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ANNUAL REPORT OF THE INTERNAL REVENUE SERVICE TAXPAYER ADVOCATE

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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ANNUAL REPORT OF THE INTERNAL REVENUE SERVICE TAXPAYER ADVOCATE

TUESDAY, FEBRUARY 3, 1998

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:12 p.m., in room 1100, Longworth House Office Building, Hon. Nancy L. Johnson [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
January 27, 1998
No. OV-11

CONTACT: (202) 225-7601

Johnson Announces Hearing on the Annual Report of the Internal Revenue Service Taxpayer Advocate

Congresswoman Nancy L. Johnson (R-CT), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the Annual Report to Congress of the Internal Revenue Service (IRS) Taxpayer Advocate. **The hearing will take place on Tuesday, February 3, 1998, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include Lee Monks, IRS Taxpayer Advocate; and several IRS District Office Taxpayer Advocates who work on the front lines trying to resolve taxpayers' problems. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

Congress enacted the Taxpayer Bill of Rights 2 (TBOR 2; P.L.104-168) in 1996 in order to expand the safeguards available to taxpayers in their dealings with the IRS. TBOR 2 requires the IRS Taxpayer Advocate to make an annual report to Congressional tax-writing committees identifying the initiatives undertaken by the Taxpayer Advocate in the previous fiscal year to improve taxpayer services and IRS responsiveness. The report discusses the 20 most serious problems taxpayers experience in their dealing with the IRS, as well as offering recommendations for administrative and legislative actions to address such recurring problems. Last month, the Taxpayer Advocate submitted his "Annual Report to Congress" covering fiscal year 1997. This is the second report submitted as a consequence of TBOR 2.

The IRS Problem Resolution Program (PRP) is intended to assist taxpayers in cutting through "red tape" and resolving tax disputes more quickly. The Office of the Taxpayer Ombudsman, an executive level position on the immediate staff of the IRS Commissioner, heads the PRP organization. The original 1988 Taxpayer Bill of Rights (P.L. 100-647) and the 1996 TBOR 2 codified many of the administrative safeguards initiated by the Taxpayer Ombudsman and enacted important new taxpayer rights going beyond the existing authority of the IRS. TBOR 2 renamed the Taxpayer Ombudsman as the Taxpayer Advocate and increased his legal authority to help taxpayers.

Along with giving the Taxpayer Advocate more legal authority Congress wanted to exercise more oversight over how the Taxpayer Advocate was administering the PRP program. TBOR 2 sought to achieve a better understanding of taxpayer problems by directing the Taxpayer Advocate to report to Congress annually. Pursuant to TBOR 2, the Taxpayer Advocate's annual report is not subject to review or editing by other persons in the Executive Branch.

In announcing the hearing, Chairman Johnson stated: "The level of public frustration with the IRS has been well established in recent months. We all have heard the horror stories. But it isn't enough to view with alarm. We have to act. The House-approved legislation to restructure the IRS, which includes recommendations of the Oversight Subcommittee for a Taxpayer Bill of Rights 3, is an important step. The Taxpayer Advocate, who has been charged by Congress with identifying problems and making recommendations, has submitted his second annual report. As another tax filing season approaches, it is imperative that we eliminate as many of these problems facing taxpayers as soon as we can."

FOCUS OF THE HEARING:

The hearing will examine the details of the second Taxpayer Advocate report and focus on further administrative and legislative actions needed to help improve taxpayers rights and reduce taxpayer burdens.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format only, with their name, address, and hearing date noted on a label*, by the close of business, Tuesday, February 17, 1998, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at "http://www.house.gov/ways_means/".

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman JOHNSON of Connecticut. Good afternoon, ladies and gentlemen. I want to welcome you to the first Oversight Subcommittee hearing of 1998. We have a challenging agenda ahead, and I am particularly pleased that the new Commissioner is able to join us today, Commissioner Rossotti, to start off our year's work.

Today's hearing, though, will pinpoint where taxpayers are experiencing the most serious problems in dealing with the IRS and present us with the legislative changes which might address these problems. Congress passed the Taxpayers' Bill of Rights in 1996. It improved the procedural rights of taxpayers in dealing with the Internal Revenue Service. For example, it gave taxpayers who prevail over the IRS the upper hand in getting their attorney fees reimbursed by the IRS. It requires the IRS to make a reasonable effort to collaborate the accuracy of disputed information returns. It also gives the IRS the legal authority to abate interest in fixed deficiencies and to return improperly seized property to the owner. None of these provisions is flashy or glamorous, but, frankly, they are the nitty-gritty details that can make the difference between a taxpayer's relationship with the IRS going smoothly and a taxpayer's life miserable.

The House of Representatives extended this tradition of helping taxpayers in November of 1997, when it passed the IRS Restructuring and Reform Act. Included in this legislation is a new Taxpayers' Bill of Rights, TBOR 3, which would extend even more protections to taxpayers. For example, it would switch the burden of proof to the IRS in court cases where the taxpayer has fully cooperated with the IRS. It would allow taxpayers to press damage claims for the negligence of IRS agents in collection cases, and it would expand the application of innocent spouse provisions in the tax law.

The Taxpayer Advocate and Congress can be partners in helping taxpayers. That is why TBOR 2 strengthened the advocate's authority to help taxpayers and directed him to report annually to the tax-writing committees of Congress. the annual report is the formal vehicle for the Taxpayer Advocate to tell the Congress about the most serious problems which taxpayers are experiencing, as well as presenting legislative proposals for helping taxpayers.

Let me also say that I am just particularly grateful that this report does give us some concrete suggestions, but it is also my hope—and I've talked extensively with my own staff about this, so I understand this is one legislator's hearing of the law she helped write versus everyone else's understanding of the law as it was written, but I do hope that we will use this opportunity in the future not just to have legislative proposals that are as narrow and specific, but to look at some of the bigger issues of simplification that also dog the taxpayers as they come in. So I want to be sure to put on the record that, as pleased as I am that this report is a giant step forward over last year's report, I think the challenges are still out there for all of us in terms of using the information the advocates get directly from taxpayers in trouble to inform us as to how we correct, strengthen, and simplify the code.

I am particularly pleased, however, that Commissioner Rossotti is with us, and I want to point out that Commissioner Rossotti is from the American Management Systems, Inc.; that he was with

American Management Systems, an international business and information technology consulting firm which he helped to found in 1970, and where he was chairman of the board. From 1965 to 1969, he held various positions in the Office of Systems Analysis within the Secretary of Defense's office, where he was honored with a distinguished civilian service award for his work as Principal Deputy Assistant Secretary of Defense.

I mention that because I think as all of us worked our way through the IRS reform bill, our goal was to create a far more vital and informed partnership between the public and private worlds of government and the citizenry, and your coming to lead the IRS, with the breadth of experience you had in the private sector, coupled with some experience in one of the biggest bureaucracies of the world, is, I think, a very fortunate thing for all of us. It's one of the reasons why I've watched your comments with great interest and was very pleased when you agreed to kick off this hearing.

I'd like to yield to my Ranking Member here, Mr. Coyne, and then, thereafter, introduce Mr. Monks.

Bill.

Mr. COYNE. Thank you, Madam Chairman. I'd like to say that today the subcommittee will hold a very important hearing to discuss the future operation of the IRS and the continuing needs of America's taxpayers.

I want to welcome to the Oversight Subcommittee the new IRS Commissioner, Mr. Charles Rossotti. I appreciate your appearance before us today, and I look forward to many years of working together to reform and improve the agency.

Undoubtedly, taxpayers and the Congress will benefit greatly from the expertise Commissioner Rossotti brings from the private sector, as Chairwoman Johnson said, particularly in the areas of technology systems, large organization management, and customer service.

On IRS restructuring, I want to repeat the words of the President in his State of the Union address when he stated, "This bill must not now languish in the Senate. Follow the House; pass the bipartisan package as your first order of business in 1998." I join President Clinton in that message and will continue to work toward timely enactment of IRS restructuring reforms.

Also, I want to welcome the IRS Taxpayer Advocate, Mr. Monks, to our hearing today. It is important that the Oversight Subcommittee carefully consider the analysis and recommendations contained in the Advocate's Second Annual Report to the Congress. The Advocate's work on behalf of taxpayers continues to be outstanding and very helpful to the subcommittee in our continuing effort to develop taxpayer rights legislation.

Finally, I want to thank the IRS District Office Taxpayer's Advocates for making the trip to Washington to appear before us today. I personally want to welcome the Taxpayer Advocate from the city of Pittsburgh, Mr. Louis Romito for his appearance before the Oversight Subcommittee.

I look forward to all the witnesses' views on how we can make life easier for taxpayers in their dealings with the government, and whether the Taxpayer Rights 3 legislation, which recently passed

the House of Representatives, can be improved upon before its final enactment.

Thank you.

Chairman JOHNSON of Connecticut. Commissioner Rossotti.

STATEMENT OF THE HONORABLE CHARLES O. ROSSOTTI, COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. ROSSOTTI. Thank you, Madam Chairwoman and members of the committee. Thank you very much for your generous comments about me. I stay up at night whenever I hear those, as I keep thinking how can I live up to those kinds of comments, but I will do the best I can.

Chairman JOHNSON of Connecticut. Better enjoy them while you can. [Laughter.]

Mr. ROSSOTTI. Thank you for giving me the opportunity to outline my concept of how we can modernize the IRS. In my written statement, I have provided some additional details concerning the specifics in the Taxpayer Advocate's report.

At the outset, let me say that the restructuring bill which passed the House, and which had its inception in the Ways and Means Committee, is essential to the concept that I'm going to outline. In fact, the modernization concept is heavily based on the work of the Restructuring Commission, which was co-chaired by Congressman Portman.

From all this work, I think a clear sense of direction for the IRS has emerged: the IRS must shift its focus away from its own internal view of itself and its own internal operations, and think about its job from the taxpayers' point of view. I think from the taxpayers' point of view, there are really two ways that we serve the taxpayer. We serve the taxpayer, each taxpayer with whom we deal directly, one at a time. These kinds of one-on-one interactions range from the routine, such as providing forms and information, to more complex interactions, such as when a taxpayer mails money as a result of an examination. But in each and every one of these interactions with taxpayers, we should provide first quality service and treatment that is prompt, professional, and helpful based on what we know to be their particular needs.

Secondly, we serve all taxpayers as a whole by ensuring that compliance is fair. Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying.

I believe that the IRS, over time, can greatly improve both kinds of service to the taxpayer. Furthermore, I believe that we can accomplish this while also processing a greater volume of workload with the workforce we have. Our workforce is competent and dedicated, but it is handicapped by outdated practices and technology.

In the near term, we are taking action to move forward on these goals. For example, the Problem Solving Days, which were sponsored by the Taxpayer Advocates, and which I'm sure you'll be discussing later, are excellent examples of the way that we should be serving taxpayers. We've also taken many other steps, such as raising the level of management review on enforcement actions, like seizures, and to see that inappropriate use of enforcement statistics is ended. These are only a few of many actions that we are taking

this year to improve service and provide proper treatment of taxpayers.

Of course, we're also very closely managing our enormous and challenging program to update our computer system for the century date change and the tax law changes required by the 1997 Taxpayer Relief Act. Most of this work, by the way, must be completed in the next 12 months prior to the 1999 filing season.

As important as these-near term steps are, they will not enable us, I don't think, to meet our goals, unless we make some more fundamental changes to our way of doing business at the IRS. That is the reason for the concept that I'm about to outline.

This concept includes a renewed mission which emphasizes service and fairness to taxpayers, practical goals and guiding principles which define the path of those goals. We will reach these goals through changes in five key areas which are actually listed on the chart to my right.

The first one is that we must revamp all of the IRS business practices, so that they focus on understanding, solving, and, where possible, preventing taxpayer problems. Each of the IRS's business practices—from customer education to filing assistance to collection—holds a great deal of promise for improvement by our gaining a greater understanding of the particular problems that taxpayers have.

For example, our business practices should make filing easier for all taxpayers by providing readily-accessible high-quality assistance to those taxpayers who need help in filing and by having more returns filed electronically. Just as companies in the private sector develop very particular and specialized marketing programs to reach customers with differing needs, we can help taxpayers more effectively by tailoring our publications, education, communications, and assistance programs to taxpayers with particular needs.

For example, college students who often can file with a simple 1040-EZ form and a 10-minute phone call, have very different needs from senior citizens with social security and investment income, who may be best served through a network of volunteers who specialize in the needs of seniors.

This principle of tailoring our services to the needs of particular groups of taxpayers, just as the private sector does, is, I believe, a cornerstone of how we can dramatically improve our service to taxpayers, as well as our own internal productivity.

Another very important example is in the area of collections, which is where some of our most difficult interactions with taxpayers occur. Today, 90 percent of the activity of our phone and field collectors at the IRS is allocated to accounts that are six months old, and many are much older than that. This is exactly the reverse of experience in the private sector. In the private sector, the proven keys to effective collection are to identify as promptly as possible those customers who may present a risk of nonpayment, and to work out a payment program that addresses that particular customer's problem. This approach helps the customer, as well as the collecting agency, and also minimizes the need for enforcement action.

The second area of change is that we must establish an organization structure that is built around taxpayer needs. The IRS organi-

zation structure today, which is being shown in this chart on the right here, really no longer enables our managers to be knowledgeable about and to take action on, major problems affecting taxpayers nor is it capable of modernizing the business practices and technology we need.

The principal IRS organization today, as shown in this chart, at the lower part of the chart, is built around 33 districts and 10 service centers. Each of these 43 units is charged with the mission of serving every kind of taxpayer, large and small, with simple or complex problems. Every taxpayer is serviced by both a service center and a district, and sometimes by more than one service center and district. Each of these units performs customer service, collection, and examination activities for each taxpayer.

For example, in the collection area there are three separate kinds of organizations spread over 43 organizational units, that use three separate computer systems to support collection. Each of these three types of units collects from every kind of taxpayer, from small businesses to wealthy individuals. On top of this district and service center structure, there are many layers. There are eight intermediate layers of staff and line management between a front line employee and the Deputy Commissioner, who actually is the only manager besides the Commissioner who has full responsibility for service to any particular taxpayer.

Fortunately, there are solutions to this kind of organizational problem which are widely used in the private sector. Just as many financial institutions have different divisions that serve retail customers, small to medium business customers, and large multinational customers, the taxpayer base of the U.S. falls naturally into similar groups. This fact does not reflect anything in particular about the IRS. It just simply reflects the structure of the U.S. economy.

Therefore, as shown in the chart that has just been put up, the logical way to organize the IRS is into four units, each of which would be charged with end-to-end responsibility for serving a particular group of taxpayers with similar needs. These units, then, could replace the four regional offices and a substantial part of the national office, allowing the national office to better fulfill its responsibilities of oversight and broad policy rather than operations.

By organizing in this way, the management teams for each unit could learn a great deal about the needs and particular problems that affect each group of taxpayers. The tax code is extremely complex, but most of it does not apply to each group of taxpayers.

I see that I'm getting my yellow light on here, so I will speed up a bit.

There are, as indicated in my written testimony, very different problems in each of these taxpayer groups, and I think that's a very important point to observe, which we can talk about.

Moving on to the other three components, though, of this overall modernization concept is the need to establish management roles which have more clear responsibility, and I think with each unit being clearly responsible for serving a group of taxpayers, we would be able to not only fix clearer responsibility, but also set up management teams which would have more attractive jobs for the peo-

ple in those teams, and we would be able to track people both inside and outside.

Fourth, I think we would be better able to establish more balanced measures of performance that take into account both customer satisfaction as well as compliance. I believe this would help us to solve the longstanding problem of the use of enforcement as a key measure of success in the IRS.

And, finally, I think it would enable us to deploy new technology more effectively, which is one of the real limiting factors in our ability to modernize our business practices today. Building new computer systems to support the old business practices will not work.

So all of this is summarized in the large chart, and I want to emphasize that a great deal of study is required to validate this concept and to decide on many details, and much consultation will be required internally and externally during the study process, which we hope to complete by early summer. So there's an enormous job ahead of us, but I am confident that, given time and support from the Congress and the public, this path will lead us to the goal which we seek, which is an IRS which provides consistently first-quality service to all taxpayers.

Thank you.

[The prepared statement and attachments follow:]

**STATEMENT OF CHARLES O. ROSSOTTI,
COMMISSIONER OF INTERNAL REVENUE
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
HOUSE COMMITTEE ON WAYS AND MEANS**

FEBRUARY 3, 1998

Madame Chairman and Distinguished Members of the Subcommittee:

I appreciate the opportunity to appear before you today as the Commissioner of Internal Revenue. As early as my confirmation hearing last October, I had already determined two things: that the IRS must do a far better job of serving taxpayers, and that achieving a goal of consistent first rate service would require a major shift in the IRS's focus. I commit to you, as I did to the Senate Finance Committee, that I will improve the work of an agency that directly affects so many people and do so to the best of my ability.

This very hearing is evidence that we agree on the need to better serve our taxpayers. The Committee's initiatives in expanding the duties and responsibilities of the Taxpayer Advocate in the Taxpayer Bill of Rights legislation, and in calling this hearing to receive the Advocate's recommendations, send important messages to the nation that the taxpayers have someone on their side. In its watchdog capacity, I believe the Taxpayer Advocate can help the IRS improve itself. As the new Commissioner of Internal Revenue, in my testimony today, I will detail my concept to modernize the nation's tax agency which does envision an expanded role for the Taxpayer Advocate.

The Taxpayer Advocate's Fiscal Year 1997 report before you today offers an interesting and substantive summary of problems over the past year at the IRS, including some recommendations that I understand have been implemented already. I am currently reviewing and studying the report, although it is too early for me to comment on the specific details which took place before my term began. I will say, however, that I will take a close look at the report, including the 18 legislative proposals, and seek advice in determining their impact on our mutual goal of improving service to the nation's taxpayers.

Since my appointment, I have read thousands of pages of studies and reports, met with over 500 IRS employees, reviewed the ongoing audits conducted by the IRS Chief Inspector, visited offices all across the country, spoken with taxpayers at Problem Solving Days and met with various practitioner and professional groups. I have learned a great deal from the work of this Subcommittee and and the full Ways and Means Committee, and from the work of the Senate Finance Committee. Drawing upon these sources, the report and recommendations of the National Commission on Restructuring the IRS, and my own 28 years of experience as a manager, I have reached a clear and inescapable conclusion: the IRS must shift its focus away from its own internal operations and think about its job from the taxpayers' point of view.

I am pleased to be here today to outline my concept to you. However, before I outline my concept of a new IRS, let me briefly share my vision on a key component of that concept - and the subject of this hearing - the operations of the Office of the Taxpayer Advocate.

THE OFFICE OF THE TAXPAYER ADVOCATE

The Service has had a Taxpayer Advocate (formerly called the Taxpayer Ombudsman) since 1979. The Taxpayer Advocate is a crucial position in the IRS. Taxpayers who are experiencing problems that they cannot clear up through normal channels, or who may be experiencing significant hardship as a result of IRS action, or who want to register a complaint about treatment by IRS can contact the local taxpayer advocate in the district in which they reside or at the service center with which they may

be corresponding. Taxpayers may also communicate directly with the Taxpayer Advocate here in Washington, D.C. In helping resolve difficult individual cases, the Taxpayer Advocate's office compiles and tracks data on the types of problems taxpayers experience with the IRS and then works with appropriate IRS officials to correct any system deficiencies contributing to those problems.

Problem Solving Days

The current Taxpayer Advocate's office played a key role in the success of the IRS's recent Problem Solving Days. On September 25, 1997, Deputy Commissioner Mike Dolan announced that each IRS district would begin holding monthly Problem Solving Days (PSD) to provide taxpayers an opportunity to meet with Service personnel to resolve special tax problems they might be encountering. On Saturday, November 15, 1997, we held our first Problem Solving Day. In all, more than 6,200 people were assisted at 33 different locations throughout the country. Since then, we have held many more Problem Solving Days throughout the country. I have personally attended several Problem Solving Days and believe they play a critical role in helping our taxpayers get to the bottom of their special problems. As of January 16, 1998, more than 16,200 people have been assisted during these days throughout the country.

We are pleased with the initial success of Problem Solving Days. According to the customer satisfaction survey distributed at the November PSD, taxpayers were extraordinarily pleased with the quality of service they received. With a 55 percent response rate, customers gave the day an average rating of 6.46 on a scale of 1 to 7, with 7 being "completely satisfied." Approximately 75 percent of respondents gave the IRS the top rating of 7 for "overall service." The highest overall rating of 6.66 was for employee courtesy.

During the two Saturdays prior to April 15, 1998, IRS will hold "Problem Prevention Days." Local offices will assist taxpayers in preparing returns and in voluntarily complying with tax laws.

Future Role of the Taxpayer Advocate

As you are aware, Madame Chairman, the House-passed restructuring bill expands and strengthens the duties of the Advocate. In addition, the increased focus on taxpayer rights and customer service, as well as the need to increase and improve reporting to the Congress and the public, call for an independent individual to respond to the concerns of the nation's 120 million individual and 6 million business taxpayers. Therefore, last week we announced that the IRS has hired a worldwide executive search firm, Korn/Ferry International, to help us locate additional top quality candidates from outside of the Service to consider for the next Taxpayer Advocate.

Today, you will hear some excellent suggestions from Lee Monks about the past year and changes that could help improve service to taxpayers. I have also taken steps to increase both the authority and responsibility of the Taxpayer Advocate to ensure s/he is the "voice of the taxpayer" within the IRS and with the Congress; to identify the Taxpayer Advocate as the focal point within the IRS to continuously improve our internal processes and procedures as they affect impact taxpayers; and to designate the Advocate as a key individual in identifying areas of current or proposed tax law that create unnecessary confusion or burden to taxpayers.

As the "voice of the taxpayer," the Taxpayer Advocate will be charged with assisting taxpayers, both individually and collectively, in resolving problems with the IRS, identifying areas in which taxpayers have problems in dealing with the IRS, and proposing changes in the administrative practices of the IRS or legislative solutions to mitigate problems identified. In addition, the Taxpayer Advocate's specific duties will include: advocating for the taxpayers within the IRS; recommending systemic improvements; reporting to the Congress and the public about advocacy issues; managing

a staff of approximately 400 employees and budget of $24 million; and participating in analyzing proposed changes to tax laws.

Problem Resolution Program

In the future, the IRS will also devote more resources to the Taxpayer Advocate's Problem Resolution Program (PRP). We plan to increase the National Office PRP staff by one-third and to provide additional resources to the field offices. This is being done to avoid the development of additional problem cases, while granting the new Advocate the necessary resources to reach out and better educate taxpayers.

Madame Chairman, I believe that the actions we have taken recently and the ongoing discussion of the restructuring legislation point the direction for the IRS into the next century. Let me now turn to my concept for modernizing the nation's tax agency.

CONCEPT TO MODERNIZE THE NATION'S TAX AGENCY

Madame Chairman, I would like to lay out my concept of how we can modernize the IRS. The House passed restructuring bill, which had its inception in the Ways and Means Committee, is crucial to the effort I am about to outline. The legislation is a necessary and critical enabler of the change that the IRS must undertake.

How can the IRS shift its focus and become the customer-oriented agency it must become?

I have carefully reviewed the work done by the National Commission on Restructuring the IRS, read many thousands of pages of internal studies of IRS business practices, technology and organization, and have met with hundreds of IRS employees as well as others who are vitally interested in our tax system. I have consulted with the Secretary of the Treasury and benefitted by the work of the Treasury and National Performance Review task force on customer service.

A clear sense of direction has emerged from this work and from the problems brought to light by this Subcommittee. The IRS must shift its focus from its own internal operations and think about its job from the taxpayers' point of view.

The IRS today does a remarkable job of processing 200 million tax returns, collecting with great integrity over $1.5 trillion, and providing service to millions of taxpayers. These capabilities represent great strengths for our country.

To meet the public's legitimate expectations in the future, however, we in the IRS must fundamentally change the way we think about our agency. We must become fundamentally committed to customer service. We must shift our focus, as many large companies have already done, from expecting our customers, the taxpayers, to understand and navigate the IRS according to our internal operations, to thinking about everything from the taxpayers' view. We must gain a greater understanding of taxpayers' problems and how we can best help them meet their obligations under the tax laws.

From the taxpayers' viewpoint, we provide service in two ways.

We serve *each* taxpayer with whom we deal directly, one at a time. These interactions with taxpayers range from the routine, such as providing forms and information, to the complex, such as when a taxpayer may be thought to owe more money as a result of an examination. In each and every one of these interactions with taxpayers, we should provide first quality service and treatment that is prompt, professional and helpful based on what we know to be their particular needs.

Secondly, we serve *all* taxpayers by ensuring that compliance is fair. Our tax system depends on each person who is voluntarily meeting his or her tax obligations

having confidence that his or her neighbor or competitor is also complying.

I believe that the IRS, over time, can greatly improve both kinds of service to the public. Furthermore, I believe that we can accomplish this, while also processing an increasing workload with the workforce we have. Our workforce is competent and dedicated, but handicapped by outdated practices and technology.

In the near term, we are taking action to move forward toward these goals.

