

NATIONAL PRESS CLUB LUNCHEON WITH COMMISSIONER JOHN KOSKINEN

SUBJECT: THE INTERNAL REVENUE SERVICE TODAY

MODERATOR: MYRON BELKIND, PRESIDENT OF THE NATIONAL PRESS CLUB

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

TIME: 1:00 P.M. EDT

DATE: WEDNESDAY, APRIL 2, 2014

(C) COPYRIGHT 2008, NATIONAL PRESS CLUB, 529 14TH STREET, WASHINGTON, DC - 20045, USA. ALL RIGHTS RESERVED. ANY REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION IS EXPRESSLY PROHIBITED.

UNAUTHORIZED REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION CONSTITUTES A MISAPPROPRIATION UNDER APPLICABLE UNFAIR COMPETITION LAW, AND THE NATIONAL PRESS CLUB RESERVES THE RIGHT TO PURSUE ALL REMEDIES AVAILABLE TO IT IN RESPECT TO SUCH MISAPPROPRIATION.

FOR INFORMATION ON BECOMING A MEMBER OF THE NATIONAL PRESS CLUB, PLEASE CALL 202-662-7505.

MYRON BELKIND: (Sounds gavel.) Good afternoon, and welcome. My name is Myron Belkind. I'm an adjunct professor at the George Washington University School of Media and Public Affairs, a former international bureau chief with the Associated Press, and the 107th President of the National Press Club. The National Press Club is the world's leading professional organization for journalists committed to our profession's future through our programming with events such as this while fostering a worldwide free press. For more information about the National Press Club, please visit our website at www.press.org. And to donate to our Journalism Institute, please visit www.press.org/institute and you will find-- all you have to do is click and you'll find all the information you need.

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 our speaker as well as working journalists who are Club members. If you hear applause in our audience, I'd note that members of the general public are attending, so it is not necessarily evidence of a lack of journalistic objectivity.

I'd also like to welcome our C-SPAN and Public Radio audiences. You can follow the action on Twitter using the hashtag NPCLunch. After our guest's speech concludes, we'll have a question and answer period. I will ask as many questions as time permits. Now it's time to introduce our head table guests. I'd like to have each of you on the head table stand briefly as your name is called, and so let me begin.

From your right, Ralph Winnie, Eurasian Business Coalition; Sanna Kangasharju, Press Secretary, the Embassy of Finland in Washington; Peter Blank, Kiplinger Washington Editors; Margaret Sherry, IRS Deputy Commissioner and guest of the speaker; Mark Heller, tax policy reporter at Bloomberg Be a Day [?]; Mrs. Pat Koskinen, wife of the speaker; Jerry Zremski, *Buffalo News*, Washington bureau chief and Chairman of the NPC Speakers Committee and past National Press Club President.

Skipping over our speaker for a moment, Debra Silimeo, Hager Sharp and a Speakers Committee member who organized today's event. Thank you, Debra. John Dalrymple, the IRS Deputy Commissioner and guest of our speaker; Marilyn Geewax, senior business editor, National Public Radio; Rick Levinson, executive editor, AARP; and Josue Lopez Calderon, Treasury Department Recreation Association. (Applause)

It has been called the worst job in Washington. (Laughter) If that's the case, running the Internal Revenue Service didn't get any easier after controversy erupted last year over IRS scrutiny of Tea Party groups. The acting commissioner was forced to step down amid criticism that the IRS was unfairly singling out these groups in reviewing their applications for tax exempt status.

In the wake of that controversy, John Koskinen took the helm of the IRS. It's a tough job, but Koskinen is no stranger to tough situations. He spent more than two decades running a business that specialized in turning around failing companies before he was tapped for government service. He's taken on several high level challenges over the course of his public career. For instance, Freddie Mac was shaken to its core during the financial crisis after taking on risky loans that pushed it to the brink of insolvency. President Bush tapped Koskinen to rebuild Freddie Mac.

Earlier, President Clinton had called on him to oversee the nation's Y2K efforts when it was widely believed that computers' inability to recognize the year 2000 would result in calamity. Koskinen also served as Deputy Director of the Office of Management and Budget, city administrator for the District of Columbia, and President of the U.S. Soccer Foundation. He refers to it as his "checkered career of interesting challenges."

Now he embarks on, perhaps, his most interesting challenge yet. As IRS commissioner, he'll lead an agency that is responsible for collecting about \$2.5 trillion a year in revenue while administering the tax code including new rules related to the Affordable Care Act. Please welcome to the National Press Club the Commissioner of the Internal Revenue Service, John Koskinen. (Applause)

COMMISSIONER KOSKINEN: Thank you all for that warm welcome. It's truly an honor for me to be here today at the National Press Club for the first time as the IRS commissioner. I was here a while back, as noted, during my tour of duty as the Y2K czar, which was also an interesting time. Interesting; you may recall the Chinese curse of 'may you live in interesting times.' They did not mean that as a really polite thing to wish you well for. I'm intrigued by the desserts here, which seem to me tied in to where we are. Mine was a piggy bank, which reminds you that it's a little too late for this year,

April 15th is almost here, but it's not too late to start saving for next year.

More interesting are the \$10 cookies. They are obviously designed to be a new currency to rival bitcoins. We will soon have guidance out, but I would tell you having thought about it a little, the first part of it will be they will cease to be currency if you eat them. (Laughter)

Now that we've turned the calendar to April, I know there are usually a couple of other things on people's minds. The first is spring, which took a little while to get here after the snow on Sunday. And the second is obviously taxes, plus some of you may be watching the Final Four this weekend. As former Chairman of the Duke Board of Trustees, we had a moment of silence early in the tournament, but I would draw your attention to the point, the loss to Mercer was part of a longer term strategy to increase the Duke endowment in the hopes of a substantial contribution from an unnamed major investor in the United States in recognition of the billion dollars we had saved him.

