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ECONOMIC STIMULUS PAYMENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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ECONOMIC STIMULUS PAYMENTS

THURSDAY, JUNE 19, 2008

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

The Subcommittees met, pursuant to notice, at 10:04 a.m., in room 1100, Longworth House Office Building, Hon. John Lewis [Chairman of the Subcommittee on Oversight] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
June 10, 2008
OV–9

CONTACT: (202) 225–5522

Lewis and McNulty Announce a Joint Hearing on Economic Stimulus Payments

House Ways and Means Oversight Subcommittee Chairman John Lewis (D–GA) and Social Security Subcommittee Chairman Michael R. McNulty (D–NY) today announced that the Subcommittees will hold a joint hearing on the status of the economic stimulus payments. **The hearing will take place on Thursday, June 19, 2008, at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, 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:

On February 7, 2008, the Congress passed the "Economic Stimulus Act of 2008," which was signed into law by the President on February 13, 2008 (P.L. 110–185). This law provides lower-income and middle-income working families, and certain seniors and disabled veterans, with an economic stimulus payment (commonly referred to as a "rebate check").

The rebate check generally is equal to the lesser of a taxpayer's net income tax liability or $600 ($1,200 in the case of married couples filing a joint return). In the case of taxpayers with qualifying income (defined as earned income, Social Security benefits, disabled veteran benefits, and benefits for widows of disabled veterans) of at least $3,000 and taxpayers with positive income tax liability, the rebate check will not be less than $300 ($600 in the case of married couples filing a joint return). The amount of the rebate check is increased by $300 for each child under the age of 17. The rebate check phases out for high-income taxpayers.

To receive a rebate check this year, eligible taxpayers must file an income tax return for the 2007 tax year by October 15, 2008. There are special filing requirements for taxpayers who normally are not required to file an income tax return ("ESP filers"). The Internal Revenue Service ("IRS") estimates that 130 million economic stimulus payments will be sent to eligible taxpayers, including ESP filers. For returns filed by April 15th, economic stimulus payments that were direct deposited have been completed, and, by July 11th, the remaining checks are scheduled to be mailed. Through June 5, 2008, about 67 million economic stimulus payments have been made.

To administer the rebate checks, the IRS and the Social Security Administration ("SSA") received an additional appropriation of $50.7 million and $31 million, respectively, to ensure that the rebate checks are fully and properly paid. These funds have been used, in part, to educate, assist, and locate taxpayers eligible for the rebate checks.

While the IRS and SSA reach out to taxpayers and beneficiaries to increase public awareness, they also must protect taxpayers from identity thieves who use fraudulent schemes and tax scams involving the rebate checks to obtain personal and financial information and claim someone else's rebate check. The Federal Trade Com-

mission and the Internet Crime Complaint Center ("IC3") report an increasing number of identity theft complaints referencing the economic stimulus payments. The IRS has issued warnings to taxpayers about rebate check scams and expects these scams to continue.

"Time is running out for millions of elderly and working Americans to file tax returns and receive a rebate check this year," said Oversight Subcommittee Chairman Lewis. **"Some problems have developed with the rebate checks, and it is preventing relief from getting to people who are struggling to keep up with rising costs. We must work quickly to address these problems and help ensure that the rebate checks reach everyone who is eligible."**

Social Security Subcommittee Chairman McNulty said, **"Economic stimulus rebates must be delivered quickly and accurately to achieve their purpose of stimulating the economy. Earlier this year, Congress asked the Social Security Administration to help reach seniors and other beneficiaries who do not usually file tax forms so they could receive a check if eligible. We provided SSA with additional resources to perform this duty and this hearing presents an opportunity to determine whether SSA's and IRS's efforts were successful."**

FOCUS OF THE HEARING:

The Subcommittees will review the status of the economic stimulus payments. They will examine the number of returns received and processed, the number of rebate checks issued (direct deposit and paper), the amount of the rebate checks issued, the overall payment schedule of rebate checks, and outreach activities conducted by the IRS and the SSA to locate individuals eligible for the rebate checks. Further, the Subcommittees will examine problems experienced by individuals eligible for rebate checks and what can be done to address these problems.

The Subcommittees also will examine the identity theft schemes developed to date and review actions taken in response. Finally, the Subcommittees will ask the agencies to examine how to protect Social Security beneficiaries and other individuals from identity theft schemes using rebate checks as a lure.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov/*, select "110th Congress" from the menu entitled, "Committee Hearings" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Follow the online instructions, completing all informational forms and clicking "submit" on the final page. Attach your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Thursday, July 3, 2008**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item 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 submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and summiteers are advised that the Committee relies 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. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

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

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 LEWIS. Good morning, good morning. The hearing is now called to order. Today the Ways and Means Subcommittees on Oversight and Social Security will review the status of the rebate checks.

People are suffering. I am really not sure how people are getting by. We are trying to get money into the hands of people who need it the most. But during that, we have placed a huge strain on the resources of the IRS. We have not been successful at reaching all of the people who are entitled to this tax rebate.

As Chairman of the Subcommittee on Oversight, I know that it has been hard for the Internal Revenue Service to take on the rebate checks during the tax filing season. There are almost 20 million additional taxpayers. Calls to the IRS have doubled this filing season, with over 10 million calls in 1 week, and 70 million calls to date. The Service has mailed over 200 million notices to taxpayers on the rebate checks, alone.

I am concerned that the strain on its workers, its budget, collection, and taxpayer services will be felt for the next filing season. The Administration needs to tell the Congress what resources the IRS needs. In addition to the burden on the IRS, we know that millions of elderly and working people have not yet filed for a rebate check. People suffering under the pressure of rising food and gas prices, we know people need this relief, and they need it now.

Clearly, millions of people do not know that they are eligible. We look forward to learning how—the Agency's plan to reach these people. We want to know, learn how the Congress, the Administration, and the public, and the private sector can work together to put billions of dollars in the pockets of Americans who need it most.

Now I am pleased to recognize the distinguished Ranking Member of the Subcommittee on Oversight, my dear friend Mr. Ramstad, for his opening statement.

Mr. RAMSTAD. Thank you, Mr. Chairman, and you are a dear friend. I appreciate your yielding, and I thank both you and Chairman McNulty for holding this hearing today.

The Economic Stimulus Act that we passed in February is an example of how both parties and Congress and the White House can work together in a bipartisan, pragmatic, and common-sense way when urgent action is needed. There is already some evidence that the stimulus has helped the economy. Although the checks didn't go out until the end of April, retail spending has already increased significantly; more than 76 million payments, totaling $64 trillion have already been sent, with more to come.

However, none of this—I think that's $64 billion, it should read; sorry, I still love my staff—most people probably don't fully realize the unanticipated additional workload that this created for the IRS. I think all of us owe the Service a debt of gratitude.

Certainly, the Service faced many challenges, other than getting the stimulus checks out. During this previous—this recently completed—filing season, there was the late passage of the AMT patch that required, I know, reprogramming the systems and printing new forms. I know a lot of IRS employees, and I know a lot of them worked overtime to minimize the disruption that late enactment of the AMT caused. So, blame Congress, not the IRS, for that one.

But once the filing season started, the IRS began processing the 2007 returns, we asked the IRS, really, to perform double duty to expedite our stimulus plan. I think the Service responded very, very well.

Also, I know the—part of the staff was diverted from reading the newspapers, from collections enforcement. There will be a price to pay in terms of foregone revenue, I guess, to the tune of $565 million, according to IRS estimates. I am looking forward to hearing more of that today from the testimony.

So, I hope we can learn in this hearing if the Service has sufficient resources for taxpayer services, because obviously that's important. I am glad to see Ms. Olson here, the taxpayer advocate who does such a great job on behalf of taxpayers.

We want taxpayers to have the best service possible, but we don't want to sacrifice other primary IRS responsibilities, as well. So, I also hope this hearing will shed light on what can be done to prevent scam artists from preying on taxpayers, especially the elderly. I am very concerned about that. We have seen ruses from scam artists that have victimized many, many people, again, especially elderly, surrounding previous stimulus payments. I hope that's avoided as much as possible this time around.

So, I look forward to the testimony today, Mr. Chairman, about the administration of stimulus payments. It's a very massive job, it's a very important job, and it's good to know the IRS has many dedicated public servants that were able to perform under pressure.

So, thank you again, Mr. Chairman, for holding this hearing. I yield back.

Chairman LEWIS. Thank you, Mr. Ramstad. Now I am pleased to recognize the Chairman of the Subcommittee on Social Security, Mr. McNulty, for his opening statement.

Mr. MCNULTY. Thank you, Chairman LEWIS. Thank you for your 22 years of outstanding service in the U.S. Congress, and for your decades of leadership in the civil rights movement, having put your life on the line on numerous occasions to provide civil rights and equal rights for all Americans.

I am grateful to you for organizing today's joint hearing on the implementation of the Economic Stimulus Act of 2008. The impetus for this legislation was the downturn in the economy, which continues to lag. In order to work, the stimulus had to be delivered quickly.

Of course, some things are much easier said than done. But I have been impressed by the rapid response of the agencies tasked with the job of getting payments out as quickly and as effectively as possible. A mere 55 working days passed between the time that the President signed the legislation and the first stimulus payment was delivered. This was during the busy tax filing season.

The Social Security Administration assisted by providing information to IRS, so it could reach out to Social Security and Veterans Administration beneficiaries who did not normally need to file, but would have to do so in order to qualify for their payment. These individuals received detailed materials from the IRS on the steps they needed to take in order to receive the stimulus payment. These processes are much more complicated than they appear on the surface, and the agencies have much to be proud of in the work they have done so far.

Inevitably, the stimulus program caused individuals to contact IRS and SSA with questions, and to seek help with filing the proper paperwork. IRS received the bulk of the inquiries. SSA also saw an increase in contacts.

In accord with congressional intent, and the Agency's primary role as the administrator of the Social Security system, SSA directed these individuals to the IRS for more information. The private sector and non-governmental organizations are also doing their part to help, as businesses, senior citizens groups, and others have assisted with publicity and tax filing for the stimulus.

Today, I hope to learn more about how successful these efforts have been. I understand that there may be a significant number of seniors and veterans who are eligible for a stimulus payment, but have yet to file the necessary tax returns in order to receive it. There are some concerns about whether there has been a sufficient outreach to this population, and I expect to gain a better understanding of how this might be done.

I would hope and expect that any proposals for additional outreach would not draw SSA staff away from their principal duties administering Social Security, or generate new workloads for the Agency. Commissioner Astrue and I spoke last Friday, and I know he shares these concerns.

As we consider the options, I will advise my colleagues that we should remain ever mindful that SSA is already struggling to meet its current workloads, given a decade of under-funding, and an unprecedented backlog of unprocessed disability claims, and an impending spike of retirement claims from the baby boom generation. I expect that timely payment of Social Security benefits for seniors, people with disabilities, and survivors also would be of great ben-

efit to the economy. I look forward to the testimony, and once again, thank the Chairman and the Ranking Members.

Chairman LEWIS. Thank you, Mr. McNulty for your statement. You didn't have to say it, but thank you.

Now I am pleased to recognize the Ranking Member of the Subcommittee on Social Security, Mr. Johnson, for his opening statement.

Mr. JOHNSON. Thank you, Mr. Chairman. Chairmen Lewis and McNulty both, I want to thank you for holding this hearing today. McNulty has spoken very eloquently about the shortfalls in the Social Security Administration, and how we keep putting extra loads on them all the time without funding.

But in order to give a needed boost to our National economy, the Congress passed, the President signed into law legislation estimated to provide more than 100 billion to 130 million people—and that number is right, by the way.

It's important that the Congress know whether this massive undertaking by the Internal Revenue Service will help—with help from the Social Security Administration is being done right.

Congress gave the agencies almost $300 million to cover the cost of processing the rebate checks. We need to know whether this money was spent wisely or not. Included in the cost of administering the stimulus program was education and outreach to those eligible, including those receiving Social Security benefits.

I look forward to hearing the testimony today by the Social Security Administration, as they discuss their work with the IRS in targeting and reaching these beneficiaries. All signs suggest that the IRS and Social Security have performed very well in carrying out this massive and difficult task, while under immense pressure. Both agencies and their staffs are to be commended for their professionalism and dedication to getting the job done right.

Letting Americans keep more of their own money is always a good thing. During tight economic times and high gas prices, it's even more important. I thank the witnesses for their upcoming testimony, and I thank you again, Chairman Lewis and Chairman McNulty, for holding this important hearing.

Chairman LEWIS. Thank you very much, Mr. Johnson, for your statement. Now we will hear from witnesses. I ask that you limit your testimony to 5 minutes. Without objection, your entire statement will be included in the record.

It is now my pleasure to introduce the national taxpayer advocate, Nina Olson.

STATEMENT OF NINA E. OLSON, NATIONAL TAXPAYER ADVOCATE, INTERNAL REVENUE SERVICE

Ms. OLSON. Thank you, Mr. Chairman, Ranking Members, and distinguished Members of the Subcommittees. Thank you for inviting me to testify today regarding the status of economic stimulus payments. I would like to make five main points from my perspective as the national taxpayer advocate, the statutory voice for taxpayers and taxpayer rights.

First, I would like to acknowledge the extraordinary job the IRS has done in delivering these stimulus payments. The Economic Stimulus Act was signed into law on February 13th, 4 weeks after

the filing season began, and while the IRS was still grappling with programming changes occasioned by numerous tax law changes enacted in December.

The delivery of stimulus payments was a massive undertaking, in some ways akin to running a second filing season. The IRS has managed both to deliver a successful filing season, and to develop and implement plans to make stimulus payments to an estimated 130 million taxpayers in a remarkably short period of time.

Second, in light of its limited resources, the IRS was not able to staff its telephone lines adequately, and had to make certain tradeoffs. The IRS has received 135 million telephone calls so far this year, more than twice the number of calls it received at this point in 2007. Not surprisingly, the level of service on the toll free lines overall has dropped from 80.6 percent in 2007 to 62.8 percent this year, and to 42.9 percent during the recent week ending June 7th.

