

NATIONAL PRESS CLUB NEWSMAKER LUNCHEON WITH
IRS COMMISSIONER MARK EVERSON

TOPIC: TAX ADMINISTRATION

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MR. ZREMSKI: (Sounds gavel.)

Good afternoon, and welcome to the National Press Club. My name
is Jerry Zremski, and I'm the Washington bureau chief for The Buffalo
News and the president of the National Press Club. I'd like to
welcome our club members and their guests who are here today, along
with the audience that's watching on C-SPAN.

We're looking forward to today's speech, and afterwards I will
ask as many questions as time permits. Please hold your applause
during the speech so that we have time for as many questions as
possible. For our broadcast audience, I'd like to explain that if you
hear applause, it may be from the guests and members of the general
public who attend our lunches and not necessarily the working press.
(Laughter.)

I'd now like now to introduce our head table guests and ask them
to stand briefly when their names are called. From your right, Tom
Herman, tax columnist from The Wall Street Journal; Bill Watts,
reporter for MarketWatch; Patty Tripathi, president of TriPath Media;
Dustin Stamper of Tax Analysts; Julian Solitarovski (sp), a guest of
the speaker; Joan Pryde, senior editor of Kiplinger's Tax Letter;

Nanette Everson, the wife of the speaker.

Over on this side of the podium, Melissa Charbonneau of CBN News, vice chair of the NPC Speakers Committee. Skipping over our guest for just one moment, Lori Russo, vice president of Stanton Communications and the Speakers Committee member who organized today's event; next, Stacy Solitarovski (sp), another guest of the speaker; Stephen Joyce, a reporter for Daily Tax Report; Patrice Hill, business reporter for The Washington Times; Keith Hill of BNA, vice chair of the National Press Club board of governors; and Ryan Donmoyer, a reporter for Bloomberg News. (Applause.)

On past visits to the National Press Club, today's guest has enjoyed some good natured ribbing. IRS Commissioner Mark Everson has been introduced as the head of the agency that everybody loves to hate. And one NPC president said that the day Everson was appointed, his name was certainly crossed off guest lists all across the country. (Laughter.) But me, I'm not going to start today with a joke because frankly, I don't want to be audited. (Laughter.)

In all seriousness, we are deeply honored to have Mark Everson here with us today for his fourth National Press Club luncheon. His agency has the hefty responsibility of collecting \$2.5 trillion in tax revenue every year. That money pays for the vast majority of government services, including the military. Of course, some people and some corporations aren't too happy about paying their fair share, and Commissioner Everson is very interested in those people and those corporations. He has bolstered tax enforcement. He's cracked down on tax shelters. And last year he even took on Hollywood, reminding celebrities that those \$100,000 goodie bags that they get at the Academy Awards counted as taxable income. Interestingly enough, this year there were no official Oscar goodie bags. Instead, in a gesture aimed at curbing global warming, guests received a year's worth of offsets to cover 100,000 pounds of carbon dioxide emissions. Now when the IRS figures out how to tax that, I'm sure that Commissioner Everson will let the academy know.

Then again, there is a kinder, gentler side to the IRS. Everson has made taxpayer service a top priority, bolstering the agency's toll-free telephone lines and taxpayer assistance centers while encouraging electronic filing. In 2006, more than 43 million people filed their taxes online, and already this year, with a few weeks remaining before the deadline, nearly 45.5 million taxpayers have e-filed their returns.

Now I personally haven't done so yet, and I would like to ask Commissioner Everson to please be very kind and gentle when he gets to my return, given that I've been joking about him. But really we know that he wouldn't take that kind of approach.

MR. EVERSON: Don't be so sure. (Laughter.)

MR. ZREMSKI: Oh! Wait until the question-and-answer period. (Laughter.)

Mark Everson is the 46th commissioner of the IRS. He was appointed in 2003 after serving as deputy director for management of

the Office of Management and Budget. And while he might not be on every guest list, he's always welcome at the National Press Club during tax season.

Ladies and gentlemen, let's greet IRS Commissioner Mark Everson with a round of applause. (Applause.)

MR. EVERSON: Thank you. Thank you, Jerry, and good afternoon. I'm delighted to be here for, as you indicate, the fourth time at the press club.

It's almost four years in this job in fact, and I think that it's finally sort of settled in what it's like being the commissioner. If I look back at -- in '03, as an example, I can remember my son -- he was in military school at the time -- he -- I've talked about him before here. But he sent me an e-mail after a couple weeks, and it was something to the effect of, "Geez, Dad, one of my friends has come and he has explained to me this tragic problem that has happened with his family and how if you would just understand it, I'm sure something could be worked out." And Leonard was truly, truly concerned. And that was -- reflected I think his view of -- anybody dealing with the IRS, probably they had always a legitimate concern, if you will.

