

NATIONAL PRESS CLUB LUNCHEON WITH DOUGLAS SHULMAN

SUBJECT: DOUGLAS SHULMAN, THE 47TH COMMISSIONER OF THE INTERNAL REVENUE SERVICE, WILL APPEAR AT A NATIONAL PRESS CLUB LUNCHEON ON APRIL 13, 2009, TO EXPLAIN HOW HIS AGENCY IS HANDLING TAX COLLECTIONS AMID ECONOMIC TURMOIL.

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

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

TIME: 1:00 P.M. EDT

DATE: MONDAY, APRIL 13, 2009

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DONNA LEINWAND: (Sounds gavel.) Good afternoon. Welcome to the National Press Club. My name is Donna Leinwand. I'm president of the National Press Club and I'm a reporter with *USA Today*.

We're the world's leading professional organization for journalists. And on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of you who are watching us on C-Span.

We're celebrating our 100th anniversary this year, and we've rededicated ourselves to a commitment to a future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org.

We're looking forward to today's speech, and afterwards, I'll ask as many questions from the audience as time permits. Please hold your applause during the speech so 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 luncheons, and not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From you're right, Kevin McCormally, editorial director for *Kiplinger's Personal Finance Magazine*; Ralph Winnie, Jr., of the Eurasia Center; Mark Wojno, senior associate editor for *Kiplinger's Personal Finance Magazine*, and a young member of the National Press Club; Kevin Drawbaugh, a reporter for Reuters; Susan Anderson, the wife of the speaker and senior program advisor for Public Campaign.

Skipping over the podium for a moment, Melissa Charbonneau, independent producer for News Hook Media and vice chair of the NPC Speakers Committee. Skipping over our speaker, Marilyn Geewax, senior business editor for NPR and Speakers Committee member who organized today's event. Thank you very much, Marilyn. Ryan Donmoyer, Bloomberg's tax reporter; Rob Webb, vice president for North America of the International Communications Forum; and finally, Keith Hill of BNA and the National Press Club's Treasurer. (Applause.)

Our guest today has just completed his first year of a five-year term as Commissioner of the Internal Revenue Service. Douglas Shulman, the 47th IRS Commissioner, and the man responsible for collecting \$2.4 trillion – that's trillion with a 'T' – in tax revenues is here today to find out if you've paid your taxes. I'm only kidding. You've got until Wednesday.

But with more than 100,000 employees and a budget of about \$11 billion, I'm sure they'll find you if you don't. This tax season, the IRS's job is particularly tricky. They must collect the taxes needed to keep the deficit from spiraling completely out of control. But at the same time, with millions of Americans facing job losses and the threat of foreclosure, the IRS can't be so tough that it makes the economic crisis worse.

With April 15th filing deadline looming, he is here to tell us more about this year's collection challenges and the IRS's strategic focus going forward. Please welcome the tax man, IRS Commissioner, Douglas Shulman. (Applause.)

DOUGLAS SHULMAN: Thank you very much for that warm welcome. We won't have people at the doors as you leave, because that is-- as you said, we've still got a couple more days to pay your taxes on-time. Let me also thank my wife for being here, Susan Anderson, taking time out of her busy schedule, as well as thanking some of my colleagues who came and took time out of this busy time of year for us at the IRS.

It's a great honor to deliver this speech today before such a distinguished audience, my fellow people sitting up here, as well as people in the audience. I also want to thank those listening today on National Public Radio.

The National Press Club speech has become an annual rite of passage for the IRS Commissioner in the Spring. If you mention Spring in Washington, you often conjure up images of cherry blossoms, people strolling along the Tidal Basin. If you've taken that stroll recently, you'll actually walk past the Jefferson Memorial along the Tidal Basin, right along where all the cherry blossoms are.

An interesting fact – on this very day, April 13th, 1943, on the 200th anniversary of Thomas Jefferson's birthday, while World War II was raging across Europe and in the Pacific, Franklin Delano Roosevelt dedicated the Jefferson Memorial as a shrine to freedom. If you ever get a chance to walk past the Jefferson Memorial, take a look under the marble colonnade. And there's actually four separate panels with quotes from Jefferson. And you'll see one of the quotes, which is really what I want to talk a little bit about today, which says, "Laws and institutions must go hand-in-hand with the progress of the human mind. Institutions must advance, keep pace with the time."

Today what I want to talk to you about is how one such institution, the Internal Revenue Service, has advanced to keep pace with the time and to meet today's enormous challenges, and those that lay ahead. First, let me lay down some of the foundations of the IRS.

FDR would have had a very difficult time recognizing the IRS of today. In Roosevelt's time, it was called the Bureau of Internal Revenue, a name which stood until 1953 when it then became the Internal Revenue Service. Prior to World War II, very few Americans interacted with the Bureau. And in fact, very few Americans interacted with the Federal government, with the exception of the Post Office.