As I mentioned earlier, the Problem Solving Days that we have been holding monthly across the country are excellent examples of the way we should be serving taxpayers. We are extending the hours of telephone service this filing season to 16 hours a day 6 days a week. We are setting up a special process to resolve the particularly difficult taxpayer cases that we are identifying through congressional, individual Members' offices, Committees and our internal programs. Moreover, we have taken steps to raise the level of management review on enforcement actions, such as seizures, and to see that inappropriate use of enforcement statistics is ended. These are only a few of the hundreds of actions we are taking this year to improve service and provide proper treatment to taxpayers.

We are also closely managing our enormous and challenging program to update our computer systems for the century date change and the tax law changes required by the 1997 Taxpayer Relief Act. Most of this work must be completed in the next 12 months prior to the 1999 filing season.

As important as these steps are, they will not enable us to meet our goals unless we make more fundamental changes to our way of doing business. These changes will take time but are essential for the IRS to meet the public's legitimate expectations for service from its tax agency.

Five Key Elements

The concept that I will outline today includes a renewed mission with emphasis on service and fairness to taxpayers and practical goals and guiding principles, which define the path forward. We will reach our goals of service to *each* and to *all* taxpayers through changes in five key areas, each complementing the others. These five areas, along with the goals and guiding principles, are summarized on Chart C.

Revamped IRS business practices that will focus on understanding, solving and preventing taxpayer problems.

Each of the IRS's business practices, from customer education to filing assistance to collection, holds great promise for improvement by our gaining a greater understanding of the particular problems that taxpayers have and focusing continuously on solving them. In most cases, there are very close parallels in the private sector that we can draw on.

For example, our business practices should make filing easier for all taxpayers by providing easily accessible high quality assistance to those taxpayers who need help in filing and by having more returns filed electronically. Just as companies develop very particular marketing programs to reach customers with differing needs, we can help taxpayers more effectively by tailoring our publications, education, communications and assistance programs to taxpayers with particular needs. College students who often can file with a simple 1040EZ form and a 10 minute phone call have very different needs from senior citizens with social security and investment income who may be best served through a network of volunteers who specialize in the needs of seniors.

This principle of tailoring our services to the needs of particular groups of taxpayers is a cornerstone of how we can dramatically improve our service to taxpayers

as well as our internal productivity.

As another example, some of our most difficult interactions with taxpayers occur when additional money may be due and collection activity is required. Today, 90 % of the active collection activity by the IRS telephone and field collectors is on accounts that are more than 6-months old, and most are much older than that. This is the reverse of practices in the private sector. The proven keys to effective collection are to identify as promptly as possible customers who may present risk of non-payment and to work out a payment program that addresses the particular payment problem of that customer. This helps the customer as well as the collecting agency and minimizes the need for enforcement actions.

Organizational structure built around taxpayer needs.

The IRS organizational structure no longer enables its managers to be knowledgeable about, and take action on, major problems affecting taxpayers nor is it capable of modernizing the business practices and technology needed to achieve our goals. The principal IRS organization today, as shown in Chart A, is built around 33 districts and 10 service centers. Each of these 43 units is charged with the mission of serving every kind of taxpayer, large and small, with simple or complex problems, in a defined geographical area. If a taxpayer moves, the responsibility moves to another geographical area. Further, every taxpayer is serviced by both a service center and a district and sometimes more than one. Service centers and districts each perform customer service, collection and examination activities for the same taxpayer.

For example, in the collection area, there are three separate kinds of organizations, spread over 43 organizational units, that use three separate computer systems to support collection. Each of these three types of units collects from every kind of taxpayer, from small businesses to wealthy individuals.

There are 8 intermediate levels of staff and line management between a front line employee and the Deputy Commissioner, who is the only manager besides the Commissioner who has full responsibility for service to any particular taxpayer. Although important improvements have been made in this structure over the last few years, notably the reduction in the number of districts, the fundamental problem remains: the structure is far too complex and accountability is weak.

Fortunately, there are solutions to this organizational problem which are widely used in the private sector and may enable us to better serve the American taxpayer. The approach I am discussing today is to organize around the needs of our customers, the taxpayers. Just as many large financial institutions have different divisions that serve retail customers, small to medium business customers, and large multinational business customers, the taxpayer base falls rather naturally into similar groups. This fact simply reflects the structure of the US economy.

Therefore, as shown in Chart B, one logical way to organize the IRS is into four units, each charged with end-to-end responsibility for serving a particular group of taxpayers with similar needs. These units could replace the four regional offices and a substantial part of the national office, allowing the national office to better fulfill its responsibilities of oversight and broad policy rather than operations. As I noted at the outset, this is a concept — a concept that will require outside validation. I am initiating a review of this concept because I believe we need to refocus and realign the efforts of the IRS on our customers — the American taxpayers. Of course, during and after the review, we may need to revise this proposal, depending on the results.

By organizing in this way, the management teams for each unit could learn a great deal about the needs and particular problems that affect each group of taxpayers. The tax code is extremely complex but most of it does not apply to each group of taxpayers.

This type of organization also lends itself to a more effective Taxpayer Advocate Office. The National Taxpayer Advocate could follow the organizational structure by having advocates devoted to each of the separate business units. This could lead to a more efficient use of the Advocate's talents by assigning individuals who have specialities in the different types of groups served. Rather than resolving problems across the board, the advocate could develop a level of expertise that will hopefully be of greater assistance to taxpayers as well as more cost-effective to administer.

There are 100 million filers, comprising about 140 million taxpayers, who have only wage and investment income. For this very large group, almost 80% of all taxpayers, the primary needs are improved assistance in filing or in getting information about an account or a refund. Collection problems are relatively limited since most of their taxes are paid through withholding by employers. Compliance problems are concentrated in the area of dependent exemptions, credits, filing status, and deductions, many of which can be addressed in part by better education of taxpayers with the assistance of volunteer groups and preparers. Improved phone service and more walk-in "retail" sites where taxpayers can get quick, in-person assistance are also important.

Another very important group of taxpayers are small businesses, including sole proprietors and small business corporations. There are about 25 million filers in this category. Compared to other individual taxpayers, this group has much more frequent and complex filing requirements and pays much more directly to the IRS, including tax deposits, quarterly employment returns and many other types of income tax returns and schedules. Providing good service to this group of taxpayers is more difficult than wage and investment filers, and compliance and collection problems are also much greater. Small start-up businesses in particular need special help. By dedicating a fully responsible unit to providing all IRS services for the self employed and small business, this unit will be able to work closely with industry associations, small business groups and preparers to solve problems for the benefit of all.

Larger businesses, although few in number, pay a substantial share of their tax in the form of withholding, employment and excise taxes, and corporate income taxes. Complex tax law, regulatory and accounting questions, including many issues arising from international activities, dominate the work of the IRS in serving this group. A management team and unit dedicated to serving these taxpayers will be able to understand and solve these problems more effectively than at present.

Finally, the tax exempt sector, including employee plans, exempt organizations, and state and local governments, represents a large economic sector with unique needs. Although generally paying no income tax, this sector pays over $190 billion in employment taxes and withholding for employees and manages $5 trillion in tax exempt assets. This huge sector will benefit from a dedicated unit that understands its special problems.

Management roles with clear responsibility.

Since each unit will be fully responsible for serving a set of taxpayers with like needs, the management teams responsible for each of these units will be able to become knowledgeable about the needs and problems of their customers, and be held fully accountable for achieving specific goals in serving them. Furthermore, having learned about problems, managers can cut dramatically the time required to communicate with the workforce and implement solutions. Because the organization would be "flatter," there would be fewer layers of management. Front-line employees and first-line managers would have a much closer identification and communication channel to people with general management responsibility.

For each unit, a cohesive management team will be established which will be able to organize internally in ways that are appropriate to the particular needs of the taxpayers they are serving. I believe that highly qualified managers, from internal or external

sources, will be far more attracted to these kinds of management jobs than those in today's complex structure .

Balanced Measures of Performance.

It is essential to have measures of organizational performance that balance customer satisfaction, business results, employee satisfaction and productivity. It is particularly important that performance measures do not directly or indirectly cause inappropriate behavior toward taxpayers, and that they provide incentives for service-oriented behavior.

The establishment of management teams with clear responsibility for serving large groups of taxpayers with reasonably common characteristics and needs will help make it possible for the first time to develop realistic and meaningful measures of organizational performance in the areas of customer satisfaction and overall compliance on a continuing basis. This will help eliminate the problem that has plagued the IRS for decades, namely the use of "enforcement" results as a key measure of success.

New Technology.

One of the limiting factors in our ability to modernize our business practices at the IRS today is our computer systems, which are extremely deficient in their ability to support our missions and goals. But computer systems essentially represent a detailed codification of the business practices and organizational structure that exist. Building new computer systems to support the old business practices and complex organization structure will not work.

The recently issued technology modernization blueprint and the new CIO organization provide an outstanding and professional basis for managing the evolution of our technology. The revamped business practices and rationalized organizational structure I discussed earlier will provide a sound basis for completing and implementing the modern systems envisioned in the blueprint.

The management teams in each unit will be able to act as knowledgeable and responsible business owners to work with the centralized professional information systems organization and outside contractors. For the first time, this will establish all the critical elements needed to manage a large-scale technology/modernization program successfully.

SUMMARY

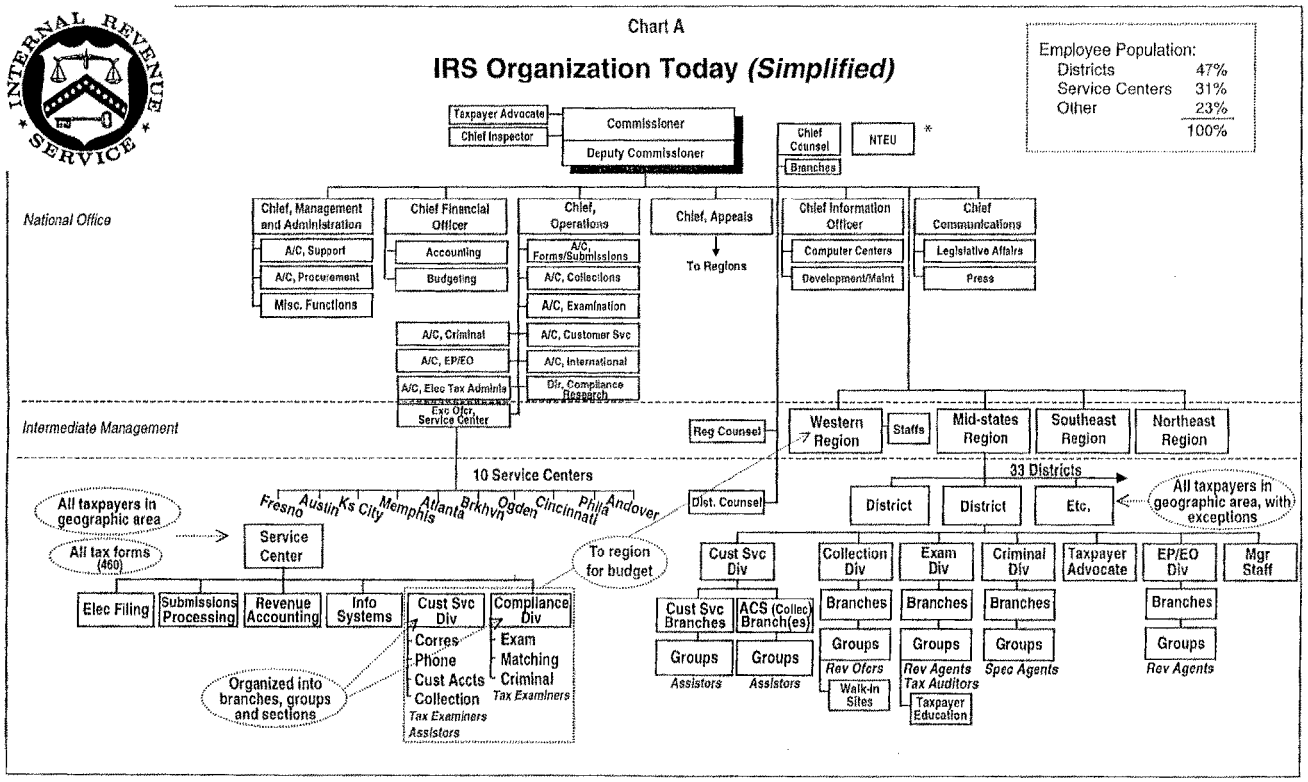
The comprehensive modernization concept I have outlined includes a renewed mission with emphasis on service and fairness to taxpayers, practical goals and guiding principles which define the path forward, revamped business practices that focus on solving taxpayer problems, a new organizational structure built around serving groups of taxpayers with like needs, more accountable and attractive management roles, balanced measures of performance tied to achievement of goals, and a workable way of modernizing our technology. All this is summarized on one page in Chart C.

I want to emphasize that much study is required to validate this concept and to decide on hundreds of details. Much consultation will be involved, internally and externally, during this study process, which we hope to complete by early summer. While an enormous job is ahead of us, I am confident that, given time and support from Congress and the public, this path will lead us to the goal we all seek: an IRS that provides consistently first quality service to taxpayers.

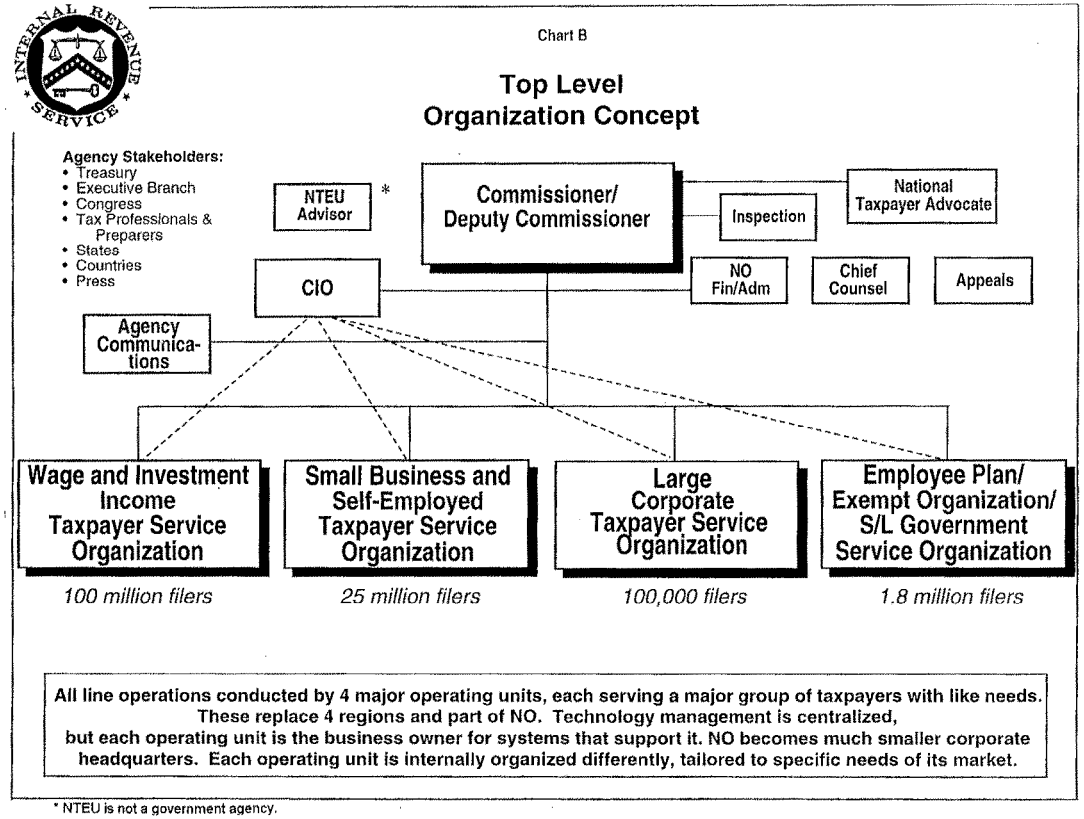
Let me also stress that this concept is fully consistent with and, in fact complements, the Oversight Board that is created in the Restructuring Bill. Under the

structure proposed, the Commissioner and the National Office will be better able to fulfill their appropriate top management roles and will be able to be accountable to the Board for the achievement of overall organizational goals as approved by the Board.

In conclusion, I want to assure the Subcommittee that it is a new day at the IRS. The agency is committed to moving forward in ways that keep up with a changing world and the increased expectations of the American taxpaying public. With the continuing vigilance and expanded role of the Taxpayer Advocate, this new year will bring opportunities for making the IRS the customer service organization it must become. Thank you, Madame Chairman, and I will be happy to answer any questions.



* NTEU is not a government agency.



All line operations conducted by 4 major operating units, each serving a major group of taxpayers with like needs. These replace 4 regions and part of NO. Technology management is centralized, but each operating unit is the business owner for systems that support it. NO becomes much smaller corporate headquarters. Each operating unit is internally organized differently, tailored to specific needs of its market.

* NTEU is not a government agency.

Chart C

Modernizing America's Tax Agency

Internal Revenue Service

Help People Comply with Tax Laws, Ensure Fairness of Compliance

Guiding Principles
- Understand and solve problems from taxpayer's point of view
- Expect managers to be accountable - knowledge, responsibility, authority, action
- Use balanced measures of performance
- Foster open, honest communication
- Insist on total integrity

Goals

Service to Each Taxpayer:
- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

Service to All Taxpayers:
- Increase fairness of compliance
- Increase overall compliance

Productivity Through a Quality Work Environment:
- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

Revamped business practices aimed at understanding, solving and preventing taxpayer problems
- Customer education - work with preparers, volunteers and industry groups - tailored services
- Customer service - easier access; clear responsibility for each account; more attractive electronic filing
- Collections; early help for people with payment problems
- Compliance - more focus on identifying and preventing recurring problems

4 Operating Units

Each dedicated to helping taxpayers with like needs:
Wage and Investment Income
Small Business/Self Employed
Large Business
Employee Plans/Exempt Orgs.
- Services tailored to needs of taxpayers
- Knowledgeable management team who can act to solve problems
- Many fewer layers
- Makes it clear who's responsible
- Pattern similar to private sector
- More independent taxpayer advocates

Management roles with clear responsibility
- Jobs defined in manner similar to private sector
- Broader range of experience, external as well as internal
- Management teams
- Jobs more attractive to internal and external candidates

Balanced measurement of performance
- Tied to goals
- Externally validated
- Financial management tied to plans and goals

New technology
- Central, professional management
- Common standards and architecture
- Partnership among business owners, CIO and private sector contractors
- Flexible evolution driven by business goals

Chairman JOHNSON of Connecticut. Thank you very much, Commissioner.

I was interested in your testimony, in your comments about the 100 million filers out of the 140 million taxpayers who have only wage and investment income. Could you enlarge your thoughts on that subject——

Mr. ROSSOTTI. Yes.

Chairman JOHNSON of Connecticut [continuing]. And it's implications for IRS reform?

Mr. ROSSOTTI. Yes. I think that's a good example of how, when you start to look at taxpayers like customers, just as businesses do, you find out that there's quite a bit of difference between these different groups of taxpayers. There's about 100 million filers—and these are round numbers, Madam Chairwoman; these are not exact numbers—but there are about 100 million filers which represent about 140 million taxpayers, taking into account those that file joint returns, that have only wage and investment income, meaning interest and dividends and other forms of investment income. All of this income is reported, of course, through third-party filings. Most of the cash that we receive from this group of taxpayers actually comes in through their employers, rather than directly from them, of course. So 80 percent of these taxpayers are actually getting refunds. We're actually, of course, paying out money to them, most of them, during the filing season rather than receiving cash. So the collection problems are not very great with this group, nor are the compliance problems great.

There are, of course, compliance problems with such things as filing status, dependent exemptions, and in upper-income taxpayers there are certain kinds of issues, but, by and large, the compliance rate is very high. Most of the issues that we have in serving these taxpayers are providing them good assistance in filing, getting refunds quickly, giving them information about their refunds and their accounts. It's really very similar to a large-scale customer service operation. That's quite in contrast, for example, to the small business sector, which we can go into if you like, but has very different kinds of requirements.

So by focusing on this group and providing a team of people that really understand those problems, I think just like in business, we have a better chance of solving those problems and getting action to serve them better.

Chairman JOHNSON of Connecticut. Thank you. And then I just want to inquire, how extensive did you find the practice of district-level collection offices using collection receipts to motivate employees? It is now common knowledge——

Mr. ROSSOTTI. Yes, yes.

Chairman JOHNSON of Connecticut [continuing]. That this was the case. That's something a lot of us had good reason to worry about, and part of what motivated the changes that were adopted the last few years. How extensive was this practice, and what changes have you adopted, so that you sit here today and say it's no longer true?

Mr. ROSSOTTI. Yes. That was one of the first issues that I was confronted with when I took office, and there had already been some internal audit studies initiated by the Acting Commissioner

initially on one district, the Arkansas-Oklahoma district, and then based on that, we expanded to 11 other districts.

I think what we found was that there was reasonably widespread use—it was not—you know, I mean, you have to go into each district, when you've got those numbers, as to how often those statistics were used down at the group manager or individual employee level. They were not by any means universal, but there was certainly more than isolated example, and they varied a lot by district.

Furthermore, I think the more basic point that was actually stated by the internal auditor was that the whole environment of the use of these enforcement statistics was really fairly extensive. Some of the things that were done to stop this were already done before I got there, such as the suspension of the use of these district statistics at the district level, but we've also taken quite a few other steps to have additional certification to ensure that a certification is done by people up and down the line, that statistics will not be used.

We've also initiated a number of investigations in certain particularly egregious cases where individual managers may have had potential misconduct. We have set up a process, actually a panel of three people, two of which are outside the IRS, to receive the results of these investigations, and make a decision or a recommendation as to whether any disciplinary action has been taken.

In addition to that, of course, we've taken quite a few other steps. We've had a number of education sessions. I mean, I don't want to go on with a long laundry list, but there's a whole set of steps that have been taken, and are continuing to be taken, to try to deal with this issue.

I really want to stress that longer term, the real solution here is to turn the whole thing around and not make enforcement—I think as we were just speaking briefly before the session—and really make compliance the goal, which is something you can reach through a lot of means, not just enforcement. You can reach it through education, through assistance, through customer service. I think part of the modernization concept is to really flip this whole thing around and focus it on serving taxpayers' needs, which I think will also aid compliance in the long run, as opposed to just making enforcement an end in itself.

Chairman JOHNSON of Connecticut. Thank you. I'm going to yield now to my ranking member, Mr. Coyne.

Mr. COYNE. Thank you, Madam Chairwoman, and again, welcome, Commissioner.

The IRS over the past couple of years has undergone a reorganization of some sort and to some degree. I guess one could argue, is it necessary to further reorganize the agency, and if it is necessary to do that, why?

Mr. ROSSOTTI. Well, I think that what has happened in the last few years is that there has been reorganizations, as in most organizations; there tend to be some reorganizations almost every year. The big thing that happened was a consolidation of the number of districts down from 63 to 33, which I think was a necessary and essential step to improve efficiency.

But what has really not changed since I believe about 1952, is the basic concept of the way the IRS is organized. It's basically or-

ganized geographically, and then on top of that were added districts and then regions and service centers. That's pretty much the way a lot of large organizations, like banks and manufacturing companies, were organized 20 or 30 years ago.

I think if you look in the private sector, you'll see that if you really want to establish an agency or a business, or anything that is really focused on serving companies, you have to somewhat organize the way customers' problems are set up, not the way you happen to be set up internally.

So I think while there's been many reorganizations and they were very useful ones—I think the need to consolidate the number of districts was something that would have been done no matter what; they were wrong; the reorganizations were very useful—there really hasn't been any reorganizations for a very long time that have changed the concept of the way we do business. I think what we're trying to do here is to move us from sort of an internally-focused group to an organization that focuses on the outside world, on the taxpayers, which is a very, very common trend throughout all businesses that I'm familiar with.

Mr. COYNE. Okay. The IRS has been conducting taxpayer problem-solving days over the past three months. Could you give us some sense of the results of that activity?

Mr. ROSSOTTI. Yes. I think that you can get more as your next witnesses come, the Taxpayer Advocates, because they're the ones that sponsored it, and in fact, Mr. Monks was the leader of putting this together. So I want to congratulate him on that.

It was all planned, by the way, before I got there, so I'm not taking any credit for it whatsoever. But I think it was an outstanding idea in really bringing together all the different functional areas of the IRS in a face-to-face way with taxpayers, to be able to address problems that probably in many cases had been festering for a long time with these taxpayers.

In terms of the results, we've, I believe, handled about 16,000 cases so far through this process. We've been having them monthly, of course, in different cities around the country. We've gotten an independent survey from an outside research firm to talk to the taxpayers and get them to rate us on a scale of 1 to 7, and we've gotten a rating on the average of about 6.4 out of 7, which is really very, very high. I think what's interesting about that is the fact that many taxpayers did not necessarily get the exact answer they wanted. You know, some taxpayers came in and were hoping that they would have a certain tax that they wouldn't have to pay, or certain money that would be relieved, and of course people still have to follow the law and the regulations, and not in all cases could they be given the relief they sought. But, nevertheless, the fact that they got face-to-face treatment, that they got what they needed, I think they were very pleased with that on the whole, and that's why we got these ratings.