Well, things have sort of evolved. Right before Christmas, Leonard and I were in the car one Friday night. We were going to head of to McLean and have dinner. And we got down to an intersection. We were in the left-hand lane, and the cars were backed up in the right-hand lane waiting to go across the Chain Bridge. And we came around the corner very slowly, and all of a sudden a big new -- brand new SUV pulled out because they were tired of waiting and hit our car. This very handsome couple came out. They were in their 30s, couldn't look better, and they started profusely apologizing, and I felt more sorry for them. Our car was almost five years old, but theirs was probably a \$60,000 car. It still had the dealer plates on it. And they apologized and apologized.

And then the next morning after -- we'd exchanged information but no cards or anything -- that was the key here, but we had -- they had my name and they had my number. The next morning this -- we got a couple of voice messages to make sure we had the right information, and then the next day a big fruit basket came from Balducci's -- (laughter). And just to show you Leonard's evolved -- he was there when it came and he said -- he wrote a little note on the kitchen table -- said, "Dad, I think they Googled you and found out who you are. (Laughter.) So we've evolved.

I'm pleased to be here again. You don't get through a job like this for four years without the love and support of a real strong partner. Annette is just terrific. You've been here and really helped me navigate all this. I'm particularly pleased that my cousin, Julian, is here. Julian is from Chicago -- came out -- went to see his son out -- down in -- down at UVA and joined us today. He whines quite a bit about his taxes -- (laughter) -- so I think that means he's probably paying. So --

MR. : (Off mike.)

MR. EVERSON: -- and his wife Stacy Soloterofski (ph) -- there can't be two people on the head table named Soloterofski unless they're related, I suspect, and Stacy is here and we're delighted to have her, and their daughter Laura's in the audience.

So what I'd like to do is just talk about several subjects -- a broad assessment of where we are now overall in tax administration in the country, a little bit on the filing season which is underway at this time, a few remarks on the tax gap, and then two topics that I think are of growing concern -- international structures and transactions, and then tax exemption. And then I'll just conclude with my annual plea for tax simplification and reform.

If you look at the overall -- if you make a -- try to make an overall assessment of tax administration today in contrast to several years ago, I -- the word I would use is improved, or maybe better. But I would say we still have some areas of significant concern. There is now a balance that we have achieved, I believe, between, as Jerry indicated, providing good services to taxpayers -- services are better -- and enforcing the law. And we're doing that as we modernize the IRS. That's essential to providing both of those important missions or achieving both of those missions.

Significantly, I would suggest to you that the public debate has changed. America's interactions with the IRS are easier and more reliable, and the enforcement programs -- the credibility of the enforcement programs -- has been restored. You look at that point of public -- what is -- where are we on the public debate, it is very different conversation now than it was just a few years ago. It's a sensible conversation, I would suggest to you, concerning tax administration. As people address the long-term fiscal outlook for the country, you see tax administration becoming one of the four sort of corners of that discussion. There's the spending policy -- how should we spend the money -- and then there's the spending execution, if you will -- what's the long tail on some of these programs that we have. Likewise, there is revenue policy -- tax policy -- but also for the first time, I would suggest, revenue administration -- tax administration -- is a part of that discussion.

I, for instance, last year for the first time in memory testified before the Senate Budget Committee -- this year, testified before both the Senate and House Budget Committees. That's a good thing that tax administration, because of all the money that's at stake, is considered as policy makers on the Hill and elsewhere consider that long-term fiscal outlook.

Let me make a remark also about the transitioning and control of the Congress. This is an area where I believe that there is very little change between the parties. There certainly is a great deal of bipartisanship if you look at the way Chairman Baucus addresses issues in contrast to the way Chairman Grassley -- those two have had a record of a great deal of bipartisanship. Likewise, if you look at the way Ways and Means is running, my perception in my world of tax administration is that there are very much shared interests between Chairman Rangel or the Ranking Member McCrery, or if you look certainly at the very close relationship between John Lewis and Jim Ramstad, who chair the IRS Oversight Subcommittee. That's good news,

because we don't find ourselves in the same sort of contentious back and forth that you get in some of the policy discussions.

Same thing applies if you look at the other committee where I'm frequently before the Senate Permanent Subcommittee on Investigations with Levin -- Senators Levin and Coleman. It's almost indistinguishable, from our point of view, the issues we're working on. Just had the fourth hearing on tax administration issues in terms of levying federal contractors, and it's virtually unchanged appearing before Chairman Levin as opposed to, for the last three years, Chairman Coleman. So that's good news in our world. I think the American people should be pleased that these discussions are taking place in a sober nonpartisan way because tax administration should work that way. It shouldn't be something that is addressed in what I would say political heat.