But the same year that Roosevelt dedicated the Jefferson Memorial, there was another event which took place. Very few people memorialize it, but in the annals of tax, it was quite important. That's when Congress passed the current tax payment act, which established income tax withholding, which was quite important to the tax system.

And a lot has changed for us since. The number of individual returns swelled from about 14 million in 1940 to 60 million by 1960, up to about 150 million individual returns this year. While income tax returns and the numbers swelled, so did the prominence and the importance and the breadth of activities of the IRS. Not long ago, I was speaking with a group of our frontline employees

and some of the managers who were training to become managers of frontline employees. And I often tell our employees that the IRS represents the face of the government to more American people than any other Federal institution. Every year, we interact with every American citizen, every business, every non-profit in the U.S. And how we go about doing our job matters quite a bit, because how we do our job can affect the way that the American people actually think about their government, and think about, is their government working for them?

And so whether it's in a service context, where we answer a question well over the phone, our Internet site, the site is accessible and fast, or you walk into an IRS office and get your issue resolved, or even an enforcement context, where we're doing an audit, but our people are competent and respectful, it matters. And we can affect the way people think about their government.

At the end of the day, everything runs through the IRS. We see the financial statements of every single business in this country. We oversee tax exempt organizations like hospitals and charities. And our criminal investigation division investigates terrorism, tax evasion, and money laundering, just to name a few. I'm still in awe of the size and the scope of the IRS.

This year, we're going to get about 250 million returns in, about 150 million returns coming from individuals. We will serve live 80 million Americans and taxpayers from around the world over the Internet and using the telephone. And during peak tax filing season, the number of website visitors to the IRS is larger than most financial institutions – Citigroup, and others – and dwarfs other public websites that interact a lot with the public such as U.S. Social Security online.

Last year, there were an astonishing 353 million visits to the IRS website. One of my favorite statistics is, our website is the tenth most trafficked business website in the world. Number one happens to be Wal-Mart. And so a lot of people come and visit our website.

And more than a hive of activity, the tax filing season is also its own stimulus to the economy. Our refunds help kick-start spring shopping often. We anticipate sending out about \$300 billion dollars this year in regular tax return, not stimulus-related from last year, or this year. In past year, the Commerce Department has seen an increase anywhere from twelve to twenty percent of retail sales in the month of March, April, and May. And there's been some research done correlating that to tax refund.

We also run some of the nation's largest social benefits programs, one of them being the Earned Income Tax Credit. Last year, 24 million of America's working poor received approximately \$48 billion dollars in Earned Income Tax

Credits. In today's tough times, this extra money can go a long way to putting food on the table or someone being able to make rent.

In addition, we administer the Health Coverage Tax Credit that helps trade displaced workers, retirees, and their families pay for their health insurance premiums so they don't end up in the growing ranks of America's uninsured. And the IRS's portfolio only continues to grow as it takes on new and important roles and responsibilities in America's recovery effort.

In early January, then President-Elect Obama spoke eloquently about how only government can break the vicious cycles that are crippling our economy. Treasury Secretary Geithner added a few weeks later that in the world we confront today, Treasury has to be a source of initiative, not just a reminder of the constraints of reality. From the IRS's perspective and from my perspective, this means that we will continually strive to improve our operations, both on the service and on the enforcement end of the spectrum.

I often tell our employees that we need to walk in the taxpayer's shoes. We need to see things from their perspective. We need to be attuned to their situation. We need to take each taxpayer as they come and ensure that we're treating people fairly and compassionately, especially during these difficult economic times. This is a very fine line for us. On the one hand, we need to raise the funds to run the government. Think the American people are counting on the government to do a lot more for them as we try to work our way through this recession. And we have to be tough on those who flout the law and won't pay what they owe. The American people who play by the rules every day expect us to go after those taxpayers who don't pay their taxes, and we're going to vigorously enforce the law.

But we also want to provide tangible relief to taxpayers in distress, while helping others from straying across the line into noncompliance. The end of the day, we as the senior team at the IRS talk a lot about our need to be flexible, be principled, and to empower our employees to use judgment when they deal with taxpayers.

So in these difficult economic times, we must also respond to many different kinds of taxpayers who are feeling stress, not just the individual taxpayer who may be in dire straits. It also could be a small business or a corporation that's hanging by a thread, seeking help and thinking quick service, quick refunds from the IRS. We're responding in real-time with real relief, and we're getting money into people's pockets.

A good example is the role we're taking in implementing the American Recovery and Reinvestment Act. President Obama's plan for rebuilding America,

the positive effects of this plan are going to be felt by generations of Americans to come. But the President also knew that Americans needed real relief right now, and he asked every Federal agency to act quickly to implement the plan.

A mere four days after President Barack Obama signed the American Recovery and Reinvestment Act into law, the Treasury Department and the IRS swung into action. And our first move, in record time, was to put out new withholding tables to ensure that money would quickly get into American people's pockets through the Make Work Pay credit. It was record time. We were pleased to do it. And if you talk to taxpayers across the nation, or if anyone gets a paycheck and a W-2 in this room (which I hope many of you do) you'll see that there's a little bit more money coming into your paycheck.

