

NATIONAL PRESS CLUB LUNCHEON WITH COMMISSIONER DOUGLAS SHULMAN

SUBJECT: THE COLLECTION OF U.S. TAX REVENUE

MODERATOR: ALAN BJERGA, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 12:30 P.M. EDT

DATE: MONDAY, APRIL 5, 2010

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ALAN BJERGA: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Alan Bjerga. I'm a reporter for Bloomberg News, and the President of the National Press Club. We're the world's leading professional organization for journalists, and are committed to our profession's future through our programming and by fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org. To donate to our programs, please visit www.press.org/library.

On behalf of our members worldwide, I'd like to welcome our speaker and attendees to today's event, which includes guests of our speaker, as well as working journalists. I'd also like to welcome our C-SPAN and Public Radio audiences. After the speech concludes, I will ask as many audience questions as time permits.

I'd now like to introduce our head table guests. From your right, Gautham Nagesh of *The Daily Caller*; Nicole Duarte, a reporter for Tax Notes; Jennifer Liberto, senior writer for CNNmoney.com; Diana Gregg, economic reporter for BNA Daily Report for Executives; Kim Dixon, tax reporter for Reuters; Susan Anderson, the wife of the speaker; Melissa Charbonneau, vice chair of the Speakers Committee and a producer for Newshook Media.

Skipping over our speaker, Suzanne Struglinski, press secretary for legislative affairs for the Natural Resources Defense Council, as well as the Speakers Committee member who helped organize today's event; Paula Cruickshank, Bureau Chief for the

CCH News Bureau; Jennifer DePaul of *The Fiscal Times*; and Ryan Donmoyer of Bloomberg News. (Applause)

Our guest at the National Press Club today is now in the second year of his five year term as commission of the Internal Revenue Service. Douglas Shulman, the 47th IRS commissioner, is responsible for collecting \$2.4 trillion in tax revenues, a daunting task any year. But with more than 100,000 employees and a budget of about \$11 billion, Shulman has significant federal resources at his disposal as he, and you, prepare for that April 15th deadline, just ten days away. Beyond the regular challenges of managing tax collection, the commissioner also faces issues such as the plane crash into an IRS building in Texas last February, as well as reports of growing violent threats against IRS employees, particularly in light of the healthcare reform legislation that became law last month.

As representatives of the government at a time when the government isn't so popular in some quarters, Shulman's agents are on the front lines of revenue collection and sometimes public outrage. Commissioner Shulman came to the IRS from the Financial Industry Regulatory Authority, also called FINRA, the private sector regulator of all securities firms doing business in the United States. He served in the same role at the National Association of Security Dealers before its consolidation with New York Stock Exchange member regulation, which resulted in the formation of FINRA.

Earlier in his career, he was involved with several startup organizations. He holds a bachelors degree from Williams College, a masters of public affairs from Harvard University's John F. Kennedy School of Government, and a Georgetown law degree. And it's been told that his children are at the Easter egg roll this morning. So please welcome to the National Press Club, Douglas Shulman. (Applause)

MR. SHULMAN: Thank you for that very nice and gracious introduction. It is a pleasure to be here. Before I start, I want to thank one person, and one group of people. The one person I want to thank is my wife, Susan Anderson. Being the IRS commissioner I consider one of the best jobs in the world. I'm not sure being the wife of the IRS commissioner is. And so, very appreciative of everything the family does, and Susan is here with me today.

I just also want to welcome a number of the senior executives from the IRS are here, my colleagues, who make the tax system work every day. I would just say I've done a number of stints in both the private and public sectors, and right now I work with as talented a group of executives as you will find in any business, any government, any nonprofit anywhere in the world. And so my hat's off to my colleagues who are here as well.

So it's good to be here in the spring to address the National Press Club. It's good to see cherry blossoms. Those of you who live in D.C., it's good not to see snow at this time of year. One of the things when you walk around, probably on your way over here, you notice lots of tourists milling around, going to museums, going to the mall. Some

people are going to the Easter egg roll. You also see amongst those tourists police officers attending to the safety of everyone in Washington, park rangers showing people where they should go on the mall, landscapers keeping the city beautiful. And you see a number of school teachers taking classes around, educating their students, teaching them about the capital.

One of the things all those people you see amongst the tourists have in common is that they're all public servants who serve their fellow citizens, their neighbors, their families and friends every day. There's another group of public servants that you won't see milling around the streets of Washington. And those are the thousands of IRS employees who right now during this time of year are answering taxpayer questions over the phone, processing tax returns, issuing \$300 billion in refunds out to the American people, and helping taxpayers during these struggling and tough economic times.