Mr. COYNE. What issues did the taxpayers primarily raise when they came in? Do you have any sense of what the most prominent——

Mr. ROSSOTTI. Yes, yes. Many of them would be perhaps, you know, a longstanding collection issue where they had an balance outstanding, and they would come in and had penalties, and they

just hadn't been able to really figure out how much they owed, how much they didn't owe, and come to a conclusion as to what they owed.

There were audit reconsideration requests, where they had an audit, and maybe the taxpayer hadn't responded on a timely basis, so they got an assessment in that audit, and now that they had this assessment they wanted to come down and really be serious about figuring it out.

There were people that came in that had not filed. I personally went to several problem solving days, and there were people who just basically—I talked to one taxpayer that had a shoebox and this fellow actually was owed a refund. I mean, it wasn't that he hadn't paid his tax, but he had just gotten behind. I guess he had some personal problems, and he was just afraid to come in. Finally, the fact that there was this Problem-Solving day gave him the courage to come in and bring his shoebox in, and the IRS person sat there and worked out his tax form. Of course, he had some pluses and minuses, but I think he actually ended up with a small refund out of it. But, most important, he was so happy just to be back into compliance.

I mean, of course, all the stories were not that good. There were people who had problems that couldn't be resolved. People had penalties for withdrawing money from IRAs that they were trying to—it's actually a tax, not a penalty, and they were trying to see if they could get that abated, which they couldn't, but at least they became aware of what the situation was and understood it.

So I think it shows that if you put the right kind of people together with the taxpayers, they can help them figure out some sort of a solution to their problem, even if it isn't exactly what they want.

Mr. COYNE. Do you have it broken down by inquiry, not by individuals, but what the most prominent questions were——

Mr. ROSSOTTI. Yes.

Mr. COYNE [continuing]. To the least prominent?

Mr. ROSSOTTI. Yes, we do. I don't have that with me, but Mr. Monks may have it with him. If he doesn't, we'll get it to you for the record.

Mr. COYNE. Okay.

[The following was subsequently received:]

Congressman Coyne asked for a list of the major issues raised by taxpayers during the 1997-8 IRS Problem Solving Days.

The Taxpayer Advocate 's Office provided the following information--

Nationwide:

1. Requests for Audit Reconsideration
2. Offers-in-Compromise
3. Requests for Installment Agreements
4. Penalties
5. Notice or Tax Law Questions
6. Inability to Pay Cases
7. General Requests for Information

Pittsburgh, Pennsylvania:

1. Audit Reconsiderations (12)
2. Claims/Amended Returns (11)
3. Other Penalties (7)
4. Installment Agreements (6)
5. Processing Individual Master File Returns (6)
6. Substitute for Return/Automated Substitute for Return/Section 6020(b) (5)
7. Open Audits (4)
8. Offers-in-Compromise (4)
9. Other (22)

Mr. COYNE. We understand that title V, the employee flexibility provisions in the original Democratic IRS restructuring bill, which were not included in the Ways and Means House-passed bill, are needed to allow you to hire your proposed management team. Would you want to discuss that?

Mr. ROSSOTTI. Yes. What we did—in my testimony I didn't cover it today, in the interest of time—but last week at the Senate we did request some additional flexibilities over and above what's in the House-passed bill, some of which were along the lines of what was in the Democratic bill. But the specific ones that we requested were really dealing with the ability to bring in some senior people. I mentioned these management roles. I think part of the way we're going to help to change the culture and improve the organization is selectively to bring in some people with private sector experience. Madam Chairwoman mentioned that as part of what we want to do here, and I think one way to do that is by bringing in some individuals, and I think by adding some additional flexibility in the bill, we'll have a better chance of doing that.

Mr. COYNE. And you hold out the possibility of doing that in the Senate?

Mr. ROSSOTTI. Yes, I hope so. I mean, I think that we're working with the staff, and I think they're receptive to adding some of these.

Mr. COYNE. Thank you.

Chairman JOHNSON of Connecticut. Mr. Rossotti, I'd like to recognize Rob Portman, who you probably know was the co-chair of the Commission, and takes a close second to Alan Greenspan for his Commission report being adopted almost in whole, in bringing it back to the Congress, though not without a battle.

Rob.

Mr. PORTMAN. Thank you, Madam Chair, and thank you, Mr. Commissioner, for being here. I want to start by thanking the Taxpayer Advocate for giving us a better report this year, and congratulate Nancy Johnson for being determined on that front over the last year and a half, both prior to the last report and then in the interim period. I think it's a better report. We will talk with Mr. Monks, I know, in a moment about some additional improvements we'd like to see that Mrs. Johnson alluded to earlier, but it is a much better report. It's along the lines of what Congress needs to actually be able to change things at the IRS consistent with what the Taxpayer Advocates are hearing internally and externally.

Mr. Commissioner, as you know, I'm very supportive of your proposed ideas. We talked about them on page 12 of our Commission report. As you said earlier, central to the concept you're outlining is the passage of this legislation that is currently in the Senate Finance Committee, and I think soon to come onto the Senate floor, we hope, before April 15, and go on to the President.

I guess I have a couple of questions for you that are related to the two issues we're dealing with today. One is the modernization program you outlined, and the second one would be the Taxpayer Advocate. The first is what you think the Taxpayer Advocate's role might be, forgetting about the changes that are proposed in the legislation that's on the Senate side, but in your new proposal where

you would have, in essence, different structural areas based on the customer or the taxpayer. I infer from your comments earlier that you would like to see a Taxpayer Advocate in each of these areas. So there would be someone who would be in the withholding area, where people have wage income, someone in the small business/self-employed area, and so on.

Is that your idea? Why do you think that would—

Mr. ROSSOTTI. That's exactly right. I just didn't get a chance to say it, but I think that it's part of these management teams. I mean, the whole idea is, if you can understand the taxpayer's problem more precisely, you have a better chance of figuring out what to do about it. I think under my concept we would have a Taxpayer Advocate for the individual taxpayers, primarily for the wage-earners, who would focus on both the problem-resolution program, as well as coming up with more systematic solutions for them; similarly, for small business, and for the tax-exempt area. I don't think we need a Taxpayer Advocate for the large businesses. I think they can probably take care of themselves.

Mr. PORTMAN. They can hire their own.

Mr. ROSSOTTI. Hire their own. Then also, of course, very importantly, still have the National Taxpayer Advocate, who would, I think, oversee and work with these other ones, and I think it would build on—certainly not substitute, but actually build on—and greatly enhance the concept that is already present that we're starting to see the benefits of from the report you get today. So I think it's building on that idea, and just sort of pushing it, having a better sense of the taxpayer or the individual customer group, because of the close identification with that group, and understand their problems, exactly.

Mr. PORTMAN. Let me shift quickly to the legislation and see if you have any comments about the Taxpayer Advocate part of that. As you know, we tried in the legislation, and this subcommittee actually took the lead with Chairwoman Johnson to try to strengthen the Advocate's Office and make it more independent. We included a number of things. I notice the grade increase which you're already beginning to see in most of the districts. I want to talk to you further about that, which I think is an important improvement, where there can be a career track within the Taxpayer Advocate. I wonder if you could comment on that briefly.

We, also, as you know, had other provisions in the legislation. As to reporting, in the Commission report we actually had the Taxpayer Advocate reporting directly to the Oversight Board. In the legislation, that was altered, so that the Oversight Board would have the responsibility of hiring the Taxpayer Advocate, rather than the Commissioner, but then day to day the Taxpayer Advocate would report to the Commissioner. The abvocate would give periodic reports to the board.

How would you feel about having that Taxpayer Advocate report to the board as well as being hired by the board?

Mr. ROSSOTTI. Well, Congressman Portman, I think I would not favor that particular approach because, as I've said, I think that really what we need to do is to convert the whole IRS much more to thinking of themselves as taxpayer advocates, as problem-solvers for the taxpayers. I really don't—it's like sort of having the quality

department report outside the main building, so to speak. I mean, it gives people the impression that quality is somebody else's job. I really would like to have the Taxpayer Advocate be a key member of the management team of the IRS Commissioner, and of each of these business units, just as we've said, or operating units.

Now in terms of making the taxpayer more independent, though, that part I definitely agree with. I think that, as you may have heard, we've just begun a search to—when Mr. Monks moves on to his next assignment—recruit the next Taxpayer Advocate from outside the IRS. I hope to find a person of serious stature that would take that role and have a considerable amount of independence. Of course, the idea of reporting to the Congress, as you're doing here today, is a very important form of independence that benefits the taxpayer—because I can tell you, by the way that his report was, as is indicated in the legislation, not censored or filtered in any way—this was strictly straight-up from the grassroots through the Taxpayer Advocates' organizations. So I agree with all of the provisions except for the idea of having it be not part of the IRS. I think it's essential—just like a quality control department is part of a manufacturing company, you really want to have it as part of the mainstream of the operation.

Mr. PORTMAN. Thank you, Mr. Commissioner.

Chairman JOHNSON of Connecticut. Mr. English.

Mr. ENGLISH. Thank you, Madam Chair, and I want to thank you for the opportunity to participate in this hearing.

Commissioner, I am very pleased by some of the things I've been hearing. You have been so far, I think, a real breath of fresh air, and I'm excited about some of the things that you are talking about, particularly your introduction of performance measurements into the IRS.

A couple of specific questions: I understand that you have been quoted as favoring the establishment of new citizen advisory panels, and I wonder, could you tell us a little bit about what you have in mind, and do you feel you can do this with your current administrative authority or will you need legislation to do it?

Mr. ROSSOTTI. Mr. English, I have been quoted, and we are actually proceeding to set up initially four citizen advisory panels, one in each region. We can do it administratively, with the help of the Secretary of the Treasury, who has been a big supporter of this.

And the basic idea is, although, frankly, we still have to work this out in some detail—that's why we're doing four of them initially before we spread them through the whole country, but the idea is that these would be panels of citizens that would be, in a sense, advisors to the local Taxpayer Advocate. They would be kind of a link between the citizenry and the Taxpayer Advocate, and the thought was that they would meet periodically with the Taxpayer Advocate and review at the local level, or at the specific level, the problems that are cropping up or that are being typically surfaced in that particular district, and as citizens, give advice to the Taxpayer Advocate.

They would also, we hope, be a form of outreach, so that more people would know about what the Taxpayer Advocate's role is. They would not, however, get involved in individual cases.

Mr. ENGLISH. Could I ask, how would persons be selected for the panels?

Mr. ROSSOTTI. What we are going to do for the first four, working with the Treasury Department on this, is, we actually have selected a consulting firm, a known consulting firm, that has worked with a number of different public sector organizations in setting up different kinds of advocacy and advisory panels. They are going to actually do the screening and you'll set up criteria, so that we have—the idea is to have a broadly-representative group of the citizenry in that local area. We want to make sure that there isn't anything political about this, that it's just really there to get the citizens' input. So that's why we're having this outside, experienced firm actually help with the selection process.

Mr. ENGLISH. I'll be following what you do. I am delighted at your pursuit of this idea. I'm strongly supportive of what you're trying to do, as you've outlined it here. You'll have my full support as you pursue it.

On another front, when the Acting Commissioner was previously before this panel, we talked a little bit about tip monitoring agreements, and that there had been concern around the country, from the restaurant industry, that there was coercion being used to force restaurants to participate in these agreements—in effect, look over their employees' shoulders.

Can I ask you, recognizing that we have already in the House promoted legislation and sent it to the Senate that would address this, have you proceeded internally to address this problem at all?

Mr. ROSSOTTI. Mr. English, I have heard about that problem, but I have to honestly say I have not in my reasonably short time gotten involved in it in any way. I'd be happy to look into it and get back to you on it. I just don't have enough information to respond right now.

[The following was subsequently received:]

For insertion on Page 33 of the transcript on the Annual Report of Internal Revenue Service Taxpayer Advocate hearing before the House Ways and Means Subcommittee on Oversight

It is not the policy of the IRS to pressure or intimidate any person or business with regard to any compliance initiative. Signing up for the Tip Rate Determination and Education Program is totally voluntary. In a Memo dated October 7, 1997, this point was emphasized to all our field personnel, nationwide.

The Memo stressed that signing up for either a TRAC (Tip Reporting Alternative Commitment) or TRDA (Tip Rate Determination Agreement) agreement is totally voluntary and that any correspondence when soliciting participants should not mention any threat of an audit for failing to do so.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

STANT COMMISSIONER
(EXAMINATION)

October 7, 1997

MEMORANDUM FOR REGIONAL CHIEF COMPLIANCE OFFICERS

FROM: Thomas J. Smith
Assistant Commissioner (Examination) CP:EX

SUBJECT: National Contact Letter for the Tip Rate Determination and Education Program

Attached is a copy of the letter that all field offices shall use when inviting a business owner to sign up for the Tip Rate Determination and Education Program. Signing up for either a Tip Reporting Alternative Commitment (TRAC) or a Tip Rate Determination Agreement (TRDA) arrangement is totally voluntary. Therefore, local district correspondence will not mention the possibility of an examination, if a business owner does not sign up for either arrangement under this program.

The purpose of either a TRAC or TRDA is to eliminate the necessity of a tip examination. However, where there is a clear indication that there is substantial underreporting of tip income, a separate letter shall be sent regarding the need for a tip examination.

Please cascade this information to all affected individuals and ensure that these procedures are implemented immediately. If you have any questions, please contact Thomas R. Burger, Director, at (202) 622-3650 or Janey Wilson, Program Analyst, at (202) 622-4177 of the Office of Employment Tax Administration and Compliance.

Attachment

cc: Assistant Commissioner (International) CP:IN

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Person to contact:

Contact Telephone Number:

Refer Reply To:

Date:

Dear

The **Tip Rate Determination and Education Program** (TRD/EP) was developed by the Internal Revenue Service (IRS) in an effort to promote compliance in the food service industry. The objective of the Program has been to improve and ensure compliance by employers and employees with statutory provisions relating to tip income.

In 1988, Congress enacted Internal Revenue Code section 3121(q) requiring businesses to pay FICA tax on employees' tip income. The tax is due although there may be underreporting to you by the employee.

Under the TRD/EP, an employer has options that include two arrangements with the IRS.

-- Tip Rate Determination Agreement (TRDA)
-- Tip Reporting Alternative Commitment (TRAC)
-- Continue status quo, i.e., do no more than you are doing now

TRDA Under TRDA, tip rates are determined using historical tip data to arrive at a tip rate for the various restaurant occupations. The employees must enter into a *Tipped Employee Participation Agreement (TEPA)* with the employer. At least 75% of tipped employees must sign this participation agreement agreeing to participate.

TRAC Under a TRAC arrangement, the IRS does not require that a tip rate be established, but there are other requirements. The employer agrees to institute and maintain a quarterly educational training program that trains newly hired employees. In addition, the employer will periodically update existing employees as to their reporting obligations with respect to tips. Regarding tip reporting, the employer agrees to establish certain procedures to track all tips. TRAC does not require an agreement between the employee and the employer but it does affect all (100%) employees.

We are enclosing information on both the TRDA and TRAC arrangements. To participate in either **one** of the arrangements, please submit a letter **within 15 days from the date of this letter** to the District Director for your district stating your decision.

We believe that by entering into one of the two arrangements previously mentioned, we can achieve tax compliance with the least amount of financial burden for everyone concerned. If you have any questions or wish to discuss this program prior to making a decision, please contact the person shown on the front of this letter before _____.

Sincerely,

District Director

Enclosures:
TRDA
Statement of Interest
Tip Facts
TRAC Application package
Envelope

Mr. ENGLISH. My concern is that Mr. Dolan had pointed out, when he was in front of this panel, that it is current IRS policy that this is not an appropriate practice. Yet, there is evidence, at least there was evidence, that it was fairly widespread. I'd suggest that this is one area where you have a real challenge to change the culture——

Mr. ROSSOTTI. Right.

Mr. ENGLISH [continuing]. Of the IRS. I want to thank you for being here. We appreciate your testimony, and I think you've been a breath of fresh air. Thank you, Commissioner.

Mr. ROSSOTTI. Thank you very much.

Chairman JOHNSON of Connecticut. Thank you.

Mrs. Thurman, please.

Mrs. THURMAN. Mr. Commissioner, maybe at that point you would like to talk a little bit—it's my understanding that you had announced a disciplinary panel that you're going to set up, and maybe that will fall into Mr. English's issues. So if you'd like to expand on that, and give us an idea of what that's all about——

Mr. ROSSOTTI. Yes, that is correct. I have done that, and the purpose of that is to act on the results of investigations that have been undertaken as a result of the internal audits. This has to do with the use of enforcement statistics in an inappropriate way, and we believe that there are perhaps—well, we know that there are certain individuals that may have potentially engaged in misconduct to a level that requires some disciplinary action. Of course, until we get the results of the investigations and the facts, I don't want to prejudice anything, but in order to make sure that those investigations were received by an objective group, and would not in either direction go too far, either being unfair to the employees or perhaps being not strict enough, we came up with the idea of having an independent panel. It does have one person from the IRS on it, but it has one person from another Treasury bureau and it has one person from the Justice Department, and they will get the results of this investigation and decide what kind of action is appropriate.

Mrs. THURMAN. Commissioner, actually, in Florida over the break, Senator Graham and I had a hearing in Orlando, specifically, on IRS, and talked to several taxpayers and had the Taxpayers Advocates with us as well, and some of the Regional Directors. One of the issues that was reoccurring to me, beyond what may be even in the report that we're going to hear about, although it is mentioned a little bit—I think No. 15 or something—is the issue of, once somebody starts working with the IRS, and then all of a sudden they can't come to completion or there's not enough information, or whatever, people are asked to sign a waiver. They sign this waiver, and then, of course, penalties start, and then the interest starts. What we're looking at for many people, and sometimes obviously part their fault, but also, because we drag our feet a little bit, that they're ending up with a lot more penalties and interest than what their actual debt would have been to the IRS, causing them some real hardships then.

Are we looking at any of that? Has that been discussed when you were at the Senate, to talk about maybe some ways we could deal with that?

Mr. ROSSOTTI. Yes. I think that is really a definite problem that needs to be relooked at, the whole issue of penalties. As a matter of fact, before I was confirmed I went around and talked to several former Commissioners, just to get what advice they had, and the most uniform advice is: take a look at those penalties; this really needs to be relooked at.

I think there is a provision, actually, in the bill to study penalties, and I think that is something that we would support very much. We need to really take an entire look at this area of penalties.

Let me also say, though, as I said in my opening comments, part of the modernization concept is that we need to get on the problems the taxpayers have much more quickly. I mean, part of the problem is just our whole business process is set up so that we don't really get to these collection cases most of the time for six months. Sometimes they're years. Well, by that time, no matter what penalty structure you have, you have interest and penalties built up.

So part of it is to study penalties, and let's try to fix some of those penalty provisions. But the other is, part of this modernization concept, we've got to do what private business does; don't wait six months or a year. Let's get on these cases and help get people out of trouble before they really get too deep into the hole.

Mrs. THURMAN. Well, I think there is a balance there for those who cooperate and continue to work with us——

Mr. ROSSOTTI. Sure.

Mrs. THURMAN [continuing]. That maybe when we give them that waiver, that nothing starts accruing at that time until we run into some other problems. But that is the one area that we consistently heard was a problem.

So I thank you, and I look forward to working with you.

Mr. ROSSOTTI. Thank you.

Chairman JOHNSON of Connecticut. Commissioner, as I have told you personally, I am delighted that you come to this job with the experience and resources that you have, but I think it is also important to point out that not only has this committee done a lot of work in the last few years, but so has the Department. On this issue of inappropriate behavior by employees, it is a pleasure for me to hear you talking more openly about some of the problems and how you're going to go after them. I also remind the committee that we will have the first real report on how employee misconduct is handled and how it's tracked in a few months when that report is complete.

You'll remember that when we first passed this provision two years ago in the Taxpayer Bill of Rights II there was no system in place at all to either track or oversee, and certainly no reporting. The first report basically told us there hadn't been a system that we could talk about and put in place a system we could talk about. When the report is complete in a few months it will be another milestone along the way to better administration and a more open agency.

So I thank you for your comments on Congresswoman Thurman's previous question. I would just note how far the IRS has come already, and we look forward to moving forward with you.

I'd like to recognize Mr. Hulshof.

Mr. HULSHOF. Thank you, Madam Chair.

Commissioner, welcome. I want to talk a little bit about something you mentioned, about changing the environment of the IRS. I think the word Mr. English used was the "culture" of the IRS. And the organizational charts that you had there for us to look at, first of all, how long do you anticipate the implementation of this new organization? It's probably ongoing, but what's your goal?

Mr. ROSSOTTI. Sure. Well, first off, let me say that the organization is one of the five components. I think in terms of trying to change the culture and change the goals and try to look at things from a taxpayers' point of view, we're going to start on that right now. We are starting on it right now with some of the things we're doing.

The organization is a bigger change that's going to take longer, and right now the only timeframe that we've set out is that we hope to finish the next study of this—I mean, this is at a concept level right now—we hope to get a study done by early summer, which will validate this concept sufficiently that we could proceed to implementation.

We really won't be able to do any major implementation of organizational change before the 1999 filing season, which is a year away, because we have massive changes that are required in our year 2000 work and the tax law changes, and we need to get those sort of stabilized before we begin to do some of these other things.

So I think, as a sort of rough outline, we're going to be trying to implement a lot of these short-term things that we're doing, like the Problem-Solving days, as we're doing those now. We'll be studying and coming to conclusions about precisely how to do these other organizational moves, and then I think beginning in 1999 is when we will really begin to implement some of those longer-term changes.

Mr. HULSHOF. Let me follow up. You mentioned the problem-solving days. You're alluded to testimony we're likely to hear a little later this afternoon, particularly from the field Taxpayer Advocates, and I think one of the successes, at least in the testimony of the advocates in the field is that the success of problem-solving days largely rests in the face-to-face meetings, the taxpayers who finally get a chance to sit down with someone to at least hear their concerns.

I also recognize your background, the fact that you've come from the American Management Systems business, and as you look for ways to utilize technology, what are your thoughts on trying to balance high-tech methods such as e-mail, voicemail, or some say "voice jail"—[Laughter.]—along with the need to have the face-to-face meetings?

Mr. ROSSOTTI. That's really an excellent question. I think that what most businesses have now found is that the real key is to provide a range of ways for customers to interact, depending on what their particular preferences and needs are, rather than a one-size-fits-all. I mean, the whole principle behind this modernization concept is to look at things more from finding groups of taxpayers that have certain needs, and not try to fit everybody into the same mold.

I mentioned college students. I mean, college students do everything by e-mail and phone, and that's just the way they do business. Other groups, perhaps senior citizens, like more the face-to-face. So the concept here is not that we would just use technology to replace people. In fact, it's really the opposite. I think some of the savings that we might make in terms of this more complex structure, I think we could reinvest in terms of having more retail sites, for example, in rural areas and other places, where people could, as in Problem-Solving day, have face-to-face contact for those taxpayers that wanted to do it that way.

But we also, of course, for a large number want to use our website. Our website is doubling every year in terms of how many hits it gets. They're not mutually exclusive. They're just different ways of providing service to taxpayers based on what their particular needs and preferences are.

Mr. HULSHOF. It sounds great. I wish you encouragement. We will be watching.

Mr. ROSSOTTI. Yes.

Mr. HULSHOF. I yield back.

Chairman JOHNSON of Connecticut. Congresswoman Dunn.

Ms. DUNN. Thank you very much, Madam Chairman.

Welcome, Mr. Rossotti. We expect great things from you. Ever since we began to hear the rumors that you would be the head of the IRS, everything I've heard has been wonderful and positive, and I very much like your plan to do a reorganization from the top to the bottom. I think that that's what the taxpayers deserve and want, and I also think it's what the majority of the folks who work for the IRS want. I think many of them have been distressed by a bad reputation that has come to the surface in the last few years, and I think they want to show that they're there to help the taxpayers and that that's their goal. I think what you're doing from a management standpoint just as soon as you come in is very wise. As others have said on this panel, we'll be watching with great interest and support.

I have a few items that have concerned me in the time that I have been on this committee and heard people testifying, and I wanted to just bring them to your attention, so that as you go through the reorganization—these are things you've heard before, but they come to me a lot in my district east of Seattle.

One of them is the 20 percent error rate on keypunching, returns that are sent into the IRS. That's the figure I've heard. You certainly can correct me if that's incorrect, but it worries me because that's where you generate those letters that people get when they probably in most cases should not be receiving them.

The second thing is the electronic filing. I'm very concerned, on behalf of particularly small businesses, and I would like to have you tell me that that's under control, that the sales pitch you're giving to the people out there will let them how important this is as the new way of filing taxes, and that it contributes to a higher accuracy rate, but that also in the long run it's going to be better for the taxpayers. But before the information that had gone out on it caused a lot of fear rather than complete acceptance, and so I would like to monitor that.

And the third thing is in some cases in the recent past we've seen an "us versus them" mentality between the IRS and the customer, or the taxpayer—is it called the customer? I didn't hear you use that term today. Is that a new term you're now going to use? Good, I applaud you. "Taxpayer" is the one that say because customers usually have a chance to shop around.

