

NATIONAL PRESS CLUB LUNCHEON WITH DOUGLAS SHULMAN

SUBJECT: THE FUTURE OF TAXES

MODERATOR: MARK HAMRICK, PRESIDENT, NATIONAL PRESS CLUB

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**MARK HAMRICK:** (Sounds gavel.) Good afternoon, and welcome to the National Press Club. I'm Mark Hamrick, broadcast journalist for the Associated Press, the 104<sup>th</sup> president of the National Press Club. We are the world's leading professional organization for journalists committed to our profession's future through our programming, events such as this, while fostering a free press worldwide. For more information about the National Press Club, please visit our website at [www.press.org](http://www.press.org). And to donate to programs offered to the public through our Eric Friedheim National Journalism Library, you can see more information at [www.press.org/library](http://www.press.org/library).

On behalf of our members worldwide, I'd like to welcome our speaker and those of you attending today's event. Our head table includes guests of the speaker as well as working journalists who are club members. And if you hear applause in our audience, we'd like to note that members of the general public are attending as well, so it's not necessarily evidence of a lack of journalistic integrity.

I'd also like to welcome our C-SPAN and Public Radio audiences. Our luncheons are also featured on our member-produced weekly Podcasts from the National Press Club available for free download on iTunes. You can also follow the action on Twitter using the hashtag # NPC lunch. After our guest's speech concludes, we'll have Q&A and I will ask as many questions as time permits.

Now it is time to introduce our head table guest and I'd ask each of you up here to stand up briefly as your name is announced. I will begin from your right. Alan Schlaifer, freelance journalist and president of the Wharton Club of Washington; Kevin

McCormally, editorial director of Kiplinger; Michelle Hirsch, reporter for the *Fiscal Times*; Mark Schoeff, Jr., *Investment News* reporter; Sean Carr, Washington bureau chief, BestWeek.

Now we'll skip over the podium for just a moment. Melissa Charbonneau, Newshook Media and chair of the Speakers Committee. I know her name better than that; skip over the speaker for just a moment, Suzanne Struglinski, press secretary at the Natural Resources Defense Council and the Speakers Committee member who organized today's event. Thank you, Suzanne. Jody Schneider is tax policy team leader with Bloomberg News; Linda Stern, senior personal finance correspondent, Thompson Reuters; Peter Blank, editor of the Kiplinger Tax Letter; and Ralph Winnie, director of the Eurasian Business Coalition's China program, and now you can certainly give your applause. Thank you. (Applause)

Well, as talk of whether the Congress and the administration can reach an agreement on how to spend the taxpayers' money, our guest today is in charge of collecting those dollars in the very first place. Now in the third year of his five year term, he is the 47<sup>th</sup> IRS commissioner, responsible for collecting, at last count, \$2.4 trillion in tax revenues, but check back before the hour's over. But with more than 100,000 employees and a budget of about \$12 billion, he has significant federal resources at his disposal as he and you prepare for the April 18<sup>th</sup> income tax filing deadline, a few years (sic) later than usual this year because of Emancipation Day, observed in the District of Columbia, that falls on April 15<sup>th</sup> and the rest of the nation falls in line.

With belt tightening and budget crunching already felt in many American households, now heading to the capital, even the IRS budget is facing cuts. Just under a week ago, our guest speaker told the House Ways and Means Committee who proposed that a \$603 million cut to the IRS budget, would lead to collection of \$4 billion less in taxes and could lead to lower compliance in the long term. How a potential government shutdown would affect tax filing, tax returns and most importantly for many of us refund checks, remains to be seen, but we'll get into that as well.

He told Congress there has never been a shutdown in the middle of a tax filing season before, so this is a new challenge like many in Washington these days. The Government Accountability Office has reported the IRS has processed 73 million individual income tax returns through mid-March, that's up a little more than 3 percent from last year. Percentage of returns electronically filed is 89 percent, up from just about 86 percent last year.

Douglas Shulman came to the IRS from the Financial Industry Regulatory Authority, also known as FINRA. That's the private sector regulator of all securities firms doing business in the U.S. He served in the same role at the National Association of Security Dealers where before its consolidation with the New York Stock Exchange member regulation, which resulted then in the formation of FINRA.

Earlier in his career, he was involved with several startup organizations. He holds a bachelor's degree from Williams College, a master's of public affairs from Harvard University's John F. Kennedy School of Government, the Georgetown law degree. As an aside, I'd like to note that the commissioner was kindly my guest, or AP's guest, at last year's White House Correspondents Dinner. And I have to tell you, it was a pleasure to visit with him in a more congenial setting, and even more so, what was hilarious, was seeing the reaction among celebrities when you introduce the IRS commissioner to them. (Laughter) Queen Latifah, for example, literally bowed to him. And celebrity chef Rachel Ray said, and I quote, "I'll cook for you any time."