And that's what I want to talk about today, is public servants and public service and how we at the IRS are advancing and translating our public service commitment into real services that benefit the nation and taxpayers every day.

Winston Churchill once said, "The farther backwards you can look, the farther forward you are likely to see." So what I want to do is first take us through a quick tour of the word service in Internal Revenue Service, and the history of the Internal Revenue Service, and particularly all of our service offerings. Around the turn of the 20th century, we were actually not called the Internal Revenue Service. We were called the Bureau of Internal Revenue, and we bore very little resemblance to that we do today. We were kind of a mix of the Bureau of Alcohol, Tobacco and Firearms, and the Food and Drug Administration. And so, we issued stamp taxes on distilled spirits, fermented liquors, cheeses, margarines, and if you look in the history books, even opium before it was outlawed. There was no individual income tax then, there was only a corporate income tax.

We were focused on doing things like breaking up illegal stills, which was dangerous work in those days. But the concept of service was not a big part of the equation of the bureau back then. The closest thing we did to service is in the 1890s, Congress charged the Bureau of Internal Revenue with analyzing samples, such as milk, to be submitted for inspection. And so we did public safety. So we actually had people with microscopes, we had chemists on staff. And so service in that context meant we were protecting the public's food and making sure it wasn't adulterated.

Even with this very quirky portfolio, we did some stamp taxes, some public safety, some food safety, one of the bureau's early leaders was prescient about the future, unique role that the IRS would play in the growing nation and the increasingly complex economy. In 1901, one of my predecessors, who had a big, long beard and different outfit than I had today, his name was John W. Yerkes. And Commissioner Yerkes had a quote, that the bureau is, "A business touching closely the interests of thousands of our citizens and coming into nearness of contact with great and small commercial and financial

transactions of the nation.” So even back then, the commissioner said, “This is going to be an agency that touches lots of parts of the economy and lots of people.”

Although he didn't get to see his full vision implemented, over the next 40 years, the IRS role changed dramatically during two world wars and some momentum pieces of tax legislation. The most famous, which most people know about, was the 16th Amendment to the Constitution, which gave Congress the power to levy and collect taxes. But it was actually the Revenue Act of 1942 that quadrupled the number of Americans that were subject to tax, from 20 million to 80 million Americans in one just one piece of legislation. Probably the most far reaching tax act, when it came to the IRS, or the Bureau, back then in legislation was the current Tax Payment Act. That was the beginning of information reporting. That's where it got required that employers, when you make wages, withhold your taxes and send them directly to the Internal Revenue Service, which lasts today.

Along with these new tax laws came millions of new taxpayers, and the first seeds of tax complexity were born. Also, though, the first seeds of the taxpayer service was born. A major breakthrough around service was in 1952 when there was a reorganization of the Bureau. And the Bureau of Internal Revenue became a thing of the past and quietly slipped into the pages of history, and the Internal Revenue Service was born. I don't want to make too much of a name, but the old name didn't have the word service in it, and the new name did. And if you look at the legislative history, there was a newfound emphasis on service because we had now tens of millions of people we were interacting with and the expectations were high.

In the 1952 Annual Report, which was the first Annual Report of the Internal Revenue Service, there was a quote in there that said, “The easier it is for taxpayers to file, the easier becomes the job of the tax office. The reorganization will provide one stop service for taxpayers.” This is the first time that the concept of complying with taxes and service really came to the forefront.

I will tell you, 1952 was when punch cards and electronic typewriters were cutting edge, and so service was pretty bare bones. But in the 1950s, telephone service started, albeit it local telephone service where you could call your local office, no toll free line. We also made IRS personnel and executives available for everything from the local Rotary Club to also radio interviews, telephone interviews, to make sure we got the word out and educated people about the tax laws, what was expected of them, how we could help them.

Taxpayer service kept meandering down this road into the 1960s. Our first toll free telephone line was called the centaphone (?), which some people say sounds more like an insect than a phone service. And then, in 1975, the first big refundable tax credit was created and passed by Congress, which was the earned income tax credit. It was official, all of a sudden, that policymakers here in Washington viewed the tax system and the Internal Revenue Service as an efficient distribution system for societal benefits, not

just the mechanism to collect funds to run the government. And I think the tax system has moved in that direction ever since.

Later in the 1970s, there was a very telling sign about service. The first ever assistant commission for taxpayer services was founded. I think internally at the IRS in the '70s, that really signaled to people that service was no longer an adjunct or a stepchild of enforcement, but it actually was a major integral part organizationally of the IRS. If you pick up the pace, you'll see things that ripple through the tax system today. In the 1980s, we started electronic filing, which has mushroomed, which has been a great service to the American taxpayer. And then the 1987 Tax Reform Act was passed, which was very complex, took three years to implement and the IRS was asked to do more and more things as we went forward.