The Recovery and Reinvestment Act, though, did not forget America's businesses. Just last month, we announced that businesses with deductions exceeding their income in 2008 can use a new net operating loss tax provision to get an expedited refund of taxes paid in prior years. This provision could throw a lifeline to businesses struggling to meet payroll, to pay for inventory, who have cash flow needs. I think we've all read about and understand that credit is one of the biggest issues in this economy. Getting cash into businesses' pockets is quite important. This provision of the act said that a business that had less than \$15 million in net revenue could actually get a loss carry-back for up to five years, which means they could get taxes back for five years of taxes paid. We're making sure we've staffed up that operation so we can get money out to businesses very quickly.

We've also shifted some resources at the IRS to deal with the difficult economy. We've made sure we've got plenty of people to work through bankruptcy issues and business workouts. And we've also worked with the Treasury Department on guidance that either clarified rules or removed friction as we did our part over the last six months to help unclog the credit markets.

On the individual front, we've taken a two-pronged approach. First, through a series of massive outreach efforts, we want to make sure that taxpayers are aware of every credit, every deduction, every exclusion for which they qualify, including several new benefits this year. One of the outreach events we did this year is we put together an event we called Super Saturday, which was a day that we had volunteers from across the IRS, lot of our executives actually volunteered. And we partnered with some of the community partners we work with, year in, year out, such as volunteers in tax administration in the AARP. And we opened up hundreds of offices across the country to provide free tax preparation, answer questions, or work out a payment schedule with taxpayers.

Our message to taxpayers was very simple, that we're going to go the extra mile during these difficult economic times to help you out if you're in distress. We want to get you your refunds as quickly as possible. And if you think you can't pay, you need to come in. We'll talk it through with you. And there's a number of options and steps that we can pursue.

I thought it'd be interesting to share a couple true stories from that day with you here today. First, let me read you an account that one of our executives in Kentucky sent into us. A single mother of a two year-old worked full-time as a hairdresser. But due to this winter's severe ice storms in Kentucky, she was unable to work for several weeks. As a result, she did not have enough money to have her return prepared, or to pay to have her return prepared.

She heard about the volunteer tax assistance program and went to one of the sites on Super Saturday. She not only saved hundreds of dollars in preparation fees, but was eligible for a very large refund. When she saw how much she would be receiving in that refund, she cried and said that the volunteers were angels.

An IRS director who volunteered that Saturday at a New York City site wrote in this story to us: "One of the people that I talked to worked for a delivery company. He receives minimum wage and has a dependent son. The company was laying off people, but he wasn't worried about his job. For 14 years, he always showed up for work, even if he didn't feel well. This was his first visit to a volunteer tax assistance site, and I talked to him about his situation, looked at his income, and told him that he would be entitled to the Earned Income Tax Credit. He got up off his chair, shook my hand, and said, 'Thank you, Mr. Congressman.'"

My employee goes on to write that he quickly explained that he's an employee of the IRS and not a Congressman. But it's Congress that passed the laws and made it possible for him to get the EITC.

There's many more stories like this. I will tell you, we had a request last year as we implemented the stimulus program we actually set up Super Saturday for the first time. And it was so gratifying for IRS employees across the country who work on computers or do audits usually to go in and volunteer with taxpayers and have this direct experience with taxpayers that we did it again this year. And I anticipate, we'll do it in the years to come.

Let me also talk a little bit about this year, which is special. Because there's a variety of new benefits and credits which the IRS is administering that can help energize the economy and generate much needed jobs. Since we're at the National Press Club today, I thought that it would be fitting if I shared some of the relative anecdotes that we've picked up from around the country in

newspapers that illustrate some of the provisions we're administering that were part of the Recovery Act, and how they're having an impact on Americans.

Let me start with the up to \$1,500 dollar tax credit for installing energy efficient windows. TheMinneapolisStarTribune.com reported that three top window manufacturers are seeing an increase in business that they attribute in part to these tax credits. And more business translates into more jobs. Anderson Windows of Bayport, Minnesota (it's no relation to my wife, Susan Anderson, I'll say, for full disclosure) has now recalled 180 of 560 workers that it laid off in January. And Simonton Windows in Parkersburg, West Virginia, announced that it was rehiring 110 employees in its West Virginia and Illinois plants, and is looking to hire more in its Oklahoma facility. All of these companies are using the new tax credits in their marketing campaign for windows.

Shortly after the Recovery Act was passed, the chief executive of Conservation Services Group in Boston said (and this was reported in *The Boston Globe*) "Get the resumes together," that they planned to hire 200 more people this year, again, as a result of these energy credits.

I think we also all know that the housing market has been a drag on the economy as of late. But tax credits for first-time homebuyers may help buoy home sales. *The Greensboro News and Record* reported that 25 year-old Margaret Winslow wanted to buy a home, but couldn't. That is until the Recovery Act's \$8,000 dollar tax credit became available for buyers like her. Winslow said, "The current market situation and certainly the potential for \$8,000 dollars in my pocket is a motivating factor for me to buy a new home."