Suffice it to say, he commands a lot of respect. Please give a warm National Press Club welcome to Douglas Shulman. (Applause)

**MR. SHULMAN:** Thank you. I'd forgotten about Queen Latifah. Thanks for that gracious welcome and thanks for inviting me back to the National Press Club. A few weeks back, I actually celebrated my third year, my anniversary of my third year as being IRS commissioner. And milestones like that actually are a good time to reflect, think about what you've gotten done, what you've accomplished, what you've learned and what lies ahead. I will tell you, it's certainly been an interesting journey so far. Some things I expected, others that I didn't expect. One of the most pleasant surprises, and yes you might be wondering, there are pleasant surprises when you're the IRS commissioner, one of the surprises was that this large organization is so responsive, so agile and so nimble.

The IRS literally turned on a dime multiple times during the worst recession in our generation. When we were called on to help millions of distressed Americans get money, send out money, make it through some very tough economic times, we sent out hundreds of billions of dollars on short notice to help jumpstart the economy, and we played a major part in the recovery which I and my team are quite proud of.

We've accomplished a bunch of other things in the last three years. We've improved service to taxpayers. We've innovated in technology and on the web. We've cracked down on offshore tax abuse, and we've launched a major initiative with the return preparer community to make sure that we boost compliance and service to the American taxpayers.

I've certainly learned a great deal and that's a process that's never going to stop in this position. I've learned about the inner workings of the tax system, what we expect the taxpayers, and more importantly from my perspective, what taxpayers expect of us. So this actually strikes me as a good moment to open the aperture wide and reflect about what the tax system could look like in the future.

I want to take us out to the horizon of the system. Let me quote Paul Allen, the Microsoft cofounder who once observed, "I've tried to anticipate what's coming over the horizon, to hasten its arrival and to apply it to people's lives in meaningful ways." That's basically what I'd like to do today, to look at the horizon to see how we could make a meaningful difference in both our tax system and in taxpayer lives, and to begin a

dialogue with our staff with the practitioner community and other people affected in part of the tax system about how we can secure lasting change.

Ever since I've been commissioner, one of my priorities, and really one of my core leadership principles, is about continuous improvement. I'm a big believer that institutions, if they're standing still and accepting status quo, they're actually falling behind because the world around us is always moving forward. And these days, moving forward a lot quicker than in the past. I believe that we should perform the best we can today, but we need to embrace change and perform even better in the future.

But when you talk about the future and have a vision of the future, that doesn't mean you need to be futuristic, like a science fiction novel. I think we can challenge ourselves individually and collectively to see how far we can go and how far we can push the system to make a real impact on taxpayers. President Kennedy once said, and I've always liked this quote, and agree with it, it's how I think of myself, "I'm an idealist without illusions."

So in a bit of irony, what I want to posit today is that for the IRS to move forward significantly, our first step is to examine what has been woven into the DNA of the tax system since its inception in 1862. And that is looking back as a core business model. Now, while a significant percentage of our resources are devoted to helping taxpayers understand the law and providing taxpayer service, the compliance side of the IRS's operations is largely predicated on looking back. The taxpayer prepares his or her return, files it with us. We process it and we issue a refund if the taxpayer's owed one, or we deposit the money if they had a balance due with us.

For most taxpayers, the process ends there. But for the IRS, our compliance work begins now. Sophisticated risk models help the IRS staff identify returns that are most likely to show compliance problems. Although I sometimes hear people talk about the audit lottery, it's a term people use, the process is far from random. The IRS uses cumulative knowledge and data that it gathers over many years to model and target activity that has the highest probability of tax avoidance. Once we identify a taxpayer where that probability may occur, we follow up with the taxpayer to better understand the issue, request documentation and determine whether the return is accurate.

The look back which I will also tell you is the model of most major tax systems in the world that have developed economies has some flaws. The biggest deficiency is that it does not deal with taxpayer problems up front. An IRS audit often occurs years after the return is filed. For example, by law we have three years to audit an individual tax return. We can have more time if there's a 25 percent omission of income or fraud is involved. So as I speak now, we actually are interacting with taxpayers that filed their return at the time I became IRS commissioner three years ago. This after the fact compliance approach can create problems and it can create frustrations for both taxpayers and for us at the IRS.

It can be a real dilemma for taxpayers who may no longer have the money that was refunded to them, but as it turns out they weren't entitled to that refund. There's also possible sticker shock because interest and penalties can accrue during the time it takes us to get to them. And it may have been accruing for up to three years. Taxpayers often ask, "Why didn't you notify me sooner?" This hurts the image of the IRS and contributes to the gotcha perception of the tax system. Now, I think we all know that it is much easier and much cheaper to resolve problems up front and not let them fester. I spend time with my employees all the time, and with my senior staff. When we identify a problem, it's human nature sometimes to put it off, so we try to address it right away because festering problems don't become better over time.