In conjunction with PBS, actually, that year when that reform act was passed, we produced a two hour program explaining the bill to the American people that aired in 226 stations and had 4.6 million viewers.

Then in the 1990s, I think the tax system just kept changing and kept getting more complex. The tax code became complex, complexity was viral. It actually grew larger than four times-- one of my favorite quotes is the tax code is four times longer than *War and Peace*. Then the National Commission on Restructuring the IRS was formed in the mid '90s around a variety of things, including computer system issues, but also complaints about service. And so it was the late '90s, the 1998 Restructuring and Reform Act, where there was really, since 1952, the second big restructuring of the IRS; again, with a real focus on service.

So as you can see, the history is one that started with enforcement, to this day, where we take very seriously our dual mission of providing service to the over hundred million people who are trying to get it right with a complex tax code. And we also have robust enforcement programs for those who aren't going to pay.

When I think about service, I actually-- there's a couple of interesting things. One is, in many ways, we're a large financial service institution, just like a large bank or credit card companies or others who has to process payments, answer questions. The unique thing about the IRS is our customer base has 100 percent overlap with other businesses. Most businesses do analysis and benchmarking by figuring out who else serves their customer. But we actually have every financial institution in the country, is generally serving one of our customers, which means that taxpayers are comparing us to the last interaction that they had with another financial service provider.

I think at the end of the day, taxpayers want the same thing from us that they want from them, which is they want predictable service, they want a hassles free experience, and they want to get their transaction done as quickly as possible and get on with doing other things.

In a very real sense, the service today has fulfilled Commissioner Yerkes' vision. Because today, we touch every adult American, every nonprofit, every business each and every year. And this is a diverse taxpayer base where we have to have phone service for people who want to call. We have to have internet and technology applications for tech savvy citizens who actually want to interact with us via the web. And we have to have in person service, sometimes for older folks who feel more comfortable talking to someone face to face, or people with limited English proficiency who want to see someone and work through their issues.

I will tell you, we've come a long way, certainly from the turn of the century, or the turn of the last century, but even since 1998, the most telling of the measures that we watch at the service is something called the American customer satisfaction index. And it's an index of people who interact with either your business or your agency that's run by independent firm that looks at people's perceptions of their interactions with you. In 1998, we were at 51 percent. We're now consistently in the high 60s percent, and it's a trend that's continued to go forward. And so we've come a long way.

With that said, we really cannot rest on our laurels. When it comes to taxpayer service, we need to be willing to break with orthodoxy. We can't become calcified. We have to be open to new ideas and best practices, and we need to always be willing to keep doing what works well, but throw away things that don't or have changed as the times have changed, and continue to innovate.

That brings me to what I call the tale of three taxpayers. What I want to do is take you through three taxpayers with very different needs and give you a sense of how we are serving the American people today. The first taxpayer I will call Mary. She's single, in her 20s, she's in a management training program at a department store. She doesn't own her own home, she rents. Her income comes largely from her salary. She also owns a mutual fund and she reinvests her dividends. So on the surface, Mary's tax needs are pretty simple. But I will tell you, we still have a lot of services that can benefit Mary and the taxpayers just like Mary use every day.

Harkening back to the current Tax Payment Act of 1943, her taxes are withheld by her employer and reported to the IRS. However, she may want to go online to our W2 calculator at IRS.gov and make sure they're withholding the right amount. We always tell people you don't want to withhold too much because you're giving the government an interest-free loan. You don't want to under withhold because you might owe a penalty. If Mary does have an account question, or wants to figure out what to do on her tax return, there's more options now than ever before. She can call our toll free number and talk to someone live, or get automated help. Just last year, we actually added a wait time feature so if she calls at a peak time and there's a seven minute wait and she doesn't have seven minutes to wait, she can hang up and call back at a time that's more convenient for her.

She can log on to IRS.gov and we have a feature called the interactive tax assistant where she can actually type in questions, lead you through prompts and get her questions answered. She can also check the status of her refund on the website. Or, she

can check out tax law changes, including things that you can get-- or tax advantages from the Recovery Act, which a lot of people have questions about right now.

For instance, I told you, Mary doesn't own her own home. She's been looking at a little Cape Cod down the street. On our website she saw she's still eligible for the first time home buyer credit for another couple of months and so she'd get an \$8,000 refund if she decides to purchase a house. When it comes to preparing and filing her return, there's a whole set of options for Mary. She can use her home computer, or commercial off the shelf software. She can prepare her taxes in E-file, and right now if people electronically file and direct deposit, they should expect to get their refund in about a week.