The Recovery Act includes a number of other provisions. One important one is to allow state and local governments to issue bonds. The Federal government will actually subsidize interest payments for infrastructure bonds for state and local governments. These are called Build America Bonds. And the goal is to benefit local communities in many ways, including job creation. Earlier this month, the IRS issued the legal guidance that potential issuers needed to issue these bonds.

And the last one I'll mention is the American Opportunity Tax Credit, which provides \$2,500 dollars a year for the cost of college education. Darren Lang(?) told the *Terre Haute TribStar*, "For our family, a college degree means more opportunities later in life. But it isn't easy. Tuition costs have skyrocketed, making it more difficult to pay for college. This is important and meaningful tax relief for our family."

Taken together, all of these tax credits, benefits, and assistance to distressed taxpayers paint a much bigger picture. They demonstrate what Thomas

Jefferson said: “Institutions must advance and keep pace with the time,” even when the time is as unsettling as today. And that’s not all we need to do, is just keep pace with the time. In today’s world, we need not only keep pace, but we need to stay one step ahead of it.

One of my favorite quotes and one that everyone on our management team gets sick of hearing me say is from Will Rogers, the great colloquial legend of American history who said, “Even if you’re on the right track, if you’re standing still, you’ll get run over.” That’s how I like to think about running an institution, that you need to keep moving, because the world around you is moving. For us, this means that we need to be flexible, agile, and nimble enough to detect and adapt to emerging trends or emergencies such as this economic crisis. We need to be ready for whatever the future holds.

It wasn’t long ago that we had a relatively predictable taxpayer base. The rotary phone era, I like to call it, was a much simpler time. The overwhelming majority of taxpayers were wage earners who had their taxes withheld at the source. Pension plans were the norm, and 401K could be confused with a new cereal. Small businesses dotted Main Street, and corporations were largely domestic with all but the few largest doing business here at home, not globally.

Even the way we prepared tax returns was different than today. I think popular culture has us thinking about tax returns, a family sitting around a kitchen table with an adding machine with receipts strewn out, pulling their hair out, and trying to make sure they’re ready to send their 1040 in that they’ve scribbled onto their form, by midnight on April 15th.

If you fast-forward to the 21st Century, big business is only getting much bigger and more complex. From 1995 to 2006, filings by businesses with more than \$250 million in assets, which is our definition of ‘big’, increased by about 85%. If you think about flow-through corporations, S corporations, partnerships, and LLCs, which are much more difficult for us to audit-- Because if we audit a corporation, we audit that entity. All the taxes are paid by that entity. If we audit a partnership, that partnership then sends the money through to a variety of partners. And we need to follow the money trail. Flow-throughs, since 2000, have increased over 50%, which C corporations, which are easier to audit, have remained relatively flat.

Globalization is not only a popular catchphrase anymore; it’s literally reshaped the world’s economy and businesses as we’re no longer defined by national borders. Multinational enterprises increased from about 3,000 in 1990 to 63,000 in 2007. The value of foreign tax credits claimed by businesses, which is a credit you get for paying taxes overseas, so you don’t have to pay that same tax twice here at home, increased by 70% since 2000. And cross-border activities are

no longer exclusively conducted only by large corporations. Small to mid-sized businesses, as well as an increasing scope of individuals, are increasingly global in the scope of their income-generating activities.

One of the most stunning statistics as you look around all the statistics that I see flow across my desk is, since 2000, individual foreign tax credits, so individuals claiming tax credits that they paid in a foreign jurisdiction on their returns, have increased by 170% in the last seven, eight years.

What these enormous transformational shifts mean is that many of the ways that the IRS has traditionally done business are going to have to change. Old operating models have gone the way of the 8-track tape (for those of you who remember the 8-track tape). We have to evolve to operate in this new environment. And we're going to have to confront it strategically. I would posit that the starting point, indeed, the fulcrum for this change is information.

The IRS is a very information-intensive organization. Data is our lifeblood. It informs all of our activities, from service to enforcement. If you think about the IRS, or frankly, if you think about any other institution that deals in finances, you get in information, you analyze that information, you act on that information.

But with an explosion of data and information brought about by the IT revolution, it's not just about getting the data, but it's also about analyzing it and making the best use of it. But let me first, before I talk about analyzing the data, park on getting the data.

Taxpayers and the IRS share a lot of information. It could be a W-2 with wages that are withheld at the source. Or it could be a 1099 form showing other sources of income from a bank or a mutual fund, or a K1 that sends in your share of the partnership earnings. Through this information sharing, the IRS gets the same information that you get. We also get it in the same format. And this greatly reduces opportunities for confusion and miscommunication. There are other tangible benefits. We all know that those taxpayers who have their taxes withheld and reported to the IRS through third parties are the most compliant. On the other end of the scale, those operating without any information reporting are the least compliant.