If you look at the service mission of the IRS, clearly service has continued to improve. The phone access is better -- the quality of our response is better than it was several years ago. As Jerry

indicated, electronic filing of returns is increasing. We're approaching the point this filing season -- we're almost -- 60 percent of all the individual returns will come in electronically. That's important. And one of the things I'm proudest of is the fact that our partnerships across the country -- community partnerships -- are flourishing as they are, with 12,000 different sites and a growth that is quite significant in terms of the volunteer preparation of tax returns. Those are all good things.

Enforcement -- we have ramped up enforcement. We've restored the credibility of IRS enforcement programs, but importantly, I believe we've done so without a significant uptick in complaints about infringement of taxpayer rights, which could, I would suggest to you, have developed and certainly were an area of concern. We've been quite vigilant on that within the IRS, communicating to all of our people that as you do more audits -- as you undergo the collection activities, you can't tolerate within the system anything that would risk sending the agency back into the bad old days of the 90s, just 10 years ago.

I think that that has changed things significantly. We've done a series of settlement initiatives, and the message is clearly out, particularly for the corporations and the high-income taxpayers -- that now, if you take an aggressive position and we come across it, at the end of the day you will come out worse than by dealing with the IRS than you would have if you paid the tax up front. Used to be that we would settle out at less than 100 cents on the dollar and there wouldn't be penalties. Penalties have been stiffened, in many instances by the Congress, and certainly we've sent a different message. Now, practitioners for the high-income individual or the corporation are very clearly -- it's a different conversation that they have with the taxpayer, indicating that you will come out behind if this -- if a transaction is undertaken -- an aggressive transaction is undertaken and then the IRS comes across it through an audit.

One of the most significant things we've done in enforcement, which also, I think, will change and provide better services, is

mandating electronic filing for large corporations and not-for-profit institutions. In the last year, we successfully completed the roll-out of that. And that will have a profound impact on how we do our work, because now we will be able to array data across families -- businesses within an industry, and determine much more risk-adjusted approaches as to what we look at or don't.

We will complete the audits much sooner in time. This is good for corporate taxpayers who are compliant and are paying a price for uncertainty in the marketplace. And it is good for the government because we will surface troubling issues earlier and be able to respond on a timely basis. But I think the corporate audit process will be unrecognizable two or three years from now -- as contrasted to what it, what it has been.

Let me say that all of this together -- all of these enforcement activities -- have clearly contributed incremental billions of dollars to the treasury. If you look at the increase in our direct enforcement revenues over the last several years, it's in excess of \$10 billion. And even if you assume just a conservative multiplier effect -- for the indirect behavioral effect that occurs when we audit one person, and a neighbor then has a conversation about that -- you clearly have generated tens of billions of dollars for the treasury. A small, but, I think, important contribution to the increase of over \$600 billion in government receipts that took place between 2003 and 2006.

While better, there are still difficulties in the system. The system is still too slow -- it takes too long. It takes as long to resolve many corporate issues in our system today as it does to resolve a capital case in our courts. Think about that. Life is at stake and it takes just as long to resolve corporate tax matter, in many instances, as to resolve a capital matter. That's because we don't get to the audits for a long time. We have to issue guidance first on what the law means. Then you've got to go through these time-consuming audit processes -- frequently matters go into appeals, then they go into one of three different court systems -- and it's only years down the road, sometimes 10 to 20 years, before you know what is the real proper interpretation of a piece of the tax law. That's not acceptable in today's rapidly changing world where businesses and others should know what the law really means.

I am concerned also, in the market -- as to the individual taxpayer, the bread-and-butter individual taxpayer; the role of the practitioners; and also, in particular, I would suggest -- in the lower income area, those who prey upon individuals with these predatory (rou ?). There are a whole host of issues, I would suggest to you, about the interaction of practitioners and some in that community -- are they getting the proper quality, are there the proper quality standards that these organizations are employing?

So let's not rest on our laurels -- there's much yet to do, I would suggest.

A couple of brief remarks on the filing season that is currently underway. We recognized some time ago that this would be one of the most difficult filing seasons that we've had in memory. This reflects

the fact that Congress did not act until very late in the calendar year to extend certain tax provisions that had expired. We also had the administration of the one-time telephone excise tax refund. This was a tax that the government stopped collecting last year -- and actually we were generating a one-time refund for 41 months of activity for eligible taxpayers. We needed to pay that back.

We also were implementing, for the first time, an ability to split your refund and sent it electronically to two different -- two or three different financial institutions. And on top of that, Congress did not enact a budget for the IRS, as for much of the government, until the middle of February -- that's four-and-a-half months into the fiscal year. That makes it very difficult to run a large manpower-intensive organization with 100,000 employees.

But I would suggest to you, with three weeks to go, so far so good. Electronic filing continues to increase. We did get the extender provisions up and embedded in our software, and worked with those who provide software packages to filers. That was all done by the beginning of February -- a little bit into the filing season, but not too much of an impact.