This year also she can split her refund and buy a U.S. savings bond with her refund so we can be part of making sure people save and give them vehicles to do so. And since her adjusted gross income is actually less than \$57,000 she qualifies for free file, which is a free federal tax preparation, an e-filing service that's just a click away on IRS.gov.

Of course, there's a lot of taxpayers whose situation is not as simple as Mary's. One of the things we have done this last year is tried to go the extra mile and meet taxpayers based on their own individual circumstances. And so as the American people have been struggling with unprecedented difficult economic times, we've put in place a number of special programs for those who for the first time ever are having a hard time meeting their tax bills and their other bills.

Let me give you an example of a taxpayer-- couple of taxpayers we'll call Frank and Sandra, who are a family with three children. In early 2009, Frank was laid off from his job at an auto parts manufacturing plant. Although he hopes to be called back when the economy picks up, he's worried about paying his bills. He's picked up some part time work for now, and Sandra works a few days a week at a daycare center and has some W2 income. But their savings have dwindled. They also are worried because right now, they're paying the IRS an installment. They're on an installment agreement for some money they owed us when a few years ago, Frank had to withdraw money from his 401(k) and forgot to put that on his return.

They cut back their expenses, but they were still worried about making ends meet. And they were especially worried about this installment agreement because they didn't want to get behind on something they were trying to catch up on already. They actually heard on their local news that the IRS this year was instituting special Saturday open houses where the goal was to resolve taxpayer problems, make sure people were available to work through issues in this tough economy. And they figured, "What the heck, let's give it a try." They called, they got an appointment, they put together all their records and they drove over to one of our centers.

They met with an individual taxpayer advisory specialist. They explained to her their situation and they asked if there was anything we could do to help. She actually went through all their documents, their pay stubs, their receipts, helped them calculate

their adjusted gross income. And she had some good news for them. The Recovery Act actually created a new earned income tax credit category for families with three or more children. Frank and Sandra would qualify for the maximum tax credit of \$5,657. That wasn't all. They would also qualify for the making work pay credit, and the child tax credit, which is a thousand dollars per child.

In hardly any time, with the specialist right there, they actually got their return filled out. They e-filed it from the center. They had it direct deposited, so from the time they were wondering what to do, they showed up at one of our special open houses, filed and a week later they got a sizable refund check.

But what about the installment agreement that didn't get handled there. Well, during this last year, we put special provisions in place that if there's taxpayers who are always meeting all of their payments on time, that defaulting or missing a payment wouldn't default the installment agreement. And that we could actually take into consideration economic hardship and come up with a smaller monthly payment. So they actually, while they were there, came up with a smaller monthly payment. Their installment plan is something they felt comfortable they could meet. They never thought the day would turn out that way. That wasn't their image of the IRS, but they drove away having gotten quite a bit of assistance from us.

Our third and last taxpayer is a small business owner. A general contractor who specializes in home remodeling and renovation. Times have been tough this past year for Lenny's General Contracting. And in this economic downturn-- don't go look up Lenny's online, this is an assumed name-- with the housing market problems, he found himself having trouble meeting bills, having trouble making ends meet. Actually had to lay off a couple of his employees.

He had just about given up when he actually read that his local chamber of commerce was conducting a small business tax workshop where representatives from the IRS would present answers to questions about how we're trying to help struggling businesses in tough economic times. At the workshop, the IRS representative explained a lot of valuable information. He explained that there's a new net operating loss carry back provision which Lenny did not know about. Where if he files a return and has losses this year, he can actually carry back and get an expedited refund from taxes paid in an earlier year, which he realized that he could do and hadn't realized before.

They also explained that small business owners are generally going to be qualified for the making work pay credit. And they also encourage people to go to the website. So first of all, Lenny didn't think that the chamber of commerce IRS representatives usually show up and help them out and work through what can we do for you. But that happens all the time across the nation. When he went back to the website, he actually found in our Recovery Act portion that there's some refundable credits for installing things like energy efficient windows or insulation. Lenny actually figured out that he could do some marketing to current and past customers and he would be able to pitch them and get some

new business. And so he actually walked away feeling a lot better having interacted with us.

I hope these scenarios have made the point that every day, across the country, there's thousands of IRS employees helping taxpayers. But we also serve honest and hard working taxpayers through our robust and evolving enforcement programs that insures that everyone pays what they owe. Here, too, we are innovating and evolving our programs every single day. So we're going to continue to use new and enhanced techniques to bring people into the tax system and make sure they pay the taxes if they've been hiding assets overseas. We have a new global high wealth operating unit where we're taking a unified look at the entire web of business and economic entities controlled by high wealth individuals so we can better assess their compliance risk.