That's why consumers often get a call from a credit card company. The minute you miss a payment, you get a call. Nobody loves those calls, but at least you don't get into debt over multiple years, or at least you don't inadvertently get into debt over multiple years. I think taxpayers can rightly wonder with us why can't they receive the same timely response from the IRS and not get stuck down the road with interest and penalties.

I've spent a lot of time thinking about this and thinking about the whole concept that our tax system is really run after the fact and could we move it up. So we've been accelerating our programs to flag issues up front and to avoid the look back problem all together. We've increased our compliance activities that happen up front before we finish processing a return. Most of that increase in push since I've been in here has been around our unit that analyzes tax returns that claim a substantial tax refund. Our system sifts through millions of returns and literally billions of data points to identify questionable returns and to flag those that could be fraudulent.

Increasingly, we're also consulting other databases to spot inconsistencies on a return. As a result of these efforts, we actually block billions of dollars of returns that could be going out the door fraudulently and verify the accuracy of those returns. In some cases, the taxpayer simply forgot to attach the required documentation. In that instance, once sufficient information's given to us, we release the return, we get the refund out to them.

In other cases, the claims actually are fraudulent, often part of organized rings of tax cheats, sometimes even run out of prisons. Our success rate in both finding and blocking these schemes is very high and only getting better as we improve our capabilities and stay ahead of schemes.

But as we think about the future and ways that we Chelsea more aggressively move to resolve issues up front at the time of filing, a number of very complicated issues arise. Many of them involve information returns that the IRS receives every filing season. You probably know these information returns by their form number, the most ubiquitous are the W2 and the 1099. To give you some perspective, 40 years ago we received about 360 million information return documents. Today, this filing season we'll receive about two billion information returns.

Think about a typical taxpayer who works in an office or a store and owns his or her own home. He or she has the W2, but also information returns from mortgage interest, interest and dividend distributions from a credit union, a bank or other securities. There may even be a K1 thrown in. The average taxpayer today receives 10 to 15 information returns. Everybody in the audience knows them, they come to your house and you also know they come to the IRS and you use them as you're putting your tax return together. Of course, these information returns foster voluntary compliance since they are filed with the IRS and people know that.

But it's often overlooked what a real time saver these can be for taxpayers. Indeed, the standardized formatting and information returns and the data that people receive and transcribe makes it possible for today's robust tax software industry to work. Now, let me give you a little peek behind the curtain at the IRS and see what this all looks like for the IRS. First, in many cases, we receive the information return after a taxpayer files their return. We then go through a lengthy process of collating and matching all of these documents that we get with taxpayer returns. So this can be further complicated if it's a joint return where we have to marry both John and Jane Doe's separate information returns onto their one jointly filed return.

Now while these information returns have made the tax system a lot more efficient than in the past, I also believe that they are the source of the next generation of innovation. And that's what I want to elaborate on today. A new structure, or a potential new structure, for tax administration, one that I think brims with opportunity and would be a fundamental shift in the way that we run the tax system. In essence, I believe that taxpayers, third parties in the tax system, and the government would be better served if we tried to move as many of our processes forward as we could and reduce the need for after the fact look backs and interactions as a basic mode of operation for the agency.

The vision is relatively straightforward. The IRS would get all information returns from third parties, like the W2 and the 1099, before individual taxpayers filed their returns. The taxpayer, or the professional tax return preparer, could then access that information from the IRS via the web and download it into their returns using commercial tax software. Taxpayers would then add to that information downloaded any self reported and supplemental information to their returns and they file their returns with us. We would then take the information that was sent to us before that return ever came in and we would embed that information into our core prescreening filters and would immediately reject any return that did not match up with our records. That's right, we reject the return and ask you to fix it before we process it.

We would then have more accurate returns and deal with many more problems up front. We could actually shift resources and spend more money trying to get it right in the first instance and do less back end auditing. Now, let me say that vision is much easier articulated than executed. And it could not be pulled off overnight. In order to execute it, there would need to be some fundamental changes, both to our operations and to private sector processes.

So let me talk for a minute about what would have to change as a prerequisite to moving the tax system in this direction. First, it would take a major reworking of our core technology systems. I will tell you that we could not have even thought about this, and I would never have articulated a vision like this, a few years back before we were on a solid path to complete our core customer account database, which we call CADE 2. Over the past few years, we've been working to get all of our individual taxpayer accounts into a modern database that processes on a daily rather than a weekly or biweekly cycle. This new database, when it's complete, will allow taxpayers to receive faster refunds and it will eliminate some of the structural technology problems that could lead to timing problems with notices that are sent to taxpayers.