The Telephone Excise Tax -- this is interesting. We're only seeing a claim rate of 69 or 70 percent. That means 30 percent of individuals are not taking the credit -- the refund. Now that -- not everybody is eligible for. My son is an example, again -- is not eligible for it because he is a dependent of ours. Therefore, he can't take it if we're taking it. So you wouldn't get to 100 percent. We did think this would be a higher rate. We think people may have skipped over it on the form -- even with the software, in some instances -- just completing the return as they did last year. We've been surprised by that.

We also moved aggressively to attack some fraud that we saw early on -- right at the beginning of the filing season. We screened out some bad, exaggerated claims we saw. This is a three percent claim -- the standard deduction, the standard amount is between \$30 and \$60, depending on your family size. We had some claims that were in excess of \$10,000 -- that's a lot of phone usage. (Laughter.) Even my teenage kids can't generate that much phone usage.

So we aggressively moved on that - executing search warrants in seven cities around the country. I was in Atlanta yesterday and briefed on a team that was down there to put a stop to this. And I think that that early, and public, intervention did do quite a bit to dampen what might have emerged as more problematical, fraudulent claims in this area.

The Split Refund -- again, we've been surprised here. This has started very slowly. Out of 74 million returns processed through last Friday, only some 55,000 have actually taken advantage of this. That's fine -- we're sure that this will grow over time. The benefit here is that people can put one set of funds into -- say an account where they're going to pay off bills, and they might choose to use a second account or put something into savings, which would be a good thing. We think this will grow over time.

The Free-File Program -- this enables people to go via www.irs.gov. That has been improved, but it is -- the volumes are down just slightly from a year ago.

The Earned Income Tax Credit is the last point I would make in terms of the filing season. Both Secretary Paulson and I continue to champion that -- I was down in Atlanta yesterday, as I indicated, to do an event emphasizing that with Chairman Lewis. And we rely heavily on our partnership organizations, and our partnership returns have increased this filing season by 11 percent so far, from last year. This is an important program.

Turning quickly to the tax gap. This is an important subject. It is important both because of the revenue generation that can be provided through attacking the tax gap, and also the fairness that resonates through our system when people pay their taxes honestly and accurately. I believe the administration has put together a good, balanced package of proposals. They extend to what I would say is the best budget that I've seen for the IRS in my four years on the job. A budget which attends to our infrastructure and systems needs; it provides more money for enforcement; significantly more money for research, which helps us chart the future of the agency; and also some modest increases for service, again, to increase our volunteer program.

But beyond the funding, there is a series of legislative proposals -- 16 proposals that recognizes the fact that we're not going to audit our way out of the tax gap.

It's very clearly substantiated by the research that where, as an example, you have third-party reporting, there is better compliance. Wages earned, there's about a 1 percent noncompliance rate. It's about a one-in-two noncompliance rate for Schedule C self-employed businesses in terms of the understatement of revenues there on the business income. This is a real problem. You're only going to get at that by addressing that through increased resources for the IRS.

So what we've done is we've introduced a package of 16 proposals that address some of these issues. I'll just mention three that I think are particularly important. One that I mentioned last year is having gross receipts provided to the IRS by credit-card processors on an annual basis for businesses. That would really get at the understatement of the income.

The other is to make aggravated failure to file a felony. It may strike some of you as surprising, but it's not a felony to fail to file your tax return on a repeated basis. That makes -- I don't think that makes any sense. Certainly you'd get far more interest amongst U.S. attorneys to bring those matters if it were a felony.

The other proposal I would comment about and emphasize is -- and this is one that I do think enjoys pretty bipartisan support -- is to have mandatory basis reporting on stock sales. Right now we hear about the proceeds but not the basis.

This actually would provide not just an enforcement benefit to

the IRS, but a service benefit to the taxpayer who has a lot of difficulty trying to figure out what is the right thing to report when they show that stock. It could be splits or dividend reinvestment in mutual funds. There's a whole host of things that you get at through this proposal.

Some have suggested that these proposals are too modest. I think that they're rather significant. And I would suggest to you that the legislative proposals will be difficult. We've already heard quite a bit from those who say they're too burdensome. We're trying to strike the balance here. And what we would say is let's get these done before we consider more. And we certainly will entertain more if we get through this first round.

Let me turn to the two topics that I think are going to continue to generate concern and debate over coming years and just summarize those briefly. One is international structures and international transactions.

We live in an increasingly global world, as we all know. And we see that in tax administration is an ever-increasingly complex set of transactions and structures that are very difficult to unravel, and frequently can -- can, I would use -- operate at variance to the intent of tax administrations or legislators in various countries.

Examples of difficult areas for us are transfer pricing, the sale of intangibles or tax credits. I'll mention just tax arbitrage, where here you see things that are not part of the tax gap per se, because what's being done is in strict conformity with the code of our statutes or of another country, but can be at variance from the intent.

