiative being proposed by the Administration to help curb the growth in the tax gap. Additional resources have been included in the fiscal year 1987 budget, which I will discuss later. For fiscal year 1986, 332 positions and \$14.5 million will ensure the full revenue potential of the initiative. These resources will make it possible to hire and train agents this year so they can be more productive next year.

In the same manner, supplemental funds of 63 positions and \$2.7 million are needed to step up efforts to reduce the backlog of tax shelter cases. These resources will allow for hiring and training of appeals officers and attorneys needed to settle tax cases next year.

It has been widely publicized that many banks and financial institutions have been found in violation of currency reporting regulations and have been fined accordingly. As a result, the number of currency transaction reports received has gone up dramatically. To process this increased volume of currency and cash transaction reports, an additional 255 positions and \$6.1 million are required. It is now expected that some 3 million documents will be received in fiscal year 1986. These documents are used by all law enforcement agencies and are a key element in combatting organized crime and drug trafficking.

Supplemental resources are also required to prevent severe staffing reductions in our enforcement functions and thus ensure the revenue receipts planned for fiscal year 1986. The amount needed, some \$72 million, represents \$1 billion in revenue collections.

Finally, our request includes \$3.6 million to improve enforcement training, \$14.8 million for enforcement-related ADP needs, and 72 positions and \$3 million to increase examination of domestic corporations engaging in international activities.

Summary

Mr. Chairman, to my knowledge the Service has never had a more critical budget need than that represented by this request. The successful, uninterrupted operations of the Internal Revenue Service this fiscal year depend on this supplemental being fully appropriated. We are already cutting and deferring expenditures wherever possible to meet our Gramm-Rudman-Hollings reduction.

The high priority that we must give to prompt and accurate processing of returns and to taxpayer service is such that any reduction to this supplemental would necessarily fall on our tax enforcement operations. Employee furloughs would be necessary. Large revenue loss would be unavoidable. Significant reductions would make it impossible to provide adequate taxpayer service and timely tax processing -- resulting in busy signals on taxpayer service phone lines, processing delays, late refund checks, and taxpayer frustration. The American taxpayer deserves better than this.

We are already facing severe problems due to the later filing of returns each year causing a major bulge around April 15. As of February 7, receipts are down two million from the same time last year, and seven million from the year before. Meeting processing schedules under these conditions places additional stress on resources. This and other problems will be made worse without necessary funding.

The resources requested are already being incurred as we approach the busiest phase of this tax filing season. We have implemented numerous improvements to ensure a smooth, effective filing season this year. However, we cannot continue to operate at this level without the urgently needed funds.

A great deal is at stake, potentially in excess of \$1 billion in revenue receipts and, more importantly, renewed public confidence in a tax system that works.

Mr. Chairman, in concluding my opening remarks I want to again convey, on behalf of the Service, our appreciation to this Subcommittee for the continued attention and support it has given to the needs of tax administration. My colleagues and I will be pleased to answer questions you or the members may have.