But the Taxpayer Advocate really needs to be representing the taxpayer, and I fear that if it continues to be somebody who's hired by and paid by the head of the IRS, that that will the IRS advocate. So I just want to make sure we turn that in the proper way. You probably know all the management ways to do that, and I certainly have faith in what you will do, but it's really important to me to feel that that person is independent, and also in the regional offices, too, that that person has the full ability to stand up for the taxpayer when that's needed, and isn't imbued with the culture of the IRS, at least the culture of the past that I think has been less than helpful in many cases to taxpayers.

So if you could just respond to those—the other thing I'm going to be watching for is the question Mr. Hulshof asked you, and that's when we're going to get some of the results of the reorganization, so that we can see if it's working.

Mr. ROSSOTTI. Well, thank you. Those are quite a few. Let me just say on the Taxpayer Advocate, I really feel very much in agreement with these comments about the Taxpayer Advocate. I think that we really need to make that person a key member of the senior team all the way up and down the line, to be the person that both acts as sort of a quality control department and a Taxpayer Advocate, and that's one of the reasons we're going out and doing the search to find the person that I hope will be a real serious stature that can be the National Taxpayer Advocate, and then gradually as we get into this reorganization, we could have a senior person representing small business and the individual taxpayer, and so forth.

So I really think that we're going to dramatically, really dramatically, elevate, even more than we have already, the importance of this position. I don't know whether I have time because I've got the yellow light on, but in terms of electronic filing, I think that part of the problem with electronic filing is that to really explain this to people, it's more like a marketing issue in part. I mean, it's partly technical, but it's partly marketing. The IRS has not really been a strong marketing organization.

We have just recently hired a person, named Bob Barr, who came from the industry, another example of bringing someone in who has a completely different kind of point of view. He was with one of the major companies that does electronic software, and his whole entire role in life, which I was just spending the whole morning talking with him, with the group, was to try to work with different stakeholders, including small business, to try to figure out exactly what their problems are, not just in general, but also specific ones, to make it easier and to make it more attractive. We are making progress. I hope we can make progress faster, but at least we've got somebody there that knows how to do that.

I guess my time is up.

On some of the other ones, I think the error rate was another question. Of course, having more electronic filing, that's one of the great advantages: it reduces the error rate.

I think the 20 percent number is a number that is valid at the time that the first round of paper returns go through, and those are not just keypunching errors; those are all kinds of errors, taxpayer errors. By the time it gets through the end, there's a whole error correction process, and the rate is a lot lower. But still, I mean, you're right; I mean, these errors do get through, and that's one of the advantages, one of the really major advantages, of the electronic filing.

Chairman JOHNSON of Connecticut. Thank you.

Mr. Watkins.

Mr. WATKINS. Thank you, Madam Chairman.

Commissioner, thank you for being here.

First, I want to thank you for the taxpayer advocacy work you have done in behalf of some of my constituents, I have called you with some of their concerns. Most of the time we hear their problems. I know you hear a lot of the problems and you don't hear the good things that happen. But you hear people out, and try to help them answer the question: whom can I call to get help? So I think on several occasions there's been some real positive goodwill built and solved some problems, and I think by having the taxpayer advocacy group it's really meant a lot.

You know, it's always easy to say, when a constituent's asking your help, when you say, yes, we can do that, and they're happy. But when you tell them, no, you cannot help, you've to have more compassion and sympathy.

Mr. ROSSOTTI. That's correct.

Mr. WATKINS. I think some of the people at the Taxpayer Advocate are working at that. Maybe it's some changing attitudes, culture, but I think an advocacy group sure means a lot.

On behalf of Oklahoma, I think you know we had some unique problems, and I know that I think your office has expressed a concern there. Could you update me of the situation with the Oklahoma City office.

Mr. ROSSOTTI. Yes.

Mr. WATKINS. It alarmed both me and many Oklahomans when we realized some of the abuses there.

Mr. ROSSOTTI. Yes. Oklahoma was one of the districts that had significant problems with the use of enforcement statistics. I mean, essentially, we replaced pretty much the entire management out there, and that's basically a big part of it.

We've also—and I don't want to get into specific cases—but we've also, as part of this whole process of doing audits and investigations, obviously, looked at all the districts that were involved in potential misuse of enforcement statistics. So if there's any action to be taken in a disciplinary sense, that will be part of what comes out of this process that I described earlier.

So I think we've put a lot of focus on management attention on Oklahoma. I should also mention that, in addition to the district itself, the Arkansas-Oklahoma District, we have recently selected and appointed a new Regional Commissioner, based in Dallas, that has oversight over that district, Mr. Ladd Ellis, who I think is a

person that I have confidence in will help fix some of the management problems that we have. One of his top priorities is to work with the people in Arkansas and Oklahoma to bring that district more into a positive kind of a place, which it needs to be.

So you're right, Mr. Watkins, that has been a problem area, and we've taken quite a few steps to try to see if we can bring it into a first-rate place again.

Mr. WATKINS. Well, I want to personally thank you. I know there have been quite a few hearings on it. Some of which I have not been able to attend, but I appreciate your bringing me up to date a little bit.

The gentleman's name is Mr. Ladd Ellis?

Mr. ROSSOTTI. Yes, he's the Regional Commissioner, based in Dallas, and he has oversight. He's one level above the district, and I just mention that because he's also a new player that we've put in to take a fresh look at all the districts out in that area, but, in particular, in Arkansas-Oklahoma.

Mr. WATKINS. Well, I appreciate that information. I've worked with some of your staff in the legislative liaison office on some more parochial concerns, and I won't belabor this issue, but I will follow up a little later on it. I appreciate their help and your help on some of that, in dealing with some Oklahoma tax issues, and I will try to discuss that with you later on.

I appreciate the job you're doing. I had a lot of hope when I saw you appointed, and I was also pleased with some of your opening remarks when you first came as the new Commissioner. I wish you well, and I know you've got a tough job, but we have a lot of hopes that things can be smoothed out.

Thank you.

Mr. ROSSOTTI. Thank you.

Mr. WATKINS. Thank you, Madam Chair.

Chairman JOHNSON of Connecticut. Mr. Ramstad.

Mr. RAMSTAD. Well, thank you, Madam Chair, for convening this hearing on the Annual Report of the Taxpayer Advocate.

Welcome, Commissioner. Nice to see you here.

I just want to say, very briefly, I think this year's report is definitely an improvement over last year, both in style and substance. The format's more user-friendly, and the report contains the 18 recommendations for legislative changes, which we didn't get last year, as well. So I think it's safe to say that we've come a long way over the last year. Thanks to my colleague sitting on my left, Mr. Portman, and his counterpart, our colleague, Mr. Cardin, we passed the IRS restructuring bill that originated in this subcommittee.

Commissioner, with your considerable private sector experience and technological expertise, I think it's accurate to say the IRS is headed in some promising new directions. I appreciate your efforts. You have a tough job, and so far you've done it very well.

We obviously have a long way to go. I think it's also not an overstatement to say that the general public is distrustful of the IRS. They have a lot of adversaries, and we certainly have a lot of room for improvement, but I think important steps have been made, and Rome wasn't built in a day. It's going to take some time, but, as I said, I think we're going in the right direction.

I'm really encouraged by your plans to streamline the IRS and focus on customer service for taxpayers. I think that's so key to reform.

Let me just ask you this very briefly: under your reorganization plan, Commissioner, based on the four taxpayer service categories, which category would deal with estate and gift tax? I wasn't able to figure that out.

Mr. ROSSOTTI. Yes, that is one of the many questions that we haven't answered yet. I mean, this whole thing is at a concept level, and the study that we hope to do over the next three or four months would have to get into some of those specific issues. I really don't know the answer to that yet.

Mr. RAMSTAD. I see. So not even conceptually do you—you don't have that framework now?

Mr. ROSSOTTI. I just don't. I just don't know the answer to that yet. I mean, there are quite a few questions actually like that that need to be studied. I'm sure we can come up with an answer, but we just don't have it yet.

Mr. RAMSTAD. Well, that's one of the most refreshing answers you can give, an honest answer: "I just don't know yet." Thank you for your candor, and I'm sure that you'll be working on that and be able to deal with that, obviously an important area for the Service and for the American taxpayers.

The same can be said about the excise tax issue.

Mr. ROSSOTTI. Exactly.

Mr. RAMSTAD. That's another area that's——

Mr. ROSSOTTI. Those two are two that we can figure out, and there are various options, but we just haven't studied them yet.

Mr. RAMSTAD. Well, again, Commissioner, thanks to you and your staff for working with us. If we continue to work in a bipartisan, pragmatic, collaborative way, I know we can make the necessary improvements not only in the Internal Revenue Service, but also in the tax code to make it more user-friendly as well. So I look forward to working with you.

Mr. ROSSOTTI. Thank you.

Mr. RAMSTAD. Thank you, Madam Chair. I yield back the balance of my time.

Chairman JOHNSON of Connecticut. Thank you very much, Commissioner. We appreciate your being with us. We look forward to working with you. We know there will be many challenges over the next few months, and we appreciate this good start to our communications and our work on the year ahead. Thank you.

Mr. ROSSOTTI. Thank you, Madam Chairwoman, for giving me this opportunity.

Chairman JOHNSON of Connecticut. I'd like to welcome Mr. Monks, and we're going to call everybody up at the same time because there's a markup that's going to start in not too long, and we want to be able to hear from everyone.

Mr. Monks, we're certainly going to hear from you first, but if your regional people will join you, we'd appreciate that.

But while you're sitting down, I do want to thank you, Mr. Monks, for a very good report, and one that does speak more directly to what the committee felt was its needs and the needs of the Congress, both to create far better communication between the

frontline Taxpayer Advocates and the policymaking body of the Congress, but also to the need for far more direct and open communication between your office and our staff and ourselves, in order to accomplish much better work on behalf of the taxpayers. So I appreciate the quality of your report.

I've read your testimony, and Mr. Portman will take over momentarily. Thank you.

STATEMENT OF LEE MONKS, TAXPAYER ADVOCATE, INTERNAL REVENUE SERVICE

Mr. MONKS. Thank you. I have provided written testimony, so I'll try to be somewhat brief in going over my comments.

Madam Chairman and distinguished members of the subcommittee, I'm very pleased to be here today to discuss with you the Problem Resolution Program and the second Taxpayer Advocate Report to the Congress. As you're very much aware, the Problem Resolution Program, or PRP for short, celebrated its 20th anniversary during 1997, and that means for the past 20 years of the program's existence, our PROs, our Problem Resolution Officers, now referred to as District and Service Center Taxpayer Advocates, have provided a very important and meaningful service to the American public. I'm very pleased that you chose to include a panel of local advocates as part of the hearing today.

This past year was also remarkable for another reason, and that's due in part to the amount of attention that problem resolution has received following the Senate Finance Committee hearings, and as you may be aware, we were also prominently mentioned in an Ann Landers column featuring a letter from our Acting Commissioner at the time, Mike Dolan.

Just an anecdotal incident: about four days after that column appeared across the country, I came in and we had received about 250 letters from taxpayers because my address was provided in that column. So taxpayers do read Ann Landers.

As a result of the increased publicity on our program and our high degree of involvement in coordinating the district problem-solving day events, our contacts from customers have dramatically increased over the past year. In fact, during the first quarter of Fiscal Year 1998 we have had a 30 percent increase in contacts from taxpayers. More and more taxpayers are finding their way into PRP and that's good for them. It's also good for us in terms of helping them get their problems addressed, and very good for our program.

We've been busy in PRP on a number of fronts during Fiscal Year 1997. First of all, we provided assistance to over 237,000 taxpayers who had experienced problems of a systemic nature with the IRS, and we also handled over 30,000 requests for assistance on cases involving significant hardship. In addition, we have been actively working with the operational areas in developing administrative and legislative proposals to assist in reducing taxpayer burden, achieving equity or fairness for taxpayers, and of course trying to improve IRS operational systems.

One of the things that we did new this year was to conduct taxpayer focus groups with both individual and small business taxpayers to get input from them on what they perceived as the most

significant problems they face in dealing with the IRS. In addition to that, I participated in a significant number of practitioner liaison meetings across the country to get direct feedback from them on their concerns and their ideas for improving service. We've included feedback from both of those groups in my report.

One of our most visible efforts following the hearings, however, was our involvement in the IRS district problem-solving days. As Mr. Rossotti mentioned, I was assigned the responsibility for planning and coordinating our first nationwide district problem-solving day event, and then the subsequent events to be conducted on a monthly basis by each of our district offices.

I convened a national task group to develop a template and a strategy for conducting these sessions across the country, and as you're aware, we conducted our first national problem-solving day on November 15. That proved to be very, very successful. We assisted over 6,000 individuals on that day, and almost 2,000 other individuals by telephone prior to November 15.

As Commissioner Rossotti indicated, the reaction from taxpayers was very favorable, and in addition to that, the reaction from our own employees was also very favorable. We received a substantial amount of input; feedback from them on what we can do to make problem-solving days more effective.

We've already planned for some additional events. We're planning some problem-prevention days, which will take place in April, and then we're also planning another national problem-solving day, which will be coordinated nationwide, scheduled and will take place on May 16 of this year.

One of the interesting fallouts from problem-solving days was the identification of certain cases which were causing problems for taxpayers, and also for our own employees. This has given rise to a task force for which I have been assigned as the executive sponsor. We're reviewing what additional authorities might be necessary to provide to our field employees, both in collection and our Taxpayer Advocates, to assist taxpayers in resolving these types of issues. I think, Mrs. Thurman, we picked up some of the feedback from the Florida hearing on problems with interest and penalties, and that's going to be one of the areas that we will include in looking at these additional authorities.

Because, what we found is that in some cases, either administrative procedures provided a barrier to closing out these cases or there was some legislative issue that we could not overcome. So the task for the group that I've pulled together, which is composed of a number of field employees, and headed up by two field executives, will be to look at what additional authorities we need to provide to our employees to allow us to deal with some of these troublesome, problematic cases that we just can't seem to close out of inventory. I think we've got the opportunity here for some significant breakthroughs, and I'm really looking forward to the results of this effort.

Another initiative that my office undertook this year was the development of some additional authority for the Taxpayer Advocate's office. As you're aware, I'm required to report on problems that taxpayers are experiencing in dealing with the IRS, and also the ad-

ministrative and legislative proposals that we've made to help relieve those problems.

In the past, if the Taxpayer Advocate made a recommendation that the functional area did not agree with, that pretty much ended the process, except for the opportunity for the advocate and the functional area to have some additional dialog on that issue. However, as a result of some discussions that I held with the Acting Commissioner at the time, I proposed to provide the Taxpayer Advocate with the authority to issue a Taxpayer Advocate directive. This would require the Service to act on any administrative recommendations made by the Taxpayer Advocate unless it was appealed to the Deputy Commissioner. This proposal was recently approved, and we're currently in the process of developing implementing instructions for the use of the Taxpayer Advocate directive. I certainly view this as another tool for the Taxpayer Advocate that will assist in facilitating dialog within the organization, and also to help bring about needed change to assist taxpayers.

We've included a number of areas in our report on recommendations that have been made; the different areas that problems have materialized with taxpayers during the past year. Many of the problems that we cited in the report are basically some of the same from the prior year, and that really should come as no surprise to most of us. Complexity of the tax law ranks as No. 1 for tax practitioners, while complexity of forms and instructions is ranked first for individuals and small business groups.

We've covered a number of the various initiatives that are underway within the Service to deal with some of those areas. I've also included a number of specific administrative proposals that were made, issues dealing with divorced and separated taxpayers, repeat examinations, notifications on offer and compromise cases, and so on.

Of course, we submitted legislative proposals dealing with waiver of the addition of tax for early withdrawals from an IRA, deduction for repayment of income previously reported, allowing taxpayers to change filing status under certain conditions, and so on. So we've had a number of internal activities, a number of administrative proposals that we put forward, and a number of legislative proposals that we're dealing with.

Of course, that's just the beginning of the process. We have a number of task forces underway. We've looked at some of the fallout from the district problem-solving days, and have identified the primary source of cases coming into us from district problem-solving days. We've asked our regional offices to assist us in analyzing the root causes of those cases, to develop additional administrative proposals and legislative solutions to those problems.

One of the criticisms of problem resolution in the past is that PRP has been somewhat alluded to as IRS's best-kept secret. We're trying to do a considerable amount to change that process. We're working with the IRS communications staff to develop a national campaign to increase public awareness of PRP and the availability of our services. We're also publishing the phone listings for all of our Taxpayer Advocates, along with their addresses and fax numbers, and a copy of that listing is included as an appendix in the current report. We will be moving, hopefully by later this summer

or early fall, toward developing a nationwide 1-800 number service for PRP, which we expect will be a great service for taxpayers.

Following the hearings and some of the problems that materialized, it was very evident that PRP could have played a more significant role in the resolution of some of those cases. The Acting Commissioner issued a memorandum to all IRS employees at the time, emphasizing the need for them to identify cases that meet the criteria for PRP—those cases that are difficult to resolve—and immediately get those cases in the hands of our problem-resolution specialists.

This, of course, along with the publicity that we received, has certainly generated a substantial increase in inventory, and also the need to look at staffing for our problem-resolution program. I've already received a small increase to my staff in the headquarters office, and we're currently reviewing staffing needs in the field. In addition to that, we also implemented a grade-level increase for all District and Service Center Taxpayer Advocates more commensurate with their new responsibilities and duties. That was recently approved by the Deputy Commissioner and has been initiated in most of our offices.

I do have some comments relative to the question that you asked the Commissioner in terms of the placement of the Advocate. As the Advocate for the past five years, I certainly have been allowed a great deal of latitude in operations by both of the Commissioners that I've had the opportunity to work for. I truly believe that the Advocate position should remain within the IRS and be part of the Commissioner's immediate staff, because I think that whether that person is selected from inside the organization or from outside the Service, I think it's important that that person have an identity with the Commissioner.

I also feel that the current reporting structure for our field advocates should be retained. While they each now report to the current head of office, the Director, they do receive program guidance from my office and from the regional staffs, and to a great degree that ensures joint accountability for the success of the program. Regional Commissioners and Directors have a responsibility, and so does the National Taxpayer Advocate, to ensure that we have an effective program. I view somewhat the Taxpayer Advocate's Report to the Congress as the report card for the program to make sure that the Advocate is truly independent and serving taxpayers in the way that they should be.

That concludes my comments. Thank you.

[The prepared statement follows:]

Statement of Lee Monks
Taxpayer Advocate

Before the
Subcommittee on Oversight
House Ways and Means

The Taxpayer Advocate's Annual Report to Congress

February 3, 1998

Madame Chairperson and Distinguished Members of the Subcommittee:

I am pleased to be here today to discuss the Problem Resolution Program and the second annual Taxpayer Advocate's Report to the Congress. As you may be aware, the Problem Resolution Program (PRP) celebrated its twentieth anniversary during 1997. That's twenty years of providing an extremely important service to the American public. Our local Taxpayer Advocates are both conscientious in their duties and proud of the service they provide. I'm very pleased that you have also decided to include a panel of local advocates as part of your hearing today.

This past year was also remarkable for another reason and that's due, in part, to the amount of attention the Problem Resolution Program received following the Senate Finance Committee hearings. The Program was also prominently mentioned in an Ann Landers column featuring a letter from our acting Commissioner, Mike Dolan, providing advice to taxpayers on how to receive assistance from PRP. As a result of this increased publicity and our involvement in coordinating the very successful IRS District Problem Solving Day events, our contacts from taxpayers in the first quarter of FY 1998 have dramatically increased. More and more taxpayers are finding their way into PRP and that's good for them in terms of getting their problems addressed and also good for our program.

We were extremely busy in PRP on a number of fronts during FY 1997. First, we provided assistance to over 237,000 taxpayers who had experienced problems of a systemic nature with IRS. We also received over 30,000 requests for assistance for cases involving significant hardship. In addition, we have been actively working with the operational areas in developing administrative and legislative proposals to assist in reducing taxpayer burden, achieving equity or fairness for taxpayers and improving IRS operational systems.

We conducted taxpayer focus groups with both individual and small business taxpayers to get their input on the most significant issues taxpayers face in dealing with the IRS. In addition, I participated as a speaker at a number of practitioner liaison meetings across the country to take our message directly to some of our key stakeholders. We also asked for direct feedback from them about their concerns and ideas for improving our services. At the same time, I also shared some of our ongoing initiatives to get their reactions. The feedback received as a result of the focus groups and practitioner discussions are outlined in my report.

One of our most visible efforts following the Senate Finance Committee hearings in September was our involvement in IRS District Problem Solving Day activities. I was assigned the responsibility for planning and coordinating the first nationwide District Problem Solving Day event and the subsequent events to be conducted on a monthly basis by each of our district offices. I convened a national task force, headed by the Assistant Director of our North Carolina-South Carolina District, to develop a template and strategy

for conducting these events across the country. A national video conference was held to ensure consistency in each of our districts. The first Problem Solving Days session were conducted November 15, 1997. District Taxpayer Advocates were actively involved in the planning of local sessions and most were designated by their directors as the overall coordinator for events in the district office. We assisted over 8,000 taxpayers in November with a total of 16,000 taxpayers assisted for all sessions conducted through January. The reactions from taxpayers to the events have been very positive with taxpayers rating the service received for November at 6.46 on a scale of one to seven with seven being the highest score. IRS employees have also reacted very positively and have provided input on how we can make these events even better. My office remains highly involved in the coordination of this program and plans are being finalized for events in April, in conjunction with the end of the filing period, and another national Problem Solving Day to be conducted on May 16, 1998.

Another initiative my office undertook was a proposal designed to give the Taxpayer Advocate additional authority to direct needed systems improvements within the IRS. As you are aware, I am required, by the Taxpayer Bill of Rights 2, to identify problems that taxpayers are experiencing in dealing with the IRS. I am also required to report on all administrative recommendations endorsed by the Taxpayer Advocate to relieve those problems. In addition, the report must include a response from the IRS to my recommendations. In the past, if a proposal was not implemented, or for whatever reason deemed inappropriate by the Service, that may have been the end of the issue. As a result of discussions with the Acting Commissioner, however, I proposed to provide the Taxpayer Advocate with the authority to issue a **Taxpayer Advocate Directive** which would require the Service to act on my administrative recommendation, unless appealed to the Deputy Commissioner. This proposal was recently approved and we are in the process of implementing instructions. I view this as another tool for the Taxpayer Advocate to help facilitate dialogue within the organization and to bring about changes that are needed to assist taxpayers.

A few minutes ago I mentioned the responsibility the Taxpayer Advocate has to identify problems taxpayers are facing in their dealings with the IRS. One source for gathering this information is through feedback from taxpayers and the tax practitioner community. Another source is the Problem Resolution Office Management Information System (PROMIS) which both tracks the source of all casework received in PRP and serves as an inventory system.

Data from PROMIS indicates the top five sources of PRP casework are:

- Audit Reconsiderations
- Penalties (other than Federal Tax Deposit Penalties which are tracked separately)
- Refund Inquiries/Requests
- Processing Claims/Amended Returns
- Lost or Misapplied Payments

The list of problems cited by taxpayers and practitioners includes many of the problems from last year's report. This should come as no surprise to anyone. Complexity of the tax law ranks as the number one issue for tax practitioners while complexity of forms and instructions is ranked first by the individual and small business taxpayer focus groups. Other items ranked highly by both groups include lack of access to IRS by telephone, record keeping and paperwork, delays in responsiveness by IRS and a lack of understanding of taxpayer concerns. I have initiated several working groups to

review various problem areas raised in the current and previous reports. While some recommendations on these issues have been included as part of this report, the task groups are continuing their efforts. Additional recommendations will be forthcoming as these projects are completed.

Recommendations in the current report focus both on systemic improvements and taxpayer equity issues that can be made administratively within the IRS and those that may require legislative action. The areas where specific recommendations were made for administrative action are:

- Issues impacting divorced/separated taxpayers
- Repeat examinations
- Notifications on Offer-In-Compromise cases
- Appeals on seizure actions
- Audit reconsideration centralization

In addition, legislative proposals have been made in a number of areas including:

- Waiver of the addition of tax for early withdrawals from an IRA
- Deduction for repayment of income previously reported
- Allow taxpayers to change filing status from joint to separate under certain circumstances
- Allow for bypass of refund offsets in hardship situations
- Exempt the Earned Income Credit from offsetting to Federal debts
- Simplify the definition of a qualifying child for purposes of the Earned Income Credit

To reiterate, FY 1997 was a year of significant activity for PRP. This activity provided additional exposure for PRP, which I believe will have a positive impact for taxpayers. The Senate Finance Committee hearings, which I referenced earlier, clearly focused attention on the need for the IRS to provide more effective service for its customers. PRP will certainly play a prominent role in that process. One of the complaints that I received as the Taxpayer Advocate concerned the lack of taxpayer awareness of the PRP program and how to access our services. We are changing that. We are working with the IRS Communications staff to develop a national campaign designed to increase public awareness of PRP and the availability of our services. We are also publishing phone listings for all local Taxpayer Advocates along with their addresses and FAX numbers. A copy of that listing is included as an appendix in my current report. In addition, we are working with the IRS Customer Service organization to develop a nationwide 1-800 telephone for PRP which, we expect, will be available later this year.