When you've got something treated as debt one place and equity in another country and no tax is being paid in either place by a big corporation, that's not the intent. The intent is to get rid of double taxation. It's not to provide for a very limited or no taxation in that kind of a situation.

These are important issues. We are moving to challenge or step up our activities where appropriate. We have a strong partnership here in Washington, which I announced, in fact, two years ago here, and that is the JITSIC, Joint International Tax Shelter Information Center, where we share information with the UK, Australia and Canada. We expect that to be expanded shortly to include other countries.

We're also working very closely with our partners in other OECD countries. And, in fact, I chair the Forum on Tax Administration, which is a group of several dozen tax commissioners, and we are working across the board, first and foremost on these difficult compliance issues.

The other subject that I would mention is tax exemption. And here I would mention three points. First, it appears to be an increasing convergence between the tax-exempt and commercial sectors. This raises the specter of an erosion of the revenue base and potential damage to the public trust of charitable and tax-exempt institutions, and also unfair competition.

We've seen this with essentially commercial entities moving into the tax-exempt sector. Credit counseling is one example where we stepped in. And ultimately we have proposed or finalized revocation of some 46 entities in that sector, accounting for 41 percent of the revenues of that tax-exempt sector. That is an unprecedented development.

Likewise, we are concerned with down payment assistance. We stepped in, as you may know, last year and articulated some tough standards there. We have over 100 audits underway or completed. And in over two dozen instances there, we have proposed or finalized the listing of the tax exemption, because these are entities that are inflating the housing price for individuals.

They're not serving a charitable purpose because the money is being funneled back to the seller in order to avoid or help somebody come up with a down payment. We've seen the same issues of excessive compensation and related-party transactions here that we saw in credit counseling. These are two bad areas that we have stepped in to address.

The second point I would make is we continue to be concerned about the misuse of charitable organizations. We see excessive compensation. We see loans that go back and forth to major parties, expense accounts that are out of line, and poor reporting on these subjects.

We see abuse in donor advise funds and supporting organizations. This has been addressed by the Congress. We're going to work to implement the new standards that came in last fall. But we appreciate the tightening that has been done by the Congress.

The other issue I would say here was we see the use of tax-exempt institutions as accommodation parties for abuse of tax shelters. That remains a very real concern. And I speak frequently to tax-exempt organizations and say, "Don't get sucked into things that are not your regular line of business."

I would suggest, however, that the sector response here has been positive and constructive. They are not ignoring these issues, as took place in the world of the profit-making businesses when tax shelters got out of line five or seven years ago.

The last point I would make -- and this is almost more of an observation that I think will generate policy questions -- is the vast accumulation of assets that we've seen in the tax-exempt sector is raising increasing questions about is the asset accumulation beyond what is potentially needed to support the programs of some of these institutions. And are they organizations of -- another question, related question is are the organizations, in fact, providing programs and services that are commensurate with the tax benefit they're getting through the code?

I think that this set of tax-exemption issues is going to be one of the most vexing and continuing ones over coming decades just because of the vitality of that sector in terms of our nation. We've

got to get this balance correct here. But there is a real tension between the profit-making organizations and the tax-exempt sector.

The last thing I'm going to say is -- make my annual advertisement, not yet heeded, for tax reform and simplification. It's -- as I've said each of the last two years, complexity obscures understanding. We need to simplify this code in order to help both the compliant taxpayers and to make sure that we can get after those who seek not to comply.

Thank you.

MR. ZREMSKI: Thank you.

We have a lot of questions. Some of them as long and detailed as the long form, but I'll be asking those as well.

First of all, given your mission and your challenges, shouldn't we expect that the changes in tax administration and IRS modernization will be going on for a long time?

MR. EVERSON: I think that there is a -- in terms of tax administration, absolutely. This is a long, continuing process to provide better services and to enforce the law. This is something that's not done overnight. The IRS -- there's been a lot of underinvestment in our technology. I am particularly pleased that the president asked for money for the infrastructure for the IRS, which had been held stable. That's the only way you're going to keep up with both the service and enforcement missions.

Again, I don't know when we're going to get tax reform. Tax reform -- there's a tension here. One of the best things about our representative democracy is that each senator and congressman gets a voice. But just like in the earmarks debate, the ultimate earmarks are insertions in the tax code which favor an industry or something that's of interest to the senator or the congressman.

You come to Washington to get a better deal for your constituents. That causes an innate tension with simplification and reform. So getting to where you can run the system effectively and efficiently is constantly at odds with that important facet of our representative democracy.

MR. ZREMSKI: Do you want to expand the requirement for mandatory e-filing?

MR. EVERSON: We have said that we would like to -- another one of the 16 proposals is we would like to lower the threshold where we can mandate electronic filing for corporations and not-for-profits. Right now you have to have filed a total of 250 returns a year, which is not that much in terms of employment and other returns. We'd like to be able to lower that and mandate that in those arenas. We have not said that we will want to mandate electronic filing for individuals.