We're also making better use of data and information to boost compliance. There's new laws, which hearken back to the current Tax Payment Act, which require brokerage firms to report basis on stock sales and credit card companies to report payments to merchants. These are going to help us with our compliance programs.

On the global front, a bill has been passed called the Foreign Account Tax Compliance Act that weaves together strong international reporting by taxpayers who have assets overseas. But also disclosure proposals for foreign financial institutions which is going to help us combat offshore tax evasion.

We've also proposed new regulations recently related to business taxpayers, uncertain tax positions that will help our large business taxpayers, as well as the IRS achieve certainty, consistency and efficiency when it comes to their taxes. And finally, because paying taxes is one of the largest financial transactions that the American family has each year, we've proposed heightened oversight of the tax return preparer community to insure there's a basic level of competence for preparers to help boost both service to taxpayers and tax compliance.

So we're serving taxpayers through constant and continuous innovation. I've asked our whole team and every employee of IRS to continue to stretch and get better. That means we're going to have better technology, we're going to improve our phone service, we're going to improve our processes, we're going to improve our outreach and education. We're going to improve our compliance, but most of all like any big agency that interacts with every taxpayer, we're going to continue to improve ourselves.

Let me conclude with this thought. I firmly believe that the spirit of public service is not only part of this country, but it's part of who we are as IRS employees. But, the men and women of the IRS are often underappreciated public servants. At its core, we're an agency of professionals trying to serve the hard working taxpayers of this country, processing returns, sending out refunds, answering questions over the phone, and trying to help people navigate a very complicated tax system.

On February 18th of this year, a man intentionally flew a plane into an Internal Revenue Service building in Austin, Texas, killing one IRS employee and injuring others. The employee who died, his name was Vernon Hunter. And as I learned about Vernon Hunter during the weeks afterwards, I learned that he really exemplified the spirit of public service. He was a Vietnam veteran who served two tours of duty in Vietnam. And he had worked for the IRS for almost 28 years. And while he wasn't the target of the attack, he died at his desk doing his job. He was also a manager of revenue officers. Now, to tell you what a revenue officer is, revenue officers are the people when we've sent you lots of letters and made lots of phone calls and years have passed, go out to collect people's debt in person. These are the very people that can be parodied as the prototypical IRS agent. Even though they actually spend their time trying to help people out and work through difficult situations.

Vernon Hunter's son, Ken, said something incredible profound, which captures the spirit of how people all over the country who work at the IRS view their job. Rather than showing anger when interviewed by the press towards the man who killed his father, Ken, Vernon's son, simply said, and I quote, "If he would have talked to my dad, my dad would have helped him." The people of the IRS serve this country every day, they are not a faceless bureaucracy, but they're the face of public service, the face of dedication and professionalism, the face of the Internal Revenue Service. It's an agency that I've gotten to know over the last few years that I'm incredibly proud of, serving the American people every day. With that, happy to answer some questions. (Applause)

MR. BJERGA: Well, thank you very much for your time, Commissioner, and thank you for having a few moments to answer questions today. We have many questions, of course, dealing with the recent healthcare reform package that's been passed. First of all, for your agency, what are the challenges of enforcing compliance that will be coming up under the healthcare reform plan? How will you penalize individuals who don't purchase coverage?

MR. SHULMAN: So the health reform bill that was passed will have implications for our agency. I guess the first thing I would tell people, including the viewing audience, is none of the individual tax provisions come into play this year. This is all down the road, most of them coming into play for 2013 and 2014. Second, the Department of Health and Human Services has the lead on all of the health related provisions. But there are a number of tax provisions which our agency is responsible for. And they range from things like immediately this year, small businesses are eligible for a tax credit to help them buy healthcare for individuals, which is your classic tax credit provision.

There's a number of fees and taxes on different parts of the industry. And then there's also a requirement that individuals either have health coverage or make a payment on their tax return. Our job is going to be, first and foremost, make sure people are educated about all the benefits that are available for them. Second is get things like the \$400 bill of tax credits out to individuals and to businesses and others. When it comes to compliance, especially I think the question was around individuals, I think the provision

that's gotten the most attention has been the requirement that people have health coverage or pay a fee on their tax return.

The way this will work is Department of Health and Human Services and the insurance companies will work together to determine what adequate health coverage is. When someone files their return, the insurance company will send us a little box that is checked, a yes/no question that says do they have coverage or not. They'll send it to the individual, the individual will attach it to the return and they'll send it to us. It's just like a 1099 where you get information reporting about the interest that you have on the bank account. We will run matching programs around that. And if somebody doesn't have coverage, they'll either have paid the penalty that they owe, or they'll get a letter from us saying that you owe this amount.