There's a simple lesson here. Better information reporting can benefit the entire spectrum of taxpayers and boost compliance. We've been given some very important new information reporting tools in the last year, which we plan to take full advantage of. One of those is new legislation passed by Congress. Starting in January, 2012, so for the tax year 2011, we'll get sent to us credit card payments, debit card payments, and electronic vendor payments such as PayPal that were

paid to a small business, will be sent to us at the end of the year. And we'll be able to match those against business income. Very important new piece of information reporting that we have this year.

We also have a new law that brokerage firms, when you sell a stock or a bond, will send us the capital gains that you have on that stock and bond. Right now, it's voluntarily self-reported. Can be very confusing for taxpayers. People are scrambling to find records from many years ago. You'll get a simple statement from your brokerage firm. We'll get that statement. We'll be able to cross-match it on our computers. Should reduce any noncompliance in the capital gains arena.

Better interpretation of data also means better service to taxpayers. When we get information in, and we can analyze that information, we can learn what taxpayers prefer, what service channels, and how they prepare their returns. For example, we're seeing that younger taxpayers who are at ease with technology, prefer our electronic and self-service options, and tend to file their returns electronically. On the other hand, older taxpayers or taxpayers with limited English proficiency may prefer meeting with an IRS representative in person and send in a paper return. By better mining and interpreting this information, we can tailor services to taxpayers and address concerns.

We also are going to need to address one of the big transformational shifts that I touched upon for a second earlier, and that's tax preparation. Today, 84% of taxpayers, individual and businesses, are using a paid tax preparer or software to complete their returns. And we know the reason. It's tax law complexity. It's harder for Americans to do their returns by themselves. And we also know that information technology and software is getting better, and people are more comfortable using it.

So more and more of us collect our information, maybe fill out a questionnaire, and take an annual trip to our accountant or our tax preparer. I'm convinced that the IRS can do more to leverage tax preparers, an integral part of the tax preparation community, to make sure that tax administration works well. After all, these tax preparers play a key role in both tax education and in compliance. Just as a doctor can advise a patient on the importance of prevention to a healthy life, so can a tax preparer educate his or her client about the importance of tax compliance to long-term financial health, such as keeping a good credit rating. I believe the IRS has to do a better job working with the tax preparer community and making them part of our overall compliance strategy. And when I talk about an overall compliance strategy, we need to make sure we've got the right service for the preparer community, the right education for the preparer community, and the right enforcement when there's people in the preparer community who are part of the problem.

Preparers can be our first line of defense to stop a very small problem from becoming a big problem. And we're very dedicated to continuing to work with this community, the vast majority, who are very ethical, trying to do the right thing.

I've saved the biggest challenge for the last, and that's international tax administration. I've made international issues a major focus for the IRS. And it's not just because the business world around us has become more international. In today's economic environment, it's more important than ever that the American public feels confident that individuals and corporations are playing by the rules, and paying the taxes that they owe. With so many of our friends and our neighbors feeling deep financial pressures, as they struggle to stay in their homes and pay for the most basic necessity of life, there is very little tolerance for those who have the means to pay their taxes, but shirk their responsibilities.

The IRS has been turning up the pressure on offshore financial institutions that help U.S. citizens conceal taxable income. We are breaking down the much vaunted veil of secrecy. We framed a very aggressive, proactive, and what I believe is balanced agenda to lead the IRS into a new era of global tax administration. Harkening back to Thomas Jefferson, "Institutions must advance to keep pace with the times."

President Obama and Treasury Secretary Geithner are committed to confronting international tax evasion, and have promised a robust IRS enforcement budget and a set of legislative initiatives to support our efforts to curb international tax evasion. We will confront areas of complexity where there are opportunities for some to push the envelope. Yet we're going to remain firmly grounded in the reality that our system of taxation is one of the many critical components of a vibrant, global economy. There is no silver bullet or one single strategy that will alone solve the problems of offshore tax avoidance. Rather, an integrated approach is needed, made up of separate but complimentary programs that will tighten the net around those not paying what they owe.

We've already increased the number of audits in this area, and have prioritized stepped-up hiring of international experts and examiners. We're also looking for ways to improve the information that we receive from foreign banks who do business in the U.S., and also to improve the information we get such as information on wire transfers going out of the U.S.

Because this is a global problem, it's going to require a closely coordinated strategy among nations, all who are dedicated to ending this abuse that deprives a country of precious resources and erodes confidence in the fairness of our tax administration system. When it comes to international tax evasion, it's time to get it right, and we are very committed to doing so.

Thomas Jefferson also wrote that speeches measured by the hour will die by the hour. So let me wrap up. In his dedication speech on April 13th, 1943, Roosevelt also said that Jefferson, "Thought in terms of tomorrow as well as today." And I can think of no better words that cast the direction of the IRS, which is, looking towards tomorrow's challenges and opportunities while meeting full-well the opportunities of the day. Thank you very much. (Applause.)