Following the hearings, the Acting Commissioner issued a memorandum to all IRS employees emphasizing the need to identify cases that meet PRP criteria or that have problems that are difficult to resolve and to immediately refer those cases to PRP. This, along with the publicity from the hearings and other events such as IRS Problem Solving Days, has resulted in a substantial increase in PRP case receipts, a pattern that I believe will continue as we generate more publicity about the program and the services we can provide for taxpayers. This has also resulted in the need to review the resource needs for the program. In December, I requested authorization to increase staffing in our former district headquarters offices and that request was approved. I have also requested a small increase in our national headquarters staff and am currently reviewing additional staffing needs for our field offices. In addition, a grade level increase for District and Service

Center Taxpayer Advocates, more commensurate with their new responsibilities and duties, was recently approved by the Deputy Commissioner.

One of the discussions that continually surfaces in connection with the position of the Taxpayer Advocate is the need for that individual to be able to operate independently and to make the hard calls necessary to promote taxpayer rights issues. I totally agree with that approach to the position. As the Taxpayer Advocate for the past five years, I have been allowed a great deal of latitude in how I operate by the Commissioners for whom I have had the opportunity to work. They have been supportive of my role and recognize the need for an independent voice within the agency. They have also supported the need for additional resources for the program and the proposals I have made to strengthen the Taxpayer Advocate's ability to promote systemic improvements within the organization. I firmly believe that the position of the Taxpayer Advocate should remain within the IRS. That's true whether that person is selected from within the ranks of the current IRS executive cadre or from outside the Service. The organization respects the position and the role the Taxpayer Advocate plays in representing a differing viewpoint.

I also feel the current reporting structure for the field advocates should be retained. While they each report to a local head of office, they receive program guidance from my office and from the regional staffs. This ensures joint accountability for the success of the program. Regional Commissioners and local directors have a responsibility to deliver an effective program at their level and my office has responsibility to ensure that we are meeting taxpayer needs through a consistent delivery of the program across the country.

In closing, I want to assure members of the Subcommittee that each of us in the Problem Resolution Program, from those on my staff to our local advocates and their staff members and caseworkers in the field, take our roles very seriously. We recognize the important task we have in serving the American public and that in many cases we may represent the taxpayer's last hope to resolve an issue. That is certainly a significant challenge and one that we accept. I know our field advocates will be sharing more about the program with you in the next panel and I look forward to what they have to say.

Chairman JOHNSON of Connecticut. Thank you very much, Mr. Monks. I appreciate your presentation, and I appreciate the work that has gone into the taxpayer problem-solving days, and the care with which you prepared, and the success that they were.

I'm going to hear from each of the other members of the panel and then go to questions, so that those who have to go to the mark-up will have at least heard the testimony.

So let me start with Mr. Romito.

STATEMENT OF LOUIS ROMITO, DISTRICT TAXPAYER ADVOCATE, PENNSYLVANIA DISTRICT, INTERNAL REVENUE SERVICE, PITTSBURGH, PA

Mr. ROMITO. Madam Chairman and distinguished members of the subcommittee, thank you for the opportunity to meet with you again to discuss the role of the local Taxpayer Advocate. After our initial meeting, it was obvious from an advocate's point of view that the Service needed to effect a cultural change in order to modify our approach to customer service. The movement toward this necessarily dramatic change has begun.

I'm sure that some of the changes grew from the testimony that was presented before this committee last year. I am just as sure that the Service would have taken longer to implement these changes had it not been for the impetus provided by this committee, the Senate Finance Committee, and the appointment of our new Commissioner. These factors certainly are accelerating the process.

You have heard, or will hear, from my colleagues of the many immediate and long-term actions that have taken place on a nationwide basis. They include such highly publicized actions as the problem-solving days, the elimination of ranking the 33 districts based on their revenue and enforcement results, and requiring higher levels of approval on high taxpayer impact enforcement activities, such as levies and seizures.

Local Taxpayer Advocates are actively involved in implementing, overseeing, and monitoring the effectiveness of these and other customer-related programs such as the citizen advisory panels. Further, the Commissioner's recently-announced concept for restructuring the Service will unquestionably expand the role of the Taxpayer Advocate.

Beyond these additional new and potential responsibilities, I want to tell you about my personal involvement as a local Taxpayer Advocate in three of these change actions.

First, one of your associates, Pennsylvania Senator Rick Santorum, has been conducting a series of hearings across the Commonwealth to hear individual and business taxpayers report on their interactions with the Service to gather ideas from tax practitioners regarding changes to the tax laws and to provide the Service with the opportunity to present its position on allegations of taxpayer abuse and the efforts we have taken to improve customer service. I was privileged to attend the hearings in Harrisburg, Pittsburgh, and Erie, and to testify on behalf of the District Director at the last two locations. I was also able to pick up suggestions from the other participants that will serve as the basis for proposals for legislative change.

Second, I recently spent a week here in Washington as the field office representation on the national office task force charged with planning the implementation of a concept that will provide taxpayers with a centralized call site that will deal with problem-resolution-type cases. The call site will be available to taxpayers through a unique, toll-free telephone number.

Congressman Coyne, as an aside, the Pittsburgh office has asked to be considered as the location for that call site. We feel, and our Northeast Regional Office agrees, that we have the high quality of personnel that would make this initiative a success.

Third, I am participating, along with the rest of the Pennsylvania District Director's top management, in an evaluation of the engineering of the local problem-resolution program case processing procedures. The efforts are based on the fact that the Service has traditionally designed processes that focused on the meeting of statistical objectives. We are looking at the process from the point of view of the taxpayer. What factors would our customers consider as constituting satisfactory case processing.

The point of these three examples is to show the breadth of the involvement of the typical Taxpayer Advocate in providing customer service. This is in line with Commissioner Rossotti's long-term goal to provide service to taxpayers that is as consistently as good as, or better than, they receive in the best companies in the private sector. Mr. Rossotti has stated that we owe it to the American public to take every step possible to ensure that impartial and fair treatment of taxpayers is never compromised.

To that end, he is refocusing the attention of the Service on achieving the high level of customer service that taxpayers deserve, and the local Taxpayer Advocates are right in the middle of the refocusing. If there was ever an exciting time in the problem-resolution program, this is that time.

That concludes my prepared remarks, and I'm available for any questions you have.

[The prepared statement follows:]

Statement of
Louis Romito
Taxpayer Advocate
Pittsburgh Customer Service Site
Pennsylvania District
Internal Revenue Service
Before the
Subcommittee on Oversight
House Committee on Ways and Means
February 3, 1998

Madame Chairman and Distinguished Members of the Subcommittee:

Thank you for the opportunity to meet with you again to discuss the role of the local Taxpayer Advocate. After our initial meeting, it was obvious from an Advocate's point of view that the Service needed to effect a cultural change in order to modify our approach to customer service. The movement toward this necessarily dramatic change has begun.

I am sure that some of the changes grew from the testimony that was presented before this committee last year. I am just as sure that the Service would have taken longer to implement these changes had it not been for the impetus provided by this Committee, the Senate Finance Committee, and the appointment of our new commissioner. These factors certainly are accelerating the process.

You have heard or will hear from my colleagues of the many immediate and long term actions that have taken place on a nationwide basis. They include such highly publicized actions as Problem Solving Days, the elimination of ranking the 33 districts based on their revenue and enforcement results, and requiring higher levels of approval on high-taxpayer-impact enforcement activities such as levies and seizures. Local Taxpayer Advocates are actively involved in implementing, overseeing, and monitoring the effectiveness of these and other customer related programs, such as the Citizen Advocacy Panels. Further, the Commissioner's recently announced concept for restructuring the Service will unquestionably expand the role of the Taxpayer Advocate.

Beyond those additional new and potential responsibilities, I want to tell you about my personal involvement as a local Taxpayer Advocate in three of these change actions.

First, one of your associates, Pennsylvania Senator Rick Santorum, has been conducting a series of hearings across the Commonwealth to hear individual and business taxpayers report on their interactions with the Service, to gather ideas from tax practitioners regarding changes to the tax laws, and to provide the Service with the opportunity to present its position on allegations of taxpayer abuse and the efforts we have taken to improve customer service. I was privileged to attend the hearings in Harrisburg, Pittsburgh, and Erie and to testify on behalf of the District Director at the last two locations.

Second, I recently spent a week here in Washington as the field office representative on a national task force charged with planning the implementation of a concept that will provide taxpayers with a centralized call site that will deal with problem resolution-type cases. The call site will be available to taxpayers through a unique toll-free telephone number. As an aside, Congressman Coyne, the Pittsburgh office has asked to be considered as the location for that call site. We feel, and our Northeast Regional Office agrees, that we have the high quality of personnel that would make this initiative a success.

Third, I am participating, along with the rest of the Pennsylvania District Director's top management, in an evaluation of the re-engineering of the local Problem Resolution Program case processing procedures. The efforts are based on the fact that the Service has traditionally designed processes that focused on the meeting of statistical objectives. We are looking at the process from the point of view of the taxpayer--what factors would our customers consider as constituting satisfactory case processing.

The point of these three examples is to show the breadth of the involvement of a typical Taxpayer Advocate in providing customer service. This is in line with Commissioner Rossotti's long term goal to provide service to taxpayers that is consistently as good as, or better than, they receive in the best companies in the private sector. Mr. Rossotti has stated that we owe it to the American public to take every step possible to ensure that impartial and fair treatment of taxpayers is never compromised. To that end, he is refocusing the attention of the Service on achieving the high level of customer service that taxpayers deserve. And the local Taxpayer Advocates are right in the middle of the refocusing. If there was ever an exciting time in the Problem Resolution Program, this is that time.

That concludes my prepared remarks, and I will answer any questions you may have.

Chairman JOHNSON of Connecticut. Thank you, Mr. Romito. It's a pleasure to have you here, and especially being from my colleague, Mr. Coyne's district.

I would now like to welcome Mr. Romano, who is from the Connecticut office in Hartford. Thank you for being here again, Mr. Romano.

STATEMENT OF FRAN ROMANO, DISTRICT TAXPAYER ADVOCATE, CONNECTICUT-RHODE ISLAND DISTRICT, INTERNAL REVENUE SERVICE, HARTFORD, CT

Mr. ROMANO. Thank you, Madam Chairman and distinguished——

Chairman JOHNSON of Connecticut. I was extremely pleased with the good results of your problem-solving day. We often know more about what happens in our own district than those of others, and I was very pleased with how well you carried it off and how the public responded to it.

Mr. ROMANO. Thank you. Madam Chairman and distinguished members of the subcommittee, I appreciate the opportunity to be here for the second time as the Taxpayer Advocate for the Connecticut-Rhode Island district. During the past year, the Internal Revenue Service has been the focus of several congressional hearings, GAO studies, internal audit reviews, and heightened media attention. In addition, changes to the Internal Revenue Code have added to its complexity. All of these have significantly enhanced the importance of the Taxpayer Advocate's position.

I've been involved in the problem-resolution program since 1982 as a caseworker, group manager, Assistant Problem Resolution Officer, and Taxpayer Advocate. I've experienced the growth of the program, and recognize the taxpayers' need for an individual to operate independently within the system to ensure their issues are resolved fairly within the context of the existing tax law.

I would like to focus this year on four areas. My comments will highlight the key points of my written testimony. First, I will summarize some of the issues that have been raised and the lessons learned as a result of the Internal Revenue Service problem-solving days held in the Connecticut-Rhode Island district.

Second, I will describe the advocacy initiatives I am involved in at the local level and with the Northeast Regional Office.

Third, I will discuss the legislative proposals which are outlined in the Taxpayer Advocate's Annual Report as they relate to issues which have been raised to me as a local Advocate.

Finally, I will focus on 1997 tax changes which I believe may require involvement from the local Advocates during the coming year.

The Connecticut-Rhode Island district held three problem-solving days in Fiscal Year 1998 in Hartford and New Haven, Connecticut and Providence, Rhode Island. Taxpayers have been invited to make appointments at times other than our normal business hours to discuss outstanding issues which remain unresolved. As always, we remind taxpayers that there is no need to wait for a special day to raise their concerns. The problem-resolution program is available to them every day during normal business hours.

Many taxpayers who attended problem-solving days were able to get their issues resolved. However, there were a number of tax-

payers who interpreted this day as a tax amnesty day and requested their tax liabilities be excused. There were also a number of requests for actions which are prohibited under current law, the most common of which is to allow refunds for returns filed beyond the timeframes required under code section 6511.

Regardless of the issues, the feedback from most taxpayers was positive. Many commented on the courteous and professional treatment they received. They were pleased with the extended hours of service, and most of all, they were grateful for the opportunity to sit face-to-face with someone and leave with a clearer understanding of their issues and the options available to them.

The number of taxpayers taking advantage of problem-solving day has taught us that the presence and availability of the Taxpayer Advocate and the PRP program have to be more visible through better advertising. As the Advocate for the Connecticut-Rhode Island district, I am participating in an advocacy initiative with the Northeast Region Advocate's Office related to Federal tax deposit rules simplification. As pointed out in the Advocate's Report, the electronic Federal tax payment system was designed to simplify the payment process and eliminate penalties due to incorrect deposits by taxpayers and processing errors by the Service. Fifteen recommendations were made, some of which are outlined in my written testimony. Many of these fall in line with the conceptual vision recently presented by the Commissioner.

The 1997 Taxpayer Relief Act contained a provision which enabled the Connecticut police and firemen who received heart and hypertension benefits in 1989 through 1991 to request a refund of tax paid on these benefits. My office worked closely with the Examination Division in the Connecticut-Rhode Island district to alert taxpayers to provisions of this law and to monitor the processing of the claims.

I included in my previous testimony a comment on how unfair taxpayers perceive Internal Revenue Code Section 6511. This year's Taxpayer Advocate's Report contains two alternative recommendations to amend IRC Section 6511. Allowing refunds to offset certain balance-due accounts would encourage delinquent taxpayers to reenter the system. Facing the possibility of enormous liabilities and not being entitled to credits due to the statutory requirement is so overwhelming at times, it discourages taxpayers from becoming compliant.

During 1997, Congress passed legislation known as the Taxpayer Relief Act. There are two sections in this law, section 1024 and 1025 of this act, which will allow the Internal Revenue Service to place continuous levies on up to 15 percent of specified Federal payments. This 15 percent applies to unemployment benefits and means-tested public assistance. I anticipate that levies on this type of income will likely produce many requests for hardship relief in the coming year.

Thank you for the opportunity to speak to you, and I'm also available to answer questions.

[The prepared statement follows:]

Statement of
Fran Romano
District Taxpayer Advocate
Connecticut-Rhode Island District
Internal Revenue Service
Before the
Subcommittee on Oversight
House Committee on Ways and Means
February 3, 1998

Madame Chairman and Distinguished Members of the Subcommittee:

I appreciate the opportunity to be here for the second time as the Taxpayer Advocate for the Connecticut/ Rhode Island District. During the past year the Internal Revenue Service has been the focus of several Congressional hearings, GAO studies, Internal Audit Reviews, and heightened media attention. In addition, changes to the Internal Revenue Code have added to its complexity. All of these have significantly enhanced the importance of the Taxpayer Advocate's position. I have been involved in the Problem Resolution Program since 1983 as a Caseworker, Group Manager, Assistant Problem Resolution Officer and Taxpayer Advocate. I have experienced the growth of the Program and recognize the taxpayers' need for an individual to operate independently within the system to insure their issues are resolved fairly within the context of existing tax law.

Last year my testimony focused on the process used to assist taxpayers who request hardship relief by filing Form 911, Application for Taxpayer Assistance Order (ATAO). I would like to report this year on four areas. First, I will summarize some of the issues that have been raised, and the lessons learned, as a result of the Internal Revenue Service Problem Solving Days held in the Connecticut/Rhode Island District. These Special Days, as I am sure you are aware, are the result of a commitment made to the Senate Finance Committee. Second, I will describe the Advocacy Initiatives I am involved in at the local level and with the Northeast Regional Office. Third, I will discuss legislative proposals which are outlined in the Taxpayer Advocate's Annual Report, as they relate to issues which have been raised to me as a local Advocate. Finally, I will focus on 1997 Tax Changes which I believe may require involvement from the local Advocates during the coming year.

PROBLEM SOLVING DAYS:

The Connecticut/Rhode District held three Problem Solving Days in FY98 in Hartford and New Haven, Connecticut, and Providence, Rhode Island. Taxpayers have been invited to make appointments at times other than our normal business hours to discuss outstanding issues which remain unresolved. As always, we remind taxpayers that there is no need to wait for a special day to raise their concerns. The Problem Resolution Program is available to them everyday during normal business hours. The Connecticut /Rhode Island District employees serviced nearly 200 taxpayers at these first three Problem Solving Days.

The Taxpayer Advocate and Associate Taxpayer Advocate played a major role in the planning, implementation and follow-up of these events. However, the real success was brought about by the leadership of the District Director along with enthusiastic support of NTEU representatives and employees from Public Affairs, Collection, Customer Service, Examination, Information Systems, Service Center Employees, Appeals, District Counsel, Criminal Investigation, Inspection and other Support Services.

Many taxpayers who attended Problem Solving Days were able to get their issues resolved. However, there were a number of taxpayers who interpreted this day as a tax amnesty day and requested their tax liabilities be excused. There were also a number of requests for actions which are prohibited under current law, the most common of which is to allow refunds for returns filed beyond the time frames required under Internal Revenue Code (IRC) Section 6511.

Another issue which was raised by a number of taxpayers during the Problem Solving Days is the refusal by The Internal Revenue Service to entertain requests for interest abatement in cases where, when all the facts and circumstances are considered, it appears to the taxpayer inequitable not to provide some relief. This includes issues which are not covered under the current provisions for Ministerial or Managerial Acts under IRC Section 6504.

Regardless of the issues, the feedback from most taxpayers was positive. Many commented on the courteous and professional treatment they received. They were pleased with the extended hours of service. Most of all, they were grateful for the opportunity to sit face to face with someone and leave with a clear understanding of their issues and the options available to them. This is an area where phone service seems to fall short, especially on complex issues and long standing problems.

The Taxpayer Advocate's report contains a listing of the ten areas which accounted for the majority of PRP casework in FY97. This list contains Audit Reconsiderations, Installment Agreements, Penalty Issues, and Document Request Handling among many others. One area which was found to be relevant to many taxpayers during Problem Solving day related to Offers in Compromise. A significant number of taxpayers requested appointments to discuss this process. These included requests for explanations on how the process works. Taxpayers who are currently in "not collectable" status or have minimal Installment Agreements are most interested in this process. Others requested further clarification as to why they did not qualify for an Offer in Compromise. This is an area that is currently receiving attention at the National Level and will require further analysis. A member of the Northeast Region Advocate's staff is currently working with a National Team to refine the Offer in Compromise process.

ADVOCACY ISSUES:

As the Advocate for the Connecticut/Rhode Island District, I am participating in an Advocacy Initiative with the Northeast Region Advocate's Office related to Federal Tax Deposit Rules Simplification. As pointed out in the Advocate's report, the Electronic Federal Tax payment system was designed to simplify the payment process and eliminate penalties due to incorrect deposits by taxpayers and processing errors by the service. Fifteen recommendations were made which include the following suggestions for FTD Rules simplification:

1. Eliminate the rolling penalty on multiple deposits in a quarter.
2. Increase the quarterly deposit threshold from $500 to $1,000 and index to inflation.
3. Settle on a uniform "Lookback Period" for paper and electronic filers to be the prior calendar year.

The 1997 Taxpayer Relief Act contained a provision which enabled police and firemen who received Heart and Hypertension benefits in 1989-1991 to request a refund of tax paid on these benefits. My office worked closely with the Examination Division in the Connecticut/Rhode Island District to alert taxpayers to the provisions of this law and to monitor the processing of their claims. Qualifying individuals have until August 4, 1998 to submit their claims. As an advocacy effort throughout this year, I will continue to monitor this area and provide assistance to individuals. Since there are approximately six months remaining for claims to be filed, I will be working with our Examination Division to contact individuals who qualify but have not yet filed their claims.

The Internal Revenue Service's Trust Fund Recovery Penalty Program is another area in which I am involved as a local advocacy initiative. Individuals who are determined to be responsible parties due to their involvement with a corporation are held personally liable for the Trust Fund Taxes which have not been paid. These taxes are also the responsibility of the corporate entity. Many times the corporate entity enters into an Installment Agreement and payments are also made by the responsible officers involved. Tracking these payments and cross referencing credits from the corporation and the individuals is a complex and confusing process. When taxpayers request a balance due it becomes a cumbersome process to compute figures, and can result in incorrect balances given to them. Sometimes, taxpayers receive subsequent notices

requesting additional payments after they have paid what they believe was the remaining balance. Other times, taxpayers may be given balances which are too high. While this is not an area of high volume, it is a source of major aggravation to IRS employees and the businesses and responsible officers that become involved.

LEGISLATIVE PROPOSALS:

I would like to emphasize that many of the proposals for legislative change which are included in the Advocate's Report are right on point with many of the issues raised by taxpayers at Problem Solving Days as well as throughout the year. As Advocates we are asked to make hardship and relief determinations that result from enforcement actions by the Internal Revenue Service. These same hardship and relief determinations are required as they relate to refund issues. Allowing refunds to bypass offsets to other IRS liabilities (IRC Section 6402), exempting Earned Income Credit from offsets to Federal tax, and allowing refunds to bypass debts to other Government Agencies in hardship situations, would go a long way in assisting taxpayers who are unable to meet their basic living expenses.

I included in my previous testimony a comment on how unfair taxpayers perceive IRC Section 6511. This year's Taxpayer Advocate's Report contains two alternative recommendations to amend IRC Section 6511. Allowing refunds to offset certain "balance due" accounts would encourage delinquent taxpayers to re-enter the system. Facing the possibility of enormous liabilities, and not being entitled to credits due to this statutory requirement, is so overwhelming at times it discourages taxpayers from being compliant.

Another area which is closely related is the recommendation to amend IRC Section 7502 to allow the postmark to be considered the filing date for all documents filed with the IRS. I have recently been involved with two taxpayers who have been denied refunds because the Service received date is after the deadline. In both instances, the taxpayer had clearly mailed the document on, or just prior to, the April 15 deadline.

Another issue which is raised many times throughout the year is joint liability. Allowing taxpayers to change their filing status from joint to separate may help eliminate situations where it is grossly unfair to saddle one spouse with the entire liability.

I realize there are many other proposals for legislative consideration mentioned in the Advocate's Report. However, I believe the ones I have highlighted are, in my experience, issues that have angered taxpayers the most.

1997 TAX LAWS:

During 1997 Congress passed legislation known as the Taxpayer Relief Act. IRC Section 1024 and Section 1025 of this act will allow the Internal Revenue Service to place continuous levies on up to 15 % of Specified Federal payments. This 15% applies to unemployment benefits and means-tested public assistance. The following items are no longer exempt from levy under IRC Section 1025:

Workman's Compensation payments;
Annuity or pension payments under Railroad Retirement Act;
Benefits under the Railroad Unemployment Insurance Act;
Unemployment Benefits; and
Means-tested public assistance.

This was effective for levies issued after August 5, 1997.

I believe this will present another area where hardship determinations will have to be made should a Revenue Officer propose enforcement of this type of levy. I have already had discussions with Collection Management in the Connecticut/Rhode Island District on this provision of the new tax law.

The implementation of Taxpayer Bill of Rights II has indeed increased the authority of the Advocate. The events of the past year have taught us that, despite our past efforts, both nationally and locally, the presence and availability of the Taxpayer Advocate and the Problem Resolution Office have to be more visible through better advertising. I do not believe the number of taxpayers who have requested help on Problem Solving Days have done so simply because of the convenience of the hours of service. I continue to meet taxpayers who have had outstanding issues with the Internal Revenue Service and are unaware of the existence of the Advocate's Office. The national media attention given to the first Problem Solving Day in November of 1997 focused unprecedented attention on the PRP Program. As a result, while nearly 200 people were serviced by Connecticut/Rhode Island District employees, on the Problem Solving Days, many more taxpayers called and were assisted by phone. I know there are plans underway, as described in the Advocate's report under communication, to ensure the general public is fully aware of the Program.

Taxpayer Advocates now administer the Problem Resolution Program, the TBOR II mandated Customer Feedback System, and are heavily involved in the planning and implementation of Problem Solving Days. In addition, in most districts the Problem Resolution Office serves as the focal point for Congressional contacts. The volume of inquiries from Congressional Correspondence has increased significantly based on the events of the past year. In the future, the development of Citizen Advocacy Panels is likely to also include participation by the local Advocates. The Advocate's report references the efforts that were made to review the position description for Advocates. Consequently, action was taken on that initiative. The Associate Advocates in all of the non-continuing Districts, while not carrying ultimate responsibility for the District's Program, continue to carry many of the same authorities and responsibilities within their individual areas. They also have raised concerns over being able to take their experience and knowledge and, someday, compete for an Advocate's position should one become available. Consideration should be given to revisiting the role and job description of the Associate Advocate in order to best take advantage of the skills and expertise that exist with the people holding those positions.