But even once we get this database done, we would have a lot of work to do in the technology arena. We would need to load and be ready to run matches with all of the W2 data that we receive from the Social Security Administration months sooner than we do so now. We would also have to load all 1099 data into our system before the return is filed. And we would need to be able to match in real time these 1099 and other documents with returns being filed. Again, this is much easier said than done, given both the budget constraints that we face and the real production issues that we face during our peak filing season between January and April.

Now, performing a major technology enhancement to the systems of the U.S. government that process all of the tax receipts and process about \$2 ½ trillion through our systems every year is a very complex endeavor. And to be blunt, it's not a cheap endeavor. But we're making investments in our technology now, our technology infrastructure like CADE 2 that should set the stage for us to be able to think about these kinds of major shifts in the future.

Let me tell you in all honesty, there was an under-investment in IRS technology for the past 20 years, which has left us in a very deep hole. But starting with the President's 2011 budget proposals, this trend has been reversed. But I also say given the current budget debates in Congress, we're going to have to see if we get the resources that we need to build the basic technology infrastructure to position us for the future.

Now, in order to execute the more real time tax system that I laid out before, we would also need to push to get information returns like 1099s into the system a lot earlier. This would require some change of behavior on the private sector's part as well. Our partners, whether they're payroll processors or practitioners, would need to work with us to make sure the dates they work by and we work by actually work for the American people. Dates like February 28<sup>th</sup>, which is the due date for 1099 returns, are actually built into our core operations and they're built into the operations in the way of business in the tax community. If we want to move to an up front, real time tax system traditionally timelines, and all our traditional timelines, would need to be on the table for discussion.

The vision I'm articulating is a potential win/win for honest taxpayers and for the government. It streamlines the tax return process for the vast majority of Americans who

play by the rules and just want to get it right. It also minimizes interactions with the IRS which is what most taxpayers want. As I described earlier, this would not only change the face of taxpayer service, but also compliance. Unlike today's look back model, we would do 180 degree turn and most basic compliance activities would be done up front. And we would reject a return right away if a problem was detected.

Let me give you a simple illustration of a real world example that we face on a regular basis at the IRS. A taxpayer mistakenly enters \$2,000 in dividends on his return. However, from the 1099 that we receive, or the multiple 1099s, we show the dividends to be \$3,500. Because of this mismatch, we then follow up with the taxpayer well after the taxpayer has filed to address this unreported income. Under the structure I envision, it would work differently. A taxpayer would begin the filing process with access to all the information that has been reported to the IRS. Any discrepancies that the taxpayers see between the information reported to the IRS and their own records could be resolved before filing the tax returns. When the records are fresh, but also when all these transactions and the activities the taxpayer had are fresh in the taxpayer's mind.

The taxpayer would get it right the first time when they filed with us, with no risk of getting a letter from us later about the mismatch and with no risk of interest and penalties on the delta. The better use of information and data has long been a priority of mine. I've been talking about it for three years now. The payoffs are huge. Taxpayers avoid the hassle factor, and back end audits are much more focused on issues that require real follow-up. We would see significant gains in both service and compliance that actually have the potential to save billions of dollars across the public and private sectors and reduced administrative burden.

Now, some people including me ask the question, "If we let taxpayers know what we know, would there be lower compliance and lower compliance rates?" I think there's two answers to that question. First, of course there's still going to need to be after the fact audits, and other types of after the fact compliance activities to make sure that we maintain overall levels of voluntary compliance. But I would tell you, I think we could do more work up front and actually do less audits on the back end and we'd still have a compliance boost under the scenario.

Second, I actually chair an organization comprised of tax commissioners from around the globe. Many countries now actually make information that they have available to taxpayers and none have reported a drop in compliance. So where do we go from here? First of all, at this early juncture, I do not see this as a plan or a blueprint with proposed structures, timelines and deliverables. What I'm actually offering is a vision for a journey that's firmly grounded in reality but brims with potential.

I can't tell you when this will happen, and I don't think it'll happen overnight, but it's certainly not too soon to start a dialogue on the vision and engage the business community in that dialogue. It's certainly not too soon to start scoping out the technology work that we would need to do to make this next big leap, a generational leap in how the tax system fundamentally works.



This is all about working smarter. And in the case of IRS, it means evolving to keep pace with change, constantly looking ahead and trying to be more innovative and imaginative with the resources at our disposal and with the resources spent on the tax system outside of the agency. I think that we're now at the point where we can lift our heads above the daily and weekly fray and begin a dialogue about a shift in the tax structure. As our new customer account data engine goes online, we actually have a key foundation for this. As our e-file rate continues to go up, last year for the whole year we actually crossed the 70 percent threshold, we now have data coming to us in a digital format, which is a prerequisite to quicker population of databases and systems and moving towards real time.