MS. LEINWAND: Okay, my first question to you is, what is an 8-track tape. Only kidding. We'll start off with the complex tax code. Is the tax code unfairly complex? And should Congress tackle tax simplification during a recession?

MR. SHULMAN: You know, I'm very outspoken that the tax code is incredibly complex. I don't know if it's unfairly complex, but it certainly is incredibly complex. One of my favorite facts is that the tax code is four times as long as *War and Peace*. So gives you a sense of what people are wrestling with.

I think the President has put together a tax reform panel that's going to look at a variety of issues, including simplification. I wouldn't presume to tell the Congress what it should tackle during a recession. But I think any efforts for simplification certainly would be helpful to the average American just trying to pay their taxes on-time, certainly would reduce a number of inadvertent errors, and it certainly would make our life much easier at the IRS.

MS. LEINWAND: Okay, we have a brief thank you note from a CPA in the room for keeping him very busy and employed. But he would also like to know what suggestions you might have to simplify the tax code.

MR. SHULMAN: I'll take any compliment. So, thank you. I guess I'll just say the same thing I said before, and amplify on it. There's a number of interesting things in the tax code. And I mentioned social benefit programs that the IRS is involved in administering. EITC, 24 million Americans availed themselves of the Earned Income Tax Credit. There's a number of education credits that people are available to. I think one of the lowest hanging fruit-- One of the things that would be interesting to tackle (and again, I don't know the timing of this) is things like, there's eight different places in the tax code where you can get help with higher education.

Thinking about collapsing those, collapsing definition of 'dependent' so that there's only one definition of what a dependent is across the tax code-- You know, it's not the kind of big massive tax reform that people think about, but it's simplification that could actually make a real difference in real Americans' lives.

MS. LEINWAND: In Europe, many countries automatically take care of taxes by simply taking the money out of your paycheck automatically. Why can't the U.S. do the same?

MR. SHULMAN: It's interesting. I've had the opportunity to sit down with a number of policymakers and tax administrators from across the globe. A few things — one is, in the U.S., the vast majority of Americans, the wage earner, a fireman, a teacher, actually get a W-2. A W-2 says what your income was, how much taxes were withheld. It's very simple for them. They send us the W-2. They fill that out on their tax form. Their employer also sends us the W-2. We do a computer match. Those people are very compliant. It's very easy for them.

When you get into the cash economy, some smaller businesses, there's not a lot of information reporting. And so the U.S. I would say has a hybrid system where a lot of taxes are withheld from wage earners. But when it gets to independent contractors, sole proprietors, small businesses, businesses, there's not as much withholding.

I'm very interested, as we go forward, to learn from other countries. There's been examples in different countries where there's things that have been tried. Some have worked better than others. And what I would say is, when people come through from Europe and talk to me about it, they give me the pros and the cons of those systems. I think the U.S. system works pretty well. I think Americans actually have a healthy respect for government, and want to pay what's due, and not get crosswise with the IRS. But we're always looking at ways where we can improve it, make it simpler, have better online tools, simplify our forms, et cetera.

MS. LEINWAND: What, if anything, will the IRS do to tax the increased barter transactions that are becoming more prevalent in these economic conditions?

MR. SHULMAN: Bartering is very interesting. Bartering's always been something that, you know, if you exchange something for value in theory, is taxable. You know, let me not make any comments on that, except to say, with the advent of online transactions, and a lot more movement of goods between people, it's something that's on our radar. And we're looking at a variety of ways that we can make sure that people pay the proper taxes. Our balance though is always, get the right education out there, have the right service, make sure we collect the tax without being too onerous in our enforcement activities for people who are just trying to get it right.

MS. LEINWAND: What is the likely future of the estate tax as far as repeals or freezing it at its current level?

MR. SHULMAN: You know, the President put in his budget blueprint to freeze the estate tax at current levels. I know that this is a debate that has a lot of emotion around it. And a lot of, kind of people, you know, bring it up in context of the American dream. We actually try just to be, you know, boring administrators of the tax law. So I try not to get too involved in the emotions around it.

I would say, you know, the President's very committed to trying to do something around the estate tax. Congress clearly has interest in it. I won't predict where it goes. But, you know, I would say I'm supportive of what the President put forth in his budget.

MS. LEINWAND: What do you think of having taxes based on common law rather than the code approach?

MR. SHULMAN: Again, you know, I don't show up at the National Press Club and rewrite the whole laws of the country or the funding base. So let me not go too far afield while I have a microphone. I guess what I would say is, if you see inside our building, inside the Treasury Department, inside Congress, the whole putting together of tax laws is actually a pretty complex process that goes a lot further than just writing them. So the laws are written. They're put in the code. And there's the black letter law in the straight, legislative language. There's also legislative history that's taken into account. Much of the law is written in broad framework and sent to us to put interpretation around that. Both the Department of Treasury tax policy and the IRS write regulations, procedures, interpretative guidance.