The level of service on the telephone line dedicated to answering questions about stimulus payments has been even lower; 47.7 percent this year and 30.4 percent during the week ending June 7th. Only 1 out of every 10 callers to the stimulus line has spoken to a live human being. The IRS, understandably, transferred some employees from its accounts management and automated collection system functions to help in answering the onslaught of telephone calls. But, as a result, the inventory of individual taxpayer correspondence relating to account adjustments has more than doubled.

These declines in the level of service are not mere statistics. They have a real negative impact on taxpayers, increasing their compliance burden. For example, a taxpayer who cannot get through to the IRS to negotiate an installment agreement may instead find his paycheck levied unnecessarily. A taxpayer whose audit document submissions are not properly processed may end up petitioning the tax court at significantly greater taxpayer and government expense.

Third, a few glitches in taxpayer frustrations have arisen. One glitch was the Social Security numbers of approximately 1,500 taxpayers were inadvertently disclosed when the IRS routed stimulus payments to the wrong bank accounts.

Although not caused by IRS error, one source of frustration was that more than 20 million taxpayers who purchased refund anticipation loans, or refund anticipation checks, found that they were ineligible to receive their stimulus payments quickly via direct deposit, and instead were required to wait up to two-and-a-half months longer to receive paper checks.

Local taxpayer advocates report taxpayer frustration in their not being able to obtain expedited stimulus payments, or overrides of tax offsets in economic hardship situations.

Fourth, the IRS and taxpayer advocate service are conducting considerable outreach to senior citizens and other taxpayers without a 2006 tax filing requirement to encourage them to file forms 1040A to claim their stimulus payments. But there are significant barriers that will result in substantially less than full participation by this target population.

In addition to the fundamental complexity of the program, challenges include: the fact that some of these individuals may view fil-

ing a return as requiring too much effort for $300; that this population may lack Internet access of skills; or it may lack the mobility necessary to obtain assistance in applying for the ESP. Members of this population may be incapacitated, and under the care of guardians, conservators, nursing homes, and hospitals. Individuals who have not had contact with the IRS for years may be unwilling to open that conversation again.

Fifth, there are several long-term lessons that can be learned from this experience. The complexity of the ESP eligibility and computation rules has created taxpayer confusion, and caused unnecessary work for the IRS. If Congress decides to enact another ESP, it should consider how to simplify the eligibility rules so that they lend themselves to easy communication. Such simplification may mean that some individuals receive more or less than they might under the current ESP, but that tradeoff in clarity will be well worth it.

Another lesson is that when an initiative targets a population that does not otherwise have contact with the IRS, it may be better to utilize another Federal agency for payment delivery. Why not find a way to let SSA and the VA make stimulus payments to beneficiaries without a tax filing requirement, instead of requiring these individuals to file ESP-only returns, and having the IRS send them paper checks.

Alternatively, the IRS and other Federal agencies could determine eligibility based on available information, and the IRS could utilize no-fee debit cards for delivery of stimulus payments. Thank you, Mr. Chairman.

[The prepared statement of Ms. Olson follows:]

Statement of Nina E. Olson, National Taxpayer Advocate, Internal Revenue Service

Chairmen Lewis and McNulty, Ranking Members Ramstad and Johnson, and distinguished Members of the Subcommittees:

Thank you for inviting me to testify today regarding the status of economic stimulus payments authorized by the Economic Stimulus Act of 2008.[1]

In my testimony, I will make five main points:

1. While the IRS was a logical agency to administer the bulk of the stimulus program, the timing of the statutory directive in February to begin to develop and implement the program essentially required the IRS to run two filing seasons simultaneously. In light of its limited resources, I believe the IRS on balance has done an outstanding job of administering both the 2008 filing season and the Economic Stimulus Act.[2]
2. In light of its limited resources, the IRS was not able to staff its telephone lines adequately and had to make certain tradeoffs. IRS-wide, the level of service (LOS) on the toll-free telephone lines has dropped from 80.6 percent in 2007 to 62.8 percent year to date (YTD) and to 42.9 percent during the week ending June 7.[3] The LOS on the telephone line dedicated to answering questions about

[1] The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

[2] Economic Stimulus Act, Pub. L. No. 110–185 (2008).

[3] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending June 7, 2008).

stimulus payments has been even lower—47.7 percent YTD and 30.4 percent during the week ending June 7,[4] and only one out of every ten callers to the stimulus line has spoken with a customer service representative.[5] The IRS understandably transferred some employees from its Accounts Management and Automated Collection System functions to help in answering the onslaught of telephone calls. As a result, however, the inventory of individual taxpayer correspondence relating to account adjustments has more than doubled, creating potentially significant burdens for affected taxpayers. The need to assign IRS personnel to work on the stimulus program has caused core work to be placed on the back burner in other areas as well.

3. A few glitches and taxpayer frustrations have arisen in the course of the IRS's administration of the economic stimulus payment (ESP) program. One glitch was that the Social Security numbers of approximately 1,500 taxpayers were inadvertently disclosed when the IRS routed stimulus payments to the wrong bank accounts. Although not caused by IRS error, one source of frustration was that more than 20 million taxpayers who purchased refund anticipation loans (RALs) or refund anticipation checks (RACs) found that they were ineligible to receive their stimulus payments quickly via direct deposit and instead were required to wait up to 2–1/2 months longer to receive paper checks.
4. The IRS is conducting considerable outreach to senior citizens and other taxpayers without a tax filing requirement to encourage them to file Forms 1040A to claim their stimulus payments, but there are significant barriers that will result in substantially less than full participation by this target population.
5. There are several long-term lessons the IRS can learn from this undertaking that may improve its effectiveness in the future. In particular, the IRS should explore the development of a cadre of information technology and operations analysts dedicated to initiatives such as this, so that resources are not continually diverted from IRS core functions or improvement projects when special needs arise, as they often do.

I will address these issues from my perspective as the National Taxpayer Advocate, the statutory voice for taxpayers and taxpayer rights. I understand that the Treasury Inspector General for Tax Administration and the Government Accountability Office are conducting operational reviews of the ESP administration, and they will provide an assessment at a later date.

I. The IRS on Balance Has Done an Outstanding Job of Administering the Economic Stimulus Act.

Congress passed the Economic Stimulus Act in February in light of deep concerns about the health of the U.S. economy. The goal of the legislation was to stimulate the economy by placing an estimated $152 billion into the hands of consumers and businesses.[6] Technically, the legislation provides individual taxpayers with a credit against their 2008 tax liabilities, and taxpayers ordinarily would claim the credit when they file their 2008 tax returns during the 2009 filing season. Because Congress wanted to provide economic stimulus more quickly, however, it directed the IRS to make payments as an advance against the credit "as rapidly as possible."[7]

The IRS, which already was overextended trying to cope with an unusually challenging filing season, has managed both to deliver a successful filing season and to develop and implement plans to make stimulus payments to an estimated 130 million taxpayers in a remarkably short period of time. Because eligibility for a stimulus payment was dependent on a taxpayer's 2007 income tax return filed during the 2008 filing season, the IRS could not reasonably process stimulus payments until after the regular April 15 filing deadline. On April 28—less than two weeks after the regular filing deadline—the IRS began transmitting stimulus payments,

[4] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending June 7, 2008).

[5] As of June 7, the IRS had received 27.7 million "dialed number attempts" on its toll-free telephone lines concerning economic stimulus payments. IRS Response to TAS Information Request (June 16, 2008). The number of "dialed number attempts" that resulted in a conversation with a live assister was 2.9 million. Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending June 7, 2008). About 16.8 million additional callers were assisted through automation. In general, the IRS Joint Operations Center tracks the IRS's performance on its toll-free lines based on "net [call] attempts" rather than "dialed number attempts." While "net attempts" understates the number of calls placed to the IRS, this testimony elsewhere cites "net attempts" because that data point is more accessible and can be used to identify trends.

[6] *See, e.g.*, The White House, *Fact Sheet: Bipartisan Growth Package Will Help Protect Our Nation's Economic Health* (Feb. 13, 2008).

[7] IRC § 6428(g)(3).

and by May, the stimulus payments were widely credited with increasing consumer spending.[8]

The delivery of stimulus payments was a massive undertaking—in some ways akin to running a second filing season. Among other things:

- The IRS quickly developed programming code so that it could use the information reported on 2007 tax returns to determine which taxpayers were eligible for stimulus payments and how much they were entitled to receive.[9]
- The IRS developed a way to issue stimulus payments to taxpayers with no taxable income who filed their returns electronically. The Economic Stimulus Act provided that individuals with at least $3,000 of "qualifying income," notably Social Security benefits, would be eligible for stimulus payments even if they had no taxable income. However, the Act required all individuals to file tax returns to receive stimulus payments. Returns filed by individuals who have no tax-filing requirement and are seeking solely to claim their stimulus payments are referred to as "ESP-only" returns.

In planning to process ESP-only returns, the IRS discovered a significant systems limitation. Returns filed electronically must include at least $1.00 of adjusted gross income (AGI) to be processed, but many Social Security recipients have no AGI. As a workaround, the IRS determined that it could process a return if a taxpayer lists $1.00 of AGI, but if a taxpayer with no AGI were to list AGI of $1.00, the taxpayer technically would be furnishing inaccurate information; taxpayers are required to sign a tax return under penalties of perjury and declare that, to the best of their knowledge and belief, all information on the return is "true, correct, and complete." To resolve this conundrum, the Department of the Treasury and the IRS quickly issued guidance advising that taxpayers could list $1.00 of AGI without violating the penalties of perjury statement for the purpose of claiming stimulus payments.[10]

- The IRS posted extensive information on its website, including straightforward Frequently Asked Questions (FAQs) and sub-pages tailored for five populations—Social Security recipients, Veterans Affairs recipients, Railroad Retirement recipients, low-wage workers, and military combat personnel.[11] As of June 11, individuals had made 55.6 million visits to the ESP portion of the IRS website and viewed 91.0 million pages (excluding use of the stimulus calculator described below).[12]
- The IRS mailed notices to more than 130 million taxpayers who filed 2006 tax returns to remind them that they would have to file 2007 returns to claim their stimulus payments.[13]
- The IRS mailed information packages to 20.5 million recipients of Social Security or Veterans benefits who did not file 2006 tax returns to provide them with information on how to claim their stimulus payments.[14]
- The IRS developed a stimulus calculator for its website so that taxpayers could quickly determine whether they qualify for a stimulus payment and, if so, estimate the amount. As of June 11, individuals had made 23.8 million visits to the website and viewed 150.6 million pages.[15]

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[8] *See* Kelly Evans, *Stimulus Checks Aid Retail Sales*, Wall Street Journal, June 13, 2008, at A3 (noting that an unexpectedly sharp increase in retail sales during May suggests that "consumers spent a chunk of their government economic-stimulus checks" and quoting one economist as saying that the stimulus payments would act like a "shot of caffeine"); Michael M. Grynbaum, *Retail Sales Rise Above Forecasts,* N.Y. Times, June 13, 2008, at C1 (quoting an economist as saying: "The sharp improvement in May was clearly driven by receipt of the first wave of tax rebate payments. These payments will continue to be a positive factor for the consumer in the next couple of months."); Martin Crutsinger, *Retail Sales Rise Unexpectedly in May,* Washington Post, June 13, 2008, at D4 (noting that the increase in retail sales "signaled that Americans are spending their rebate payments").

[9] The programming challenges have been continuing. For example, the Economic Stimulus Act provides that no credit will be allowed if any person listed on a tax return (*i.e.,* the taxpayer, spouse, or any qualifying child) does not have a valid Social Security Number. IRC § 6428(h). The IRS had to do programming to implement that restriction. On June 17, however, the President signed into law H.R. 6081, the Heroes Earnings Assistance and Relief Tax (HEART) Act, which allows members of the military to receive stimulus payments even where the member's spouse does not have an SSN. The IRS is having to do additional work to identify these taxpayers and ensure that they receive stimulus payments.

[10] Rev. Proc. 2008–21, 2008–12 I.R.B. 657.

[11] *See* Economic Stimulus Payments Information Center at www.irs.gov.

[12] IRS Economic Stimulus Activity Report (June 17, 2008).

[13] *See* IRS Notice 1377.

[14] *See* IRS Package 1040A–3.

[15] IRS Economic Stimulus Activity Report (June 17, 2008).

- The IRS worked with the Free File Alliance to ensure that taxpayers who did not have a tax filing requirement but wanted to file ESP-only returns through e-file could do so without charge.[16]
- The IRS transferred personnel from other functions to help answer the barrage of telephone calls it received. As of June 7, the IRS had received 26.7 million "net call attempts" related to stimulus payments.[17] Many calls could be addressed by automated responses and many calls did not get through, but assisters spoke with about 2.9 million taxpayers directly to respond to stimulus questions.[18]
- The IRS developed outreach initiatives and is continuing to reach out to senior citizens and other taxpayers without a filing requirement to encourage them to file ESP-only returns. As of June 14, 7.7 million such returns had been received.[19]
- The IRS organized a major "Super Saturday" event on March 29 to assist taxpayers in preparing ESP-only returns. IRS employees and IRS partners staffed some 700 walk-in sites, and IRS employees staffed the toll-free telephone line.[20]

By the end of last week, the IRS had paid out about $63.9 billion to 76.5 million households.[21] The IRS projects that it will have paid out a total of $99 billion by the end of 2008 and somewhat more during the 2009 filing season.[22]

Overall, this is an extraordinary success story. While the administration of the program has not been free from tradeoffs and occasional hitches, some of which I will discuss below, it is a testament to the IRS's leadership and its talented and dedicated employees that it has been able to deliver the filing season and the stimulus program so effectively with so little time to prepare.