Moving on, if you've come to this luncheon, or tuned in expecting to hear about the state of affairs of the Internal Revenue Service, you've come to the right place. I was sworn in as IRS Commissioner a little over three months ago, and I feel exactly the same way today as I did on day one; excited and proud to lead an agency that's critical to the functioning of our government and one that touches virtually every American. These last three months, I've traveled to 18 of the 25 largest IRS offices around the country. In fact, I'm off to Chicago and Detroit tomorrow. I've talked with and listened to almost 8,000 employees thus far, but delighted to see the professionalism, skills and dedication of our employees.

I'm on this journey because throughout my career I have found that the people who know most about what's going on in an organization are the front line employees. They have important insights into the opportunities and challenges an organization faces. In light of all that's happened to federal employees in the last four years, and IRS employees in particular, no pay raises for four years, government shutdowns, furloughs, and the negative publicity about the IRS over the last year, you might have expected, and to some extent I did, that I would have heard a lot of grumbling from employees about not being paid enough or having to work too hard.

Instead, the consistent response I've heard in all 18 cities is a concern that we do not have enough employees to provide the level of taxpayer services our employees want to provide and think taxpayers deserve. I've also heard at every stop, and even in the 18th city in New York last Friday, interesting observations and suggestions about how we can improve the day to day operations of the agency.

And I've explained in town halls with front line workers and meeting with managers at each stop, that one of my goals is to foster an environment where information flows easily from the bottom up to the agency as well as from the top down. It's critical not only for us to get the benefit of observations and suggestions from employees, but also to learn as quickly as possible about problems or challenges. I've

noted that it's illusory to think that we'll never have a problem or make a mistake, that things will always go the way we planned. We have 90,000 employees administering the world's most complicated tax code and dealing with millions of taxpayers.

Instead, my goal has been for us to find problems quickly, fix them promptly, make sure they stay fixed; and perhaps most important, be transparent about the entire process. I've told our employees that if there's a problem in the organization, it's my problem and we'll fix it together. If an employee makes an honest mistake, it's my mistake as well and we'll work together to remedy the situation. And if there's a problem that I don't know about, it's my fault because it means that we wouldn't have built a culture that encourages information to flow up from the front lines through the organization even if it's a problem.

As I tell the employees, my theory is bad news is good news. The only problem we can't solve is the problem we don't know about. And as a corollary, I think it's important for employees at all levels to know that we don't shoot the messenger, we thank them.

In moving the IRS forward, one of the most important things we have to do is to restore public trust in the agency, which was shaken by the management problems that came to light last year with regard to the determinations process used for applicants applying to become tax exempt social welfare organizations under Section 501(c)(4) of the IRS code. Organizations that have 501(c)(4) status can be everything from garden clubs to homeowners association. But the focus for the last year has been on advocacy groups that spend part of their time and their money on political campaigns.

As a result of the inappropriate use of an organization's name alone as the criteria for setting its application aside for special treatment, that has been cast by some on the independence of the IRS. It's an important issue that deserves our attention. But it's also important to put the issue in context and in perspective. The IRS has about 800 employees in the exempt organization division writ large, and only a small subset of those folks work on processing applications for tax exempt status for social welfare organizations.

Meanwhile, there are 89,000 other IRS employees in offices all across the country who are doing critical work for our tax system and for the nation and other areas. Nonetheless, taxpayers need to be confident that the IRS will treat them fairly. It doesn't make any difference who they are, what organizations they belong to or whom they voted for in the last election. None of that matters to us at the IRS. We will do about one million audits of individual taxpayers this year. Some will get audited, maybe Democrats, some may be Republicans, and others may be something else all together. But they will all have one thing in common. That's that they're being contacted by us at the IRS because there was something on their tax returns that needed follow-up. Perhaps we just needed a clarification. Maybe there was a mathematical error, or there could be something seriously wrong with the return. But the return alone is the reason for our inquiry, and anyone else with the same issue would receive the same inquiry and the

same treatment from the IRS.

To make sure that this problem does not recur, we've done a number of things. We've accepted all nine of the recommendations of the Inspector General for Tax Administration. It was his report last May that found applications for 501(c)(4) status were being screened using inappropriate criteria in the determinations process. Since then, for the last several months, the IRS has been cooperating with the investigations into this matter that were launched last summer. There are now six ongoing investigations, four conducted by congressional committees, one by the Department of Justice and one by the Inspector General. We were asked by members of Congress to quantify the work we've done and how much it has cost thus far. The answer is that more than 250 IRS employees have spent over 100,000 hours working directly on complying with the investigations. The work has cost more than \$14 million which includes adding capacity for our computer systems to make sure we're protecting taxpayer information while processing and producing these materials.

In letters to congressional committees two weeks ago, and in my testimony before the House Oversight and Government Reform Committee last week, I was pleased to report that we have now provided all the documents we have identified as being related to the determination process, which was the focus of the IG's report last May. We provided the tax writing committees, the Senate Finance Committee and the House Ways and Means Committee, which are our primary oversight committees, with almost 700,000 pages of documents. We are still redacting taxpayer information from the last of those documents before they can be shared with the other committees that do not have authority to see taxpayer information.

As a result, my hope is that at least some of the six pending investigations will be included soon and reports issued some time in the near future. I've made it clear we will respond appropriately to the facts revealed and recommendations of those reports and move forward as an agency taking, as I say, whatever actions are necessary beyond those that we've already taken.

Our protection of materials has proceeded according to priorities set with all of the investigating committees. And as we have now completed our production of documents related to the determinations process, we are prepared to work with the committees on any new matters or avenues that they want to pursue.