There is a statutory goal of achieving 80 percent. As I've indicated, we're just under 60 percent. The goal was established for

2007. We won't realize that goal on the individual side, but we have not reached a conclusion that we want to mandate electronic filing for individuals. Some states, however, have moved towards that and we'll see how this develops.

MR. ZREMSKI: Some of the compliance proposals for closing the tax gap require a huge amount of manpower, such as collecting receipts from businesses. Can the IRS meet that requirement?

MR. EVERSON: It is true that when you bring in more reporting you need to have the correct, proper infrastructure that's responsive to that within the IRS. We've asked for more monies within the budget that will go hand in hand with those capabilities. So I think that if we get the authorities, we will be able to implement them -- assuming we get the funding.

And the funding -- again, I support every penny that the president's asked for. And I would also ask the Congress to enact a budget on a timely basis.

MR. ZREMSKI: You talked about the transition on Capitol Hill -- a couple of policy questions regarding that. First of all, has the outlook for tax simplification changed under the Democratic Congress?

MR. EVERSON: I don't get into the policy questions. I don't -- and the reason I don't do that is because if I were to support or oppose a particular policy question or initiative, and then let's suppose it was one we opposed that came into law and then the IRS did a lousy job of it, everybody would say, well, what do you expect? Those guys never liked it to begin with.

I look at tax reform and tax simplification -- though I speak to it from a compliance point of view. If we reform and simplify the code, clearly we will see improvements in compliance. I don't see yet where we're at a point where we're having -- we're going to get into broad-based simplification or reform at this stage.

I think the administration and the Congress are looking at a whole series of important issues and trying to make some progress. I am hopeful from what I hear -- from both the Hill and the administration -- that there will be some bipartisan progress. But I don't think at this stage it's going to be a major tax reform and simplification initiative at this stage.

MR. ZREMSKI: Is the idea of a flat tax a dead issue? And if so, why?

MR. EVERSON: That's a policy call, again, so I don't speak to that. But what I do say and have consistently said is, as we assess various policy alternatives in this debate about tax reform, we need to make sure that we are fair in how we assess them. Let's not compare a perfect theoretical system with an imperfect actual system that we have.

We have a good system. Despite the fact that I'm calling for reform and simplification, our system -- make no mistake -- is the

envy of the world. So we have a lot to be proud of here. But you can't just assume, because we have a noncompliance rate of say, 14 percent, that you're going to do a lot better from a compliance side with some other system. We know from talking to my colleagues in other countries that no system functions perfectly.

MR. ZREMSKI: Congress has taken to making one-year fixes to the alternative minimum tax. From an administration and consumer standpoint, wouldn't it be better for Congress to enact a permanent fix?

MR. EVERSON: I do think that one of the most difficult issues facing taxpayers, and thus facing the IRS, is instability in the tax code. Were we to land some place and to let the provisions stay in place for a period of time, obviously, that gives individuals, businesses much greater clarity and an ability to understand where they are and make economic choices with the confidence that they're making decisions that they can live with and that the rug won't be pulled out from under them. So I do think that it's important to make long-term -- address things over the long term.

MR. ZREMSKI: Some of the proposals for immigration reform require illegal immigrants to pay back taxes. How would the IRS go about collecting those back taxes? Is that feasible?

MR. EVERSON: An interesting feature of this is that many of the immigrants have been participating in the tax system and they've done that with the knowledge there was an amnesty before. In fact, I oversaw the implementation of that the last time we did that 20 years ago. But they understand that a feature of an amnesty or any legalization program would be to -- might have the ingredient of paying the back taxes. So some of them have been participating in the system and we get tax returns (with I-10s ?), which we accept. That doesn't create an immigration benefit, though.

And clearly, we maintain a separation between the two systems as it is now. There is no bleeding over of information from the IRS to the Department of Homeland Security at this stage. The systems are independent. We want your money whether you are here legally or not and whether you earned it legally or not. (Laughter.)

MR. ZREMSKI: The tax code and IRS rules make it abundantly clear that business travelers must pay taxes when third parties pick up the expenses of accompanying spouses or guests who do not have a bona fide business purpose for being on that trip. Yet, members of Congress routinely take their spouses and other family on third-party paid trips without declaring the value of the family member's part of the trip as income on their federal tax returns, as The Detroit News in a compliant to the IRS by the watchdog group Public Citizen has pointed out.

MR. EVERSON: I don't know where this is going. (Laughter.)

MR. ZREMSKI: Here's where it's going: Do travel-tax rules apply to members of Congress just like other taxpayers?

MR. EVERSON: I think that -- (laughter) -- you always get a

couple of questions you take a pass on. That's a fairly detailed question. I don't want to wander into how we tax congressmen or not. We do hold politicians and others to the same standards of the law. There was -- you saw something in the press recently about one of the state legislative bodies where attention was drawn to just this -- analogous issues.