II. The IRS Has Had to Make Certain Tradeoffs to Administer the Program.

In passing the Economic Stimulus Act, Congress gave the IRS a supplemental appropriation of $202.1 million to administer the issuance of stimulus payments.[23] While the funding is certainly helpful, the IRS's principal challenge was the lack of time to plan. In addition to all the programming and outreach the IRS has had to do, the IRS also has received more than 26 million telephone calls and 316,000 visits to its walk-in sites relating solely to stimulus payments.[24]

Even with supplemental funding, there was not enough time for the IRS to hire, train, and deploy additional employees to answer the phones or staff the walk-in sites. The IRS therefore faced some difficult decisions. On the one hand, if it did not reassign employees from other functions to assist in answering the large spike in telephone calls, the LOS on the toll-free telephone lines would have declined by even more than it has. On the other hand, if the IRS did reassign employees from other functions, the core work those employees ordinarily perform would suffer. Inevitably, there was both a decline in the level of taxpayer service the IRS provides, particularly on its toll-free telephone lines, and a modest reduction in its enforcement activities.

A. The IRS Has Been Unable to Keep Up with the Large Volume of Telephone Calls and Correspondence It Has Received.

The IRS has received 94.4 million enterprise-wide "net call attempts" YTD (through June7, 2008) as compared with 51.6 million "net call attempts" for the

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[16] Not all members of the Free File Alliance offered this service. To date, approximately 7.7 million ESP-only returns have been filed, and only 708,169 have been e-filed. Thus, about nine out of ten taxpayers filing ESP-only returns filed on paper. IRS Economic Stimulus Activity Report (June 17, 2008).

[17] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending June 7, 2008).

[18] *Id.*

[19] IRS Economic Stimulus Activity Report (June 6, 2008).

[20] IRS Wage & Investment Division, *IRS puts its best face forward on Super Saturday,* Insider (available at http://win.web.irs.gov/articles/2008/Super_Saturday.htm (last visited June 8, 2008)).

[21] Department of the Treasury News Release, *Week 7 Wrap-Up: Treasury Sent 9.526 Million Stimulus Payments This Week* (June 13, 2008).

[22] IRS Response to TAS Information Request (June 12, 2008).

[23] Economic Stimulus Act, Pub. L. No. 110–185, § 101(e)(1)(A)(ii)(2008). Through June 5, the IRS had obligated $138.2 million ($121.7 million in Operations Support and $16.5 million in Taxpayer Services), but this total does not include labor charges from the preceding 2-4 weeks. IRS Response to TAS Information Request (June 123, 2008). The IRS anticipates it may require additional resources due to higher than expected call volumes. *Id.*

[24] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending June 7, 2008); IRS Economic Stimulus Activity Report (June 17, 2008).

same period in2007.[25] That reflects an enormous 83 percent increase. In percentage terms, the largest increases have occurred since the regular April 15 filing deadline. In the week ending June7, for example, the IRS received 6.2 million call attempts compared with 1.6 million call attempts during the comparable week in2007—an increase of 279 percent.[26]

Despite the reassignment of employees from other functions and despite the IRS's decision to extend the employment of temporary staff hired for the filing season, the IRS has been unable to keep up with the volume of calls. The enterprise-wide level of service (LOS) in 2008 stands at 62.8 percent YTD (through June 7) as compared with 80.6 percent in 2007 for the comparable period.[27] In the week ending June 7, the LOS stood at 42.9 percent—down from 76.8 percent in the comparable week last year.[28] Focusing solely on the 3.0 million calls to the Economic Stimulus Hotline during this recent week, the LOS was 30.4 percent.[29]

During some weeks, the volume of calls has been overwhelming. In mid May, the IRS enterprise-wide received particularly high call volumes—9.5 million calls during the week ending May 10 (LOS = 34.3 percent) and 11.2 million calls during the week ending May17 (LOS= 34.8 percent).[30] During the week of May 17, 6.6 million of the calls the IRS received related to stimulus rebates, and the LOS on that line fell to 26.3 percent.[31]

As described in footnote 27, the LOS generally measures the treatment of taxpayers that seek to speak with a customer service representative (CSR). However, the following chart shows the disposition of all taxpayer calls, including total number of calls received, the number and percentage of calls answered by a CSR, the number and percentage of calls answered by automation, and the percentage of calls not answered:[32]

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[25] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending June 7, 2008). As noted in a prior footnote, the term "net call attempts" reflects official data that the IRS posts on its Joint Operations Center website to track the activity on its toll-free lines, but it is a term of art that generally understates the number of calls that taxpayers place in an attempt to reach the IRS. The IRS separately tracks "dialed number attempts," a measure that reflects the number of times taxpayers have dialed the toll-free number and provides a more accurate measurement of what taxpayers experience. The IRS reports that it has received 135 million dialed number attempts in 2008 YTD (through June 7). IRS Response to TAS Information Request (June 16, 2008). On May 9, the peak day so far this year, the IRS received 4.7 million dialed number attempts.

[26] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (week ending June 7, 2008).

[27] *Id.* The customer service representative (CSR) LOS measures the relative success rate of taxpayers that call for toll-free services seeking assistance from CSRs. Generally speaking, the CSR LOS is calculated by dividing the number of calls answered by CSRs by the total call attempts of callers attempting to reach the CSR queue. (Essentially, CSR LOS measures the percentage of customers who want to reach a CSR and who are successful.) Total call attempts is the sum of calls answered, calls abandoned by the caller, and calls that receive a busy signal. For more detail, *see* CAS Data Dictionary—FY 2008, at http://joc.enterprise.irs.gov/new/josh/reports/wits/2008/FY%202008%20PAC%202C%20Data%20Dictionary.doc.

[28] *Id.*

[29] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending June 7, 2008).

[30] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (weeks ending May 10, 2008 and May 17, 2008).

[31] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: Rebate Hotline (Economic Stimulus Payments) 866–234–2942* (week ending May 17, 2008).

[32] This chart is compiled from IRS Joint Operations Center data. Data for 2008 is YTD through June 7, 2008or for the week ending June 7, 2008. Data for 2007 is YTD through June 9, 2007or for the week ending June 9, 2007. Some unassisted calls result when taxpayers hang up for a variety of reasons. Therefore, it is not the case that the unassisted percentage is entirely attributable to IRS limitations.

	Dialed Number Attempts	Assister Answered	Assister Answered Percentage	Automation Assisted	Automation Assisted Percentage	Unassisted Percentage
Enterprise 2008 YTD	134,656,185	28,829,133	21.4%	29,598,595	22.0%	56.6%
Enterprise 2007 YTD	62,479,800	24,677,171	39.5%	13,379,589	21.4%	39.1%
ESP Hotline YTD	27,731,306	2,866,113	10.3%	16,798,968	60.6%	29.1%
Enterprise 2008 Weekly	8,657,146	1,193,032	13.8 %	2,099,177	24.2%	62.0%
Enterprise 2007 Weekly	2,442,566	898,378	36.8%	187,597	7.7%	55.5%
ESP Hotline Weekly	3,304,474	205,572	6.2%	1,770,631	53.6%	40.2%

As this chart indicates, the percentage of calls that the IRS successfully addressed has fallen from 60.9 percent in 2007 to 43.4 percent in 2008 and the percentage of taxpayers assisted by a CSR has declined from 39.5 percent to 21.4 percent. These reductions are significant.

To assist with these call volumes, the IRS is relying on some employees from its Account Management and Automated Collection System (ACS) functions.

In Accounts Management, customer service representatives (CSRs) who work on account adjustments (including taxpayer correspondence, amended returns, responses to math error notices, and injured spouse claims) often shift between paper correspondence and assisting with the phones as needed. As the IRS has been forced to shift employees to help in answering the phones, the productivity of Accounts Management in processing taxpayer correspondence relating to adjustments has declined. As of June 7, 2008, the inventory of adjustments correspondence involving individual taxpayers stood at 647,674, as compared with 320,239 on the corresponding date in 2007—an increase of 102 percent.[33] Of greater concern, the number of "uncontrolled" items of such correspondence stood at 22,156, as compared with 10,483 last year—an increase of 111 percent.[34]

ACS is the IRS's automated collection system, and taxpayers who receive collection notices often seek to call the IRS to resolve problems before enforced collection action is taken. For that reason, it is critical that these taxpayers have an opportunity to get through to an IRS collection employee.

The need to staff the stimulus lines has led to a decline in the LOS on the ACS telephone lines.[35] The declines have been relatively modest YTD but have become more pronounced recently as stimulus calls have remained at high levels. The LOS on the ACS lines maintained by the Wage & Investment Division stands at 75.3 percent YTD and 60.9 percent for the week ending June 7 (as compared with 78.7 percent and 88.5 percent for the same periods in 2007).[36] The LOS on the ACS lines maintained by the Small Business/Self-Employed Division stands at 75.6 percent YTD and 71.6 percent for the week ending June 7 (as compared with 81.8 percent and 86.1 percent for the same periods in 2007).[37]

The IRS projects that it will receive an additional 6.6 million stimulus-related calls from June through September.[38] Because the IRS received 3.0 million calls during the first week of June alone, that projection may need to be reevaluated.

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[33] Internal Revenue Service, Joint Operations Center, *Customer Account Services Accounts Management Paper Inventory Reports: Weekly Enterprise Adjustments Inventory* (weeks ending June 7, 2008 and June 9, 2007).

[34] *Id.*

[35] There are 2,872 full-time equivalent employees (FTE) in the ACS function (1,545 in the Wage & Investment Division and 1,327 in the Small Business/Self-Employed Division). Through May, the IRS had shifted 116 FTE to answer ESP telephone calls and projects that it will shift another 80.1 FTE in June and July. IRS Response to TAS Information Request (June 13, 2008).

[36] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: W&I ACS 800–829–7650* (week ending June 7, 2008).

[37] Internal Revenue Service, Joint Operations Center, *Snapshot Reports: Product Line Detail: SB/SE ACS 800–829–3903* (week ending June 7, 2008).

[38] IRS Response to TAS Information Request (June 13, 2008).

B. The Reduction in Level of Service on the Phones and Delays in Processing Correspondence Can Harm Taxpayers and Potentially Erode Compliance

While I understand that the overriding goal of the stimulus legislation was to put money into the hands of U.S. households as quickly as possible and the IRS was a logical agency to administer the program, I am concerned by the sharp reduction in the IRS's ability to answer calls from taxpayers and timely process taxpayer correspondence.

The declines in the level of service on both the Accounts Management and the ACS telephone lines and the increasing inventories of unaddressed correspondence and other submissions are not mere statistics. These declines have real, negative impact on taxpayers, increasing their compliance burden. For example, a taxpayer who cannot get through to the IRS to negotiate an installment agreement may instead find his paycheck levied—unnecessarily. A taxpayer who is under audit and submits documentation may receive a statutory notice of deficiency because the IRS did not process the correspondence or amended returns timely. Thus, the taxpayer will incur additional expense and burden by having to file a petition with the United States Tax Court or request an audit reconsideration.

From a broader policy perspective, maintaining a high level of taxpayer service is crucial to tax administration. First, it is a basic obligation of the government. If we are requiring taxpayers to pay a large percentage of their incomes to the government, the least we can do is make it as easy as possible for taxpayers to comply. When taxpayers cannot get through to the IRS, they get frustrated, and the experience leaves them with a negative impression of their government. Moreover, when a taxpayer is facing enforcement action and either believes the action is unwarranted or wishes to talk with an IRS employee to try to work out a payment arrangement, it is absolutely critical that the taxpayer be able to reach an employee.

Second, the inability of the IRS to respond adequately to taxpayers creates disillusionment and may, in the long term, reduce compliance by angry and frustrated taxpayers.

In this instance, the congressional objective of providing immediate economic stimulus likely outweighed the consequences I have described. But it is important to keep in mind that there have, in fact, been trade-offs, and some things will fall through the cracks if the IRS is simultaneously asked to run a filing season and administer a stimulus program of this magnitude on short notice.

C. The IRS Projects That Its Administration of the ESP Program Will Reduce Collections Slightly.

Because the IRS has reassigned employees from ACS to assist in administering the stimulus payments, the IRS estimates that the loss in collection revenue will be approximately $565 million.[39] In FY 2007, for comparison, IRS net collections totaled $2.4 trillion,[40] and IRS enforcement revenue totaled $59.2 billion.[41]

III. There Have Been Glitches and Taxpayer Frustrations, but They Have Been Minor and Relatively Few.

During the administration of the stimulus program, the IRS has encountered a few problems and taxpayers have experienced a few additional sources of frustration that are not attributable to IRS errors.

As discussed above, the largest source of taxpayer frustration has been the difficulty of reaching an IRS telephone assistor on the toll-free lines. I will discuss other issues below.

As an initial matter, I note that the IRS reports it has not detected significant problems involving identity theft (*e.g.,* the misuse of another person's Social Security number) with the stimulus program. Particularly because millions of individuals filing ESP-only returns have not filed tax returns for a number of years, there was concern that upon filing, some taxpayers would discover that someone else had been filing returns using their SSN, causing the IRS to freeze the stimulus payment. In response to these concerns, the IRS reports that it established a specialized unit to analyze ESP-only returns for the purpose of identifying potential identify theft-related problems. The IRS reports that it has identified only 25 instances of potential identity theft to date.[42] While this report is encouraging, I remain concerned that

[39] *Id.* According to IRS data, ACS collections are 35.0 percent lower in May 2008 as compared with May 2007. IRS Collection Activity Reports 5000–1 and 5000–2.

[40] IRS Data Book: 2007, Table 1.

[41] IRS Fiscal Year 2007 Enforcement and Services Results (accompanying chart) (available on the IRS website).

[42] IRS Response to TAS Information Request (June 13, 2008).

the IRS does not have a comprehensive means to identify and track all cases of identity theft. The Federal Trade Commission (FTC) has reportedly received approximately 150 complaints about identity theft problems relating to stimulus payments, and a quick survey of TAS's Local Taxpayer Advocates about stimulus-related problems turned up 13 cases. Neither the FTC nor TAS complaints have been validated, but they do suggest that the universe of ESP identity theft-related cases is likely to be somewhat larger than the current IRS data suggest. I will continue to monitor identity theft problems arising in the context of the stimulus program.