You may have noticed that during my three hour hearing last week before the House Oversight and Government Reform Committee, some members of the committee expressed unhappiness with the rate at which we are producing redacted information for them. As I tried to make clear, we never indicated we were not going to respond to the very broad subpoena for documents we received in mid-February. Indeed, we have produced documents responsive to each of the subpoenas' categories.

In the private sector, a court would require these requests to be reduced to those relevant to the inquiry, but that's not the way subpoenas from the Congress work. There

are no limitations, and so the volume of materials requested means we could be at this, as I've noted, for a long time. Another recommendation by the Inspector General was that the Treasury Department and the IRS should provide clearer guidance on how to assess the permissibility of 501(c)(4) social welfare organizations activities. So last November, Treasury and the IRS proposed regulations designed to clarify the extent to which a 501(c)(4) organization can engage in political activity without endangering its tax exempt status.

While I was not involved in the drafting of the proposal which was released before I was confirmed as commissioner, I believe it's extremely important to make this area of regulation as clear as possible. Not only does that help the IRS properly enforce the law, but clearer regulations will also give a better roadmap for applicants, and it will help those already operating as 501(c)(4) organizations properly administrator their organizations without unnecessary fears of losing their tax exempt status because of an activity in which they are engaged.

During the comment period which ended in February, we received more than 150,000 comments. That's a new American record for an IRS rule making comment period, and in fact I'm told if you take all the comments on all the Treasury and IRS regulations for the last seven years, double that number, you're close to the number of comments that we have on this single regulation. We're beginning to review those and analyze them. Obviously, it's going to take a little while to sort through them all because we treat them seriously. These are people across the political spectrum who have taken the time to write to give us their views on both what the definition of political activities ought to be, how much of it you should be able to engage in, and to which organizations should it apply.

It will take us a while, but once we finish reviewing the comments and hold a public hearing to consider possibly re-proposing a modified regulation and obtaining more public comment. So as I've said in the past, it means it's unlikely we're going to be able to complete this process before the end of the year.

Before leaving this topic, I want to note one other thing. Last month, former IRS commissioner Randolph Thrower passed away at the age of 100. Commissioner Thrower led the IRS from 1969 to 1971 during the early years of the Nixon Administration, which turned out to be a challenging time for the agency. Commissioner Thrower held firm against attempts being made at the time to politicize the agency. The White House eventually fired him for his principled stance.

I'm sure if Commissioner Thrower were here today, he would say he was only doing his job, but he was doing much more. His refusal to let politics compromise the IRS is an important reminder to all IRS commissioners now and in the future of what our mission is. I intend to follow his example. I want to reassure everyone listening here today that the IRS is an agency of career civil servants who are dedicated to serving the American taxpayer in a fair and impartial manner. That's how it's been and that's how it will always stay on my watch.

We have other important challenges to face. One example of this is insuring that the filing season goes smoothly. When I started in December, I told employees that I wanted to help with the filing season and as the new kid on the block perhaps the best thing I could do was stay out of the way. I've been very successful at that I've met my performance standard. And probably at least partially as a result, the filing season has gone very well thus far. Through the end of March, we received more than 90 million tax returns and issued more than 73 million refunds for approximately \$207 billion. In fact, it's going so well I may start claiming credit for it rather than standing aside.

As we get closer to the April 15th deadline for filing returns, I think it's important to realize what a tremendous accomplishment it is for the agency to process 150 million individual taxpayer returns every year. That doesn't happen by accident and it doesn't happen automatically. It happens because thousands of dedicated and experienced employees work for months planning for the next filing season and then administering it.

Another top priority of ours is taxpayer service. This filing season, as we do every year, the IRS provides services to taxpayers to help them fulfill their tax obligations. Taxpayers want and need more online tax information and services and we're working to meet that demand by making improvements to our website at IRS.gov. Last year alone, taxpayers reviewed IRS.gov web pages more than 450 million times to get forms and publications, find answers to their tax questions and check on the status to their refunds. In fact, one of the most popular features on IRS.gov is the where's my refund button that you can push taxpayers used more than 200 million times last year. Now as you know, that doesn't mean that there were 200 million individual taxpayers. Some of them just couldn't resist pushing the app to figure out where is my refund, tracking it every day sort of like a UPS parcel delivery.

This year we have several new digital applications that will expand what taxpayers can do online. One of those applications is IRS direct pay which provides taxpayers with a secure, free, quick and easy online option for making tax payments. Another innovation, get transcript, is a secure online system that allows taxpayers to view and print a record of their IRS account, also known as a transcript in a matter of minutes. We also are in the final stages of revamping the IRS online payment agreement which allows taxpayers to apply for an installment agreement online.

To provide better service, the IRS is also expanding the methods it uses to communicate information to taxpayers. We've moved beyond traditional media like newspapers and TV news to take advantage of social media such as YouTube, Twitter and Tumbler. I don't Twitter and I don't Tumble, but there are 100 IRS videos on our YouTube channel including one from me. So I'm actually broadening my horizons here.

During my three months on the job, I've been surprised to learn how much time and effort and resources we provide trying to help taxpayers determine the amount they owe and how to pay it. As I've said, it may take me a while to convince taxpayers that we're from the IRS and we're here to help you, but we really do work hard to make it as

easy as possible to file your taxes.

Along with taxpayer service and other high priority for the IRS is maintaining a robust tax compliance system and building on the work that's been done to improve compliance in a number of areas. One of the most important of these is the battle against refund fraud, especially fraud caused by identity theft. And I say battle because we really have a fight on our hands against identity thieves, many of whom are engaged organized crime who steal people's information outside the tax system and use that information to file a return, claiming a refund and preventing the taxpayer from filing their own tax return. We're doing a much better job of stopping such returns before they can be processed compared to a couple of years ago when the problem exploded.