So we do hold all Americans to the same standards as to what is income or what is not, and it depends on the -- whether case are made of -- whether it is, in fact, business-related, I'm sure.

MR. ZREMSKI: Has there been any concrete attempt to review members of Congress on their returns on this particular issue to see if they are doing this?

MR. EVERSON: I don't talk about particular specific enforcement actions, and again, we -- Congressmen, politicians, public officials of all stripes across the country are subject to the same audit standards. If we would select a return for review of a senator or a congressman or a governor or a mayor, we would look at it in that context and review it and go forward. If we notice something that we think is of a broader applicability, then we would reach out more broadly in our particular enforcement initiative as we have done in some instances in populations like that.

MR. ZREMSKI: When does the IRS expect to respond to public citizens' formal complaints on this issue, which was filed months ago?

MR. EVERSON: I'm not familiar with a particular complaint, but we'll have -- I'll make sure we take a look at it when I return to the office.

MR. ZREMSKI: Do you think the IRS should play a role in protecting individual taxpayers who fall prey to predatory tax preparers, or are they on their own?

MR. EVERSON: This is an important issue, particularly in the more vulnerable pieces of our society. People who are living paycheck to paycheck -- there is too much taking advantage of those populations, particularly in the months right after Christmas, where families have become extended trying to take care of the holidays. We're seeing too much of these paycheck loans and the predatory RALs (ph). We are seeing instances where there's clear fraud in terms of encouraging people to come in, and we strongly support the Earned Income Tax Credit. The secretary is a champion, as I am, of making sure that all eligible claimants get the credit. But we also continue to see unscrupulous preparers channeling people to the credit -- people who really need money, and they'll fraudulently steer them to, say, prepare a Schedule C return, saying they've got income but no expenses. That's because they get to the sweet spot of the credit. The credit maximizes out if you have a certain amount of income and then decreases. And so you're no longer eligible.

We do see unscrupulous preparers. This is a tough issue. Some have suggested that we should have more direct regulatory authority. I'm not quite convinced on this at this stage. Taking on an additional responsibility before the IRS is stronger and has a better

infrastructure, has fleshed out the rest of its service and enforcement programs ----I'm not quite there yet. But I do think practitioners and -- need to step up and be self-policing on this.

MR. ZREMSKI: The IRS has put a great deal of emphasis on enforcement. What about education, especially for corporate taxpayers such as small businesses who are trying to navigate the difficult tax code themselves?

MR. EVERSON: It's an important issue. We do have very significant outreach programs, particularly with our small business and self-employed units. The IRS is broken into four different operating units that are clustered around taxpayer segments, and probably the most outreach that we do does come through the small business/self-employed unit for this very real reason. The small businesses have a heavy burden of regulation relative to bigger businesses in their size, because they have to do basically the same thing but they're just -- as some of the bigger business, but they're a lot smaller. And this is tough. We constantly try to have outreach, and we also have -- we have burden reduction office where we are constantly trying to look and do things where we can -- if we can, strip away some of that extra complexity in our forms or in, say, the required frequency of reporting on some of the employment taxes as we recently changed the reporting to annual on some -- for some of that.

MR. ZREMSKI: Could you comment further on the housing boom and bust and the current mortgage problems might impact the IRS?

MR. EVERSON: I guess the nexus here is in what I mentioned, the down payment assistance area. This is not the subprime market per se, exactly, but what it is is clearly people who were having difficulty coming up with a down payment, which was required in order to qualify for a guaranteed -- one of the guaranteed loans. They were being sort of provided this benefit through a tax exempt entity that didn't technically qualify, you could argue. So there was clearly through this, I guess, a further inflaming of that appetite. And stepping in, I'm very satisfied that what we did was correct. There was some noise about it last -- a year ago when we did, but I think it was the proper thing to do.

MR. ZREMSKI: What's your position on the patenting of tax strategies? Such -- should such patents be prohibited?

MR. EVERSON: This is an interesting issue. I've testified on this, and what I've indicated is tax -- there are things in the tax arena which are, I think, appropriate for patenting. Clearly some of the software and the other things that can help people comply -- but tax strategies per se geared toward minimizing someone's obligation, I'm uncomfortable with that. There is a series of issues. The first point I would make is that just because the patent office gives you a patent, that is not recognize that it's a valid tax strategy by the IRS. There are also, as the ABA, ICPA (ph) and others have commented, this can cause an additional burden on a practitioner who then has to go search a patent database to see if -- what they're advising somehow could be an infringement. So I'm a little uncomfortable in this area as it's a broader policy question. But I don't think it does anything for tax administration to patent these tax strategies.

MR. ZREMSKI: You have spoken in recent months about growing cooperation and coordination with foreign tax authorities to shut down tax shelters and tax avoidance. To what extent is U.S. taxpayer information is being shared with these foreign tax authorities?