A. In About 350,000 Cases, Taxpayers Have Not Received Additional Stimulus Payments of $300 Per Child to Which They Are Entitled.

Under the Economic Stimulus Act, a taxpayer is entitled to receive an additional payment of $300 for each dependent who is a "qualifying child."[43] Thus, for example, a couple that has four children and files a joint return may be entitled to a total stimulus payment of $2,400 (*i.e.,* $1,200 plus $300 for each of four qualifying children).

On Forms 1040 and 1040A, IRS programming code looks to whether the Child Tax Credit checkbox on line 6c, column (4) is checked to determine whether to allow the additional $300 credit. On approximately 350,000 returns, this box was not checked even though the taxpayer was entitled to an additional payment with respect to one or more children.

The IRS reports that there were two sources of this problem. First, some taxpayers who prepared their returns on paper did not check the box. Second, two tax software products used primarily by tax professionals were not properly programmed to check the box.

The IRS reports that it will be able to identify returns where a taxpayer had a qualifying child but did not check the box and that it will send paper checks to the affected taxpayers beginning immediately after the regularly scheduled payment of stimulus checks ends in July.[44]

B. Approximately 1,500 Stimulus Payments Were Transmitted into Wrong Bank Accounts and Personally Identifiable Information Was Compromised.

On May 15, *Newsday* reported that some stimulus payments were deposited electronically into the wrong taxpayers' bank accounts. The article said that one taxpayer reported receiving a deposit of $1,800 bearing another taxpayer's SSN.[45]

The IRS has acknowledged that a programming error caused 1,500 stimulus direct deposits to be transmitted to incorrect bank accounts and that Social Security numbers were transmitted along with the payments.

The IRS reports that it quickly corrected the problem and that no additional erroneous deposits have been made.

According to the IRS, almost all taxpayers who should have received their payments electronically have since been sent checks. The remaining taxpayers will receive their checks within the next few weeks. The banks have returned approximately 250 of the erroneous deposits to date, and the IRS is seeking to recover the remaining erroneously transmitted funds.

The IRS reports that it is also determining whether to provide the taxpayers whose SSNs were exposed with a credit monitoring service.[46]

C. Up to 22,000 Taxpayers May Have Received a Notice Containing Information About a Different Taxpayer's Stimulus Payment.

The IRS is sending a notice, CP 1378, to all confirmed recipients of stimulus payments to explain how the amount of their stimulus payment has been calculated. The IRS reports that in up to about 22,000 cases, the first page of the notice contained information for one taxpayer while the second page carried information for a different taxpayer. These notices contained truncated SSNs on the first page, and no personally identifiable information on the second page.[47]

The IRS reports that it has received slightly more than 200 inquiries thus far, a relatively low number which could indicate that not all 22,000 notices were mailed in error. It reports that it cannot determine the exact number.

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[43] IRC § 6428(b)(1)(B) (adopting the definition of a "qualifying child" in IRC § 24(c)).
[44] Statement issued by IRS Office of Media Relations (unpublished).
[45] Carol Polsky, *IRS: Some Stimulus Checks Misrouted*, Newsday, May 15, 2008 at A18.
[46] IRS Response to TAS Information Request (June 13, 2008).
[47] *Id.*; *see also* Diane Freda, *Tax Refunds: IRS Investigates Economic Stimulus Payments After Statements Mailed to Wrong People,* BNA Daily Tax Report (May 16, 2008).

The IRS reports that the problem was attributable to an error by a print vendor and was limited to one printer at one site.[48] The vendor will issue corrected notices with the following explanation of the error:

Due to an error by the print vendor, your original notice may have included information regarding another taxpayer's stimulus payment. To ensure you receive the originally intended information for you, we are resending this notice. We apologize for any inconvenience this may have caused.

The IRS's Privacy, Information Protection, and Data Security Advisory Committee was notified of a data breach with respect to the taxpayers affected by the CP 1378 print problem. The committee agreed unanimously that the level of risk of identity theft posed by the erroneous mailing did not rise to the level requiring data loss notification and the invocation of credit monitoring and other services. The committee reached a consensus that the corrected notice with the apology statement quoted above is sufficient notice to these taxpayers about the incident.[49]

D. More Than 20 Million Taxpayers Who Purchased RALs or RACs Must Wait Up to 2–1/2 Months Longer Than Other Taxpayers to Receive Their Stimulus Payments.

As of June 10, the IRS reports that 9.9 million taxpayers have purchased refund anticipation loans and 10.5 million taxpayers have purchased refund anticipation checks in2008.[50] When a taxpayer purchases either of these products, a temporary bank account is created in the taxpayer's name and the taxpayer's refund is paid into that account, but the taxpayer does not control the account.

In general, the IRS is issuing stimulus payments electronically if bank account routing information appears on the taxpayer's 2007 tax return Because RAL and RAC accounts are temporary and not controlled by the taxpayer, however, stimulus payments deposited into those accounts would not reach the taxpayer. Fortunately, the IRS receives an electronic indicator when a RAL or RAC is associated with a return, and the IRS was able to program its systems to send paper checks to all taxpayers whose 2007 returns were accompanied by one of the indicators.[51]

These taxpayers are receiving their stimulus payments according to the schedule established for the issuance of paper checks—with some coming as late as mid July—instead of receiving their stimulus payments electronically in May. Thus, more than 20 million taxpayers who purchased RALs and RACs must wait up to 2½ months longer to receive their stimulus payments than taxpayers who did not purchase those products.

Some taxpayers who purchased RALs or RACs have complained that their preparer or software vendor did not inform them that their stimulus payments would be delayed. While these delays are not attributable to IRS error, I understand the frustration these taxpayers are experiencing, and I believe this is one reason among many why RALs and RACs are not a good choice for most taxpayers.[52]

E. The IRS Has Deployed a "Where's My Stimulus Payment?" Application on Its Website But Its Usefulness Is Limited and May Be Contributing to More Telephone Calls.

For several years, the IRS website has provided an automated self-service application known as "Where's My Refund?" that allows taxpayers to check on the status of their refunds within days of submitting their returns. In an effort to assist tax-

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[48] IRS Response to TAS Information Request (June 13, 2008). The IRS provided the following additional explanation:

The error was made during a 15-minute run in which the printer feeder was, at times, pulling two pages through. The quality control employee responsible for checking runs at certain intervals did not pull the six samples he should have at the beginning of the new run. The mistake was discovered when the machine went down for another reason and a sample was pulled at that point. The CEO took immediate and decisive action, and he also made changes to the quality review process. They are now using two quality reviewers instead of one, and quality review is taking place at 15-minute intervals instead of 30-minute intervals.

[49] *Id.*

[50] IRS Response to TAS Information Request (June 12, 2008).

[51] In February, one tax-preparation company notified the IRS that it had failed to include RAL indicators on approximately 450,000 electronically filed returns. The company and the bank providing the RALs were able to provide the routing transit numbers (RTNs) used for the RALs. The company provided this information early enough so that the IRS was able to include in its programming a requirement to convert returns bearing those RTNs to paper checks. The IRS reports that the taxpayers whose returns were involved generally did not experience delay in receiving their stimulus payments. IRS Response to TAS Information Request (June 13, 2008).

[52] These problems also demonstrate why the IRS should develop plans to deliver tax refunds via Treasury-issued debit cards, as Treasury is doing currently for Social Security payments. *See* Lori Montgomery, *Treasury Dept. Rolling Out Social Security Debit Card,* Washington Post, June 10, 2008, at D3.

payers and reduce the volume of telephone inquiries regarding stimulus payments, the IRS developed an application known as "Where's My Stimulus Payment?" However, the IRS has told us that the data source that populates the application is updated at the time the stimulus payment is processed. As a consequence, the IRS acknowledges that "Where's My Stimulus Payment?" may not reflect electronic payments until after the funds have been deposited into the taxpayer's bank account.[53]

Because of the ease with which taxpayers may access "Where's My Stimulus Payment?" and the uncertainty many taxpayers inevitably feel when they find no information, it is possible that this application may inadvertently be causing confusion and thereby increasing call volumes. The IRS is encouraging taxpayers to use its website to obtain information on stimulus payments, but when they try, they often cannot get the information they are looking for, and this uncertainty likely drives them to use the toll-free telephone lines. The IRS should review this application and identify improvements that can eliminate or minimize this downstream impact for future initiatives.

F. Local Taxpayer Advocates Report That Taxpayers Are Encountering Some Difficulties in Obtaining Their Economic Stimulus Payments.

A recent informal survey of Local Taxpayer Advocates has identified a number of issues that have resulted in incorrect, delayed, or unexpectedly reduced economic stimulus payments and may lead to increased IRS and Taxpayer Advocate Service (TAS) telephone volumes. The most common request for TAS assistance regarding ESPs is the taxpayer's need for an expedited refund. Generally, taxpayers who are experiencing a hardship can request a "manual refund" or "offset bypass refund" (OBR).[54] A manual refund speeds up the process by which a taxpayer receives his or her refund. An OBR permits a taxpayer's refund to bypass any outstanding tax liability.[55]

As both a policy and practical matter, the IRS decided not to allow manual refunds or offset bypasses for ESPs except in certain limited circumstances.[56] Thus, when taxpayers experiencing hardships call the IRS or TAS for an expedited stimulus payment or because they have not received their payment when or as expected, their hopes are dashed when they learn that their stimulus payment cannot be expedited or will offset a back tax debt. For some taxpayers who received manual (hardship) direct deposit refunds for their 2007 returns, the IRS systems may delay their ESP longer than projected because of holds on their accounts following the manual refund. The IRS's failure to adequately publicize or explain the offset rule leads to taxpayer confusion and frustration as well as increased taxpayer calls. It is not clear whether, with additional lead time, the IRS could have identified a way to allow for ESP manual refunds or OBRs in hardship situations.

Local Taxpayer Advocates also reported that the processing of Injured Spouse claims has delayed ESPs.[57] They note that the disbursement of payments is inconsistent when one spouse on a Married Filing Joint return claims Injured Spouse status. In some instances, although IRS systems showed the "Injured Spouse" indicator for that return which should have resulted in a 50–50 split of the ESP (with one-half offset to the debtor spouse's IRS debt and one-half issued to the non-debtor spouse), the full amount of the ESP was offset and applied to the debtor spouse's IRS debt. In other instances, the full amount of the ESP was issued in two checks even though there was an existing IRS debt for the primary spouse.

TAS identified other instances in which taxpayers have encountered problems obtaining their stimulus payments because the law or systems prevent it:

- Taxpayers whose 2007 accounts are "frozen" will not receive their stimulus payments according to the published schedule.

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[53] IRS Response to TAS Information Request (June 13, 2008).

[54] IRM 21.4.6.5.12.1 (March 19, 2008).

[55] If a taxpayer claims a refund on his regular income tax return but the taxpayer also owes federal taxes for another tax period or tax type, the refund may be offset against the outstanding tax liability. IRC § 6402(a). However, when the taxpayer can demonstrate that failure to receive the refund will cause a hardship, the IRS can implement an "offset bypass" and issue a "manual refund" (*i.e.*, override the automated offset process). IRM 21.4.6.5.12.1 (March 19, 2008).

[56] The IRS will issue a manual refund or OBR on a stimulus payment when the IRS has placed a freeze on the taxpayer's return, such as when the return is identified by the Questionable Refund Program, in identity theft situations, or when duplicate returns have been filed. IRM 21.6.3.6.6.3 (May 14, 2008).

[57] Injured Spouse is a process by which a non-debtor spouse informs the IRS, via Form 8379, *Injured Spouse Allocation,* that the portion of a tax refund attributable to the non-debtor spouse should not be offset against the debtor spouse's tax liability. *See* IRM 21.4.6.5.9 (Oct. 1, 2007).

- A taxpayer's stimulus payment will be delayed when the name and SSN of one spouse do not match Social Security records. This situation commonly occurs when a spouse has changed his or her name as a result of a change in marital status but has not notified the Social Security Administration of that change. In normal tax return processing, the IRS can correct its records by looking at its own data and process the return. Under the ESP initiative, however, these taxpayers have no recourse other than claiming a credit on a 2008 return with a valid name and SSN match.
- Taxpayers who receive supplemental security income (SSI) and have no adjusted gross income are not eligible to receive stimulus payments, yet due to confusion, some have filed ESP-only returns and are now wondering why they have not received their payments.

Many Local Taxpayer Advocates noted that the influx of calls to TAS offices was in part the result of IRS and other publicity focusing on the maximum amount of the stimulus payment and the schedule of payments, without highlighting the exceptions to the schedule or the different levels of payments. One exception in particular caused confusion—taxpayers who filed *on* April 15 would not have payments issued according to the published schedule. The IRS did not make sufficiently clear that returns had to be *processed by* April 15 for taxpayers to receive payments according to the schedule.

IV. ESP Outreach Poses Many Challenges to the IRS and Its Stakeholders.

The Economic Stimulus Act payments are based on a simple premise—get money out to taxpayers and certain other individuals quickly to stimulate the economy. The details of the eligibility for payment, application for payment, and method of payment delivery, however, are anything but simple. These complexities make it extremely difficult for the IRS and its stakeholders to craft a clear, comprehensible, and succinct communications campaign. Indeed, when I taped a video message early in the filing season presenting information that I believed taxpayers needed to know about ESPs, the video (a "TAScast") ran more than seven minutes long.[58]

An effective outreach and education strategy is especially critical for the estimated 20.5 million individuals who have no tax return filing requirement yet receive Social Security or Veterans Affairs benefits. These individuals must take an affirmative step to receive their stimulus payments—*i.e.*, they must file a tax return. Communicating with this population presents a significant challenge, given the complications of age and disability. While the IRS, TAS, and our stakeholders have taken some effective steps and certainly can do more in this regard, the ESP requirements are so complex that no amount of communication by the IRS will reach all 20.5 million individuals, and even when the message is delivered, it may not be accurately understood. For the reasons outlined in the following discussion, it may be that the IRS is not the appropriate agency to deliver payments to special populations who otherwise would have no contact with the IRS.