And our criminal investigators are making great progress in helping the Justice Department find these criminals and put them behind bars. Last year, we protected \$17.8 billion from refund fraud. We initiated 1,400 investigations, obtained over 1,000 indictments and 400 convictions. We're also doing a lot better in helping identity theft victims clear up their IRS accounts after they've been victimized. The time for resolving a new case has been reduced by from over 300 days to roughly 120 days. But there's still room for improvement and we intend to do more and to do better.

Perhaps our most intense challenge is fulfilling the responsibility Congress has given us to implement tax related provisions of enacted legislation including the Affordable Care Act. We have a lot of work to complete if we're going to be prepared for major ACA provisions that go into effect this year, including the premium assistance tax credit and the individual shared responsibility provision. As I've told our employees, the significant challenge of implementing the Affordable Care Act provides us with a major opportunity to demonstrate the skill, dedication and competence of the IRS.

After the difficulties experienced last fall with the rollout of the Affordable Care Act, if we can have a smooth filing season next year including the appropriate review of the returns of taxpayers who took or were eligible for the advanced premium tax credit, the public and the Congress will have to say that's some organization with an amazing workforce.

Along with the ACA and other important piece of legislation we're charged with implementing is the Foreign Account Tax Compliance Act which is more commonly known as FATCA. The law is important because it requires foreign financial institutions to tell us about accounts owned and held by U.S. citizens. With this information, we can do a much better job of combating offshore tax evasion. Our goal is to make it more and more difficult for Americans to hide their money in a tax haven to avoid paying taxes.

But the importance of FATCA is not just that we'll be collecting more money. It's also important because the average taxpayer has to be confident that while they're paying their taxes, the very wealthy with fancy lawyers and accountants are no longer able to hide their money in foreign countries and avoid paying their fair share to support the operations of the government. When I became Deputy Mayor of Washington, the city's

theory of snow removal was that the sun will come up tomorrow. (Laughter) So when I began, we had a snow summit and I told the leadership team that whatever else we were going to do, we were going to get the snow off the streets.

And that's my feeling today at the IRS. Whatever else we're going to do, we're going to implement the non-discretionary legislative mandates we've been given, the Affordable Care Act and FATCA.

This brings me to what I believe is the biggest challenge facing the IRS today: the substantial decline in our funding which puts significant strain on our ability to provide adequate services to taxpayers and to maintain strong service and enforcement levels to insure the integrity of our voluntarily compliance system. For the IRS to continue making progress in all the areas I've just discussed, it's critical for us to receive adequate resources. The agency continues to be in a very difficult budget environment since we're the only major agency functioning basically at the post-sequester level of funding rather than having been moved back toward the pre-sequester level.

Since fiscal 2010, IRS appropriations have been cut by about \$900 million, or 7 percent, and we now have 10,000 fewer employees even as our responsibilities continue to expand. We recognize the need to become more efficient no matter what happens to our funding level. Since 2010, the IRS has cut annual spending on professional and technical service contracts by \$200 million. We generate \$60 million in annual printing and postage savings by eliminating the printing and mailing of certain tax packages and publications, and by transitioning to paperless employee pay statements.

Real estate is another area where we have found major savings. In 2012, the IRS began a sweeping space reduction initiative projected to reduce rent costs by more than \$40 million a year and reduce total IRS office space by more than 1.3 million square feet by the end of this fiscal year. Taken together all of these initiatives mean we're spending \$300 million less in these areas. We'll continue our efforts to find savings and efficiencies wherever we can and we'll continue to carry out our core responsibilities and work toward preserving the public's faith in the essential fairness and integrity of our tax system. But those budgetary constraints will pose serious challenges to our efforts to enforce the law and provide excellent services.

Essentially from the enforcement side of the house, the federal government is losing billions of dollars in revenue every year to achieve budget savings of a few hundred million dollars since the IRS estimates that for every dollar invested in the IRS budget, it produced four dollars in revenue. As I said during my confirmation hearing, I didn't find a single organization in my 20 years in the private sector experience that said, "Let's take our revenue operation, starve it for funds and see how it does."

So far this filing season, we've been very fortunate to the volume of phone calls to our toll free lines are actually down a bit compared to last year. One factor is the lack of major tax law changes in 2013 which means there are fewer questions from taxpayers. Our improved website and its applications I discussed also have helped provide taxpayers

with important support without requiring a phone call.

As a result for now, we're maintaining a level of phone service during filing season around 72 percent, which is much better than last year's overall average of 60.5 percent. But we expect for the year we will drop well below 70 percent as the filing season ends and our temporary employees roll off and we'll end up closer to last year's 60.5 percent because we have no more money than we had last year. That would mean more than 30 percent of taxpayers trying to reach us on the phone couldn't get through. It wasn't that long ago with proper funding that our level of service was 88 percent.

Along with phone service, we're also concerned about the amount of time it takes people to get help in person when they go to one of our taxpayer assistance centers. We've had reports from field staff and offices across the country of taxpayers lining up outside our centers well before the centers open in the morning to make sure they receive service that day, sometimes waiting up to three hours to be served after they enter the office.

Expanding our online offerings can only go so far to ameliorate these problems. As *Forbes* magazine noted earlier this year, when you punish the IRS, you punish taxpayers. Our information technology operation is still another area the IRS is always focused on. Our use of IT helps us to do a better job of stopping potentially fraudulent returns before they're processed, and allows us to keep making improvements in our operations and our website.

Our 2014 budget had \$330 million for IT work related implementing ACA. None of that money was provided. Since we are mandated by statute to implement ACA, that has meant that other vital IT projects have had to be shelved. The solution of the budget problem that we face starts with the administration's fiscal 2015 budget proposal released last month. The administration proposes a funding level of approximately \$12.5 billion for fiscal year 2015 which would reverse the erosion in our budget for the last several years. I think it's fair to ask what value will the American taxpayer get for that extra billion or so dollars that the administration is proposing. It would help taxpayers get the service they need and strengthen the compliance in key areas, especially the two I mentioned earlier, refund fraud and office for tax evasion.