And modern technology can actually now move much quicker than it could before and it can process exponentially more information than it could just a generation ago. So both our internal factors and external factors make the time right for big, broad and long-term thinking about the way we do business.

So let me wrap up by saying that, again, this is not a plan but it's not a dream, either. What I've described today, a vision for a more real time tax system for the nation, is real and doable. It is something we're going to discuss with affected stakeholders and with our internal team. My goal is to keep pushing the agency to imagine the future and to make the tax system work better for the American people.

So let me leave you today with some final words that Franklin Delano Roosevelt wrote shortly before his passing in April, 1945, for a speech that he actually never delivered. He wrote, "The only limit to our realization of tomorrow will be our doubts of today." So thanks for listening and looking forward to taking a few questions. (Applause)

**MR. HAMRICK:** Thank you for that, and I think we'll probably get to more of the content of the speech before we get some sort of real time news questions out of the way. And I think in the front of everybody's mind today is at least the risk of an imminent government shutdown. It couldn't probably have caught the IRS at a worse time, although maybe for many functions of the government, there's never a better time. But many of the questions that I've received here were all about that. So let's try to do a couple minutes about the nuances of that. And I imagine this is something you've been working on up to the moment of leaving your office this morning.

So the question many people want to know, as either they have already filed their returns or perhaps they're in the process of taking things up right to that deadline, maybe they need to make a tax payment, awaiting a tax refund, what can people expect who are in any of those number of circumstances right now, as you can see it?

**MR. SHULMAN:** So as I said as I was speaking to you, it's a good time to step out of the daily fray of operations and envision the future. But Mark successfully has brought us right back down to the daily fray right at the beginning. (Laughter) Look, I think the President has made very clear that his goal is not to have a shutdown, that the

shutdown would not be good for the American people, and I know the budget negotiators are working hard to avoid a shutdown.

As you said, April 8<sup>th</sup> is not a great day for the potential for that, so yes of course we, like every agency in government, have been doing some contingency planning around this. I think the most important thing for me to communicate is that the American people should file their taxes. As you mentioned this year, the deadline is April 18<sup>th</sup>. People should file, and they're required to file, by April 18<sup>th</sup>. While we're not going to have a full complement of operations, if the government were to shut down, the IRS will be accepting tax returns. The due date will remain April 18<sup>th</sup>.

But what I want to do is encourage people whether there's a shutdown or not, to file electronically. But I will tell you, in the event of a shutdown, people really should file electronically because most of these returns are processed automatically and will not experience any delays. However, taxpayers who file paper returns will experience some delays if we end up in a government shutdown. But I want to say again that the goal, I think, of everybody is not to have a shutdown and these are all contingency plans.

**MR. HAMRICK:** So the processing continues, but there's a delay in the processing of refunds, is that correct?

**MR. SHULMAN:** Electronic returns, people should expect to see no change in processing. It's all an automated system. Unless a return is flagged for some reason, people will expect to see refunds quickly. Paper returns, there probably will be a delay in refunds.

**MR. HAMRICK:** I do apologize for having to go real time on you, but we have journalists here and they love talking about the future, but they also have stories to write and I'm their president so I have to represent them a little bit.

**MR. SHULMAN:** No apology needed.

**MR. HAMRICK:** Thank you, I appreciate that. More nuances of that question. Will any chief counsel work on pending regulations continue in the event of a government shutdown? And if so, what regulations might be the focus of continuing work?

**MR. SHULMAN:** You know, just for the prelude, I think the most important thing for me to communicate, to communicate to everyone here and everybody in the audience watching is file your tax returns. We're going to be accepting returns. Electronically file, you're not going to see any delay. All the nuances of, as Mark said at the beginning, we've got 100,000 employees, not all of them are going to be coming to work, but we're going to have a complement here. The nuances of who's going to be doing what I'm not ready to get into. The most important thing for people to know is we're going to be accepting tax returns and people should file.

**MR. HAMRICK:** Do you think the longer term or even in the intermediate term it adversely affects either the jobs you want to do on an ongoing basis, meaning tax enforcement and compliance? Does it do some damage there at all?

**MR. SHULMAN:** Well again I won't speculate on what the future looks like, what's going to happen. I'm quite hopeful that the budget negotiators work something out in the next few days and we don't have a shutdown. What I will tell you, and I've told people before, is we're involved in the running of government part, not in the policymaking part of government. We run a huge financial services operation that has 140 million individual clients, that has tens of millions of nonprofits and businesses we interact with every day. We have a \$12 billion budget and funding the government two weeks at a time is not a great way to operate, that we need to actually plan for hiring, we need to plan for attrition, we need to plan for travel, we need to plan for training, we need to plan for systems. And not knowing what kind of resources we have is not helpful, and I think the President's articulated this very clearly. This would not be good for the American people to have a shutdown and have this kind of disruption.