A. The IRS's General Communications Strategy Is a Good Starting Point for More Specific Outreach Initiatives.

The IRS began developing an outreach and communications plan as soon as it learned of a potential economic stimulus package.[59] This plan set out IRS outreach in four phases:

1. 2008 Filing Season Efforts (through April 15): "Getting the Word Out Far and Wide";
2. Post-April 15 Efforts (April 15—June): "It's Not Too Late to File for ESP";
3. Community Focused Campaigns (June—August): "Enriching the Economy"; and
4. Pre-October 15 Efforts (September—October 15): "Don't Let ESP Pass You By."[60]

In implementing this strategy, the IRS developed press releases, an extensive website, FAQs, and sub-pages for targeted populations. It worked through its external partners, such as the National Governors Association, the National Council on Aging, the American Association of Retired Persons, and Catholic Charities. The IRS developed multi-staged mailings to taxpayers who filed their 2006 returns and to taxpayers who received Social Security or Veterans Affairs benefits but did not have a 2006 filing requirement. The mailings to Social Security and Veterans Af-

[58] *See* http://www.tax-toolkit.com/Video_Tax_Help.cfm.
[59] IRS Wage & Investment Division (Customer Assistance, Relationships and Education), *FY 2008 Economic Stimulus Payments (ESP) Outreach Campaign* (April 24, 2008).
[60] *Id.*

fairs beneficiaries described the steps individuals should take to receive stimulus payments and included a Form 1040A and instructions.

On March 29, 2008, IRS Taxpayer Assistance Centers (TACs) around the country hosted a "Super Saturday" where IRS employees, including TAS employees, helped taxpayers otherwise without a tax-filing requirement to complete their "ESP-only" returns on Forms1040A. The IRS and its partners ran approximately 700 Super Saturday sites nationwide. In addition, IRS Accounts Management and ACS employees staffed toll-free phone lines to answer taxpayers' ESP-related questions.[61]

During the filing season, TACs were open for extended hours on several Saturdays. For the post-April 15 phase, the IRS plans to keep the TACs fully operational, Monday through Friday from 8:30 AM to 4:30 PM, and to continue to assist customers with ESP applications as well as offer free return preparation assistance to individuals and families whose income is $40,000 or less. The IRS states that no advance appointment is required for preparation of ESP-only returns.[62] Moreover, TAS was informed that 67 "partners" (mostly or all VITA sites) in 21 states have scheduled ESP tax preparation activities beyond June 16. While these partner activities are helpful, these sites do not have a national scope. For example, there are just two sites in the State of New York (Jamaica and Kingston), with none in Manhattan.[63]

In addition to these national scope activities, IRS Stakeholder Partnerships, Education and Communication (SPEC) and Government Liaison employees have organized many local outreach sessions with stakeholders and congressional offices. TAS employees also participated in these activities.

B. The Taxpayer Advocate Service Has Partnered with Local IRS Personnel and Initiated Grassroots Outreach.

The Taxpayer Advocate Service's public information, education, and outreach efforts have also helped to improve public awareness. When President Bush signed the Economic Stimulus Act of 2008 into law in February, our Local Taxpayer Advocates (LTAs) were in Washington, DC, delivering the National Taxpayer Advocate's 2007 Annual Report to Congress to their congressional offices. We immediately provided the LTAs with ESP talking points that enabled them to address questions from congressional staffs. The LTAs continued their outreach in the weeks that followed, supporting congressional offices and the IRS's Governmental Liaison staff at ESP events and working with other IRS functions and local organizations to inform taxpayers about stimulus payments. Because all LTAs are required to conduct 40 grassroots outreach events every year, the foundation for this initiative was already in place.[64]

TAS moved quickly to bring the Low Income Taxpayer Clinics (LITCs) into the ESP outreach process. On March 6, TAS hosted a nationwide conference call on ESP issues for LITCs, and IRS representatives from the Office of Chief Counsel, Communications and Liaison, and the Wage and Investment Division's Customer Assistance, Relationships, and Education (CARE) organization participated. This gave approximately 100 LITC participants an opportunity to bring specific questions the clinics had encountered in working with taxpayers to the attention of the IRS.

TAS also collected and provided the IRS with comments from both the LITCs and Taxpayer Advocacy Panel members on an early draft of the Form 1040A–3 information package for the ESP-only population. TAS created an Economic Stimulus page on its public website[65] and provided an e-mail address to the LITCs to pose questions. As part of this coordinated approach, with the goal of using all the tools at hand, I recorded a "TAScast" video message for the ESP-only population. TAS placed this video on its three external "toolkit" websites and marketed it through YouTube.[66] Additionally, we placed an IRS video (in English and Spanish) for Social Security and Veterans Affairs benefits' recipients and an American Sign Language video on our Tax Literacy Toolkit.

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[61] IRS Wage & Investment Division, *IRS puts its best face forward on Super Saturday,* Insider (available at http://win.web.irs.gov/articles/2008/Super_Saturday.htm (last visited June 8, 2008)).

[62] IRS Response to TAS Information Request (June 13, 2008).

[63] Email from SPEC Senior Communications Analyst to TAS Senior Program Analyst (June 11, 2008) (email on file with the Taxpayer Advocate Service).

[64] Taxpayer Advocate Service, *FY 2008 Operational Priorities,* TAS–13.1–1007–002, Attachment 1 (Nov. 2, 2007), at 20.

[65] Taxpayer Advocate Service, *Economic Stimulus Payments*, at http://www.irs.gov/advocate/article/0,,id=179751,00.html.

[66] The websites include the Tax Literacy Toolkit at http://www.tax-toolkit.com/Welcome.cfm, the Electronic Press Kit at http://www.irs-tas.com, and the Advocate Toolkit, which is primarily a resource for LTAs, at http://advocatetoolkit.com.

Local Taxpayer Advocates have participated in many of the IRS initiatives and conducted their own outreach through their grassroots contacts. In Philadelphia, TAS participated in several "Senior Expos" sponsored by local and state representatives, providing general and specific information about the ESP program. Detroit TAS participated in a webcast with a local television station. In Mississippi, TAS provided information to employees of the Jackson Senior Service Division regarding the stimulus payments. These employees in turn provided information to the senior-citizen homes and other senior-citizen groups throughout the city.

Low Income Taxpayer Clinics also are doing their share of ESP outreach and education. Clinics have conducted outreach presentations at elderly and disabled low income housing facilities in New Hampshire, given interviews on local Spanish language television stations in Central California, made presentations to local senior centers and English as a second language (ESL) classes in Arkansas, conducted outreach to a foster grandparents association and an independent living service organization in Richmond, Virginia, and participated in many other activities throughout the United States in partnership with VITA sites and other nonprofit organizations.

C. Barriers to Obtaining Participation of Social Security and Veterans Affairs Beneficiaries Present a Challenge to the IRS.

As noted above, the IRS developed a special 1040A package that it sent to about 20.5million Social Security and Veterans Affairs beneficiaries who did not file tax returns for 2006. To date, approximately 7.7 million of these individuals have filed 2007 returns.[67] The IRS is planning to send another notice to those taxpayers who have not yet filed. This second notice will be identical to the first, except that it will incorporate some visual improvements, including a larger font size for the notice itself and an easier-to-read font color. The accompanying Form 1040A return will not be in a larger font.

Notwithstanding the efforts of the IRS, TAS, and outside groups to reach this population, there are major challenges to achieving a significant participation rate. In addition to the fundamental complexity of the program, challenges include the following:

- Some senior citizens may view filing a return as requiring too much effort for $300.
- This population may lack Internet access or may be uncomfortable obtaining tax information from the Internet.
- This population may lack the mobility necessary to obtain assistance in applying for the ESP.
- Members of this population may be incapacitated and under the care of guardians, conservators, or nursing homes and hospitals.
- The return preparation cost may be too great and they may not know how to obtain free return preparation.
- Individuals who have not had contact with the IRS for years may be unwilling to start filing with the IRS, for fear of losing government benefits or because of a more generalized fear about contact with a federal enforcement agency.
- Confusing messages, conflicting information, not enough information, or too much information can all discourage participation.

The following is an email I received from the Director of a Low Income Taxpayer Clinic in the Midwest, which illustrates some of the confusion relating to the ESP program:

Communications about the ESP was TERRIBLE. Taxpayers received too much information—much of it incorrect—from too many places. Taxpayers were just confused and overburdened with information—from local and national news programs to local and national TV commercials there was information (misinformation) on ESP. There is going to be a lot of duplicate filings of the 1040A (ESP) and it is not "fraud" it is just "misunderstanding" by the individuals filing these returns. We have already been asked to participate in many regional news programs to answer taxpayers questions about why people have not received their ESP based upon the timeline on IRS.gov and why EVERYONE is NOT receiving $600 for themselves and $300 for all of their dependents.

We heard from many Social Security/Disability recipients who filed a tax return for 2007 in February, prior to the Social Security Administration mailing, thinking they also had to send in the 1040A to receive their ESP. Even though the mailing sent to them by the Social Security Administration said at the top that they did not have to file if they had already filed a 2007 tax return they either could not or did

[67] IRS Economic Activity Stimulus Report (June 17, 2008).

not read this message or they were just afraid they would not get the ESP unless they filed the form they received in the mail.

The individuals who are having to file for the ESP **only** are not the most "sophisticated" of taxpayers. Many have not filed a tax return in many years due to their age. They just do not understand the process. We had (and are still having) numerous calls from VITA/TCE clients in our area thinking the VITA/TCE preparer made a mistake because the VITA/TCE site filed their ESP online or on a "white form" while the color of the paper of the form they received in the mail was pink. Many of these VITA/TCE clients wanted to know if it was alright that they had copied the information from the "white" copy given to them by the VITA/TCE volunteer to the pink paper return. When asked if the "white" form had already been filed they answered either yes or I don't know for sure. Even when we told them the "white" form that had been filed would work, many told us they were going to go ahead and mail the pink form because they wanted to be sure they received their money.

People still do not understand the $ amount they are receiving and or why. There was too much media raising individuals expectation that everyone would receive $600 and $300 for their dependents. I have had a local "diamond" outlet's commercial repeated to me many times as "proof" they were suppose to receive $600 for themselves and $300 for their dependents. The common comment is "It is you and the IRS who do not understand the amount I should have received, don't you listen to TV, etc."[68]

Given the message saturation and confusion described in the email above, coupled with the characteristics of the target population, is it any wonder that the IRS's phone lines have been swamped and that millions of eligible individuals have not yet filed?

V. Some Modest Suggestions for Future Initiatives

One lesson to be learned from this year's ESP initiative is that message saturation creates taxpayer confusion and causes unnecessary work for the IRS. Although a saturation campaign certainly gets the word out about a program, the owners of the campaign quickly lose control of the message. Thus, advertising by diamond merchants, department stores, auto dealers, and electronics stores enticing taxpayers to spend stimulus payments on their products reinforce an inaccurate message. Taxpayers come to expect the maximum stimulus payment amount and don't understand the exceptions. This uncertainty and its consequences can even defeat the underlying purpose of the stimulus payments. Although taxpayers may spend more—either on credit or with savings—in anticipation of their stimulus payments, they may end up financially harmed if they do not receive all or part of the payment they are expecting and go into debt. The problems with a saturation message campaign are compounded if the design of the program itself is so complex that it takes twenty pages of Frequently Asked Questions and a seven minute podcast to explain it. If Congress decides to enact another ESP, it should consider how to simplify the eligibility rules so that they lend themselves to easy communication. Such simplification may mean that some individuals receive more or less than they might under the current ESP, but this trade-off for clarity would be well worth it.

A second lesson is that when an initiative targets a population that does not otherwise have contact with the IRS, it may be better to utilize another federal agency for payment delivery. The 20.5 million Social Security and Veterans Affairs beneficiaries all receive payments from those agencies, and many of those payments are directly deposited into bank accounts. Why not find a way to let those agencies make stimulus payments to individuals without a tax filing requirement instead of requiring them to file ESP-only returns and having the IRS then send them paper checks? The Social Security Administration and the Treasury Department recently announced the availability of a no-fee debit card on which unbanked Social Security recipients may receive their benefits.[69] Why not download the value of the stimulus payments onto such cards?

Third, where there are no better alternatives than for the IRS to deliver such payments, the IRS and other federal agencies could cooperate to determine the exact payments to these special populations and the best method for delivering them. The ESP could be designed so that the IRS, the Social Security Administration, and the Department of Veterans Affairs work together to identify which beneficiaries do not

[68] Email from the Director of a Low Income Taxpayer Clinic (email on file with the Taxpayer Advocate Service).

[69] The Department of the Treasury estimates that by converting the 10.5 million people who still receive paper Social Security checks once a month to electronic payments, the Federal Government could save up to $42 million a year. Lori Montgomery, *Treasury Dept. Rolling Out Social Security Debit Card,* Washington Post, June 10, 2008, at D3.

have a filing requirement but have at least $3,000 in benefits. Why force these individuals to file a tax return? Why not authorize the agencies to determine eligibility based on available information?[70] Moreover, once the IRS determines eligibility and the amount of payment, the IRS itself should develop the ability to utilize no-fee debit cards to deliver stimulus payments (and all tax refunds).

Fourth, I note that one of the circumstances that made the ESP initiative so challenging was the short timeframe the IRS had from the time the bill was enacted until the time the first ESP was scheduled to go out to taxpayers. The IRS found itself scrambling to work out the logistics, such as developing an outreach strategy and materials, anticipating taxpayer questions, and strategizing about the best way to get answers to these questions to the public. Although the ESP program may seem like a one-time occurrence, the IRS often faces unanticipated events, including natural disasters, that affect taxpayers and their ability to comply with their tax obligations, thereby requiring special rules, procedures, and outreach. Instead of scrambling to address the unexpected, the IRS should be able to plan for it.