Budget proposal halts the decline in key enforcement personnel we've had and allows the IRS to again invest in necessary basic infrastructure. In fact, our estimate is that we would generate over \$2 billion more in revenues with that increase in the budget, not just in enforcement but in the budget generally.

Ultimately, it's in everyone's best interests to have an IRS that can do its job. We don't believe any member of Congress wants their constituents, be they taxpayers, tax preparers or financial advisors, to go through the aggravation of not getting the help they need from the IRS. They don't want their constituents waiting in lines for hours at a taxpayer assistance center or having trouble getting through to us on the phone.

So my hope is that once we get beyond the issues surrounding the 501(c)(4) application process, and once the major tax related provisions of the Affordable Care Act and FATCA are up and running, we can have a more normal discussion about our budget. I look forward to working with Congress to solve this problem. I hope that one of the legacies of my time as IRS commissioner will be that we put the agency's funding on a more solid and sustainable basis.

There's another way in which Congress can help the IRS to improve the work it does, to assist taxpayers, and insure compliance with the tax laws. And that is to simplify the tax code. Congressman Dave Camp, Chairman of the House Ways and Means Committee, put it well when he introduced his tax reform proposal a few weeks ago. He said the tax code is ten times the size of the Bible without the good news. (Laughter) The taxpayer advocate in the IRS has estimated that individuals and businesses spend \$6.1 billion a year, billion hours a year, complying with the filing requirements of the tax code all in an effort to determine the right amount to pay taxes.

We can do better than that. And while I always stress tax policy is the domain of the Treasury Department, the administration and the Congress, those of us involved in tax administration are anxious to do whatever we can to assist in the process. Thanks very much for letting me spend this time with you. And with that, I'd be happy to answer any questions. I would note that there are a number of IRS executives here who are trained to throw hot biscuits at anybody who asks a really tough question. (Applause)

MR. BELKIND: Commissioner, the tax exemption for social welfare groups that engage in political activity has become a partisan lightning rod. Do you see a way for reasonable people to get the facts and agree on a path forward?

COMMISSIONER KOSKINEN: Being an optimist and having been around town a long time, I always think that there's a middle ground that should be acceptable to people. As I've said, my goal in this is for any regulation that is issued to be fair to everybody, clear and easy to administer. As you've probably noted in the press, we've gotten comments from people across the entire political spectrum, many of them very thoughtful analyzing the questions that need to be dealt with.

My sense is that there ought to be a way, and I'm confident we'll come up with a way, that while it may not satisfy everyone, for the average person and the average person running one of these organizations, as I say, should be viewed as something that's fair to everybody who's playing in the game. It's clear, makes their life a lot easier both in terms of applying for tax exempt status, and more importantly running their organization.

And most importantly from our standpoint, is easy to administer. We ought not to be to the extent we can avoid it in the decision of making political decisions. We're really a tax administration organization and my goal would be for any new regulation to further that goal on our part.

MR. BELKIND: While you won't finalize the new rules for a while with the campaign season approaching, so what steps are you taking now to objectively evaluate applications for social welfare groups?

COMMISSIONER KOSKINEN: As I noted, the IG in his report which highlighted the problems in the determination process had nine recommendations, all of which we've adopted. A couple of them are very important about training, that we should provide better training and clearer training to the extent you can about the situation for our employees at the front end. But we also, before every election, ought to renew that training so that as we move into an election cycle, if there are more organizations showing up people have an appropriate level of training to be able to sort through this.

As you know, the statute says that you should be exclusively a social welfare organization. Regulation issued in 1959 by the IRS said you should be primarily a social welfare organization. So, the test over time has been what are the facts and circumstances? So part of the difficulty is figuring out what does facts and circumstances mean and how do you apply it to a wide range of activities?

So one of the things that Danny Wuerfell, who was the interim IRS commissioner last summer, who did a great job as far as I'm concerned, talk about an impossible situation. That's what Danny had and I think he did a great job. One of the things they came up with to help solve the backlog was say while there's never been a percentage number assigned to what is primarily, anybody who was willing to sign that they weren't going to spend more than 40 percent of their time and resources on political activities could immediately get an exemption and qualify.

And a number of organizations, about 45 of them, immediately took that step and were qualified. So the people-- almost 90 percent of the applications backlogged last May and June have been resolved. The vast majority of those have been accepted. There are still some pending, some providing more information, some litigating. All of those still pending turned down the opportunity to take the 40 percent test, as it were.

Going forward, we now in addition to the training have an improved and clearer review process. So if any organization is selected for additional analysis, that decision is reviewed by a panel of people who've been well trained. The questions and information that people are asked for has been standardized and it's clear that it won't go into detail about people's backgrounds or donors. It really is designed to figure out what are you going to do as a social welfare organization? And we're trying to spend as much time asking that question as what are your political activities? Because again, these organizations are supposed to be primarily social welfare organizations so we're giving new applicants more opportunity to provide that information. But we're also giving new applicants the ability in this transition time to sign on again and say they're not going to spend more than 40 percent of their resources on political activities and they can be certified.

So, we think also that, as you know, part of my theory is of how to run a large organization, or any organization, if there are any issues that get raised in this process going forward, I am confident that the employees understand we want those issues and concerns raised quickly and easily through the organization and we'll get responses back to them promptly and appropriately.

MR. BELKIND: Do you agree that the IRS mishandled the situation in the first place? And if so, how could the agency have handled it better?