I thank you again for the opportunity to speak to you and am available to answer any questions you may have.

Chairman JOHNSON of Connecticut. Thank you very much, Mr. Romano. Those specifics are very helpful.

Next I'd like to welcome Ms. Tabor from Cincinnati, Ohio, and from the home town of my colleague, Mr. Portman.

STATEMENT OF JANEY TABOR, DISTRICT TAXPAYER ADVOCATE, OHIO DISTRICT, INTERNAL REVENUE SERVICE, CINCINNATI, OH

Ms. TABOR. Thank you, Madam Chairman and distinguished members of the subcommittee. I've got a cold, so I apologize.

I appreciate the opportunity to be here today to discuss three things: the role of the District Taxpayer Advocate, the problem-resolution program, and the problem-solving days held in Ohio. I have served in the District Taxpayer Advocate position for eight months in the Ohio district and I've been with IRS for over 22 years, and in Government service for 25 years in various technical and managerial positions. I feel that these prior opportunities within the IRS have served to prepare me for this most challenging role of Taxpayer Advocate.

In my role as a District Taxpayer Advocate, I have the opportunity to listen to and assist the taxpayers who may have become bogged down in the system, unable to resolve their problems or have encountered hardships because of various policies and procedures. I am responsible for ensuring that taxpayers' rights are protected, and I serve as the advocate for taxpayers within the Internal Revenue and represent their interests and concerns within the context of existing law.

The problem-resolution program is the place to address those unique situations where taxpayers have fallen out of the normal channels or somehow don't fit into a particular process that successfully serves the vast majority of taxpayers. Even though the Service is an organization comprising good people who do an admirable job of administering a set of complex tax laws, the laws, regulations, and our own administrative systems sometimes prevent the Service from doing what at times may be in the best interest of our customers.

When taxpayer problems have become more complex and don't easily fit into these existing processes, the IRS is sometimes prevented by law from helping the taxpayer get right with their tax obligations. This particularly relates to the interest and penalty provisions which I will share an example of later in my statement.

The IRS employees', as well as the Taxpayer Advocates', hands are sometimes tied and prevented from doing what would be in the best interest of the taxpayer. I believe the two Taxpayer Bill of Rights have moved us closer to the goal of administering a tax system that provides fairness for all, but has a way to go.

I'd like to share with you now some reactions and a scenario from the problem-solving day events. This scenario is also an example of the dilemma resulting from the interest and penalty provisions.

So far, we've had three problem-solving days in Ohio—in Cincinnati, Cleveland, and Toledo. The majority of the taxpayers that came in on problem-solving days were very satisfied with the Serv-

ice, and this isn't based on just my opinion; it's based on the taxpayer comments on their exit surveys.

Taxpayers who had been having problems for years came in, met face-to-face with IRS employees to either resolve the problem or obtain a better understanding of what they owed and determine a method to pay it off. They were able to put a face to the IRS, and it was a positive experience for both taxpayers and employees. Adequate resources were available to help them do their jobs. This created an atmosphere that maximized the problem-solving.

The Service is presently set up in such a stovepipe structure, often placing barriers unintentionally between functions, and therefore preventing quick resolution of problems, and with problem-solving days, these stovepipes or barriers were broken down and a structure put in place to handle all facets of the taxpayers' problem.

Many of the managers and frontline employees have remarked how wonderful it would be if this multi-functional concept created with problem-solving days could be put into the day-to-day work environment to assist taxpayers. Later in my testimony I'll describe what the Ohio District is doing to create this type of environment.

First, let me share with you a scenario from the problem-solving day event that illustrates how the current tax law created a tax burden for taxpayers. A husband and wife came in to problem-solving day to solve their back tax due of about $10,000 for tax years 1987 and 1988. Over the years they had struggled with financial problems and tried to pay the tax bill. On November 15, they came in to settle their account, hoping to qualify for an offer and compromise. At this point, the taxpayers had paid $1,500 on their original tax bill of $10,000, and still owed us $10,000. They had little equity in their house, about $11,000, three children, and had suffered mentally from this tax burden. They did not qualify for an offer and compromise. They had no funds to make an offer, but were willing to borrow from relatives to pay off the $1,800 they still owed from the original $10,000. They wanted to try and get this debt off their backs and see some light at the end of the tunnel.

There are no provisions in the tax law to help these taxpayers. Under existing law, they keep racking up high interest and penalties over the years while trying to pay their actual tax due. We need legislative action to be able to consider taxpayers' situations such as this. We suggest adding to the offer and compromise code perhaps a third provision for best interest for the taxpayer and the Service. If we could provide some consideration of taxpayer circumstances, while maintaining proper compliance with the tax laws and fairness in the administration of the laws, then we could make some strides in achieving a fair and equitable tax system.

Part of the success of the problem-solving days was the multi-functional involvement, and because this multi-functional approach to resolving problems proved so beneficial during problem-solving days, we're working on a concept in the Ohio District where we're testing a cross-functional group. This cross-functional group is working well, and we are ready to add additional expertise based on the involvement of the other functions validated at the problem-solving days.

Based on the success of problem-solving days, we believe this approach is one method of providing the same environment as our problem-solving days to our problem-resolution program, but we would be able to do that on a daily basis. Ultimately, I feel we need to organize the Service in a manner which allows us to eliminate the functional lines and focus on providing the best customer service related to our taxpayers' needs. I believe this supports the concept Commissioner Rossotti testified to. In the interim, an approach like we are testing would improve the relief for taxpayers now.

In closing, I hope my role as Taxpayer Advocate will be strengthened by the legislative proposals currently in process and that Congress will pass those laws which will help the Service provide a more fair and equitable tax system. I believe the problem-resolution program has been successful in helping taxpayers, and we will continue to do this.

Problem-solving days have elevated the successes of the problem-resolution program to a higher level and verified the need to provide a Taxpayer Advocate to assist taxpayers bogged down in the system.

This concludes my prepared statement, and if you have any questions, I would be glad to answer them. Thank you.

[The prepared statement follows:]

Statement of
Janey M. Tabor
District Taxpayer Advocate Ohio District
Internal Revenue Service
Before the
Ways and Means Subcommittee on Oversight
February 3, 1998

Madame Chairman and Distinguished Members of the Subcommittee

I appreciate the opportunity to be here today to discuss the role of the District Taxpayer Advocate, the Problem Resolution Program, and the Problem Solving Days held in Ohio. I have served as District Taxpayer Advocate for eight months in the Ohio District. I have been with the IRS for over 22 years and in Government service for 25 years. During my tenure with the IRS, I have served as a Taxpayer Service Representative and Specialist, Tax Auditor, Service Center Management Analyst, Regional Analyst in Tax Systems Modernization, District Quality Improvement Analyst, and a manager at both the District and Service Center levels. I feel as if all of these prior opportunities within the IRS have served to prepare me for this most challenging role of Taxpayer Advocate.

In my role as District Taxpayer Advocate, I have the opportunity to listen to, and assist, the taxpayers who may have become "bogged down in the system" unable to resolve their problems, or have encountered hardships because of various procedures and policies. My staff and I also identify and forward through channels systemic and/or legislative issues, which we find have created barriers or stumbling blocks to resolving taxpayer problems. I am responsible for ensuring that taxpayer rights are protected. I serve as an advocate for taxpayers within the Internal Revenue Service and represent their interests and concerns within the context of existing law.

The Service has the Taxpayer Advocate Office and administration of the Problem Resolution Program to address those unique situations where taxpayers have fallen out of the normal channels, or somehow don't fit into a particular "process" that successfully serves the vast majority of taxpayers. The Service is an organization comprising good people who do an admirable job of administering a set of complex tax laws. The laws, regulations, and our own administrative systems sometimes prevent the Service from doing what, at times, may be in the best interest of our customers.

For the majority of our taxpayers, the Service's systems and processes are working. But when taxpayer problems become more complex and don't fit easily into an existing "process", the IRS is sometimes prevented by the tax law from helping the taxpayer "get right" with their tax obligations. It looks like unfair treatment. There comes a time when I (as Taxpayer Advocate) in evaluating a taxpayer's circumstances, wonder why the taxpayer has been in the "system" so long and question if this was the intent of the law when it was written. The IRS's hands are sometimes tied and the Service is prevented from doing what would be in the "best interest" of the taxpayer. I believe the two Taxpayer Bill of Rights have moved us closer to the goal of administering a tax system that provides fairness for all.

At this point, I would like to share with you some reactions and scenarios surrounding our Problem Solving Day events. So far, we have had three in the Ohio District: Cincinnati, Cleveland, and Toledo. The majority of taxpayers that came in on Problem Solving Days were very satisfied with the service. This isn't based on my opinion. It's based on taxpayer comments on their exit surveys. Taxpayers who had been having problems for years, came in, met face to face with the IRS employees to either resolve the problem or better understand what they owed and determine a method to pay it off. They were able to put a face to the IRS, and it was a positive experience for both taxpayers and employees. Employees left after each of these events indicating how proud they were to be IRS employees. Adequate resources were available to help them do their jobs. The fact that the Collection, Examination, Appeals, Counsel and other

employees were on-site to work together created an atmosphere that maximized problem solving.

The Service is presently set up in a stovepipe structure, often placing barriers, unintentionally, between functions, and therefore preventing quick resolution of problems. With Problem Solving Days, these stovepipes or barriers were broken down and a structure put in place to handle all facets of a taxpayer's problem. Many of the managers and frontline employees have remarked about how wonderful it would be if the multi functional concept created with Problem Solving Days could be put into the day to day work environment to assist taxpayers. Later in my testimony, I'll describe what the Service is doing to create this type of environment.

First, let me share with you a scenario from our Problem Solving Day events that illustrates how the current tax law creates a burden for taxpayers and a second scenario that shows how the Service needs to address our customers' problems every day. The first scenario: a husband and wife came in on Problem Solving Day to solve their back tax due of about $10,000 for tax years 1987 and 1988. Over the years they had struggled with financial problems, and tried to pay the tax bill. On November 15 they came in to settle their account, hoping to qualify for an Offer in Compromise. At this point, November 15, l997, the taxpayers had paid $15,000.00 on their original tax bill and still owed $10,000. 00. They had little equity in their house (about $11,000), three children, and had suffered mentally from this tax burden. The monthly payments they could afford to make barely covered the accruing penalties and interest. They did not qualify for an Offer in Compromise; they have no funds to make an offer. They wanted to try and get this debt off their backs. At this point, they owe mostly interest. Their actual tax still due on one year is $1800.00. There are no provisions in the tax law to help these taxpayers. Under existing law, they keep racking up the high interest and penalties over the years, while trying to pay their actual tax due. If they wait two more years, remaining in an uncollectible status, the debt will go away. But they shouldn't have to suffer for two more years. We need legislative action to be able to consider taxpayer situations such as this by adding to the Offer in Compromise code provision a "third" criteria of "Best Interest" for the taxpayer and the Service. This could assist taxpayers in these kinds of situations, who see no resolution in the future. This could be built into the next Taxpayer Bill of Rights legislation. If we could provide consideration of taxpayer circumstances, while maintaining proper compliance with the tax laws and fairness in the administration of the laws, then we could make some strides in achieving a fair and equitable tax system.

The second scenario: another husband and wife came to Problem Solving Day because they had not filed their returns or paid their taxes for three years. They were really scared. They gathered their information to file the returns, borrowed the money to pay the taxes and what they believed would cover the interest, and wanted to get the record set straight with IRS. The husband had lost his job in a corporate downsizing during the first year they neglected to file. He was making a very good salary at that time, but hard times set in. He could not get another job right away. When he did, it paid much less than what he had been making before. The family experienced severe financial difficulty during these three years. They indicated no one from the IRS ever contacted them to file, but they knew they had better get it together. So on Problem Solving Day , they made an appointment to come in to discuss their situation, bringing their complete three years of tax returns and full payment on each one. The taxpayers knew there would be substantial penalties involved. The Service evaluated the taxpayer's situation based on past filing history, prior to the loss of his job; severe financial hardship; and health problems, and was able to relieve the taxpayers of any penalties. The couple wept tears of joy. This scenario illustrates our current ability to provide relief under our "reasonable cause" criteria. I hope that any new legislation you consider does not jeopardize the flexibility the Service currently provides for various taxpayer circumstances.

Because the multi functional approach to resolving problems proved so beneficial during the Problem Solving Day events, I'd like to share a concept we are testing in the Ohio District in the Taxpayer Advocate's Office. We are testing a cross-functional group, which includes Customer Service and Automated Collection System caseworkers who report to the Taxpayer

Advocate Office. This is working well, and we are getting ready to add expertise from the other functions as validated from the Problem Solving Day experience. Expertise in the Revenue Officer, Tax Auditor, Bankruptcy, Offer in Compromise, Appeals, Counsel, Employee Plans/Exempt Organization and Service Center ranks are being considered. Based on the success of the Problem Solving Days, we need to test this approach as one method of de-fragmenting the way the Problem Resolution Program is administered at this time. After all, when taxpayers have been in the system for a while, they have dealt with almost all of the Service's functions and end up in the Problem Resolution Program. This is also the program area where all Congressional inquiries are worked. This new approach of having a multi functional group of caseworkers working for the Taxpayer Advocate's Office would provide the same environment as our Problem Solving Days but on a daily basis. The organization needs to recognize that the taxpayers' problems often cross many functional lines, and to resolve them, we need cross functional involvement. Ultimately, I feel we need to organize the Service in a manner which allows us to eliminate functional lines and focus on providing the best customer service related to the taxpayers' needs. In the interim, an approach like we are testing would provide relief for taxpayers now.

In closing, I hope my role as Taxpayer Advocate will be strengthened by legislative proposals that are currently in process and that Congress will assist in passing those laws which will help the Service provide a more fair and equitable tax administration system. I believe the Problem Resolution Program has been very successful in helping taxpayers and we will continue to do this. Problem Solving Days have elevated the successes of the Problem Resolution Program to a higher level. I also feel these events have verified the need to provide a Taxpayer Advocate to assist taxpayers "bogged down in the system". This concludes my prepared statement. If you have any questions, I would be glad to answer them.

Chairman JOHNSON of Connecticut. Thank you very much.

Ms. Ling, who is from Jennifer Dunn's district.

Ms. Ling.

STATEMENT OF SANDRA LING, DISTRICT TAXPAYER ADVOCATE, PACIFIC-NORTHWEST DISTRICT, INTERNAL REVENUE SERVICE, SEATTLE, WA

Ms. LING. Madam Chairperson and distinguished Members of the Subcommittee, thank you for the opportunity to provide this committee with my insights and perspectives on the role of the District Taxpayer Advocate. I have served as the Taxpayer Advocate in the Pacific-Northwest District since 1994. Prior to assuming this position, I have worked at different levels of the IRS organization in Houston, New York City, and San Francisco. My experience includes work in problem resolution, of course, and taxpayer service, and the examination functions.

As a District Taxpayer Advocate, I'm responsible for ensuring the protection of taxpayer rights, representing their interests in decisions about the activities of over 2,200 IRS employees, and overseeing the problem-resolution program in the Pacific-Northwest District. Our district encompasses the States of Alaska, Hawaii, Oregon, and Washington, an area of over 756,000 square miles, with a population of approximately 10.7 million.

During Fiscal Year 1997, my staff, along with problem-resolution caseworkers, resolved over 7,600 problems and processed 2,208 applications for taxpayer assistance orders, requests for the Advocate's intervention in matters pertaining to IRS action and/or lack of action, providing a minimum partial relief in 84 percent of those issues. Since last September, the district has conducted six problem-solving days, helping over 400 people.

I would like to devote the bulk of my remarks to suggestions for improving the system. I believe that the vast majority of IRS employees wish to serve the public in a fair and just manner, but are sometimes hampered by obstacles over which they have no control. These include complex tax code. The Internal Revenue Code currently covers over 9,000 pages, including indices, explanations of amendments, and tables of sections. Within each section are references to other sections, definitions of terms, and a staggering quantity of complex and sometimes ambiguous language. I have often wondered how many Members of Congress actually prepare their own tax returns. Quite frankly, after 17 years with IRS, I'm still not always certain that I'm taking advantage of all the credits and deductions that I am entitled to. As reasonable people, how can we expect the average person to understand his or her rights and meet his or her responsibilities under these laws? I urge this committee to communicate to the full Congress the need for decisive action to produce a tax code that is both simple and fair.

I want to preface my statement about statutory empowerment with my thanks to Congress for passing the second Taxpayer Bill of Rights. It has made my job easier by empowering me to intervene in some situations when actions taken by the Service have created a significant hardship or when pending IRS action may not be the best alternative to pursue, given the taxpayer's circumstances.

However, the Advocate's statutory authority must be expanded. I encounter too many situations where taxpayers clearly want to get matters resolved, and yet the Taxpayer Advocate lacks the means and/or authority to institute any equitable settlement.

In other instances, taxpayers in severe financial distress could benefit greatly from expedited issuance of refunds. Yet, I am either hampered procedurally or lack the statutory authority to provide this relief.

An example relates to the offset of refunds. Our computers are programmed to search first for outstanding Federal tax liabilities and offset any overpayment to them. In cases of extreme hardship, I currently have a narrow window of opportunity within which I can prevent such an offset and issue the refund to the taxpayer. I need the authority to refund this money in cases of severe significant hardship.

But that is only part of the problem. The Internal Revenue Service is statutorily required to offset refunds to State and Federal agencies claiming an outstanding liability; for example, delinquent Federal student loan payments and child support. After satisfying any Federal tax steps through offset of refunds, the computer searches for liabilities reported by these other agencies, sending remaining overpayments to them. In these cases, I have no statutory authority whatsoever to prevent or reverse such an offset. A taxpayer suffering severe hardship who owed money to the IRS and the Veterans' Administration could get no relief from my office until the VA debt was paid in full.

There's also an additional concern relating to this issue. If the other agency provides the IRS with erroneous information regarding outstanding liabilities, the money is still offset, and it is often the IRS, not the agency that made the error, that bears the brunt of the resentment from the taxpayer. The IRS is required to assume that the debtor master file information is correct, yet faces loss of credibility and public trust if the offset is unwarranted. By putting the IRS in a position of collecting other agencies' liabilities, the system further hinders voluntary compliance. Taxpayers who fulfill their obligations and file their returns may be faced with the loss of their refunds to other agencies, even though the debt may be in dispute. Needless to say, this creates a disincentive to file timely or withhold the proper amount of tax from wages.

Another concern is the assessment of penalties. The purported purpose of penalties is the inducement of appropriate behavior, not punishment of those who fall behind. A cap on penalties would minimize their excessively punitive effects while preserving their behavior modification aspect. I know of many situations in which a taxpayer has made a good-faith effort to satisfy his or her liability, may have actually paid the tax in full, but has little hope of paying the remaining balance of accrued penalty and interest in his or her lifetime. For the average taxpayer, this burden can be overwhelming, and, again, may be a disincentive to filing on time.

Certain penalties may be abated for reasonable cause; others may not. I urge Congress to provide the Taxpayer Advocate or another entity with the authority to make discretionary abatement of all penalties, as well as interest, under limited circumstances.

I would like to add a few additional words about empowerment. We must be certain to strike a balance between the need for compassion and flexibility and the requirement that we enforce the tax laws. Most people, given a fair chance, will understand the need to learn from their mistakes and behave responsibly in the future, but for those who would deliberately flout or abuse the system, attempting to evade payment of taxes, the Service must remain diligent and firm. To do otherwise would be a disservice to the vast majority who pay their taxes when due.

Let us not forget common sense. There are times when statutes, while not causing significant hardship, leave much to be desired. As you're aware, the normal time period for collection of taxes is 10 years from the date of assessment. That period may be extended further with mutual consent of the taxpayer and the Service. In my opinion, if the IRS is unable to collect the tax within the 10-year statute of limitations, it should simply abandon the effort. No responsible organization would do otherwise.

Further, I believe that Congress should contrast the 10-year statute of limitations on collection with the significantly shorter statute of limitations within which a taxpayer can file a claim for a refund of overpaid taxes—generally, the latter of three years after the due date of the return or two years after the tax has been paid. It seems only fair that these two periods be the same. The current situation raises an issue of equity and may create the perception that IRS isn't fair in the way it administers the tax laws.

Negative characterizations of the Internal Revenue Service—in recent months there has been much reporting of alleged abuse and irresponsible actions by the IRS and its employees. While the Service is gravely concerned about these allegations and is continuing to investigate them at all levels, many IRS employees, myself included, are also concerned that the high quality of overall service they have provided has too often been overlooked. The constant emphasis on perceived inadequacies of the agency is undermining the public's confidence in the IRS and greatly hampering the agency's ability to fulfill its duties.

Further, this negativity is in some cases encouraging the aggressive and sometimes dangerous attitudes of those who oppose government in all forms, and the IRS in particular. Just as importantly, those who engage in incessant and one-sided criticism of the IRS may unconsciously compel some individuals whose allegiance to the extreme positions have previously been tenuous to step over the line into legal protests and possibly militant action. In last Fiscal Year, 872 threats or assaults against IRS employees were reported nationwide, including 41 in the Pacific-Northwest District. I am certain that every member of this committee agrees that no public servant should be expected to perform his or her duties in an atmosphere of impeding violence.

I urge this committee to help the Internal Revenue Service improve its ability to meet the needs of the American taxpaying public. In my opinion, this can best be accomplished through diligent fact-finding, rigorous discussion, and insightful changes in policy and statute. I believe that the important work of this committee should be undertaken in the spirit of determination and nonpartisan, as suggested by the National Taxpayer Advocate, while

avoiding divisive and destructive rhetoric against an agency of over 100,000 dedicated and conscientious public servants.

Thank you for the opportunity to present my thoughts.

[The prepared statement follows:]

Statement of
Sandra Ling
District Taxpayer Advocate
Pacific-Northwest District
Internal Revenue Service
Before the
House Ways And Means Subcommittee on Oversight
February 3, 1998

Madam Chairperson and Distinguished Members of the Subcommittee:

Thank you for the opportunity to provide this committee with my insights and perspective on the role of the District Taxpayer Advocate. I have served as Taxpayer Advocate in the Pacific-Northwest District since 1994. Prior to assuming this position, I have worked at different levels of the IRS organization, in Houston, New York City, and San Francisco. My experience includes work in both Taxpayer Service and Examination functions.

As District Taxpayer Advocate, I am responsible for ensuring the protection of taxpayers' rights, representing their interests in decisions about the activities of over 2,200 IRS employees, and overseeing the Problem Resolution Program. Pacific-Northwest District encompasses the states of Alaska, Hawaii, Oregon, and Washington - an area of over 756,000 square miles with a population of approximately 10.7 million.

Before discussing the issues that this committee has asked me to address, I would like to mention some of the accomplishments of the Pacific-Northwest District. Over the past fiscal year the District's customer service telephone and walk-in assistors had over 5 million contacts with taxpayers. Technical accuracy on the toll-free line was 95%. Over 92% of taxpayers' issues were resolved during the initial contact. During Fiscal Year 1997 my staff, along with Problem Resolution caseworkers, resolved over 7,600 problems and processed 2,208 Applications for Taxpayer Assistance Orders - requests for the Advocate's intervention in matters pertaining to IRS action and/or lack of action - providing at minimum partial relief in 84% of those issues. Since last September, the district has conducted 6 Problem Solving Days, helping over 400 people.

The Pacific-Northwest District received a Best Practice acknowledgment for its Electronic Filing manual for volunteer programs, and a group in its Collection Division, in conjunction with the General Services Administration (GSA), received a Hammer Award from the Vice President's National Performance Review. The Hammer Award recognizes contributions that significantly improve the way government works, and was presented to the Real Property Redemption Program, which originated in the Pacific Northwest. In this innovative joint effort, the IRS, with assistance from GSA's real property specialists, purchases property that has been lost through foreclosure by individuals with substantial federal tax liabilities. GSA resells the property, often at considerable gain, and the IRS applies the profit to the former owner's tax bill.

Pacific-Northwest District is one of four districts selected to prototype the Citizen's Advocacy Panel mentioned in the President's State of the Union address. This program promises to greatly enhance the Service's ability to respond to the needs of the community.

My approach to my duties and responsibilities is to review carefully the facts and circumstances and determine what action best serves the individual taxpayer and the American public. While compassion and sensitivity are important elements in this process, I must always consider how my decision may be perceived by the vast majority of people who file and pay timely. The message I want to convey is that the Advocate will work with people who are willing to make an effort toward resolution of the problem, but that each of us is expected to pay as much of his or her fair share as possible.

I would like to devote the bulk of my remarks to suggestions for improving the system. I believe that the vast majority of IRS employees wish to serve the public in a fair and just manner, but are sometimes hampered by obstacles over which they have no control. These include:

Complex Tax Code. The Internal Revenue Code currently covers over 9,000 pages, including indexes, explanations of amendments, and tables of sections. Within each section are references to other sections, definitions of terms, and a staggering quantity of complex and sometimes ambiguous language. I have often wondered how many members of Congress actually prepare their own tax returns. When I was first hired as an IRS toll-free assistor, I received six weeks of classroom training and two weeks of on-the-job training just to answer basic tax questions. Private tax preparation firms must spend thousands of dollars training their employees - again, just to learn basic tax law. Quite frankly, after 17 years with the IRS, I am still not always certain that I am taking advantage of all the credits and deductions that I am entitled to. As reasonable people, how can we expect the average person to understand his or her rights and meet his or her responsibilities under these laws?