I think there's a couple of important points I would make, though, about our role in health reform. One is that these are not the kinds of things, check the box whether you're here or not, that we send agents out about. These are things where you get a letter from us. Second is Congress was very careful to make sure there was nothing too punitive in this bill. And so we do not have authority-- first of all, there's no criminal sanctions for not paying this, and there's no ability to levy a bank account or do seizure, some of the other tools.

And so our role's going to be straightforward. It's going to be administering the tax provisions. And in many ways, we're going to be the major part of the payment system, harkening back to commissioner Yerkes, and what I talked about before, because there's always a way to administer this through the tax system. I think that's why the provision was put there.

MR. BJERGA: This questioner says that their 80 year old mother was left on hold for an hour by the IRS to ask a question. And following on this, the question is how will you provide better service when the IRS will need to add thousands of staff to handle the new demands of monitoring the healthcare reform rules? How many workers will you need to answer questions and handle the levies for fines?

MR. SHULMAN: So first of all, I don't know whose mother was left on hold. It is highly unusual that someone would be there for an hour, but they shouldn't be. And you should come talk to one of my staff and make sure your mother's issue was addressed. Second of all, I've always told people, starting back in the '70 with the earned income tax credit, we crossed that Rubicon that said the IRS and the tax system isn't just for collecting taxes, but it's also for administering a variety of other programs, the earned income tax credit being the biggest one.

Like any large institution, what we need to implement efficiently our programs is flexibility around administration, we need plenty of lead time, which the health bill gives us plenty of lead time to get done what we need to get. And then we need the proper resources to get it done.

Regarding number of personnel, a lot of this is quite dynamic. For instance, last year we got five million calls for people who were asking, "What was my adjusted gross income the year before?" Because you needed that in order to true up your stimulus payment from two years ago. This year, we actually built a web application so we didn't have to get those calls and we funneled those five million calls onto the internet where people could just get it automatically. So we needed less staff because we innovated as we went forward.

We're right now looking at all of the impacts around resources for this bill and other bills as they come along. We're going to try to create as many options as we can for people so we can answer the phones, give people all the tools they need, and information online. And obviously, have some people around that, depending on what the implementation-- but it's way too early to say exactly what we're going to need three or four years from now for the actual full implementation.

MR. BJERGA: With the tax gap of uncollected funds at over \$300 billion, estimated amount, can the IRS still be considered an efficient distribution system for societal benefits?

MR. SHULMAN: So, put the tax gap in context. We collect about 2 ½ trillion dollars of revenue every year. People who make wages, so me as an IRS employee, the federal government withholds my taxes, they send me-- it gets a little circular using myself as an example, because they send me a document to myself-- but you get the point. People get their wages withheld, we get information reporting. There's 99 percent compliance. A lot of what we're doing to combat the tax gap and make sure there's compliance are the things that I listed before. Information reporting, being the biggest and most important, things like credit card reporting, basis reporting, things like the foreign account tax compliance act where we're going to get reporting by financial institutions, are things that help very much bring up compliance rates. And frankly, they're the way we should be thinking in this century about compliance. We shouldn't be thinking about sending more agents out, poring through more records. It's about information reporting and matching documents.

It's also things like our preparer initiative where 60-plus percent of Americans use a paid tax return preparer. If we can have them well educated, serving people well, with no incentive to help people push the envelope and not pay what they owe, that's going to help us around tax gap issues.

The other thing I would say is this notion of a tax gap, which is really the compliance rate, this country is, A, one country out of several that actually measures it. It's very hard to measure because you don't know exactly what you didn't get in. But, we also have a pretty high compliance rate. There's no country in the world that has a sealed system where there's no non-compliance. Think about the cash economy, think about someone who comes to your house and does a service. We would know how to close some of that tax gap, but it would put a burden on people.

So what I would say is I would go back to what I said before, is give us time, give us flexibility around implementation. Give us the right resources and we're a big institution who knows how to interface with individuals, businesses, nonprofits, and we can do things well.

MR. BJERGA: How far along is the IRS in processing the 15,000 disclosures received as part of its amnesty program? And what types of patterns have you observed so far?

MR. SHULMAN: So, the question that somebody wrote, shorthand, the question just for the broader audience, is we have been very focused on finding people who hide assets offshore, having them pay their taxes that they owe and discouraging them from doing it in the future. President Obama, when he was a Senator, actually had a bill around this issue. Immediately, well, when he became President, he asked us to focus on this. Secretary of Treasury Geithner has been very focused on this and has been talking about it at the G8 and G20 and has been focused on information exchange. And we've had a variety of enforcement programs around this.