COMMISSIONER KOSKINEN: There's no doubt everybody who's looked at this has said selecting organizations by their name only for special or separate or detailed processing was a mistake, should not have happened, should never happen again in the future. The IRS IG, the TIGTA, in his report his findings were that inappropriate criteria were used in the selection process, by which he meant the identification by name only. People then have extrapolated from that, and on occasion the Inspector General and the public have referred to that as targeting. His findings simply said inappropriate criteria were used.

Whatever you call it, it's clear that it was a serious mistake. While as I say it's in a context of a small part of the overall operation of the IRS, I think it's an important issue for us to deal with, I really do feel strongly that all taxpayers need to be comfortable that whatever their interaction with us is, whatever they're applying for, they're going to be treated the same way as everybody else, whether they're Republicans, Democrats, belong to organizations, don't, whether they go to church or don't go to church. They are going to get the same treatment as everybody else when they come to us.

So I've spent my time parachuting into troubled organizations in the private sector and the public sector with one major theme, which is you are where you are. You got to play the hand you're dealt. You need to move the organization forward. So I've never spent time in any of my turnarounds second-guessing judgments and decisions that were made going back. And in this particular situation, as I noted, we have six investigations going out there who have looked at everything. So I've been asked a couple of times at different hearings, "Well, what do I think? How come I haven't done an investigation?" And I said, "First, if we start asking people questions looking backwards, we'll be accused by some of having trying to tamper with the investigations. Secondly, I haven't got the resources everybody else has to try to do that. And thirdly, I don't think it's productive. I said whenever the investigations are done, they'll tell us what facts they found. We will review those, respond appropriately, take any additional actions that we haven't already taken that seem to be reasonable and we'll move forward."

So I don't have a quick, easy handle about how did it go wrong and what could they have done differently. It is clear to me, although there's been some debate about that as well, that when you ask people to take a look at a circumstance and say it's a facts and circumstances test in light of the continually changing rules about what you can do and not do with political funding, that's not the clearest guidance in the world. So going forward in my play the hand you're dealt, I think it has been important for us to try to

the extent we can in this interim period to provide as many guideposts or guidelines and examples as we can as to what's political activity that counts in the small bucket that will jeopardize your primary activity and what's not? And there's advocacy activity, there's individual campaign finance activity. There are a lot of things that get done out there and that's part of the complications.

So I think had somebody in 1959 said the statute says exclusively so you can't do anything but social welfare activities, life would have been different and we probably wouldn't have had this problem as we go forward. Had we had a clearer definition of what political activity or political intervention is rather than just facts and circumstances over the last several years, we probably wouldn't have had this problem.

But as I say, my focus has primarily been on trying to make sure that going forward we are as efficient as we can be, that we deal with taxpayers fairly, that they are comfortable that that's our position and that I'm satisfied the Inspector General had good recommendations and that we're delighted to have accepted those. And as I say, if anybody else in these six investigations when they get done have other recommendations that we think make sense, we'll do that as well.

MR. BELKIND: National Public Radio reported yesterday and today about a \$230 million Christian television network in Texas that has registered with the IRS as a church. The report noted that the IRS allows dozens of entities to register in this way and in fact has not audited a church of any kind in more than five years. Do you think it is appropriate for a broadcast network to have church status? And does the IRS plan to exercise any oversight role over these networks or churches in general?

COMMISSIONER KOSKINEN: Well, that sounds like a non-controversial question. I ought to be able to answer quickly. (Laughter) Obviously, we all are familiar with churches that historically have had radio networks, television networks, have broadcasts reaching out to their constituents, their members, the people following those faiths. And I think ultimately everybody has been comfortable with that.

It obviously gets a little more difficult when you start having those networks used not just for advocacy but to start running in campaigns, although I don't know how many of them are doing that. But the question about, A, again are the rules clear, is a good question that we need to always be aware of. As I say, one of the questions about the proposed draft regulation has been-- the focus has been on (c)(4), should it apply to other tax exempt organizations? Should we have a clearer idea of if you're a trade association or a union or a church broadcast network, should the rules of the road be clearer for you as well as for the IRS?

Part of our issue and our challenge has been in terms of the examination side of the issue, is that we get 60 to 70 thousand applications a year for tax exempt status. The vast majority of those are 501(c)(3)s. I think it's a million, six hundred thousand tax exempt organizations out there, about 100,000 are social welfare organizations, and then only a small percentage of those are political advocacies. But we have all sorts of

other organizations out there. And what we're trying to do is we have a big backlog on the (c)(3)s especially because that's where we get the volume, partially because a lot of them got decertified for not filing, by statute, not filing their annual reports. So we're taking a look, totally new look, about how we process 501(c)(3) applications at the front end because I'm as concerned about the backlog there as people were concerned about the backlog on the (c)(4). And a lot of these organizations are going to do good things. They're local PTA, soccer clubs, whatever it might be.

Part of our challenge is historically, for all the obvious reasons, we've treated everybody applying for a (c)(3) application as if they were the same. So if you're the Des Moines PTA or you're going to spend a million dollars a year in some very arcane charitable activity, we give you the same 31 page form and deal with you the same way. You step back, you say it's probably not the most effective way to do it. And there's a wonderful group of employees who have been looking at streamlining, reviewing and assessing the front end of the process.

This summer, we expect to have a much more streamlined application for those who qualify. I call them the Des Moines PTA, and they should be able to be approved in a matter of days or a couple of weeks, which would allow us at the front end to spend our time with the really complicated organizations. But also, more significantly, allow us to spend more time on the examination side to make sure that two years, or five years, after they applied and were provided an exemption, whether it was (c)(3), (4), (5), or (6), the public needs to be satisfied they're doing what they said they were going to do.