There are several concrete steps the IRS can take to prepare for the next unanticipated event, whether it is a congressionally mandated program or a Presidentially declared disaster. Although the IRS has an internal Disaster Readiness Group, I recommend that its mission be expanded and that the IRS create a larger and more diverse emergency readiness group of external partners from which it can solicit feedback on its outreach efforts. The emergency readiness group should be active and available all year, ready to provide guidance on the most effective way to communicate with taxpayers, especially groups such as the Limited English Proficiency population, the elderly, and people with disabilities. The group should include representatives from tax professionals associations, state governments, LITCs, the Taxpayer Advocacy Panel, the National Disability Institute and other SPEC stakeholders.

Fifth, for the IRS to implement emergency programs, it must maintain a workforce at sufficient levels to accommodate these demands without compromising its service levels or throwing its modernization efforts off course. Therefore, Congress should provide the IRS with funding to maintain a cadre of employees—whether they be seasonal or permanent—to address these situations and programmers who can work on these projects so that the IRS does not fall behind on its core business systems improvements. The internal cadre should conduct reviews after each unanticipated event to incorporate lessons learned and improvements into its standard operating procedures. Moreover, where glitches such as those with manual or offset bypass refunds or injured spouse are identified, the cadre can work on solutions in the downtime between events.

Finally, the communications challenges posed by the ESP initiative have made the need for a cognitive learning lab even more compelling.[71] In-depth research on how taxpayers learn and respond to communications would provide the IRS with important tools to enable it to educate taxpayers and increase responsiveness more effectively. The IRS could use the information gained from the cognitive lab to better tailor outreach strategies for unexpected events to meet the diverse needs of the tax population. We do not need to wait for a disaster or an unexpected initiative to learn about our diverse taxpayer base, nor should we. The IRS needs to go beyond mere demographics and begin to develop a more comprehensive understanding of its taxpayers now.

Chairman LEWIS. Thank you, Ms. Olson, for your statement. At this time, I will open the first panel for question. I ask that each Member follow the 5-minute rule.

Ms. OLSON. I am submitting, for the record, two letters to the Subcommittee from the Federal Trade Commission and the FBI. These letters state that almost 300 identity theft complaints have been filed, related to the rebate checks.

[Letter from the Federal Trade Commission follows:]

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[70] It is our understanding that this approach was adopted with the current ESP program in Puerto Rico and Guam.

[71] *See* National Taxpayer Advocate 2007 Annual Report to Congress 156–161 (Most Serious Problem: Taxpayer Service and Behavioral Research) and vol. 2, at 158-167 (Research Report: Normative and Cognitive Aspects of Tax Compliance: Literature Review and Recommendations for the IRS Regarding Individual Taxpayers).

[WAITING FOR RESPONSE FROM COMMITTEE]
[Letter from the FBI follows:]

U.S. Department of Justice

Federal Bureau of Investigation

Washington, D. C. 20535-0001

June 23, 2008

Honorable John Lewis
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This responds to your letter to Director Mueller dated June 4, 2008, requesting information on complaints received by the Internet Crime Complaint Center (IC3) which reference economic stimulus payments. Your letter indicates an interest in the number of "phishing" complaints received by IC3 during 2008, the number of IRS "spoof" complaints received during that same time (and the number of these which specifically reference economic stimulus payments) and a brief description of the type of complaint that references economic stimulus payments.

With regard to the number of "phishing" complaints received during 2008, any numbers that we provide would likely be unreliable. "Phishing" is a term used to describe a social engineering scheme by which an individual is convinced to voluntarily disclose personal identifying information which is then used by criminals to steal the individual's identity or for some other illicit purpose. Very few people, typically only those who are technologically savvy, complain of "phishing." Many people report being "hacked" when they were actually "phished." For this reason, the number of complaints which IC3 receives which specifically mention "phishing" likely significantly under-reports the problem.

With regard to IRS "spoof" complaints received during 2008, and the number of these complaints which reference economic stimulus payments, IC3 compiled the following information:

Month	IRS "Spoofs"	Economic Stimulus Payments Referenced
January	69	1
February	20	0
March	49	1
April	73	23
May	144	97
Total	**355**	**122**

Honorable John Lewis

The IRS "spoofs" which reference economic stimulus payments typically read as follows:

"Over 130 million Americans will receive funds as part of President Bush program to jumpstart the economy.

Our records indicate that you are qualified to receive the 2008 Economic Stimulus Refund.

The fastest and easiest way to receive your refund is by direct deposit to your checking/savings account.

Please follow the link and fill out the form and submit before May 10th, 2008 to ensure that your refund will be processed as soon as possible.

Submitting your form on May 10th, 2008 or later means that your refund will be delayed due to the volume of requests we anticipate for the Economic Stimulus Refund.

To access Economic Stimulus refund, please click here."

Thank you for you interest in this important matter. Should you have further questions regarding or any other issue concerning the FBI, please do not hesitate to contact me.

Sincerely,

Richard C. Powers
Assistant Director
Office of Congressional Affairs

1 - Honorable Jim Ramstad
Ranking Member
Member of Congress
Suite 300
1809 Plymouth Road, South
Minnetonka, MN 55305

Chairman LEWIS. Have you seen any identity theft problems related to the rebate checks, or is there a form at IRS for taxpayers to report identity theft?

Ms. OLSON. To date, the IRS has reported to us that they have only identified 25 cases dealing with identity theft and the economic stimulus payment itself.

However, an informal survey in my own offices, just asking my local taxpayer advocates, they said that they had 13 such cases. So, either we have half of all IRS cases, or there are many more cases out there. We usually get 1 percent of problems that the IRS sees, as a whole.

There is no form, presently, for taxpayers to report themselves an identity theft victim. I am concerned how the IRS is counting these cases of identity theft, because as of this point they have not yet implemented the marker on accounts where the IRS can know that there is an identity theft situation with respect to a taxpayer.

Chairman LEWIS. Ms. Olson, what is the estimate cost to date of the rebate check?

Ms. OLSON. I honestly do not know that number. Perhaps GAO could better answer that.

Chairman LEWIS. Is Mr. White, from GAO, here today? If so, please come forward.

Mr. White, could you tell Members of the Committee, what is the cost today of the rebate checks? How much of this is foregone revenue from shifting employees?

Mr. WHITE. Yes, Mr. Chairman. There are three components to the cost of the rebate program that we have identified. The first is sup0plemental appropriations. IRS got a supplemental appropriation of $202 million; Social Security got a supplemental of $31 million; and Treasury's financial management service got a supplemental of $64 million. So, there is a total of $297 million in supplementals.

The largest element of cost is the foregone revenue that Ms. Olson just described. IRS estimates that the foregone revenue from shifting collections staff from doing collections work to answering stimulus-related telephone calls to be up to $565 million. So, that brings the total dollar cost—the supplementals plus that foregone collections revenue—to $862 million.

Then, there is a third component to the cost, and that is the burden on taxpayers of getting answers to questions about the stimulus program. Taxpayers are having to wait longer on the phones to get through, to get answers to those questions, and we can't quantify that in dollars, but that's a very real cost to taxpayers, as well.

Chairman LEWIS. Now, for the two of you, do you expect the call volume to remain high through the next filing season?

Ms. OLSON. The IRS estimates, just through the end—until October 15th, of them getting only about another 6 million calls, which I find a rather low-ball number. I think we may get six million calls in July. I do think, because there will be confusion from people who need to claim some more of the payment on their 2008 returns, that we will continue to get calls.

We may see confusion of people who received their credit, claiming the credit again on their 2008 returns, because my under-

standing is there will be a line on those returns. So, I look forward to lots more confusion ahead.

Chairman LEWIS. Mr. White?

Mr. WHITE. Yes. Tax—individuals who are not taxpayers, who did not have a tax filing requirement, have until October 15th to file this year in order to claim the stimulus. So, for that reason, there may be more calls.

Chairman LEWIS. Thank you. Now I turn to Ranking Member Ramstad for his questions.

Mr. RAMSTAD. Thank you, Mr. Chairman. Thank you, Ms. Olson, for your testimony and for your articulate advocacy on behalf of taxpayers.

Also, as a Member of this panel which has oversight jurisdiction regarding the IRS, I appreciate hearing your summary statement that the IRS, on balance, has done an outstanding job of administering both the 2008 filing season and the Economic Stimulus Act. It's always refreshing to hear when an agency of the Federal Government does a good job.

I just have two follow-up questions—that is, follow-up questions to those asked by the distinguished Chairman—the first one regarding the diversion of collections staff.

In your opinion, would it have been possible—hindsight is always 20/20, and I think we sometimes even learn from it, or at least we should—do you think it would have been possible for the Service to hire additional temporary workers to handle phone inquiries about the stimulus checks? Was that not done because of lack of funding, lack of time, or perhaps a combination thereof?

Ms. OLSON. I think it is a combination thereof. The IRS did hold over its temporary workers that it had for its filing season, that it normally hires in the filing season, to deal with the stimulus payments, since they were, we thought, going to—the busy season was going to be after the filing season.

Perhaps what really took us by surprise was the number of calls coming in during the filing season, and the mailings were an attempt to try to say, "Don't call." But people called anyway.

I think it's hard for us, in the middle of a new initiative, to staff up, train, go through background checks. That's just a virtual impossibility. One thing I've thought is that if we're going to continue to get these programs given to us, that we may need to really think about creating just a cadre, whether they're seasonal workers, they're on-call workers, to deal with disasters, programs that Congress gives to us, all of those things—and I'm not equating disasters with programs Congress gives us.

Mr. RAMSTAD. That was my next question.

[Laughter.]

Mr. RAMSTAD. Well, thank you, Ms. Olson. My final question, I share the concern I'm sure everybody does, with the Chairman about identity theft. Are there any additional steps that you believe could be taken to prevent scam artists from using the stimulus payments as a way to steal the identities of taxpayers?

Ms. OLSON. I think that the outreach on that really needs to be local, and I think the IRS has done well with this, and we just need to do more of it.

When we work through trusted partners in the communities, you know, come to this non-profit, come to the walk-in site, come to our Super Saturday, where you have trusted people there, then you minimize the risk of identity theft from scam artists, because people have an alternative place to go.

It's when we're trying to deliver it on a national level, you know, file your own return, and we don't have a local presence, then it provides an opportunity for these scam artists, through lots of different ways, to move into that local presence, and victimize folks, and particularly the elderly population. We really would have problems there. So, going through their partners is absolutely vital.

Mr. RAMSTAD. Well, I certainly appreciate your view. Those caveats, I think, are very, very important, and, as you say, especially to avoid our senior citizens from being victimized, who are disproportionately victimized by these—well, I won't use the word in a public hearing, but those scam artists. Thank you again, Ms. Olson. I yield back.

Chairman LEWIS. Now I turn to Chairman McNulty for his questions.

Mr. MCNULTY. Thank you, Mr. Chairman. I don't really have a question. I have an observation I want to make, and it relates to something you said at the end of your testimony.

But, first of all, I want to thank you on your tremendous good work on behalf of taxpayers all across the country. I am generally in an attitude of gratitude today to all of the agencies involved, because I think our government workers have done an extraordinary job under very difficult circumstances in a very compact timeframe. So, I thank you all.

You made a suggestion toward the end of your testimony about possibly having the SSA send out these checks. I just want to tell you very directly I think that's a terrible idea. I have spoken in the last few days to both of the commissioners are IRS and SSA, and they do not believe that is either necessary or in the best interest of the process. From—and I agree with them, wholeheartedly.

You may or may not be aware of the fact that we have worked very, very hard in the last couple of years to help SSA deal with this tremendous backlog on disability claims, which is the result of under-funding for years and years, for which there is plenty of blame to go around; I'm not blaming anybody in particular. But that's just the way it is.

We have—we had a good increase in the budget last year. According to the budget resolution this year, we will have even more. We put out a new ALJ list, we are in the process of hiring more than 175 new administrative law judges. We are making progress. The last thing we need to do at this point in time is impede that progress.

The estimates that have been given to me would be that if we were to implement the suggestion that you made at the end of your testimony, it would take six to 8 months just to get the proper list together in order to get those checks out. That's the last thing we need to do, is further delay this process. So, I just want to put you on notice that certainly if I have anything to say about it, that's not going to happen.

What should happen—because this, as I said in the beginning, this process has been largely successful, and I think we're kind of in the home stretch on this, now, to kind of wrap it up—and I think basically what we need is a good dissemination of information and education about what we need to get to the affected population, so that they get their stimulus checks.

I want you to know we're going to help you with that, because the four people right in the middle here that you're looking at, we're going to get a communication out to all of our colleagues, every single Member of the House, about getting the word out about the steps that they need to take all across the country in all these individual districts to get the stimulus check to which they're entitled.

So, as I will when the commissioners appear, I want to thank all of you for the tremendous work you have done. The last part of your testimony is a bad idea, and is counter-productive, and I just want to let you know my feelings on that.

Ms. OLSON. Well, I hear your feelings. I can also say that, as a mother of a disabled son, I have navigated the disability process, so have some familiarity with that backlog. My suggestions go to that population. What I have tried to think about, in response to being asked to think about that, were alternatives, because the IRS itself also suffers from this additional workload, as I have outlined in my testimony, and taxpayers are harmed by the IRS diverting its resources on systems that are making the tax system easier into programs such as this.

So, I have tried to think about ways that would lessen the burden on the IRS without placing so much burden on other agencies.

One of the thoughts that I had, because they seemed to be able to do this in Puerto Rico and Guam, is to use the available information that government agencies have working together, to identify those taxpayers entitled to the $300 payment without making them take an affirmative act. I think that does require more involvement on the part of Social Security Administration, working with the IRS.

The other thing that I thought——

Mr. MCNULTY. Well, that is a different proposition.

Ms. OLSON. Right.