As we geared up our enforcement programs, we actually created a program which we call a voluntary disclosure program which is not an amnesty because the way it works is if you come in voluntarily, you have to pay your back taxes, you have to pay a hefty penalty, you have to pay interest, but you can avoid going to jail. We had an overwhelming response this fall when we called down the program. Fifteen thousand people came in and disclosed their foreign bank accounts and were in the process of moving them through the system.

What I can say around trends is there were taxpayers from over-- or bank accounts in over 70 countries. Every continent except for Antarctica was represented. We are collating the leads and both processing through people we need to audit or get more information from, we are getting and trying to close out cases. But, we also are looking for patterns of financial institutions advisors, countries, money flows, which will be the next wave of our enforcement compliance activities as we go forward.

MR. BJERGA: Following up on a question asked earlier, and just to clarify, if you can't use sanctions to collect healthcare fees, what will keep people from getting away with not signing up for insurance coverage?

MR. SHULMAN: You know, again, when somebody either will get health insurance, or they'll get it through the exchange and get subsidized by the federal government so they can afford it. Or, when they file their taxes, there'll be money that is due. My belief is while some people may play with the kind of question that was asked, the vast majority of American people have a healthy respect for the law, and want to be compliant with their tax obligations and whatever else the law holds.

People will get letters from us, we can actually do collection if need be. People can get offsets of their tax returns in future years. So there's a variety of ways for us to

focus on things like fraud, things like abuse. And we're going to run a balanced program. There's been a lot of attention because there's been a lot of attention, and I think a lot of political heat, around healthcare. What's important for everybody to know is the IRS tries to stay out of the political fray. We try to administer the laws that are on the books, and we try to run incredibly balanced programs where our first line of defense is education, service, answering questions, getting out to see taxpayers, going to forums across the country. And that's really what we're focused on.

Of course, if people are trying to commit fraud in the system or have abuses, we will have compliance programs. But, there's been a lot of attention around the compliance programs, which are only part of what we're going to try to do, both with healthcare, implementation of the tax reform pieces of it, but with really any tax bill that's passed.

MR. BJERGA: Given the event in Austin, do you think the risk of working for the IRS has increased? And if so, what would you say is fueling that?

MR. SHULMAN: My answer is no, the risk has not increased. I think there's been a lot of stuff in the press around increased threats, which is actually inaccurate. When I think of a threat, I think of somebody actually saying, "You, Doug Shulman, and I'm going to do something to you." What there's been is increased chatter on the internet that has an anti-government sentiment. And sometimes, the issue of taxes has gotten swept into it. And there's a lot of difference between people not liking taxes, people not liking the tax system, or people having issues with the government and people actually being a safety issue for my employees.

I take the safety of every single IRS employee incredibly seriously. We have always had, and the event in Austin was both a reminder and heightened awareness about making sure that our physical security programs are as strong as they can be. We also need to make sure people just are aware and awareness training is out there. We need to know what these threats are. But there has not been any sort of scaled up, actual, specific threats against IRS employees. I think a lot of the reporting is just more general around some of the anti-government rhetoric that you hear out there.

MR. BJERGA: IRS Section 6103 allows tax information to be disclosed to people with a material interest, including owners of more than one percent of a company's stock. Considering that the American taxpayers now hold large stakes in many companies, should their tax records be open to public inspection?

MR. SHULMAN: So, one of the incredibly important principles of the tax system, and for sure for us as the tax administrators, is that we deal with sensitive financial information of the American public. And so it's actually against the law for us to disclose taxpayer information. That's why Mary, Frank, Sandra and Lenny are all assumed names. You learned nothing about individual tax information. And we take it very seriously.

The broader question about should shareholders get tax information for companies has been one that has been out there and bandied around for a while. I defer to Congress. We have some very major corporate tax initiatives under way. One of them I mentioned, which is for corporations to disclose on their tax return uncertain tax positions. And so that's if they have a reserve and think that the tax position won't hold, put that on the return. We think that's an important initiative and makes sense in this day and age where we are. And so we're focused on initiatives like that. And so I would leave whether or not a shareholder should get their tax information for other people to bandy about.

MR. BJERGA: I'm sorry Commissioner, but I totally know who Mary is, and I think I've got Lenny figured out. (Laughter) In January, you announced that large companies will have to submit a new form listing their uncertain tax positions or their tax shelter transactions that might not pass muster with the IRS. You recently delayed a comment period on that notice until June. When do you expect this to take effect, and what will the IRS do with this information?