In most cases, they are, but if somebody's not performing and not engaging in the activities that they said they were, then we need to have probably a conversation with them. The good news is the 990s that everybody files are public documents. So, people supporting those organizations themselves will have some indication of what the organization is up to, how much money it's spending on its officers, for instance, as opposed to on its charitable missions.

They're all sensitive. These organizations started out trying to do very good things. But I think it is important for us to be able to assure the taxpayers that people benefiting from tax exempt status are, in fact, performing as they said they were going to.

MR. BELKIND: Regarding tax reform, what are the odds of getting any kind of substantial reform package approved now that House Ways and Means Committee Chairman Dave Camp has announced his retirement?

COMMISSIONER KOSKINEN: You're sitting out there hearing these questions. I'm beginning to get some suspicious. There are some hand written and I'm impressed that Myron can actually read them. And then there are some typed out, which leads me to believe that some of you thought of this beforehand. Obviously, two of the major leaders in the Congress for tax simplification, tax reform, were Congressman Bachus, Chairman of the Finance Committee, and Chairman Camp of the House Ways and Means Committee, who worked together doing what I thought was a very creative

thing saying let's start with a blank slate and then congressmen and senators could write in which deductions, which tax expenditures should we continue and kind of why. You would think that's a straightforward exercise. It got to be so controversial, they had to agree they'd keep all that under lock and key in a safe so nobody would quite know what you had done.

We spend, the last estimate I saw, like a trillion, three hundred billion dollars a year in tax expenditures. You know, one man's loophole is another man's deduction that's important for his social purposes. But it is critical, it seems to me, for us to recognize the point. The reason I quoted Chairman Camp's comment about ten times the size of the Bible is I kept saying we have to have a way for people to understand how crazy this system is, how big the tax code is, and ten times the size of the Bible is one way to look at it.

So, it strikes me that it's a critical initiative to try to wherever we can, whether it's corporations, individuals, to simplify the code. I think compliance would go up, I think it'd be a lot easier for people to figure out what the right amount to pay is. But the question is, okay, what are the chances? Well, even before Senator Bachus went off to China and Senator Camp this week announced he was going to retire, the chances obviously were not really terrific, particularly in an election year, that people were going to attack the entire question of what do you do with this tax code and all the credits, loopholes, deductions, whatever you want to call them, as we go forward.

So I think being an optimist, is I tell people you can't do all of this for 40 years without being optimistic things will get better. So being an optimist, I think it's probably not high likelihood we're going to get it done this year, but there's a growing number of people who have formed different working groups at different times over the last two or three years in the Congress who have focused on the importance and the need for tax simplification. And in fact in my courtesy calls, I've probably seen close to 50 senators by now and 30 or 40 congressmen. I get asked by a number of them, all parties, would we be helpful in trying to help them think about tax reform, tax simplification? I keep reminding them, policy's up to the Treasury and administration and the Congress.

But I have taken the strong position if somebody wants to think about how to simplify the code, we need to be in that discussion to make sure that the simplification really is simple. A lot of times, people think they're simplifying things and it gets more complicated. So I'd love to see it happen, but the bottom line-- I gave a short answer once a long time ago, I can't remember when it was-- the bottom line answer to this is I think the chances are probably unfortunately slim that it's going to get done this year.

MR. BELKIND: If I could explain, as soon as we announced a-- I'm not defensive-- when we announce a speaker is coming, we encourage people, all our members and the general public, to send in questions in advance. And my assistant stays up all night the night before, or at least early morning hours, typing them up. But I'm pleased to answer the question because it does show everybody that we do get a diverse range of questions from a diverse group.

A non-controversial question. If you were rewriting the tax code, what would be the three main changes you would implement?

COMMISSIONER KOSKINEN: Well, my first response would be to say that's a tax policy question. You has to ask Secretary Lew what that would be. I think there are a lot of different ways. I was on three major public company boards so the whole issue of taxation of American companies who are doing business abroad is complicated. Everybody knows about the issue about transfer pricing. If you're a software company, Apple, and you're located and you've moved products around, one of the boards I was on was a big international power company. You don't move power plants very readily from one country to another for tax purposes. But nonetheless, a tremendous amount of time and effort is spent by corporations trying to figure out-- nobody wants to pay more taxes than they have to. But just trying to figure out how to work your way through that whole issue is a very complicated one.

For individuals, those who are not taking the standard deduction and filing simply, I've always found the alternate minimum tax provision almost impenetrable. I went to law school, I took tax courses, I think of myself as interested in these things. Every year, I get it and there's the AMT calculation and I try to figure out whether I'm better off or worse off or how it goes and it's very tough. And now, the people who know more about it than I do say it's covering a whole lot of people it wasn't intended to cover when it began. So those are a couple of places that are obvious.

My concern has been all of these are difficult. When we in 2008 suddenly ran into a huge challenge with the deficit and people started to say we've got to look at this situation, it seemed to me a unique once in a lifetime opportunity to look at all of this all at one time. As I've said, if you guerilla war fight your way through every deduction that people can take, there's an embedded group of people, an industrial military complex, supporting whether it's home interest deductions or charitable deductions, or whatever else it might be. So you've got to deal with each one of them, that's a problem.

When talking with Congressman Camp in my first visit with him I said, "But the advantage of dealing with it all at once is the lobbyists can't all go through the door at the same time." And to some extent, they feel a little queasy about the fact that they're all there, self interest pleading as we go. So my concern has been that as we move forward, to do it right you've got to do it kind of all in a package. And if you're trying to pick around the edge, it's not going to work.

So I thought Congressman Camp's proposal itself 938 pages long, was an important start because it tries to do it all at once and tries to approach it that way. And I would just hate to see us as a country lose that opportunity to try to build a political coalition and down in the middle of the road it says, "Okay, it's been 1986 the last time we thought about it." Every 30 years, we probably ought to say, "What can we do to make it simpler?"