Mr. MCNULTY. SSA is working with IRS to do——

Ms. OLSON. Yes. The other thing that I thought would be a positive thing is because SSA, with Treasury's assistance, now has these debit cards, that we could utilize the debit cards to get the money faster to SSA recipients. But I also propose that the IRS implement debit cards. My concern was SSA recipients having to wait for paper checks.

So, I just wanted to give you some background to where my comments came from.

Mr. MCNULTY. Right, and——

Ms. OLSON. I hear your concerns.

Mr. MCNULTY. Right. Well, it's not just a concern, it's a reality that would actually—when we're trying to speed up the process, that proposal would delay the process.

I just hope you keep in mind also the comments of Chairman Lewis at the beginning: if IRS needs additional resources toward

the end of this process, we want to know about that, and we want to help with regard to that. I thank you again for your testimony.

Ms. OLSON. Thank you.

Chairman LEWIS. Now I turn to Ranking Member Johnson for his questions.

Mr. JOHNSON. Thank you, Mr. Chairman. I'd just like to say that I hope the IRS will continue to examine the issue of identity theft, and take some more positive steps in that direction. I will yield back my time; no further questions.

Chairman LEWIS. Thank you, Mr. Johnson.

Mr. JOHNSON. Thank you, Sir.

Chairman LEWIS. Thank you——

Ms. OLSON. May I comment on identity theft a little bit, briefly?

The IRS—the commissioner has dedicated a lot of resources, since he came in, to working on this issue. There are multiple teams, and my organization is also involved with this. I think you will see some improvements over the next year. It's just that right now we're not there yet, and we have this program. So, I think you're seeing some problems, because we don't have the solutions in place yet. But we are working on it.

Mr. JOHNSON. Thank you.

Chairman LEWIS. Thank you. Now I recognize Mr. Doggett for his questioning.

Mr. DOGGETT. Thank you very much, Mr. Chairman, and thank you for the testimony you both offered.

Ms. OLSON. you indicated that less than 100 percent of the people who are entitled to receive this stimulus payment will receive it. What is the best estimate of how many people will not get the stimulus that they're entitled to?

Ms. OLSON. Oh, I think that is—I don't know that I have that best estimate. We do—we have identified 20.5 million taxpayers, or individuals, that didn't file 2006 returns. Some of those—we've gotten in about seven million of those folks, and the question is maybe some of those other taxpayers, they're joint returns so we may really get more than seven million—you know, these are seven million returns.

It's hard to know how many others are out there that don't—have too low income. They're not on Social Security rolls, they're not on Veterans rolls. It's a very difficult number to estimate.

Mr. DOGGETT. Do you know if there are internal estimates within the IRS, or whether——

Ms. OLSON. Well, it's the——

Mr. DOGGETT [continuing]. GAO has done anything on it of——

Ms. OLSON. It's—the 25 million is what people are working off of, with a recognition that there are other pockets of taxpayers that we just can't quantify.

Mr. DOGGETT. Do you have any insight on that, Mr. White?

Mr. WHITE. We don't have a separate estimate of our own. I agree with Ms. Olson. IRS initially estimated something over 20 million. They're not sure whether it's going to be that many or not. The problem here is the difficulty of trying to estimate the number in that group.

Mr. DOGGETT. While I clearly am very concerned that all those who are entitled to this stimulus payment get it, I note, as Mr.

Johnson pointed out, that we have spent $300 million to ensure that it gets done right.

I am also concerned about whether any of these payments are sent out to people that are not entitled to receive them. Are either of you involved on that end of it, to be sure that the stimulus payments only go to those who are entitled to receive them?

Ms. OLSON. Well, I think that the—actually, the way that the legislation has been written is pretty tight, as——

Mr. DOGGETT. Well, let me tell you where it apparently wasn't tight enough.

Ms. OLSON. Yes, Sir.

Mr. DOGGETT. Yesterday I received a notice dated June 16th that my mother would receive her payment next week. My mother died last September. Within a week of her death, because her payments are direct-deposited into her account, I notified Social Security, to be sure that we wouldn't have any payment to which we were not entitled.

Do you have any estimates? I extend this question—I may not be able to stay for all their testimony—to the next panel, as well. Do you have any estimate of how many dead people are receiving stimulus payments?

Ms. OLSON. Sir, I don't. There is a question on the website that I will go back and look at that talks about decedents, and who is entitled to that payment in the course of the decedent, because it would be—the payment is based on their 2007 filing. So she filed, or her—you know, her estate filed——

Mr. DOGGETT. Her estate filed——

Ms. OLSON [continuing]. A return for her. Perhaps under the law, she is entitled to it, and I would have to check——

Mr. DOGGETT. Well, I would like to know about that, too.

Ms. OLSON. Yes.

Mr. DOGGETT. If, as a part of the stimulus—in her case, she does not have a surviving spouse—whether this payment goes to estates of people this year or not, and what efforts—it surprises me that there has not been any update, if there has not, of the database to reflect that. Do you know——

Ms. OLSON. I will check on that.

Mr. DOGGETT. Do you know, Mr. White, if under this payments can be made to the estate if there is no surviving spouse of someone who died last year?

Mr. WHITE. I am not sure, off the top of my head. I—given the short period of time that IRS has had to implement the program, I don't think yet there are good estimates of non-compliance problems. We are monitoring this as part of our filing season work for the Subcommittee on Oversight, and we will be reporting later this year.

Mr. DOGGETT. Well, it's been right at 9 months since I notified Social Security of this. You would certainly expect that they would have updated the database to show the correct information.

Fortunately, they have not been sending, to my knowledge, any direct deposit of her Social Security check. You would expect that they would have it all—all the database—corrected in 9 months, wouldn't you?

Mr. WHITE. We are—this is something we are monitoring, and we will pursue as part of our ongoing work for the Subcommittee.

Mr. DOGGETT. Thank you very much.

Chairman LEWIS. Thank you. Now Mr. Brady is recognized for his questions.

Mr. BRADY. First, let me thank Chairman Lewis and Chairman McNulty, Mr. Ramstad, and Mr. Johnson for hosting this hearing. I think it's important to do this.

Our caseworkers, for whatever it's worth, our caseworkers back in Texas have experienced few complaints about the help line. In fact, we've gotten calls back from those we've referred, where they have been satisfied with the results. I don't know if that will continue, but that's our experience back home.

The question today deals with the technical aspects of delivery. But I think the bigger question on the stimulus checks is, is it working. Are these checks stimulating our economy across this country, as was hoped? I think the answer is no, or certainly not as much as it could. There is reason for that.

In the past year, rising fuel prices have, I believe, neutralized the impact of the stimulus checks. Just in the past year, the average family in America is now paying $536.50 more for fuel than they were a year ago. It is hard to have—with $300 to $600 stimulus checks, it's clear that these checks are being drained down our gas tanks. The impact is being neutralized, because families are not buying a new computer, or a washer and dryer or a TV set when they can't afford gas for their family van.

It's frustrating that this Congress has failed to act to lower fuel prices in America. We have, unfortunately, found time in the past few weeks to pass legislation through the House to protect exotic cats and dogs in foreign countries. We found time to celebrate the International Year of Sanitation. This week we found time to prevent monkeys from crossing state lines. But we have not found time to take the actions to lower fuel prices for American workers.

That cost of $536 more is even higher if you live in a rural community, which much of America does. It just seems to me both Republicans and Democrats together have to find a way to unlock our resources here in America to produce more American-made energy, to take more responsibility for the daily energy needs. Because being dependent on foreign countries for nearly two-thirds now of our daily energy needs is costing us at the pump, and it's robbing the impact of these stimulus checks.

Ms. Olson, I won't ask you that question, the impact.

Ms. OLSON. Thank you.

Mr. BRADY. I will say, though, you have raised a separate issue from that, which I feel we ought to be exploring. That's the issue of debit cards. Seems to me we need a—as much as we can—more of a 21st century response to challenges, short-term challenges, like this.

Can you comment on how those would occur, and who would be eligible to get them?

Ms. OLSON. Well, I do think I have to say the IRS is exploring the idea of delivering regular refunds on debit cards as Social Security has started to use debit cards for those individuals who don't

have bank accounts. There are savings to the government in that regard, so that you don't have to issue paper checks.

A debit card has an account number and a routing number, just the same way as a bank account does. I think my understanding is, with Social Security, that Treasury has entered into a contract with one entity to deliver these cards. It's no fee to the individual receiving the card. It can be done in any number of ways: people going into banks and picking up a card, or being assigned a card themselves.

So, I think that, you know, the—that would just—for those individuals who are unbanked, or even in the area where we're sending out paper checks, the delivery of dollars is so much faster if we're delivering it electronically.

Mr. BRADY. Yes.

Ms. OLSON. The debit cards are just really, to me, as you said, a 21st century solution.

Mr. BRADY. Those debit cards, since people are struggling so much with high fuel prices, you know, if they weren't able to afford something they needed, but instead had to buy higher gas, would they be eligible to use it at the gas pump?

Ms. OLSON. Absolutely. The Social Security cards are used anywhere that essentially a credit card is taken. So, at food stores, at gas tanks, at ATMs, et cetera.

Mr. BRADY. All right. Thank you, Chairman. Yield back.

Ms. OLSON. Mr. Chairman, may I answer Congressman Doggett's question? I found——

Chairman LEWIS. Yes, you may, Ms. Olson.

Ms. OLSON. Thank you. There is a FAQ on the IRS website that says, "If an individual dies, what happens to his or her direct deposit, or stimulus check?" The answer is, "Stimulus payments will be issued in the name of the individual eligible for a payment on a filed 2007 income tax return, or to the account designated by the individual on that return. This includes situations where a person dies after filing a return, or where the final 2007 income tax return was filed by a personal representative or surviving spouse."

"Any issues or concerns involving a decedent's filed return, or the related stimulus payment, should be addressed by the legal representative of the decedent's estate." So——

Chairman LEWIS. Now I turn to Mr. Pascrell for his questions.

Mr. PASCRELL. Thank you, Mr. Chairman. Mr. Chairman, with all due respect to my good friend from Texas, the last thing that these Members need is another lecture on drilling. But I am sure that will not be the last one.

You know, if you're respectful of the Members, if you're respectful of the Members, then you bring to folks' attention the high cost of everything, not just gasoline.

Second of all, this is not germane to the topic, not at all.

Mr. BRADY. Will the gentleman yield?

Mr. PASCRELL. Sure.

Mr. BRADY. One, Bill, I think you're wonderful, and I appreciate your leadership, but I do think fuel prices are germane to this discussion on stimulus checks. Not only are fuel prices up, but food prices, because we have not dealt with this fuel issue. That is driving a good amount of food prices, cost increases, as well.

So, while it is important to folks on the technical side, I think most of America is struggling, and needs some help that way. That is the only reason I point this out, because I think that's the bigger picture we ought to be looking at. I yield back, I apologize.

Mr. PASCRELL. Yes, thank you, Mr. Brady. The gas prices didn't just go up the last 6 months or the last year. Gas prices have been going up since 2001. You know they've increased 270 percent.

Mr. BRADY. Yes, 170 of that——

Mr. PASCRELL. It didn't just happen, and——

Mr. BRADY [continuing]. In the past year.

Mr. PASCRELL. So, to create the impression, which is in your talking points—not you, but your party's talking points—that this is going to be we're going to be saddled with this, has nothing to do with the questions we should be asking Ms. Olson. I don't think so. Maybe—am I out of order? Tell me. But I don't think it has anything to do with the price of tomatoes.

I am concerned about this number: 3,776,147 people over the age of 65 remain to file for the checks under SSA and VA. In New Jersey, it's 108,803, 69 percent. I would like to know, Ms. Olson, what are you doing about it?

Ms. OLSON. Well, the IRS is mailing to those individuals that we've been able to identify, through the help with Social Security and Veterans Administration, a second mailing, asking them to come in and file, and providing to them the return that they need to fill out in order to get this payment.

The IRS is continuing, through its walk-in sites, to—located throughout the United States—to prepare these ESP-only returns for free for taxpayers, if they can come in. They are continuing to work with their non-profit partners to have initiatives that go out, as are my employees.

I think that there are—as I outlined in my testimony—some natural barriers to getting some of these folks who have not had any trafficking with the IRS for several years to want to file a return again, which led to my recommendation for future efforts, that we try to come up with a way where we can automatically get this money to them, without them having to file a return. Because I think, with some of this population, that's too difficult.

Mr. PASCRELL. I mean, no other demographic group is even close to this group. You would agree to that, right?

Ms. OLSON. Oh, when we——

Mr. PASCRELL. I mean, the next group is like 13 percent.

Ms. OLSON. When we know, particularly with the—since we're basing the information on who has filed a return the previous year, we have a lot of information on those populations, and we're basing it off of their 2007 return.

Mr. PASCRELL. Well, what can we learn from the Treasury Department's inability to communicate to EITC recipients, for instance—if I could draw a parallel here—and you know the millions and millions and billions of dollars that are unclaimed with those who are the working poor, which we are dedicated to, I'm sure both sides of this aisle. Have we learned anything from their shortcomings?

Ms. OLSON. Well, the IRS actually does a very good job—I've spent my life around the earned income tax credit. What is inter-

esting in those numbers is that we have a very high participation rate among families with children.

Where we have a very low participation rate is the EITC that goes to the non—you know, the worker that doesn't have a child, which, to some extent, is in this other population for the Social Security—I mean the economic stimulus payment: low-income workers that maybe don't have enough income to file an income tax return.

Mr. PASCRELL. Right.

Ms. OLSON. I think they're both very difficult populations to get to. They don't necessarily have Internet access. If they have access, they don't necessarily have Internet literacy to do the kinds of things that you might need to do to file a return.

Again, as I said earlier, I think that the IRS sometimes is not really the best—the entity to communicate that. I mean, after all, we are an enforcement agency, on top of everything else. So, that's why we have to really work with our partners, whether it's the states and state agencies, or congressional offices, or non-profits in the community that, for other reasons, are reaching out to these populations.