We then go and administer that. And once you're in a controversy with the IRS, there's a number of avenues if you disagree with the IRS about our interpretation of the law. One is, you can take it up the chain and talk to people, someone's manager, and try to get your decision changed. We also have an appeals unit inside the IRS that runs independent of the enforcement divisions. The head of appeals reports directly to me and has no line authority with anybody else in the enforcement chain. And the appeals function actually calls it as they see it. And then there's the tax court avenue and Federal courts.

And so once you get to Federal courts, judges interpret the tax law quite a bit. And so I give you that longer answer to say that there's actually quite a bit of common law in taxes that American citizens are continually challenging interpretations of the IRS and of the Treasury to laws, and challenging our actions. And so quite a bit of taxes gets played out in the court.

MS. LEINWAND: We have a lot of questions on offshore banking, starting with, when with the IRS issue rules on cracking down on offshore taxes? And what details can you provide on the rules?

MR. SHULMAN: Yeah. I mentioned in my speech, I mentioned most places that I go. We're very focused on offshore tax evasion. And it's going to be a multi-pronged approach. One is we're going to beef up our enforcement efforts, dedicate more people, and make sure we're focused, we have the right information, both in-house, from other countries, from third party sources.

We also have rules that we can put out, rules and regulations. An example, and one that we've talked about publicly is, there's foreign financial institutions that want to buy or sell U.S. stocks for their clients, or U.S. bonds, have to become a qualified intermediary. And if they do, they're subject to set of IRS rules. And basically we count on them to look at the documentation of a foreign person, to make sure that they're paying the right U.S. taxes, they do certain withholding for us. They report on foreign people.

We're going to beef up those rules. We've already put out some regulations last fall around what we call the qualified intermediary program. We're also looking to make sure that they do more due diligence, so you can't just set up a trust in a foreign country, and you're a U.S. citizen, set up a bank account, and you avoid taxes, that those foreign banks are going to need to look through to those trusts. We're also going to rely on them to do more information reporting to us.

We're also looking at rules around the people who aren't qualified intermediaries to encourage them to become qualified intermediaries, so that again, we tighten that net, and U.S. citizens who are parking assets overseas, we have a line of sight into them. And then there's a set of legislative proposals. The President put in his budget that he was going to have a robust set of IRS enforcement initiatives, as well as international legislative proposals. Those proposals are being debated right now and they will come out in a month or so when the President's budget comes out. And so we're going to have IRS enforcement, regulation coordination among other countries, and then some legislation will be coming as well.

MS. LEINWAND: The IRS recently outlined terms of a voluntary disclosure initiative for Americans with offshore bank accounts. In the three weeks since, how many people have come forward? How many criminal investigations are underway?

MR. SHULMAN: Yeah, we set up-- We sent guidance to our field. We had a number of people who had been parking assets overseas, realized that we were quite serious, that we were going to expend a lot of resources and energy to go after them and financial institutions that were facilitating the parking of resources overseas. People were getting nervous. We, for a long time, have had what we call a voluntary disclosure program where if you come in voluntarily, truly voluntarily, not after you get a letter from us, you get a call from us, but you're a true volunteer, if you come in, you generally avoid criminal prosecution, but you pay fines and penalties and your back taxes.

We were getting a lot of people coming in and a lot more that wanted to come in. So we decided to send out very clear guidance to our field to make it very predictable, if you came into the system, what you would pay, what your punishment was. My goal in all of this is, while we want to find people and people should be held accountable for their actions, the most important thing for me in my job is to actually get people into the system now, keep them in the system, and have them being taxpaying citizens for the next 20, 30 years of their life, so we protect the overall revenue base of the country.

So this voluntary disclosure program basically said, come in. If you're truly voluntarily coming in, you won't go to jail. You need to pay six years of back taxes, interest. You'll pay a penalty on the taxes, and you'll also pay a special 20% penalty of the assets you held overseas, the highest asset volume that you've had in the last six years. And so what-- any of these voluntary disclosure programs, what you try to do is have it be attractive enough that people are going to come in and get back into the system, but punitive enough that nobody's getting a free ride.

Very early (we just announced this a couple weeks ago; I'm not at liberty to give broad numbers) I would say we've seen an increase in people coming in this year. We've seen an increase in voluntary disclosure overall because people know that we're quite serious and are going to have a sustained campaign against people who are avoiding taxes. And criminal prosecutions, we've got a number in the pipeline. Some of them, they only get publicized when they end up in the court system, because we're prohibited by law to talk about ongoing investigations. But to wrap it up, I'd say, we got a number of criminal investigations. We're going to keep opening them when we find people who are evading taxes and aren't coming in voluntarily. We've had a real increase in voluntary compliance, and we encourage people to come in. They'll be treated fairly. And if you come in on your own, you'll avoid going to jail.

MS. LEINWAND: Okay, turning to corporations that park their money overseas, are too many companies using complex strategies and exploiting

loopholes in the tax code to avoid paying their taxes in the U.S.? How do you propose fixing this problem?