**MR. HAMRICK:** Actually, you touched on something there that I thought we might eventually get to anyway, so I'll just bring that up for the moment. And that is at the end of the day, are you essentially agnostic to tax policy? In other words, is it all about enforcement and customer service, the customer being the taxpayer? Because obviously we'll get a lot of questions about this kind of tax and that kind of tax, we might get to that later. If the day came, to use an example, and you don't necessarily need to address this specifically, that there were a flat tax-- hard to envision in this political environment-- and it was your job to administer that, would you say, "Hey, that's our job and that's what we have to do."

**MR. SHULMAN:** Yeah, sure. Congress writes the tax laws. Our job is to take the laws on the book and make sure they get administered in a fair way for the American people. I'm very focused on running fair, balanced programs. The vast majority of Americans, their experience with us is they file a return, they get a refund directly deposited in their account, or they get a check and that's the last they see of us. We weigh in. I mean, the unique perspective that we at the IRS have is because we're the ones who interact with the American people every day, we can see where parts of the tax law trips them up, where honest mistakes are made, where there's gray areas in the law so we end up in fights or controversy, especially with corporate taxpayers.

But yeah, our job is really to administer the law that's on the books in a balanced and fair way. I consider the agency a nonpolitical agency, or really an apolitical agency. And so we try to stay out of the fray of exactly what the policy will be, stay in the fray of trying to make it as easy as possible for the American people to interact with whatever tax codes are on the books.

**MR. HAMRICK:** So to paraphrase, or to use my phraseology, that you're agnostic about that policy. And let's say, again using the hypothetical, that there were a flat tax, would that not require less resources to process returns and therefore in a budget

cutting environment your agency could theoretically be at risk? But toward the goal of greater compliance at the same time?

**MR. SHULMAN:** The way I think about our budget is I'll tell you what resources we need to implement the task that's been given to us. Congress gets to decide what resources we get, and my job is to tell you the consequences if we don't get those resources. If we're given a smaller job, I wouldn't advocate for a bigger budget. Our job is to serve the American people and to be public servants. And so, we have a staff appropriate for the size of the task at hand. If the task changes, we would change that. And so you'd never find me as a leader concerned if our budget got cut if our task was shrunk.

The one thing that I focus quite a bit on, and I think a place we can have a pretty strong voice, is simplification. We see a lot of taxpayers who just get caught up in the nuances of the tax law. They get caught up in the ever-changing tax law. They get caught up in the complexity of the tax law. And so a place, especially behind the scenes that me and our senior staff spend a lot of time is trying to help Congress and the administration see places where you could simplify the code to make the experience better for the American people.

**MR. HAMRICK:** But will you have a tendency to actually expect that the tax code becomes simplified at some point in the not too distant future given the 300-page publication 17 that you're able to publish this year, which is your sort of basic tax guide for individuals?

**MR. SHULMAN:** One of my favorite statistics-- I run the IRS so I get lots of statistics and people sometimes think of us as the green eyeshade crowd, one of my favorite statistics is that the tax code is four times as long as *War and Peace* and only getting longer. And we actually had somebody-- every year, I have someone on my team count up how many tax law changes there are. It's hard to count, it depends if you change a comma or add a word, what it means. But at least count since 2000, there's been about 3,500 changes to the tax code. And so I don't have a crystal ball, but we've been going in the wrong direction of simplification.

With that said, I think the President, actually in the State of the Union address talked about this, the Treasury Secretary's been spending time on this, and I think everybody would like to see a simpler tax code. But it's complicated. There's lots of stakeholders and there's real money at stake.

**MR. HAMRICK:** We didn't have a round of applause when the accountants in the audience heard about all those changes that I was waiting for, I had to hesitate there. I'd like to move on then to maybe some other topics that either have been in the news or related to the news. Here's a question from the audience. "Are we going to witness a broad inquiry against Credit Suisse regarding tax invasion?" I actually had more than one question about this. The U.S. ambassador to Switzerland said a few days ago to the Swiss

media that that was his understanding. Is this anything that you're aware of? And I don't know if this came from Credit Suisse or not.

**MR. SHULMAN:** So I'm actually prohibited by law to talk about any specific taxpayer and I figure as commissioner of the IRS, it's good idea for me to abide by the law. So I won't comment on any particular taxpayer. What I can say is since I showed up at the IRS, I've made cracking down on offshore tax abuse a priority of mine and the agency's. When President Obama came into office and then Secretary Geithner came, they've actually focused a lot on this issue. The President gave us more resources to pursue international tax evasion. The Secretary's actually put this on the agenda of G20 meetings and has made this a focus to get more cooperation.