MR. BELKIND: Since employer reporting of health coverage is voluntary for 2014, how does the IRS plan to enforce the individual mandate?

COMMISSIONER KOSKINEN: The individual mandate is actually going to-- it's complicated in terms of the information technologies, you can assume that. But what we've got is for the vast majority of Americans, they're going to check off they've got insurance because they got insurance or Medicare and none of this is going to have any impact on them at all. The place where it will have an impact is on the people who've gotten insurance and qualify for a premium tax credit, or the people who should have insurance and don't have any and then they're in the responsibility payment question.

So the question is okay, now how do I know when somebody shows up how to deal with their credit. Well, first of all, the fraud issues here are less attractive to criminals and others because your tax credit, premium tax credit doesn't go to you, it goes to the insurance company if you get an advanced premium tax credit, which most people are.

So during the year, unless you got an uncle working at Blue Cross you're trying to get more premiums to, you're basically not going to get any money yourself out of this so you're going to probably try to get as big a credit as you can. But it'll be tied to your estimate of what your income is, just the way we all estimate with W2s what our income's going to be. So when it comes in, you're going to say, "Okay, here's my income." And we'll have the usual question about whether that's the right number and we've got a lot of experience at testing whether that's the right number.

You'll say, "This is my income and it qualified me for assistance. And this is what I got during the year," and it will either be more or less than you were qualified for and we'll have to figure that out according to your income. And you'll either owe us a little or we'll pay you a refund for it. But either way, you had to have a policy because we are getting this year information from the exchanges and the insurance companies about who actually bought a policy. So you can't show up and say, "I'm really eligible for a tax credit for a policy that I don't own or I never had."

Third party employer information is coming in, we're working with the companies to figure out how to get all of that data in. Ultimately, will allow us to determine on a month by month basis, which we won't be able to be quite as artful about this year, as to whether you had coverage or didn't have coverage at different months during the year. So there will be some issue there about whether you were qualified the entire year that for the filing season '15 next year, 2014, we won't have the same accurate information we're going to have the following year.

But for what everybody has basically been concerned about is how much fraud's going to be involved in people getting money. As I say, the money is going to the insurance companies and if you apply at the end of the year and have a credit coming, it's because of a policy that we'll know you had from an insurance company.

MR. BELKIND: Recent news reports showed that Caterpillar exploited legal loopholes to move money from its replacement parts business in the United States to Switzerland to avoid paying \$2.4 billion in taxes over a decade. What do you think of what Caterpillar did, and should those legal loopholes be closed?

COMMISSIONER KOSKINEN: The one good thing about being IRS commissioner is I can't talk about individual cases. And in fact, I'm not even allowed to know about individual cases inside. So we protect taxpayer information against all comers outside the agency. We protect it within the agency. IRS employees can only access taxpayer information if they have a need to know with regard to that taxpayer and we track that. So you can go into the database, you just can't wander through it.

And then in particular, as I say, because I don't have a need to know, I don't know anything about what's going on and people are very careful not to tell me. So I avoid commenting on individual companies and what they're up to other than to say even with constrained resources, we still audit people. Not maybe as many as we're used to, and so we are always on the lookout for places to audit and people we ought to keep an eye on. We spent a lot of time over the last three or four years, five years, working with countries abroad about individuals who are hiding assets thinking they can get away with it, which I think they no longer can.

But another issue is the whole issue in a global economy, what are companies doing trying to move assets around to avoid taxes. And one of the reasons we're getting such significant cooperation from countries across the world is everybody has discovered in a global economy, they all have companies and individuals who are citizens of one country living somewhere else. So it's in everybody's interest to try to share information and try to make sure people pay the appropriate amount.

So my message to individuals and companies is our goal ultimately is to have everybody pay the right amount. Not more, but not less. And if you're consciously cheating and trying to figure out ways to avoid tax, you're the people we're after. If you're willing to pay and you just have difficulty, you lost your job, you have a health problem, again we want to work with you on that and we have all sorts of ways that we can be helpful. But if you're just out there consciously trying to avoid your fair share, as I tell the employees, I'm happy to chase you to the end of the earth and see if we can't throw you in jail. (Laughter)

MR. BELKIND: We are almost out of time, but before asking the last question, and I wait to hear the answer because I think you'll appreciate the question, we have a couple of housekeeping matters to take care of. First of all, I'd like to remind you about our upcoming events and speakers. April 14th, Lewis Black, comedian, will discuss politics and social issues. April 23rd, General Mark Welsh, Chief of Staff United States Air Force will be here. And on May 28th, Dr. Ben Carson, neurosurgeon and author will be here.

For our last question, Commissioner, I'd like to ask you, how much of today's lunch can I deduct? (Laughter)

COMMISSIONER KOSKINEN: Ah, very good question. It's another one of those rules that keeps changing, obviously. It used to be you deduct it all if it was business expense, then you couldn't deal with alcohol. Then you can now deduct half of it. My advice again is not giving advice to anybody, is consult your preparer and he'll tell you.

The interesting question would be, because I like Lewis Black, obviously, if we had switched and I read Lewis Black's statements and speech to you and he read mine, and the question would be which way would that have been better? But I'll leave that for you to decide. Let me thank you again for taking the time to join us and patiently listening to all of the information. (Applause)

MR. BELKIND: And finally, I'd like to present you with the traditional National Press Club mug.

COMMISSIONER KOSKINEN: See now, another question is what do I do with the cup? Can I take it? What am I being asked to do? I can't eat it. You know, one of the theories, well if you can eat it, nobody cares, much like the bitcoin cookies. But I think it's within the minimum so I can say thank you very much. (Applause)

MR. BELKIND: Thank you, Commissioner, ladies and gentlemen. We are adjourned. (Sounds gavel.)

END