As you know, the mission of the Internal Revenue Service is to promote voluntary compliance. How can they do so when the code is so complex that even sophisticated taxpayers have difficulty understanding it? I urge this committee to communicate to the full Congress the need for decisive action to produce a tax code that is both simple and fair.

Statutory Empowerment. I want to preface this statement with my thanks to Congress for passing the second Taxpayer Bill of Rights. It has made my job easier by empowering me to intervene in some situations when actions taken by the Service have created significant hardship, or when pending IRS action may not be the best alternative to pursue given the taxpayer's circumstances. However, the Advocate's statutory authority must be expanded. I encounter too many situations where taxpayers clearly want to get matters resolved, yet the Taxpayer Advocate lacks the means and/or authority to institute any equitable settlement. In other instances, taxpayers in severe financial distress could benefit greatly from expedited issuance of refunds, yet I am either hampered procedurally or lack the statutory authority to provide this relief.

An example would be in the case of a verified stolen refund check. I do not have the authority to reissue the refund until Financial Management Services, another arm of the Treasury, has completed its investigation - a process that can take well over a year. A taxpayer who has complied fully with the law and is clearly the innocent victim of a crime is nonetheless penalized because of an inflexible bureaucracy.

Another issue relates to the offset of refunds. Our computers are programmed to search first for outstanding federal tax liabilities and offset any overpayment to them. In cases of extreme hardship, I currently have a narrow window of opportunity within which I can prevent such an offset and issue the refund to the taxpayer. I need the authority to refund this money in cases of severe significant hardship. But that is only part of the problem. The Internal Revenue Service is statutorily required to offset refunds to state and federal agencies claiming an outstanding liability - for example, delinquent federal student loan payments or child support. After satisfying any federal tax debts through offset of refund, the computer searches for liabilities reported by these other agencies, sending remaining overpayments to them. In these cases, I have no statutory authority whatsoever to prevent or reverse such an offset. A taxpayer suffering severe hardship, who owed money to the IRS and the Veteran's Administration, could get no relief from my office until the VA's debt was paid in full.

There is an additional concern relating to this issue. If the other agency provides the IRS with erroneous information regarding outstanding liabilities, the money is still offset, and it is often the IRS - not the agency that made the error - that bears the brunt of resentment from the taxpayer. The IRS is required to assume that Debtor Master File information is correct, yet faces loss of credibility and public trust if the offset is unwarranted.

By putting the IRS in the position of collecting for other agencies, the system further hinders voluntary compliance. Taxpayers who fulfill their obligations and file their returns may

be faced with the loss of their refunds to other agencies, even though the debt may be in dispute. Needless to say, this creates a disincentive to file timely or withhold the proper amount of tax from wages.

Another concern is the assessment of penalties. The purported purpose of penalties is the inducement of appropriate behavior - not punishment of those who fall behind. A cap on penalties would minimize their excessively punitive effects while preserving their behavior modification aspect. I know of many situations in which a taxpayer has made a good faith effort to satisfy his or her liability, may have actually paid the tax in full, but has little hope of paying the remaining balance of accrued penalty and interest in his or her lifetime. For the average taxpayer, this burden can be overwhelming, and - again - may be a disincentive to filing on time.

Certain penalties may be abated for reasonable cause. Others may not. I urge Congress to provide the Taxpayer Advocate or another entity with the authority to make discretionary abatement of all penalties, as well as interest, under limited circumstances. Along those same lines, the rules regarding interest charged on erroneous refunds should make allowances for circumstances. Currently, there is a requirement that interest be charged, regardless of who is at fault, from the date of issuance of an erroneous refund of more than $50,000, even if the taxpayer delayed cashing the check pending contact from the IRS. Such interest should be subject to abatement for the period prior to date that the funds were actually paid out of the Treasury.

I would like to add a few additional words about empowerment. We must be certain to strike a balance between the need for compassion and flexibility and the requirement that we enforce the tax laws. Most people, given a fair chance, will understand the need to learn from their mistakes and behave responsibly in the future. But for those who would deliberately flout or abuse the system, attempting to evade payment of taxes, the Service must remain diligent and firm. To do otherwise would be a disservice to the vast majority who pay their taxes when due.

At the same time, the Taxpayer Advocate, or another individual, needs the authority to monitor the application of the law and determine, whenever possible, if the intent of Congress is being served. Often it is possible, through the study of committee reports, to readily discern that intent. If the law, as implemented, is clearly not accomplishing what was intended, the Advocate should be responsible for reporting the problem to Congress and, in the meantime, ensuring that taxpayers are able to act according to that intent until the law is changed.

And let us not forget common sense. There are times when statutes, while not causing significant hardship, leave much to be desired. As you are aware, the normal time period for collection of taxes is ten years from the date of the assessment. That period may be extended further by mutual consent of the taxpayer and the Service. In my opinion, if the IRS is unable to collect the tax within the ten-year statute of limitations, it should simply abandon the effort. No responsible organization would do otherwise.

Furthermore, I believe that Congress should contrast the ten-year statute of limitations on collection with the significantly shorter statute of limitations within which a taxpayer can file a claim for refund of overpaid taxes - generally the later of three years after the due date of the return or two years after the tax was paid. It seems only fair that these two periods be the same. The current situation raises an issue of equity, and may create the perception that the IRS is unfair in the way it administers the tax law.

Staffing. The efforts of the Taxpayer Advocate must be supported through adequate staffing. My office is funded for 15 permanent full-time employees. Contrasted with over 2,200 employees and 9 million returns filed in the district last year, this is clearly not sufficient staffing to fulfill the responsibilities of the Office of the District Taxpayer Advocate. Fortunately, the Pacific-Northwest District management understands the important role my office plays in protecting taxpayers' rights, and the need to consider the taxpayer's point of view when developing and implementing new procedures. For these reasons, the District has continually supplemented my office staff. However, there is no certainty that they will be able to continue to

do so in the future. I urge the committee to look at this issue closely, particularly in light of the widespread interest in enhancement of customer service and further reorganization of the agency.

Negative Characterizations of the Internal Revenue Service. In recent months there has been much reporting of alleged abuse and irresponsible actions by the IRS and its employees. While the Service is gravely concerned about these allegations, and is continuing to investigate them at all levels, many IRS employees, myself included, are also concerned that the high quality of overall service they have provided has too often been overlooked. The constant emphasis on perceived inadequacies of the agency is undermining public confidence in the IRS, and greatly hampering the agency's ability to fulfill its duties.

Further, this negativity is in some cases encouraging the aggressive and sometimes dangerous attitudes of those who oppose government in all forms, and the IRS in particular. Just as importantly, those who engage in incessant and one-sided criticism of the IRS may unconsciously compel some individuals, whose allegiance to extreme positions has previously been tenuous, to step over the line into illegal protest and possibly militant action. In the last fiscal year, 872 threats or assaults against IRS employees were reported nationwide, including 41 in the Pacific-Northwest District. I am certain that every member of this committee agrees that no public servant should be expected to perform his or her duties in an atmosphere of impending violence.

I urge this committee to help the Internal Revenue Service improve its ability to meet the needs of the American public. In my opinion, this can best be accomplished through diligent fact finding, rigorous discussion, and insightful changes in policy and statute. I believe that the important work of this committee should be undertaken in a spirit of determination and non-partisanship, as suggested by the National Taxpayer Advocate, while avoiding divisive and destructive rhetoric against an agency of over 100,000 dedicated and conscientious public servants.

Thank you for the opportunity to present my thoughts. I will now entertain any questions.

Chairman JOHNSON of Connecticut. Thank you, Ms. Ling.

Ms. Goldstein from Milwaukee, Wisconsin.

STATEMENT OF ELAYNE M. GOLDSTEIN, DISTRICT TAXPAYER ADVOCATE, MIDWEST DISTRICT, INTERNAL REVENUE SERVICE, MILWAUKEE, WI

Ms. GOLDSTEIN. Yes. Madam Chairman and distinguished Members of the subcommittee, it is an honor to appear before you once again to provide you with my assessment of what we, as field advocates, can provide to the taxpayers of this country.

I am currently the District Taxpayer Advocate in the Midwest District. The Midwest District consists of the three States of Wisconsin, Iowa, and Nebraska. I've been in the problem-resolution program a total of 12 years, 3 as a Problem Resolution Specialist and the balance as a Problem Resolution Officer, and then the District Taxpayer Advocate.

In those years, I have seen dramatic changes in my role as an advocate, as well as an increased expectation on the part of our taxpayers of this country, both for the Internal Revenue Service in general and the problem-resolution program in particular. Because of the strides that we have made in society in all aspects of our lives, particularly in the technology arena, the taxpayers of this country have come to expect the same level of prompt, courteous service from the IRS that they receive from any other service organization in the private sector. They have a right to expect it, and we have an obligation to deliver that service. What we as an organization need to do is we need to figure out what we need to do to put these skills, knowledge, and abilities in the hands of every IRS employee, so they can deliver world-class service to the taxpayers of this country.

I believe it is important that Congress partner with the Treasury and the Internal Revenue Service to ensure that these tools are placed in the hands of all IRS employees, whether it be tangible products such as computers and research material or intellectual property such as training and mentoring. We are at a critical time in our history when we need to stop calling each other names and start to roll up our sleeves to get the job done. I believe the American public deserves that from us all.

I don't think in my IRS history the attitude of employees toward providing customer service has been more reflective than in our recent problem-solving days. The Midwest District has held three problem-solving days to date, and they've been a resounding success. Our customers do have a right to expect that level of service from the Internal Revenue Service. On a scale of 1 to 7, with 7 being the highest, the Midwest District scored an overall rating of customer service of 6.84, and I know that other districts throughout this Nation enjoyed the same success during problem-solving days.

Another item that problem-solving days brought to my attention is that there is a certain segment of our population that can only deal effectively with the Internal Revenue Service in a face-to-face situation. These are people who will never be convinced that they can deal as effectively or as efficiently with the IRS over the tele-

phone, and they generally don't have access to the Internal Revenue Service.

In recent years, because of lean budgets, it has been our strategy to move people away from face-to-face situations to either the telephone or alternative methods of receiving information from the IRS. In whatever budget deliberations take place, as decisions are made to assign resources to the IRS, I would hope that this body, as well as the Internal Revenue Service, would not lose sight of those people that need to meet with the IRS employees personally.

As a Taxpayer Advocate, my goal in the upcoming year and years ahead is to work in our district to make every day a taxpayer problem-solving day. This should be the goal for all of our districts. What we did on problem-solving day was really no different than what we do every day during the year. However, we were operating in an artificial atmosphere. Generally, we don't have the tools and resources available to us on a daily basis that we have available during problem-solving days.

We generally don't have the luxury to take as long as it takes to resolve a taxpayer's problem that we don't have on a regular business day. As an organization, we must commit ourselves to ensure that we are making this luxury of taking the necessary time to help a taxpayer with their problem into a routine, regular way of doing business for us on a daily basis. I know that Commissioner Rossotti is committed to this vision, as we must all be.

In reading the Taxpayer Advocate's Report to Congress, he did fail to mention one initiative that his office is undertaking that I am very much in support of. This initiative is currently in the talking stages, and it is the implementation of an equity board. Last year when I was before this committee, I stated that it was my opinion that the most serious problem facing taxpayers was the complexity of the tax law. I have not changed that opinion. As a matter of fact, I'm even more entrenched in my belief since the passage of the Taxpayer Relief Act of 1997.

When the Taxpayer Advocate sponsored focus group interviews around this country, practitioners rated the complexity of the tax law as the No. 1 problem facing taxpayers. Taxpayers, individuals and small business taxpayers, rated the complexity of the tax forms and the instructions as their No. 1 problem, which of course is a byproduct of the complexity of the tax law.

I believe that tax complexity will be with us for a while, and the equity board concept is just such an instrument to help Advocates assist taxpayers when we recognize we cannot help them because of the tax law or IRS procedures. As field advocates, when we recognize that it just doesn't make sense to not help a taxpayer because of artificial barriers that have been set, we would be able to elevate these problems and issues to the equity board, who would work toward finding a solution to what appears to be an unsolvable problem. I am personally looking forward to the results of the task force looking into the equity board concept.

To say that formulating tax law and administering its aftermath is an easy task would, of course, be a gross understatement. We all do need to work together to ease the burden on our taxpayers. We owe it to our taxpayers of this country and we owe it to ourselves.

I would be glad to answer any questions you may have. Thank you.

[The prepared statement follows:]

Statement of
Elayne M. Goldstein
District Taxpayer Advocate
Midwest District
Internal Revenue Service
Before the
House Ways and Means Subcommittee on Oversight
February 3, 1998

Madam Chairman and Distinguished Members of the Committee, it is an honor to once again appear before you today to provide you with my assessment of what we as Advocates in field operations have to offer taxpayers of this country.

My name is Elayne Goldstein and I am currently the District Taxpayer Advocate in the Midwest District. The Midwest District consists of the three states of Wisconsin, Iowa, and Nebraska. I have been in the Problem Resolution Program a total of 12 years, three as a Problem Resolution Specialist and the balance as a Problem Resolution Officer and then a District Taxpayer Advocate.

In these years I have seen a dramatic change in my duties as an Advocate, as well as a change in the expectations our customers have of the Internal Revenue Service in general, and the Problem Resolution Program in particular. Because of the strides that we as a society have made in all aspects of our lives, especially in the technology arena, our customers have come to expect the same level of prompt, courteous service from the IRS they receive from any other service organization in the private sector. They have a right to expect it and we have an obligation to provide it. The vast majority of our employees believe this and strive to produce world class service. What we as an organization must figure out is what we need to do to ensure that every employee has the skills, knowledge and abilities to provide this level of customer service.

I believe it is important that Congress partner with the Treasury and the IRS to ensure these tools are placed in the hands of every IRS employee. Whether it be tangible products, such as computers and research material, or intellectual properties such as training and mentoring, we are at a critical time in our history when we must stop calling each other names and start rolling up our sleeves to get the job done. The American public deserves this from us all.

I don't think anything in my IRS history has been more reflective of this attitude than our recent Problem Solving Days held around the IRS districts of this nation.

It proved to me that given the tools and resources needed to get the job done, we can do it. Our customers have a right to expect it and our employees want to deliver it. The Midwest District has, to date, held three Problem Solving Days that were a resounding success. On a scale of one to seven, the Midwest District was rated 6.84 in overall service. I know that the other districts around the country enjoyed the same success. It also showed me that there is a certain segment of our population who only want to deal with us in a face-to-face situation. These are the people who do not feel comfortable dealing over the telephone, they do not have access to the Internet, and they will never be convinced that we can deal with them more effectively and efficiently over the telephone. In recent years, because of lean budgets, it has been our strategy to move people away from face-to-face situations in our walk-in offices, to using the telephone or alternative methods to get information from the IRS. In whatever budget deliberations take place, as decisions are made for assigning resources to the IRS, please do not lose sight of those people who need to speak to an IRS employee in person.

As a Taxpayer Advocate, my goal in the upcoming year and years ahead is to work in our district to make everyday a problem solving day for our taxpayers. This should be a goal for all our offices. While what we did on Problem Solving Day is really no different than what we do everyday, it was an artificial atmosphere. On a daily basis we do not have access to all the resources that are available on Problem Solving Days and we do not have the luxury to take as

long as it takes to resolve a taxpayer's problem. That luxury must be transformed into routine. I know that Commissioner Rossotti is committed to this vision, as we must all be.

In reading the Taxpayer Advocate's Annual Report to Congress, he did fail to mention one initiative that his office is undertaking that I am very much in support of. That initiative is currently in the talking stages. I am talking about the establishment of an Equity Board.

Last year when I was before this Committee, I stated that it was my opinion that the most serious problem facing a taxpayer was the complexity of the tax law. I have not changed that opinion. In fact, I am even more entrenched in that belief after the passage of the Taxpayer Relief Act of 1997. In focus group interviews conducted by the Taxpayer Advocate, tax practitioners rated the complexity of the law as the number one problem facing taxpayers, while individual and small business taxpayers rated it number three. Their number one problem was the complexity of the forms and instructions which are of course a byproduct of the complexity of the law.

I believe tax complexity will be with us for a while and the Equity Board concept is just such an instrument to help field Advocates assist taxpayers when we recognize we cannot help the taxpayer because of the law or an IRS procedure. As field Advocates, when we recognize that it just does not make sense to not help the taxpayer because of artificial barriers that have been set, we would be able to elevate these kinds of issues to the Equity Board who could work toward finding a solution to what appears to be an unsolvable problem. I am looking forward to the results of the task group looking at the Equity Board concept.

To say that formulating tax law and administering its aftermath is not an easy task would be a gross understatement. We all need to work together to ease the burden on our taxpayers. We owe it to this country and we owe it to ourselves.

Thank you for the opportunity to speak before you today and I would be glad to answer any questions you may have.

Chairman JOHNSON of Connecticut. Thank you very much, Ms. Goldstein. I thank the panel very much.

I earlier mentioned that the Human Resources Subcommittee would convene at 4:00. I was mistaken in that; it's at 4:30, for those of you who have that obligation.

Ms. Goldstein, I want to just go back to this equity board concept that you mentioned, because our original vision was that, through our communication with you, we would come to understand where the law or an IRS procedure did prevent the kind of outcome that you on the frontlines saw as equitable and fair.

It is a very difficult issue of balancing compassion and justice on the individual basis with the importance of having uniform and consistent tax law across the Nation, and that tension is something that we'll always live with, but I'll be interested to watch this discussion about the equity board develop, because it may be that they could refine these issues in such a way that then we would get very much more specific input from you as to what laws need to be changed and why.

I know when I was first elected, I had a terrible problem in my district. It was solved completely unfairly. It put the guy out of business. The taxpayers lost; he lost; we all felt miserable. And it was explained to me—I was a freshman then—that it had to be, so that there would be consistency across the Nation; that it's true we could have done this little thing over here, but then we wouldn't have consistent tax policy, and someone else in his circumstances might have been treated differently in another part of the country, and that wouldn't be fair. So it is a problem, and we really have to be far more realistic about it. I think the whole purpose of developing the taxpayer advocate system, and particularly trying to break through the communications barriers between the front line of any agency, frankly, and the Congress was exactly that—to try to identify those portions of the law and those procedures that you see working against common sense and fairness.

I think some of the points that a number of you have made have been very interesting in that regard. I think we do have to look at this issue of severe hardship. On the other hand, what is the need of the child for child support? And how do we make sure that you have guidance, but also flexibility? So as we look into those kinds of recommendations that you have brought to us, they're not going to be easy, but I appreciate your bringing them to our attention and making some recommendations, because, clearly, we do need to look at that.

I did want to ask Ms. Tabor, what did you mean exactly, because it's a little hard for me to get from all of your testimony what problems you were able to solve and what problems you can't solve. And when you said "multifunctional" approach, I sort of roughly hear what you're saying, and that you found that a very useful part of these problem-resolution days, and you're going to try to replicate that. But what do you mean about that? Give me an example of the kind of problem that in the normal course of events is hard to solve, but on a problem-solving day, where you somehow have a little different situation, could be solved because of this multi-functional approach.

Ms. TABOR. An example would be, you have a collection problem that a taxpayer comes to you with, but it's not actually a collection problem. They owe the tax, but it's based on an assessment that was done in examination. The collection officer can't change the assessment, and it's depending on the issue. You know, you have to really look at each taxpayer's case on a case-by-case basis.

But where the multi-functional concept comes in, and what worked for us on problem-solving days, is the revenue officer would be there and be meeting with the taxpayers to try to get them to pay the tax, and really they called in someone from exams to help look at the issue and see, is that a valid issue, and be able to explain it to the taxpayer, that this is a valid assessment; you do owe it, and you need to work with the revenue officer to pay it off. Or they would say, this is something that you really didn't owe; it was an invalid assessment, and we'll take care of it and take that debt away from you.

So I don't know if that's——

Chairman JOHNSON of Connecticut. So, Ms. Ling, was this the same kind of thing that you were referring to when you talked about the cases in which the debt may be in dispute?

Ms. LING. That's correct; yes, it is.

Chairman JOHNSON of Connecticut. Could you give us some examples of the kinds of cases that got solved on problem-solving day? Are there categories of cases that came in that tended to get solved and categories of cases that tended to get referred on, just started the process of resolution on problem-solving day?

Ms. GOLDSTEIN. In the Midwest District, many of the issues we were able to resolve while the taxpayer was in the office. It principally had to do with requests for elimination of penalties. They were able to come in to give us a valid reason as to why a tax return was either filed late or the tax was paid late. Based upon their oral testimony, in many cases we were able to accept that reason and effect change to their account that would have eliminated that dollar amount owed for that penalty amount.

Mr. MONKS. Mr. Rossotti had commented earlier that I might have some information on the categories, the primary categories, of cases that we dealt with during problem-solving days. Audit considerations was the No. 1 issue, and that has been——

Chairman JOHNSON of Connecticut. Excuse me. I didn't understand that.

Mr. MONKS. Audit reconsideration, requests for audit reconsiderations was the No. 1 issue; offer and compromise cases were No. 2; requests for installment agreements were No. 3, and penalties were No. 4. So those were the primary requests, and those four and the next two or three categories after that probably constituted somewhere in the neighborhood of 50 to 60 percent of the cases that came in.

Offers in compromises are another good example. That would be a process that would normally take a considerable amount of time to conduct a review, but because we had a multi-functional team in our offices, they were able to conduct the initial review, and even have counsel take a look at the proposed offer to see if it met all of the requirements that they might look for, and so they were able to expedite the solving of the problem; whereas, typically, in

an IRS office, if the taxpayer were to go in, they would meet with a Taxpayer Service Representative, and that would have to be referred somewhere else, and it might take another week or two before they were able to deal with that. But because they had the multi-functional teams there, they had everybody in place that they needed to have to solve that problem, and they even had linkage with the Service Centers for those issues that had to be resolved at the Service Centers, because in many cases only the Service Center has the authority to make the final action. So we either had Service Center employees onsite at the district during problem-solving days or had a linkage established with them, a contact point, in each of our centers. So that also greatly assisted the process.

This was probably the No. 1 thing cited by employees that they saw as favorable in the process. First of all, it allowed them the opportunity to show that we can provide able assistance to taxpayers, and, secondly, they liked the fact that we use this multi-functional approach to problem-solving.

Chairman JOHNSON of Connecticut. Well, I can certainly see that that would be more satisfying to both the taxpayers and to your employees, and I hope you succeed in your efforts to find some way to structure this into your normal procedures. I won't pursue that at this time, though, because we have so many members still here, and I want to be sure they have a chance to question.

I thank you all for your testimony. It was really very helpful to us, and much of it we'll pursue with you afterwards, but at this point I'd like to recognize Mr. Coyne.

Mr. COYNE. Thank you, Madam Chairman.

Mr. Monks, in your report today, you talked at some length about the need for simplification of the tax code. You point out that there is an awful lot of talk about simplifying the tax code, but very little action in doing it, and as part of your report, you call for a commission to be formed to study the current tax system. I'm just wondering if you could touch on why you think a commission might be able to be helpful to us.

Mr. MONKS. First of all, trying to deal with the issue of simplification is somewhat akin to solving the problem of world hunger; it's a very difficult process. It's not something that I think can be dealt with in a piecemeal fashion. We can make recommendations for simplifying a particular section of the code in trying to deal with a certain aspect, but then there are going to be 20 or 30 other tax legislative proposals made this year that may add to complexity, and we continue to use the tax system for other programs' effort other than raising revenue. So that adds both to complexity, and I think concern about the fairness of the system.

I think the efforts of the Restructuring Commission in looking at the IRS organization was an excellent job. They looked at a number of issues. It was a bipartisan effort. It brought the IRS into the picture. It brought significant stakeholders from outside of the IRS into the process. I think an approach like that, that would get the various tax proposals that have been made by different Congressmen across the spectrum, including the flat tax, the consumption tax, and frankly, the current tax system, which I believe happens to be a fairly good system, if it didn't have so much complexity in

it—looking at all of these issues, trying to eliminate some of that complexity, developing a system that would be fair; it's the kind of national debate and discussion that I think we need to have. I think the public wants a simpler system. They also want a fair system, and it's somewhat difficult to develop both of those in the same context. So I think it really requires a long-term effort, and I think a bipartisan effort, composed of members from the administration and from the Congress to look at this is exactly what is required.

Mr. COYNE. Thank you very much.

Ms. Ling, I just want to take time out to congratulate you on a very positive and forceful statement relative to the need to tone down the rhetoric as it relates to the IRS. Many elected officials and others just take advantage of the opportunity to pound an agency that is, by its nature, not doing a job that most people would want to do. I want to congratulate you and the panel for the work that you do for this country in a very tense and often confrontational atmosphere. Thank you.