We've actually come a long way and first we had a major case against UBS which it's all in the public record so I can mention it. Which brought in an unprecedented 4,000 names that Switzerland actually sent to us. It's the first time Switzerland's ever broken bank secrecy and sent real names of real taxpayers to any government. Then as part of hits whole initiative, we created a voluntary disclosure program where we basically told people we're getting better at finding you, we're putting more resources against it so you should come in voluntarily, pay your back taxes, pay a very stiff penalty but avoid going to jail. We thought a thousand, two thousand people may come forward. We had 18,000 and counting in the door.

We have another voluntary disclosure program coming now. And what I've told people is these 18,000 and these 4,000, so over 20,000 names have come in, we've actually now got a view into their advisors, into their banks, into their accounts. And we're using that data to then pursue the next wave. This is a multiyear effort and it's not going to stop. So we do have other banks and other individuals and other promoters in our sites. There's active investigations and we want to make sure people keep coming in. Because the ultimate goal is to deter this behavior from happening and shift away so people don't even think about parking assets overseas and not paying taxes on them because the risk of getting caught is so great.

**MR. HAMRICK:** So there does seem to be some concern based on the questions I'm getting about, let's say, exposure to problems like this around the world. This doesn't seem to involve a particular entity, but it does involve a large nation. In fact, I think we have some citizens from that country visiting here today. The question is, "Does the IRS have any cooperation with Chinese authorities to get Chinese American assets in China back into the U.S. tax system?" I understand there's some other more complicated legal issues there involved as well?

**MR. SHULMAN:** Yeah. So as I mentioned, I'm chairman of the Forum on Tax Administration, which is the main body that organizes all the tax commissioners. We've gotten a lot more cooperation and information exchange with other governments in the U.S. And with a small number of authorities, we actually have a Washington office which we call JITSIC, which is the Joint Information Tax Shelter Information Center, where we on a real time basis have collocated staff to look at schemes and scams and

flows of information using the appropriate treaty and exchange of information documents.

And so I think every country is-- sometimes, countries end up in some tax competition where either they get the money or we get the money and make sure there's not double taxation. We have treaties for that. But when it comes to citizens just parking assets overseas and basically committing crimes, I think there's a real commonality of interests and there's been a lot more information flow in the recent years and I anticipate this to continue.

**MR. HAMRICK:** I have to say, I did see your release on your website about this the other day, so I'm not sure this question is on the mark, but again don't mistake the message for the messenger, or vice versa. Why hasn't the IRS been more forthcoming regarding the delay in processing first time homebuyers credit repayment returns? From what I understand, there's an issue that indeed some refunds could be delayed in some circumstances there?

**MR. SHULMAN:** Let me, for people who don't surf our website as often as you, Mark, let me give a little information just so people know. So, during a two year period, Congress passed three different first time home buyer credits. The first one was actually basically a loan using the tax system. So you got \$7,500 but you had to pay it back \$500 a year over 15 years. The next two were actual credits, \$8,000 and then an \$8,500 credit. I will say that these were all passed at a time where the drag on the housing market was a major factor contributing to the economic downturn and we actually put \$27 billion of tax credits out to help people buy homes which was a major factor in actually helping to stabilize the housing market. It hasn't come as far as everybody would like, but it stopped falling off a cliff. And so we played a big part of that. And when I in my earlier remarks talked about us playing a big part in the economic recovery, that's an important piece of it.

The first one, though, as creative as it may have been of Congress to come up with we'll make it a loan so that it won't actually cost us money in the long run, it presented us with some unique challenges. Because our systems and our whole processes, and frankly the whole way we think is you owe taxes, you pay it to the government, we put it in the Treasury, we go forth. It's not set up, we're not a loan operation. And so we had to, while all these 3,500 tax changes were coming, here's a unique one that had all sorts of processing where we had to actually set it up like a loan operation. And I would encourage Congress in the future not to set up just special bespoke loan operations for the IRS. It's not how we're structured and we got a lot on our plate.

And so as you can imagine, when we set up something new, there's going to be kinks in the system. This one we actually, as people are repaying, had an issue with married filing joint who had often got the loan or the first time home buyer credit when they were single, we had a problem matching it in our systems. We delayed some refunds, we were made aware of it recently. We fixed the problems, and in the next week or so, all the refunds are going out.

**MR. HAMRICK:** It's a great website. I love the YouTube channel also, by the way, which you actually have.

**MR. SHULMAN:** Oh yeah, very edgy.

**MR. HAMRICK:** Yeah, I tell you. (Laughter) We had a report this week about a significant data breach, not involving the IRS, thankfully, but involving a number of retailers and banks, financial institutions. Seemed to be significant. We don't know that there was any money stolen yet. In some ways, it would seem like the federal government and the IRS would be the holy grail of a hack attack destination. What can you do to assure people that you have everything in place to avoid something along those lines?