MR. SHULMAN: That's the provision I was referring to before where in accounting under a regulation called Fin. 48, corporations take a reserve for uncertain tax positions, but the details of that aren't now made available to us. What we've proposed is getting a list, not all of the work papers underneath that and the other information that companies go through, but to actually get a list of where those uncertain tax positions are. The real reason for this is, my belief, is we have a voluntary tax system that where people show us all of their information and either it passes muster or if we have differences in either what the facts are or what the law is, we should talk about that.

Right now, we spend a lot of time with large corporate taxpayers just trying to find issues, which we find eventually. But I think it's wasted time for corporate taxpayers and wasted time for the IRS. We're trying to streamline the process and do what I said before, which is to create certainty so we can resolve issues quicker with taxpayers, create consistency and be more efficient in our systems.

We initially had a comment period which was going to end, and then we were going to put out draft forms and publications, which were more detailed that people would comment on again. What we basically did was just wrapped it all up into one comment period. And so, what we did is we delayed the first comment period. We committed to this month getting the draft forms and instructions out so that people could just do one round of comments by June 1st. And implementation will really depend on comments we get, how we go forward. But our goal is to not have this lag and to move it forward. But right now, we've put out skeletal proposal, we'll put out more detailed proposal, we'll get comments and we'll move from there.

MR. BJERGA: Should people with only independently reported earned income, like wages and pensions, even have to file a return? Why can't the IRS do it for them, as California did in the pilot project?

MR. SHULMAN: So California has a program called Ready Return, that if you're a very limited group of taxpayers, can get what's called a ready return where people look it over and say whether it's accurate or not for California state taxes. And that's people who are single with only wages, no interest income, no other kind of income, who take the standard deduction. The list goes on, it's the simplest tax, folks. They've had about a 5 percent pickup rate, so it's a pretty small program. We've been asked about this, and I'd say there are a couple of things.

One is our technology has been woefully under-invested in over the last 20 years. And so we're actually going through a major program to get all of our taxpayer account data consolidated into a database, which assuming Congressional funding, should be done in time for the 2012 tax year where you can start even thinking about this kind of program.

I think the second issue is we already have a 1040 EZ and it's already pretty simple for people who do that. And so we need to think about doing this versus all the other things on our plate. And so it's certainly something we are willing to look at, but we got to get the technology and then we need to make sure the cost benefit is there.

And then there's two other things that I think are worth talking about in that context. One is the business community would need to change significantly because right now, it is not until the end of February that there is a requirement that we get tax returns. A lot of people file in January. People don't even need to get their W2 until the beginning-- or until the end of January out to individuals. And so actually, there'd have to be a bunch of systems changes. We're not sitting on the information at the right time right now. That doesn't mean that everyone isn't willing to change if this would make sense.

And then the last unknown with this whole notion of "we'll do your taxes for you," is kind of the culture of taxes and the American experience where we have a voluntary tax system where it's the law that people pay, but the government doesn't calculate it for you. You calculate it for yourself. You bring in your deductions, you bring in your other income, you put it forward to us. And one of the questions is if we did it, there's a lot of information that we might not have, although that gap is narrowing over time. But would people still go through all the expenses of running it separately themselves, getting an accountant or a tax prepare themselves? And that's one of the unknowns.

But what I would say is after 2012 when we get this database done, it's an issue that certainly should be up for debate.

MR. BJERGA: We're almost out of time, but before asking the last question, a couple of important matters to take care of. First, to remind our members and guests of future speakers. Tomorrow, we will have Kathleen Sebelius, the Secretary of the U.S. Department of Health and Human Services discussing the new healthcare reform legislation. On April 12th, actor Dennis Quaid will discuss the prevention of potentially

deadly medical errors. And on April 15th, Janet Napolitano, Homeland Security Secretary, will discuss the state of the world's, and nation's aviation security system.

Second, we'd like to present our guest with the traditional, if it's down here, National Press Club mug. (Applause)

MR. SHULMAN: Thank you.

MR. BJERGA: Final question. Everyone, of course, has to do some sorts of taxes and many people in our audience wanted to know, who does your taxes? And if you can't do it yourself, what hope does anyone else have to do theirs themselves?

MR. SHULMAN: So, I have a preparer that I've had for 15 years, does my taxes, with my help. And I wouldn't read into anything about me doing it or not, I'm just a busy guy who I've gotten good service for the last 15 years. And I won't give you a name.

MR. BJERGA: Thank you for coming today.

MR. SHULMAN: Thank you. (Applause)

MR. BJERGA: We would also like to thank the National Press Club staff, including its library and broadcast operation center for organizing today's event. For more information about joining the National Press Club and on how to acquire a copy of today's program, please go to our website at www.press.org. Thank you very much for your attendance today, and thank you again to our speaker. This meeting is adjourned. (Sounds gavel.)

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