Chairman JOHNSON of Connecticut. I just want to say that I concur with my colleague, the comments of my colleague, Bill Coyne. It is, however, an unfortunate reality that the focus on change, the product of change, the constructive things that are happening now, unfortunately, only did happen when there was a lot of focus on problems and failures and frustrations and angers. But we are certainly, without question, entering an era when we need to work together; we need to use the information that we have. I certainly am proud to represent an office and a State in which the IRS has provided really outstanding service, and I rarely can complain.

A lot of my colleagues are in that position, and I recognize the quality of the work you do and the enormous problems that complexity has posed for you. As Rostenkowski used to say, simplicity is the enemy of equity, and it's true if you look at the last year's tax bill. It's complex because we tried to be fair in providing and using very limited resources to help, for example, young families. So that doesn't mean we can't do something about it, but the problems you point out to us are going to be critical in helping us to figure out what we can do that will be most effective. So I thank you for some of the very thoughtful suggestions you have given us today.

I'd like to recognize Mr. Portman.

Mr. PORTMAN. Thank you, Madam Chair.

Thank you all for your testimony. It is a much better report, as I said earlier, much more helpful to us as legislators looking at it. As I've looked through the specific recommendations, I think four of them actually are in one form or another in the legislation that's currently resting in the Senate, which we hope to again have to the President by tax day.

You guys are in a better position than we are, because you can make these wonderful recommendations and not worry about how to pay for them. Some of these are very expensive. Your innocent spouse relief I love, but the Joint Tax Committee will tell us that's billions of dollars. I haven't thought about what that probably would be, but it sounds like so much money, it's almost absurd. So there are some restraints, obviously, on what we can do, and others

are just very sensible and actually would cost nothing, but would make your lives easier trying to advocate for taxpayers. I think this is exactly what we need. It's very helpful.

On simplification, Mr. Monks makes the comparison to world hunger. I think that's a bad analogy because in the last decade we've made significant progress in reducing world hunger, while at the same time complicating our tax code much further. Since 1986, they say we've made over 4,000 changes to the tax code, and so I think we're probably going in the opposite direction. It's not fair to world hunger to make that comparison.

But I do have a couple of specific questions regarding some of your ideas and the report itself. The focus groups you did, are interesting; you summarize those results. Is there a way to get those focus group results into your report, so that you're making specific recommendations rather than just telling us about your focus groups and what happened in the focus groups?

Mr. MONKS. Yes, we have more specific information. What we tried to do in the report was just to highlight the comments that they had made relative to where they saw the specific problems, and that is included in the report, along with the comments from the tax practitioners. We do have a considerable amount of information regarding what was provided by the focus groups. We conducted 10 focus groups across the country, 5 with individual taxpayer groups and 5 with small businesses, and what we tried to do here is just summarize what they basically told us were the primary issues that they were faced with, but we can provide more extensive information, if you would like.

Mr. PORTMAN. Well, information is helpful, and it's helpful that you've summarized here on page 15. What might be helpful, though, is to address those concerns. For instance, if in a focus group someone raises a concern about fear of audit and documentation problems, rather than simply to state that as a concern that was raised in a focus group, you would address that. How can that be addressed in the future? Should that be addressed? Give us some of your analytical thinking on it rather than just explaining what you heard in a focus group. I haven't heard from the chairwoman on this yet because we haven't had a chance to talk about the report, but I think that would be helpful to the subcommittee in the future, if you take those focus groups and give us some analysis.

One other pet peeve of mine is, I think you know, on the grade level. You say, on page 97, that the pay grade level for District Tax Advocates has been increased to grade 14, in 21 Districts and three Service Centers. How did you make that decision, and why haven't you provided for a career path in all 33 Districts and all 10 Service Centers?

Mr. MONKS. Well, that action has been made available to each of the Directors. In some cases, relatively new individuals had been selected into the positions that had only come into the position recently and were not yet eligible for the grade 14 positions.

Mr. PORTMAN. But it's within their discretion to be able to do that?

Mr. MONKS. It is. It is available in all 33 Districts and all 10 Service Centers——

Mr. PORTMAN. Okay.

Mr. MONKS [continuing]. And it's just that in some cases they've not yet been eligible for that or they're making a change, because this provided an opportunity to solicit maybe someone that the Director felt was more qualified to be in that position at a higher level.

Mr. PORTMAN. In the legislation that's, again, sitting over in the Senate, I think we would require that, right? It's not within the discretion of the District Director? Doesn't the legislation—actually, the legislation says there needs to be a career track developed within——

Mr. MONKS. Right, it requires the Advocate to——

Mr. PORTMAN [continuing]. The IRS for Taxpayer Advocates, and it leaves up to you all to develop a plan.

Mr. MONKS. I think it requires the Advocate to engage in a study on developing a career track with the Commissioner.

Mr. PORTMAN. Okay. So you've already taken what I think is an important step in that. It's not about you, but it is about providing that ability for people or Taxpayer Advocates not to be looking over their shoulder, not to be worrying about the functional areas, and having to go into the audit or compliance areas next.

The final question I have for you is with regard to that legislation, because there are some changes that are likely. You seem to take a pretty strong position that you don't want the Taxpayer Advocate to report to the oversight board; rather, you want that advocate to report to the Commissioner.

Don't you think that it's going to be difficult to have the kind of independence we'd all like to see as a Taxpayer Advocate so long as you have the Advocate reporting to the Commissioner?

Mr. MONKS. Well, I think, again, the Advocate has, in effect, at this point in time, two groups that he needs to report to, one being the Commissioner, and ensuring that the Advocate is fulfilling the role that the Commissioner sees the Advocate fulfilling, and the other is to the Congress itself. I think that the independence of the Advocate is strengthened by TBOR 2, some of the actions such as the report to the Congress, because it gives the Advocate the authority to come directly to the Congress with legislative and administrative proposals that are made and also to report on the actions that the IRS is taking in response to those recommendations. That's a pretty powerful tool. In effect, if the Advocate is not doing the job, it's going to be very clear to the Congress that this report is not what we're looking for; it's not fulfilling the needs that we have in terms of an independent Advocate, so, in effect, you have that capability to make that determination. That's how I view the report and the TBOR 2 legislation. I think it's pretty powerful incentive for the Advocate to be independent, and it's recognized within the agency that the Advocate has a different role. The Advocate speaks for the taxpayer. The Advocate is going to come from a different perspective, and that is expected.

Mr. PORTMAN. Okay, my time is up. I've got a million other questions, and just to say, I think it's a vast improvement because it's very helpful to us, this report. I enjoyed the comments. Ms. Tabor, thank you for your Cincinnati insights on stovepipes and the inability to break down some of those barriers, as you called them,

and the fact that the taxpayer assistance days broke down those barriers. I think that's exactly what Commissioner Rossotti was talking about, and I'm very excited about the next four or five years, as we work together to try to improve these.

As long as Nancy Johnson is here in the subcommittee, Mr. Monks, I will agree with you that there is some independence through the congressional reporting, because you've got a bulldog here who will stay on your case.

One final question, if I might, and that's just a yes or no. Do you agree or disagree with the provision in the bill that states that the Advocate, after he or she leaves office, cannot go back to the IRS for a period; I think it's five years?

Mr. MONKS. I do not have any problem with that concern. In fact, I raised an issue with our folks in Legislative Affairs that if they're going to require that of an internal Advocate, the same requirement ought to be placed on anyone coming in externally, because otherwise you have the potential for burrowing in.

Mr. PORTMAN. Right.

Mr. MONKS. So if you're going to impose that requirement on an internal selectee, then make it an across-the-board requirement.

Mr. PORTMAN. Okay. Thank you very much for your testimony. Thank you all for being here.

Chairman JOHNSON of Connecticut. All right, thank you. I'm going to recognize Mrs. Thurman next, but I also have to excuse myself, unfortunately. Thank you very much for your input. We look forward to working with you. Remember, this is the first step, and really if we're going to get at this issue of complexity, we have a better chance at fighting it from the bottom up than we do from the top down. So if you give us guidance on which knots cause the most problems, we will have a better opportunity to resolve them. You've pointed to some today. The 18 suggestions that you made are really fairly simple; they're fairly technical. I hope in the future you're going to come with some of those recommendations, but also some other recommendations, pointing at sections of the law that are particularly complicated. You did some of that today, and we'll be working with you.

But we all have to learn how to use this tool that we have, your contact with the taxpayers, and our ability to change the law, far more effectively and aggressively and in a time-sensitive manner.

Thank you all very much for your testimony today.

I'm going to recognize Ms. Thurman, and then Mr. Hulshof will have a chance to ask questions.

Thank you all for being here.

Mr. MONKS. Thank you.

Mrs. THURMAN. Thank you, Madam Chairman.

First of all, let me say that we appreciate the job that you are doing. For any of us who work in our district offices, and we do get those IRS calls on occasion as well, and you are the first ones we call. I understand we're going to have a new one in our area in north Florida. So we look forward to that.

But we do appreciate the job that you do, and it's not an easy one, I'm sure. Sometimes when they come to you, I don't know that they necessarily know that you're their Advocate as much more as

that you might work for IRS, and therefore you can do something for me.

Let me ask you a couple of questions, though. In the reorganization—and if you're uncomfortable with this because I know this is all new, and I don't know how much of this has really been shared with everybody, but in the fact that they're going to break it down into four areas, does that seem to be helpful in solutions where, because of the initial time that they might contact IRS or be involved, where somebody knows about the wage and investment income, and then if they have a problem with small business or self-employed, do you see that from your experiences, being the Advocates, that just somebody having knowledge of those kinds of areas and being particularly educated in those, that that will be helpful in addressing some of these problems?

I open it up. Mr. Monks, you can choose.

Ms. GOLDSTEIN. I'm going to quote something that Lee Monks had said yesterday, although, unfortunately, I was not in the meeting, so I was not privy to his comments, but Mr. Romito shared them with me. He mentioned that General Electric has various divisions. They go from making toasters to making jet engines, and I don't think their expectation for their employees is that those employees who make toasters also need to know how to make a jet engine.

I see Mr. Rossotti's suggestion for modernization of the IRS in a somewhat similar manner; that right now I think we are bogged down in everybody needing to know everything, and I think as an Advocate, if we have specialty areas that could concentrate on the specific problems that those areas are creating for our taxpayers, we would be a much more effective organization as a whole, and I think we as Advocates could be more effective advocating for those individual units of our taxpaying public.

Mr. MONKS. I think one of the other opportunities that I see—and it's not quite clear how it would play out at the district level yet, so I'm not quite sure how that would happen, but certainly at the Service Center level, and at our call sites, toll-free call sites, you could then specialize in the categories of taxpayers you serve. So the training for the employees could be targeted to either individual taxpayers, corporate taxpayers, small business taxpayers, or the specialty-type taxes, and you may well decide that you need seven of the ten centers to deal with individual taxes, one or two to deal with the others, and you would specialize in that area.

So your training would be more effective; your employees would be more effective over a period of time, and from a Taxpayer Advocate's focus, you could focus your problem-solving and your legislative proposals, your administrative proposals, in the area that you have more expertise in than you would currently have. So it certainly seems to be exciting, and I'm not sure that anyone other than someone coming from outside of the IRS could have come in and made that kind of an assessment as quickly as Mr. Rossotti has. So it's a very exciting concept, and I think it's going to hold much—hold us in good stead in the future as we move toward this.

Mrs. THURMAN. Just listening to people talk about it, just getting accurate information, and the same information from one agent to another, has been a significant issue, so it would seem to me.

Mr. Monks, you had mentioned in your statement that, because of some of the congressional oversight, that we've kind of accelerated the process. Let me ask you, then, and from your perspectives, I know that you have given us some recommendations, but if we were to accelerate the process to give you some additional tools, what would be your three top things that we could do within the bill that's sitting in the Senate today, if we were in negotiations with them?

Mr. MONKS. Providing the Advocate with additional tools.

Mrs. THURMAN. Right.

Mr. MONKS. I will let some of the Advocates comment on that as well. I mentioned to you the fact that I was aware of the hearing that you conducted——

Mrs. THURMAN. Right.

Mr. MONKS [continuing]. Down in Florida, and I got some feedback as a result of one my employees, or actually one of our Advocates having had the opportunity to participate. One of the things that we are doing is looking at this issue of additional authorities, and I think the issue that you raised at that hearing with the Directors—and the Directors indicated that they did not have the authority to deal with, was the abatement of interest, and that is a significant problem.

As we look at what additional authorities we might want to have, we might want to look at certain circumstances where interest abatement would be appropriate, because in problem resolution, we continually run into cases where taxpayers are on an installment agreement, and making their installments, and yet at the end of the year they owe more money than they did at the beginning of the year, and that's due to the compounding situation. We didn't start compounding interest until—I'm not sure when, but that has caused us a specific problem.

One of the authorities that we're looking at, in this task force, that we've kind of laid out to them as a starting point is the ability to remove an asset from consideration in considering an offer-in-compromise case, or to close a case as uncollectible. In many situations the revenue officer is prevented from closing that case because the taxpayer has equity in the asset, and the rules, in essence, for an offer-in-compromise require that equity to be paid over, at least that amount, for the Service to be able to accept an offer.

Yet, in many of those cases the seizure of that asset or for the taxpayer to pay that kind of equity would cause an undue hardship, and so one of the things that——

Mrs. THURMAN. Like losing their home.

Mr. MONKS [continuing]. I'll be looking at in this task group is to develop the authority to consider excluding an asset from consideration based on hardship, so that the field employees or the Taxpayer Advocate can close a case on an offer-in-compromise, or an installment, excuse me, or putting an account into uncollectible status, whereas currently they do not have that authority. That's an area that I'm sure this task force will come up with a proposal along that line, and we will present this as quickly as we can to the executive committee.

Now this may require a legislative change as opposed to being able to do this administratively, but if it does, we have already started work with the Office of Chief Counsel to help us develop that legislative proposal.

Mrs. THURMAN. Mr. Portman, just briefly, maybe to you and to the Oversight Committee, one of the concerns that I have in this—and maybe it's something we can get some information from Joint Tax—is when we look at our revenues and such, is that included? Are these penalties and such included in any of our monies that might be available to us? Because I think if they are, then we need to have some idea of what we're looking at, if there's a revenue offset or whatever, or if there is not, and I have no clue at this time as to how that works. Maybe you do; maybe you can give me some information on this. But if we do look at this penalty and the waiver, or looking at the assets and whatever, how does that affect us in our numbers in our budget? I think it might be something for us to look at before we get too far into this.

Mr. PORTMAN. Well put.

Ms. GOLDSTEIN. Ms. Thurman, the only other item that I would add, in discussion in regard to additional authorities, is the fact that currently there is a provision that allows us to extend the statutory period for collection for many taxpayers who enter into an installment agreement, and that installment agreement actually extends beyond the statutory period for collection. In many cases we have very unhappy taxpayers, and place many taxpayers in a hardship situation, because they feel compelled to sign that statutory waiver; otherwise, they may be threatened with immediate collection action.

Mrs. THURMAN. That was the other issue that was brought up.

Ms. GOLDSTEIN. And what I would like to see is that perhaps, legislatively or administratively, a provision that would perhaps limit the length of time that we extend the statute——

Mr. MONKS. And, in fact, we did include that as—that's one of the administrative proposals—I think it's No. 18 or something on the list—one of the administrative proposals that we made to the to the collections function, was to consider limiting the number of times that a statute can be extended, particularly on a dormant account, where there's been really no active collection taken on that account other than offsets of refunds. Let it go if it's at that point, and not extend it further. The Congress gave the IRS a 10-year statute, and yet we often find revenue officers that are going out and extending the statute over and over and over again, just to keep the case alive.

Mrs. THURMAN. Thank you.

Mr. PORTMAN [presiding]. Okay, Mr. Hulshof.

Mr. HULSHOF. Mr. Chairman, thank you.

Ms. Ling, I notice that during your testimony, the portion regarding complexity, you wondered aloud how many Members of Congress do their own taxes. If you want to keep a running tab, put me down as a yes. [Laughter.]

But I've got to tell you that, as you alluded, that I'm not very aggressive in seeking out credits or deductions because I'm afraid of awaking the slumbering giant called the IRS. [Laughter.]

So I want to talk a little bit about complexity. Mr. Monks, can we make some assumptions? You pointed out some specifics, and I appreciate that very much.

For instance, can we assume that people that itemize deductions, do they have more problems than those that claim the standard deduction? Is that a fair assumption?

Mr. MONKS. Oh, absolutely.

Mr. HULSHOF. What about married taxpayers that are filing joint returns as opposed to single taxpayers filing separate returns? Would you say——

Mr. MONKS. I don't know if I could categorize that as a higher complexity in terms of the return, because, after all, it's just using an individual rate versus a married/filing joint rate. What would add to the complexity would be the schedules that would be attached.

Mr. HULSHOF. Have you found any correlation between the size of a taxpayer's income and the problems that they encounter? That is, those that—some of you are nodding, and I don't know if you have any specific data, but is there any correlation between the size of a taxpayer's income and the problems that he or she is likely to have?

Mr. MONKS. I have not seen any studies of that nature. Obviously, a high-income-level taxpayer is probably going to get professional assistance, and is probably less likely to have an error.

Mr. HULSHOF. Okay. I note that Mr. Portman mentioned that in the bill that's languishing in the other body that there is a provision that would require the Joint Committee on Taxation to prepare a tax complexity analysis, which for every tax bill, it sort of conjures up an image of an Olympic judge holding up numbers, as we debate these bills. But, again, I think anything—Ms. Ling, going back to your point—that we can talk again about the need to emphasize complexity. As we're beginning discussions about Fiscal Year 1999 budget, there's been, again, discussion of using the tax code or changes in the tax code to drive public policy and encourage certain behaviors through the tax code, which of course adds complexity.

One other point in the remaining time, one of the legislative proposals, Mr. Monks, in your report regarding the innocent spouse situation would allow taxpayers who filed a joint tax return to subsequently elect to be treated as a married/filing separately in cases where one spouse is deemed to be unfairly saddled with joint liability, and I use those terms because you used them in the report. Who would be making the determination that a spouse would be unfairly saddled, and what would go into that determination of being unfairly saddled?

Mr. MONKS. Of course, this is just a concept at this point, but I would envision that it would require the signature of both taxpayers to agree to that type of a situation, but we do get a number of cases in problem resolution, and each of our field Advocates can attest to that, that many of the cases they get involve divorced or separated spouses where the wife seems to be saddled with the tax bill because we've either not been able to locate the other spouse or the other spouse has no assets from which collection could be affected.

In a case, a classic case, that came to my office, and we got involved in this situation, the wife, had planned to file a separate return, and would have got a refund, but the husband's accountant had convinced her to file a joint return with her husband because it would reduce the husband's liability. Subsequently, the husband made no payment on the taxes at all, and ended up declaring bankruptcy. They separated, and the only payments on the account had been made by the wife through offsets on her refund. Collection, at that point in time, was proceeding to collect against the wife because she was the only one that had assets. Yet, the income that created the tax liability was primarily the husband's. That's the type of a situation that I would envision that we could rightfully conclude that the proper action, the right thing to do, would be to treat this taxpayer as if they were married/filing separately, and get their tax liability down to where it would have been, had they filed separately, but we currently do not have that capability in the code.

There is the provision to allow married/filing separates to file married/filling jointly, but not the provision to go the other way. That's the type of situation that I would see that occurring in, because we get a lot of cases in problem resolution where that seems to be the case.

Mr. HULSHOF. Thank you.

Mr. PORTMAN. Thank you, Mr. Hulshof.

I don't want to hold you all too much longer, but I have a couple of other follow-ups, if I could. One, I want to thank Mr. Hulshof for mentioning that we do get at the complexity issue somewhat in this legislation, not as much as many of us would like to do, but we do have this, as Mr. Hulshof said, complexity analysis which would require, for every new tax piece of legislation, the cost to you all administering the taxes, but also the cost to the taxpayer in terms of time required, resources required, new forms, new lines, new schedules. That's something I think which will be quite helpful in terms of at least bringing to the public's attention, and to my colleagues' attention, what some of the consequences are of the new legislation. If that's not part of the tax proposal, then any Member of Congress can raise a point of order on the floor of the House or the Senate to require that. So we're making some progress.

We looked, as you know, very hard at the complexity analysis to come up with an actual ranking on complexity or perhaps even a number as to the actual cost to the taxpayer, and, frankly, the Joint Tax Committee was not able to give us assurance that they could do that. Otherwise, that would be in the legislation, but it was viewed as something impractical at this time.

We do have, as Mr. Monks had mentioned earlier, a study to try to look at that. I think you mentioned that in your testimony, and maybe over time we'll be able to come up with some economic analysis that can give us that kind of information. But, I think, it is a step in the right direction, and will be somewhat helpful.

Also, we require that the IRS be at the table, as you know, which is something that I think was more practiced in earlier years than it has been recently, where the IRS actually is working with us on tax legislation at the committee level. Now at 3:00 a.m. in the morning in the conference, when some of these decisions are made

through horse-trading, it's going to be practically impossible, I think, to have that kind of input, but at least we will get better input at the outset, again, on some of the burdens to the system and to the taxpayer, from the people who know, because we often blindly legislate in this committee and others without that input. That's something that I think is supported on a bipartisan basis, including, I know, the chairman of the committee is very supportive of that. So we've made some progress.

I like your EITC ideas. I know that not all of these proposals have been vetted by the administration. You all are, indeed, independent because I know that the administration doesn't support all of your proposals. I guess the proof's in the pudding.

But on EITC, my memory may be failing me here, Ms. Goldstein, but I think that you made a comment last year at the hearing that you thought it would be best to take the EITC out of the tax code altogether——

Ms. GOLDSTEIN. Yes, I did.

Mr. PORTMAN [continuing]. Put it on the spending side, expenditure side, and allow it to be what it really is, which is a transfer program. To call it a welfare program is probably not accurate because it's for people who are working, and welfare implies they are not working. But it's a system where the government is paying people a subsidy; 85 percent of it, as you know, is refundable. The error rate this year is going to be something like 21 percent, we're told. It's been higher in years past, but we think some of the new provisions we have in the law from last year and two years ago might help. So that's what, about $5.5 billion that will be mispaid this year. It's a system that I hear about a lot from people I know at the IRS. I don't see it high-ranked on your problems that you encountered in talking to IRS employees.

I guess my question is, since this year we didn't hear that from any of our panelists, that the EITC is a major problem, is it something that you are somehow feeling is working better, or are these numbers we're hearing from Treasury and the IRS of the over $5 billion being mispaid, and the problems that we're hearing anecdotally back in our districts true, which is this continues to be a real problem, to have the EITC run through the tax code?

Ms. GOLDSTEIN. I'll answer that, only because I did raise the issue last year. What we've seen, as far as burden on taxpayers, it has lessened because of the administrative way in which we deal with incorrect applications for the earned income credit. Legislation allowed us to go from treating it as an examination and going through statutory deficiency procedures to treating it as a math error. By treating it as a math error, very often, when someone gives us an incorrect social security number, we are able to deal with that problem for the taxpayer more immediately than we had in the past.

But I have not changed my opinion in regard to the earned income credit. I do believe that it is a necessary funding issue for the working poor. However, my preference personally would be to remove it off of the tax code because it does create an administrative nightmare for us, as well as I think sometimes hampers those legitimate taxpayers who need to get at it, but in very many cases

it's so complex now that they just don't claim it, when they're entitled to it.

Mr. PORTMAN. I would add, I know that this is not the right place to talk about the policy issue, and there are people at the IRS who deal with the policy, how to administer what we're passing up here, but when you look at the interplay between the child tax credit and the EITC that is in place because of the balanced budget agreement we made with regard to EITC, I think a year from now you will be saying that it, indeed, is even more complex for a lot of Americans who are trying to figure out whether they are eligible for the child tax credit, in addition to the EITC. As I read the legislation, it's very complicated; I, frankly, can't explain it to my constituents, that interplay, the stacking, and so on, and I don't know how you all are going to be able to explain it to people, many of whom, frankly, are not going to take the time to sit down and read through the IRS instructions or our legislation. So I think we're probably making it more complicated with the changes that we made last year that would be effective, as I understand it, for this calendar year.

Any other thoughts on the EITC?

Mr. ROMANO. Yes, I'd just like to add that I think you're absolutely right. We're really not going to see the fallout from the changes that were made. When taxpayers start to play with the earned income credit, along with the child credit, and balance everything out, I think that they are going to be looking for help from the Service to go through the forms, to go through the lines, and it's really too early to tell at this point what kind of fallout we're going to see from that, from those changes.

Mr. PORTMAN. Any other thoughts, Mr. Monks?

Mr. MONKS. No, I think that pretty much summarized it. I think the implementation of the ITIN process last year probably also eliminated some of the problems, because it removed certain categories of individuals eligible for the credit, and so that eliminated some of the problems that we had experienced in previous years.

Mr. PORTMAN. Well, again, thank you all very much for your testimony and for what you're doing out in the field, in my district, in Mr. Hulshof's district, and others. We appreciate it, and we appreciate your testimony today.

Mr. MONKS. Thank you.

Mr. PORTMAN. This hearing is now adjourned.

[Whereupon, at 4:51 p.m., the Subcommittee adjourned subject to the call of the Chair.]

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