**MR. SHULMAN:** It's a great question. Taxpayers and individuals living in the U.S. are asked to send some of their most sensitive information to us, which is how much do you make, what's your investments look like, et cetera. And we take data security very, very, very seriously. I told my staff early on that a major data breach is not something that we have any desire to have. I want to identify all the potential issues and put it first and foremost on our agenda. And so we attack it, actually, from multiple perspectives. And we've got a cyber security unit who's always monitoring the web, stopping fishing sites, blocking and seeing what's happening. We actually coordinate with other parts of the government that have critical infrastructure for the country so that we block things at our border.

We have very stringent policy and logs to actually track internal threats because we have 100,000 employees, they're great employees, they're incredible public servants, but we need to make sure none of the breaches ever come inside. And so we have zero tolerance for anyone accessing a database that they don't have access to. And more and more as we build our systems, I make sure, and I won't approve a technology system as we build or change, that doesn't have appropriate data security.

And so we have not had a major breach. We take it very seriously. It's very complicated stuff, but we're very much on top of this and it has attention from the agency all the way to the top and I spend personal time on this.

**MR. HAMRICK:** Okay, so all the tax information lovers out there, I want to alert you to a big anniversary coming up. July 1<sup>st</sup>, 2012, you probably know about it, it'll be the 150<sup>th</sup> anniversary of the Revenue Act of 1862 in which the Office of Commissioner of Internal Revenue was established. So I want to know, is there going to be a big party? Should the IRS employees be ready for that and what's planned to mark that event?

**MR. SHULMAN:** We take very seriously the mandate to tighten our belts and make sure every dollar's spent wisely. So there's no parties at the IRS this year.

**MR. HAMRICK:** Very well. Well along those lines, one serious question and then I'll have one that might not be so serious. And that is you're nearing about a year and a half, the end of your term. Would it be your pleasure to serve again another term as IRS commissioner?

**MR. SHULMAN:** So what I tell everybody is this is an incredible opportunity, it's an incredible institution. It's a real honor to serve the American people doing this. Rather than answer you, that's actually the President's call and so I'll do that. And what I really tell people is the first conversation, if I'm asked to do so, about a second term would be with my first wife who's in the audience, Susan Anderson, who I intend to keep as my first wife. And so any discussion with the first term will happen there first, or for the second term.

**MR. HAMRICK:** Very well. We're almost out of time, but before we ask the last question, a couple of basic housekeeping matters to take care of. I'd like to remind our audience about upcoming luncheon speakers. On April 19<sup>th</sup>, I think this will be a fun one, Ted Turner and T. Boone Pickens will talk about the energy situation in our company, a number of topics related to that. We might even get a question into Mr. Turner about how he feels CNN is faring these days.

On May 16<sup>th</sup>, General James Jones, the former National Security Advisor to President Obama, former Marine Corps commandant and Supreme Commander of NATO will be our guest. Later in the month, Richard Trumka, the President of the AFL-CIO will be here with plenty of issues facing organized labor these days.

Now, in terms of housekeeping issues, a couple other things to take care of first of all before we get to the last question. I'd like to present you with our traditional NPC coffee mug, thank you.

**MR. SHULMAN:** Thank you.

**MR. HAMRICK:** And that's below \$25, so from what I understand you don't have to report it in terms of an ethics violation. Typically, that would be the end of our gift presentation. But because of the special situation that you're facing these days with the tax season among us, we don't know what our elected leaders are going to do with getting the budget situation taken care of, we have some special National Press Club aspirin that I'd like to present you with. Feel free to take that back to the office as well. (Laughter)

**MR. SHULMAN:** Thanks great.

**MR. HAMRICK:** It's a new market for us, but we're very excited about it. Our last question. To the best of your knowledge, has an IRS commissioner ever been audited?



**MR. SHULMAN:** What I can tell you is as you become commissioner of the IRS, almost every competent tax lawyer and professional in the federal government takes a very close look at your returns to make sure you don't embarrass the President and the Treasury Secretary. So, I don't know about the question of audited, but you get a lot of people in the government looking at your tax returns.

**MR. HAMRICK:** Been there, done that. How about a round of applause for our speaker today? (Applause) Thank you all for coming today. I'd like to thank the National Press Club staff including our library and broadcast center for organizing today's event. And finally, here's a reminder that you can find more information about the National Press Club on our website. If you'd like to get a copy of today's program, please check out the website at [www.press.org](http://www.press.org). Thank you, and we're adjourned. (Sounds gavel.)

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