MR. SHULMAN: So the global capital markets have increased exponentially over the last 20 years. If anybody didn't buy that all the capital markets are intertwined, this current recession I think has been a very visible demonstration that we're all pretty intertwined, tied together.

I think that the tax code is incredibly complex. Large corporations usually have access to the best legal talent, the best accounting talent, to do their taxes right. And we don't begrudge anybody who is following the law and trying to minimize their taxes and to pay what they think is legally due.

With that said, where there's complexity is usually the place that those who want to push the envelope decide to push the envelope. And international capital finance is a very complicated world. When you cross a border, the IRS or any other government authority, actually our jurisdiction stops and we have to have coordination. If we want to open up law enforcement or investigations, we need to coordinate with other law enforcement agencies overseas. And so what I would say is, if people want to push the envelope and play on the edges, that's where they're going to play — on the edges.

There's a lot of corporations who do very legitimate tax planning and are trying to minimize their tax bill. We're going to be in disputes with them. And we're going to be aggressive. And if someone's pushing the envelope, we're going to push back. But then there's some who cross over that line and exploit-- either exploit loopholes or take loose interpretation of the law to push the envelope. As I mentioned before, this is something that President Obama, when he was a candidate, talked about, corporations exploiting loopholes. It's certainly something that's under discussion, is looking at the difference, trying to create a line between abuse and legitimate planning. And I think there'll be some proposals in the President's budget that look at areas where there's the potential for abuse, to try to tighten that up, again, to make sure that everybody is paying what they owe. As this government is called on to do more and more things for the American people to get us out of this recession, we want to make sure that people are paying the taxes that they owe.

MS. LEINWAND: This year, a number of presidential appointees dropped out because they had failed to pay their taxes. Do only the little people pay their taxes? Why aren't these big fish caught?

MR. SHULMAN: A couple things around that issue — first of all, there's a phenomenal number of people who have gotten nominated, sailed right through. The attention in Washington generally goes to the negative with folks. I

think the President's putting together a great team. And I'm very honored to be on it.

I think that the American people are pretty smart. And I think they understand that people who are nominated to hold a very high office or high position are going to put under a level of scrutiny. I think they also understand that the tax code's incredibly complex, that a lot of people make inadvertent errors. I think it's one of the reasons I talk about our job, is to provide education, to provide service, to help people through difficult times. And I think the message to the American people is, I think they also understand, the government is stepping up trying to do a tough job right now in a difficult economy. And they understand that they need to pay the taxes that are due to them.

When it comes to our big fish, treated any differently than little fish, this agency has a real tradition of being evenhanded, straightforward, treating each taxpayer individually as they come in. I talked about that in this economy, that we've made sure that our frontline people are empowered to take each individual taxpayer, look at their individual circumstances, look at the facts of their case as they come in, and treat them accordingly. And I'm quite confident that's what we've done in the past and that's what we'll do in the future.

MS. LEINWAND: And a member of our audience has a suggestion. What do you think about the idea of publicizing the names of egregious tax cheaters, as California does?

MR. SHULMAN: So as IRS Commissioner, as I've said, I've got a big service operation and a big enforcement operation. As head of an enforcement agency, one of my goals is to follow the law. It's against the law to disclose any individual taxpayer. So I don't think it's a great idea.

MS. LEINWAND: Okay. We are almost out of time. But before asking the last question, we have a couple of important matters to take care of. First of all, let me remind our members of our future speakers. Tomorrow, April 14th, Fran Drescher, the actress from *The Nanny*, and president and founder of the Cancer Schmancer Movement will discuss, "The Best Gifts Come in the Ugliest Packages: My Journey from Cancer to U.S. Diplomat."

On April 16th, Dominique Strauss-Kahn, managing director of the International Monetary Fund, will deliver a special address regarding the world economic recession. And on April 21st, Toby Keith, country music star, will discuss his work with the USO and the military, his businesses, and other topics, including his treatment in the media.

Second, I'd like to present our guest with the traditional and much coveted NPC mug.

MR. SHULMAN: Excellent. Thank you. (Applause.)

[side remarks]

MS. LEINWAND: For our last question, at a time when thousands of working Americans are being laid off, is the IRS hiring?

MR. SHULMAN: Absolutely. We've actually been given, you know, quite a bit of support from this Administration. We're going to be hiring significant number of people. And anyone in our viewing audience or in the room, if you want to do good work for the American people, have fun while you're doing it, and doing something substantial for the country, I'd love to get your resume on the way out of the room.

MS. LEINWAND: We actually have time for one more question. Someone's CPA wants to know, why does the IRS Commissioner speak two days before returns are due? Is this to assure that no CPA can attend?

MR. SHULMAN: I assure you, if I was the one processing the returns, we'd all have a bunch of problems, so. Fear not. The IRS is being run quite well.

MS. LEINWAND: Thank you very much. We are adjourned. (Gavel sounds.)

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