MR. EVERSON: The U.S. has a series of treaties with other countries, and any time we share information, it is done in accordance with those treaty obligations. That is to say that there's no broad multilateral sharing. When I talk about -- of specific information, -- when I talk about the JISTIC -- the Joint International Tax Shelter Information Centre, that is actually a series of conversations taking place between, say, the United States and Great Britain, or Great Britain and Australia. And then lessons are drawn on a generic basis about kinds of transactions that we identify and then act on at a country and national level based on that information. But information sharing is very closely protected. We want to make sure that we're doing exactly what is in accordance with the law.

MR. ZREMSKI: Over the past several years, the number of returns prepared by volunteer tax preparers has grown dramatically. This year, the number of returns prepared by volunteers is up 8 percent. Could you talk about the IRS strategy for using volunteers to supplement or replace some services delivered by the IRS, and do you favor any kind of legislation to regulate these volunteer tax preparers?

MR. EVERSON: This is -- we're getting ready to release in the next week or two, something called a taxpayer assistance blueprint, which takes a look after some -- development of some research that we've gone through and looked at the array of services that we provide.

And one of the clear conclusions here is that this is an area which merits further development.

If you think about it, with these 12,000 volunteer sites that I've mentioned, they work in communities. They're much more responsive to demographic changes than a government footprint can be. And the communities love these organizations because they set up shop, they help get someone the Earned Income Tax Credit, they get them banked, and all kinds of other good things for communities happen. We like them because they extend our reach and also they bring people in who can be more comfortable dealing with a community organization than coming directly to the IRS.

This gets back in -- we work very carefully with them to develop good scripts and improve the training so that we can increase the quality of the return preparation both through our tax counseling for the elderly and the volunteer -- the VITA program. I think that that is improving -- I'm not in favor of regulation there. In fact I've traveled the country and visited a lot of these sites. I think that they enjoy a great deal of integrity because they will -- they will explain to someone who wanders in who wants something they're not entitled to, "No, you can't have that. This is the way the law works." They don't want to ruin their reputation in the community. I think -- what I've seen is people are more likely to go to an

unscrupulous for-profit preparer than they are to wander into the volunteer sites and try to game the system.

MR. ZREMSKI: Okay. We're almost out of time, but before I ask the last question, I have a couple of important matters to take care of.

First of all, let me remind our members of future speakers. On April 13th, Cal Ripken Jr., the former Baltimore Orioles superstar and the 2007 inductee in the Baseball Hall of Fame will be here speaking, and there will be a book signing afterwards. On April 16th, or perhaps rescheduled sometime in and around there, Alberto Gonzales, the attorney general of the United States; April 17th, Congressman Charles Rangel of New York; and on April 23rd, Jim Nicholson, the secretary of the U.S. Department of Veterans Affairs.

Next I'd like to present our guest with the gifts that all of our speakers get. (Laughter.) This is your fourth one of these, I'm sure. (Laughs.) And perfect for the sorting of tax receipts, we have the National Press Club mug. (Laughter.)

MR. EVERSON: Thank you.

MR. ZREMSKI: Sure.

MR. EVERSON: We've got one for every member of the family now. (Laughter.)

MR. ZREMSKI: Oh, excellent. A complete set.

Okay. My last question: As you heard, I always mention the upcoming speakers, and twice in the last month when I've mentioned that the commissioner of the IRS is speaking here, the crowd just broke out laughing. (Laughter.) And I don't know why. I just thought maybe you could help me and tell me why that might be.

MR. EVERSON: I have a great job. It's what I call, though, a "grown-up job". (Laughter.) It's by and large serious, but we do have a lot of fun doing it. I've said I was interviewed for a local -- the Washingtonian Magazine -- it's in this month's issue -- and it sort of gets a little bit at this. They said, "What's the job like?" I think was the question. I said -- or "What do people think when they meet you?"

I said, "It's a little bit like being the Wizard of Oz -- no one really expects to meet you or see the IRS commissioner. It's just this all-powerful kind of position that a real person couldn't really have. So I suspect that's why you get some laughter.

But thanks for having me. And at this time of year I would say, with three weeks to go, my final words would be, "Pay your taxes." (Laughter, applause.)

MR. ZREMSKI: I'd like to thank you all for coming today.

I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz and Howard Rothman for organizing

today's lunch. Also thanks to the NPC library for its research.

The video archive of today's luncheon is provided by the National Press Club's Broadcast Operations Center. Press Club members also can access free transcripts of our luncheons at our website, www.press.org, and nonmembers may purchase transcripts, audio and video tapes by calling 1-888-343-1940. For more information on joining the Press Club, you can contact us at 202-662-7511.

Thank you. We're adjourned. (Gavel sounds.)

(Applause.)

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