Mr. PASCRELL. If we're passing legislation, Mr. Chairman, to help those who need this most, and for those who are older, like myself, and those who become incommunicable, this is a very difficult situation which I don't see any—I'm not in a comfort state right now——

Ms. OLSON. Right.

Mr. PASCRELL [continuing]. To know that we're getting to this public, and yet this is a lot of money we're talking about here.

Ms. OLSON. Right, right.

Mr. PASCRELL. To people who greatly need it. We have not—you know, we're state of the art—improved the state of the art to get to these people. I think that this is a very, very difficult—I would like to know, from the IRS, what they're going to do to address the most glaring problem here: 69 percent in New Jersey, 67 percent across America. The next demographic group is 13 percent, and that's over 50, or 55, if I'm not mistaken.

So, I don't know what you're going to do, but I would like to sure as heck know about that, and I'm sure everybody on this panel would like to know. Thank you, Mr. Chairman.

Chairman LEWIS. Mr. Pascrell, I want to thank you for drawing attention to the number of people in New Jersey who have not filed.

I noticed in the State of Georgia more than 167,000 have not filed. I want to thank you for bringing it to our attention.

Now I recognize Mr. Tiberi for questioning.

Mr. TIBERI. Thank you, Mr. Chairman. Thank you to you and to the other Chairman and to the Ranking Members for holding this hearing today.

I agree with what Mr. Ramstad said, that 95, 96, 99 percent of what you are doing and what the IRS is doing is great.

Let me tell you about something that I think is not so great, and get your thoughts on it. In your testimony, you acknowledge that the IRS did not make sufficiently clear that returns had to be proc-

essed by April 15th to be followed through to the schedule that's been posted, in terms of when people are going to get refunds.

We have had probably between 50 and 60 individuals contact our local office, wondering what happened to their return. They're mostly seniors, they're mostly people who filed to get a paper refund, not an electronic transfer refund. Most of them we find out have filed close to or on April 15th. We didn't know, they didn't know, that they would be impacted by the date that they filed. So, there has been a lack of communication.

Most of them have been resolved with going to the website and getting the new date. Not all of them have. In fact, Congressman La Tourette, also from Ohio, his office was told last week by an IRS official that, in fact, some of these people may not even get a rebate check because they may have filed wrong, which is a bizarre statement, in and of itself.

One taxpayer I talked to Monday night, who was supposed to get a refund or a check on May 12th has been told—hasn't got any answers from the IRS, has been told by your office in Ohio, "Keep checking back with us on a weekly basis."

So, his question to me was, "Who do I call when I can't get help with the advocate's office, and I can't get help with the IRS?" That person happens to be my dad, who is pretty frustrated right now. He is not the only one. So, what do we tell our constituents who aren't getting any answers, who filed properly, and filed within the designated time that we all in Congress said you need to file b.

Ms. OLSON. You have really highlighted a number of the issues that I have also tried to highlight in my testimony, the first being it's very difficult when you're trying to get a broad message out. "We are going to get this payment to you. It is up to $600, $1,200, whatever," and then there are all these exceptions to the rules. "File by April 15th," you know, but then we don't say, "But you actually have to do it before, so we can process it by April 15th, so we can be on this schedule." Those are hard messages to get out.

I have been told that the website only can give information about the status of your payment if it is 2 weeks, within 2 weeks it's going to be issued. So, if you didn't file in order to be processed by April 15th, you're down there in the processing line, and your information may not be on the website. The website will say, "No information at this time."

Mr. TIBERI. That's right.

Ms. OLSON. When you call my employees, they are frustrated because they have no ability, unlike regular refund checks, to do a—cut a manual check, process your father's or any other taxpayer's account that has some kind of hardship need out of cycle, and get the payment to you. That is something we are not able to do with these economic stimulus payments, which is very frustrating for my employees, and obviously, for the taxpayers.

So, all they can do is keep checking, themselves, the systems weekly to see when has your father's—or any taxpayer's—check posted to go out. We do not have the tools to expedite those payments.

Mr. TIBERI. Do you have suggestions on how maybe the IRS can be helpful?

Ms. OLSON. They are bound in the same way that we are. You know, I think that if the IRS had had more time, they could have programmed and, you know, maybe enabled us to be able to do manual checks, so that we could have overridden some systems. If we had had more time, we may have been able to program a better website that could give more information further on down the line, as far as estimates of what payments can come.

But I think if you called any number at the IRS, if the payment isn't scheduled, everyone is going to give you the same answer.

Mr. TIBERI. Have you heard what Mr. La Tourette's office was told by an IRS employee?

Ms. OLSON. No. Do I want to?

Mr. TIBERI. That if you filed incorrectly, that you may not get a stimulus check?

Ms. OLSON. Oh. That surprises me. Again, that would be the thing that I would say that taxpayer needs to come to the Taxpayer Advocate Service, so that we can track down why—what the information was.

I do know that we are getting some returns, duplicate returns, where a taxpayer—and this goes to the elderly population—which we saw this with taxpayers, they went to the VITA site, and they filed a 1040 on white paper. Then they got a mailing from us, where we had put the 1040 on pink paper, because we wanted them to see it, and they thought, well, now they need to send another one in, because they send a white one in first, so now they need to send a pink one in.

If we get two of those returns, it's going to take some time. But we will resolve that issue. But it will delay the payment of the check, you know, the payout.

So, there are a lot of different things that may have happened, but that's where maybe Taxpayer Advocate Service can be helpful, in tracking down——

Mr. TIBERI. Okay.

Ms. OLSON [continuing]. What the problem is, and fixing it.

Mr. TIBERI. Thank you. Thank you, Mr. Chairman.

Chairman LEWIS. I just want to remind Members that if you can, limit the question to 5 minutes so all Members will have an opportunity to get their questioning in. Mr. Pomeroy is now recognized.

Mr. POMEROY. Mr. Chairman, I note you make that admonition as I begin to inquire. Is that——

Chairman LEWIS. Oh, no, I didn't mean that. It was not for you, Mr. Pomeroy. You know I would never do that to you.

Mr. POMEROY. A couple of compliments to start the inquiry period. I have been very impressed with the new commissioner, Douglas Shulman, appreciate the IRS provided information about the take-up rate, especially with seniors, on the—or the SSA/VA population that has filed.

I also appreciate, once again, Ms. Olson and her leadership with the taxpayer advocacy office. I really do think that you play a very constructive role in improving the system, and advocating for taxpayers, just what Congress thought as they created our position. Congratulations on good work, once again.

I notice that the IRS anticipated 6.8—it anticipated 14.5 million ESP-only returns would be filed. Based on our staff's research as of May 31st, 6.8 million ESP-only returns filed. The IRS estimates in a letter from the commissioner that there is 5 million seniors in the SSA/VA population that have yet to file.

The break-out by states is really quite something. In North Dakota, it looks like remaining to file is 75 percent of its population age 65 and over. The numbers by state, also alarming: Ohio, 226,000; Wisconsin, 77,000; Michigan, 154,000; Massachusetts, 151,000. I mean, this goes on and one.

I, by the way, will add this list to the record. I think it shows that we have work to do. I think that the IRS, SSA, Members of Congress, allied groups, getting the word out they can still file and get this information is extremely important.

[The information follows:]

COMMITTEE INSERT

Mr. POMEROY. I take general issue with my Social Security Chairman, relative to whether or not this is any business of SSA. I think when you get take-up rates falling so far short of the universe of eligible for stimulus, we need to be pretty open-minded about how we can make these systems work better.

I certainly am one, as a senior Member on the Subcommittee on Social Security, open to any suggestions in this regard, including a greater role of SSA, provided, of course, it doesn't detract in any way—and I think this is the Chairman's concern—from their foremost mission. We would have to staff it, we would have to build systems that allow them to do it without interruption of the important work they do getting out these Social Security checks and reducing the backlog on disability determinations.

Okay. On a portion of your testimony that has not been mentioned today involves the very unfortunately interaction with refund anticipation loans and the stimulus check. You know, I think refund anticipation loans are pretty much worthless. I would probably vote against them. I certainly have been concerned about our free-file alliance partners using relationships with the IRS to market what I think is an extraordinarily poor value to taxpayers.

But I don't think anything brings out what poor value this is quite as much as the interaction on the early return, and let's talk about that for a minute.

If I understand your testimony correctly, the way a RAL works is a temporary account is established, for the purpose of deposit to the account. So, for the almost 10 million taxpayers who purchased refund anticipation loans and 10.5 million who purchased refund anticipation checks, each of them had these special accounts created, and that was related to their filing. Am I correct so far?

Ms. OLSON. Yes.

Mr. POMEROY. Now, this account goes away when they get their refund anticipation check. So, it's not an account the IRS can use for an electronic deposit.

Ms. OLSON. Correct.

Mr. POMEROY. So, the only way anyone who got a refund anticipation loan gets a stimulus check is by a paper check mailed out.

Ms. OLSON. By a paper check, that's correct.

Mr. POMEROY. So, let me just put this straight. Some of these people going to—some taxpayers, like millions, going to tax preparers that are hawking not just tax preparation services, but these side products like refund anticipation loans, knew at the time they were selling the refund anticipation loan to the taxpayer, that it would cause a two to two-and-a-half month delay in their receipt of the stimulus check?

Ms. OLSON. In the—since the law was enacted in February, we would have known very quickly that we wouldn't be able—they wouldn't be getting a direct deposit.

Mr. POMEROY. That's right.

Ms. OLSON. They would be getting a check, yes.

Mr. POMEROY. Let's face it, the bulk of the—the bulk of taxpayer business is, let's say, March 15th to April 15th.

Ms. OLSON. After the first wave, after the January 15th to February. We would have missed the first wave.

Mr. POMEROY. Missed the first wave, but this last wave, which is substantial——

Ms. OLSON. Right.

Mr. POMEROY. I will try and hurry, Mr. Chairman. The last wave, which is very substantial——

Ms. OLSON. Yes.

Mr. POMEROY [continuing]. Comes in to a tax preparer. They are so desperately in need of cash, they're taking a poor value RAL. The person selling the RAL knows, you know, "Okay, we will get you money right away on your tax return," and what they fail to tell them, I expect, in each and every instance was it would cause a two-and-a-half month delay in receipt of the economic stimulus check.

Ms. OLSON. That's the effect.

Mr. POMEROY. So, they paid good money to get their refund early, or their refund immediately, only to lose two-and-a-half months in access to the economic stimulus check.

In my opinion, tax preparers have a relationship with the taxpayer. That includes a fiduciary responsibility, or something like it, in my own mind. Maybe I am being naive about representing the best interests of the taxpayer that is entrusting them to prepare the return. Not providing information that they're going to delay receipt of the stimulus check by two-and-a-half months when they purchase at high value, relative to the refund, these refund anticipation loans in my opinion, it's very, very shoddy work by this industry, and they include some of the best known tax prepares in our country.

Ten million taxpayers on refund anticipation loans, another ten million on refund anticipation checks. That's 20 million people, or 20 million filers are going to be delayed in getting their stimulus check because it took refund anticipation loans. That is one sorry statement on what I think is a very insufficient industry. I yield back.

Chairman LEWIS. The gentlewoman from Pennsylvania is now recognized for her questioning.

Ms. SCHWARTZ. Thank you, Mr. Chairman, and I appreciate this. I also want to start out by saying that I think a lot of good

work has gone on, and on all of our behalf, to get this information out to tax filers, particularly to seniors.

In my own office—and I personally went to a number of senior centers and retirement communities, and I got great cooperation from the IRS, they sent someone out with forms. My own experience in doing this is that there were a lot of people who were concerned about—just as you pointed out—about filing a form with the IRS they had not had any relationship with for a while. My sense was that some of them were ready to do it, and some of them were not. That really speaks to a need to do this in a somewhat different way.

To say to people, "You need to fill out this form. It's a different color, you've never done it, you won't have to pay any income taxes, don't worry about it, the IRS isn't coming after you" is not something that, you know, a lot of Americans would take to, and particularly—and I'm interested—you know, when you see all the numbers broken down by 65 and older.

My question at this point is are they really the 80-year-old and older who are not filing this form, that were more concerned about it, their skills, their ability to do that? Certainly the discussion about use of the computer, just go on the website—I want you to know my mother-in-law is a really active 82-year-old, and she is—hates a computer.

Ms. OLSON. Yes.

Ms. SCHWARTZ. You know, and she hates those automatic dial things, too. You know, she wants to talk to a real person.

But—and even suggesting that they should just come in to an IRS center is completely—just not realistic, not at all realistic.

So, the question I have is what do we do, going forward, how do we actually really make it easier. I heard what you were saying earlier, about the possibility of some more automatic data transfer. Of course, even having seniors over 70 or 80 or 85, maybe even 90 say, "Oh, just make it debit card," you know, there are a lot of older folks who don't believe in debit cards. They think that that's kind of the way we've gotten into trouble in this country——

Ms. OLSON. Right.

Ms. SCHWARTZ [continuing]. Too many young people living off of debit cards, maybe.

Ms. OLSON. Right.

Ms. SCHWARTZ. But—and credit cards. So, really, the issue for me is how can we streamline this process now? We have spent $300 million to get this information out. We still have, in some cases in Pennsylvania, 25 percent of the seniors eligible not yet having received it. They only have until October 15th to file. They're probably going to be not just that much clearer about it, going forward.

So, I really want you to answer how——

Ms. OLSON. Right.

Ms. SCHWARTZ [continuing]. A little more specifically——

Ms. OLSON. Right, right.

Ms. SCHWARTZ [continuing]. How we can have these agencies work more——

Ms. OLSON. Right, right.

Ms. SCHWARTZ [continuing]. Cooperatively. They've been working cooperatively; I'm not looking to say——

Ms. OLSON. Right, right.

Ms. SCHWARTZ [continuing]. What they have done is not acceptable.

Ms. OLSON. Right.

Ms. SCHWARTZ. But it seems to me it's got to be easier to do a data transfer between the IRS knowing who has actually filed and who hasn't, who can be reached out to, who can get a letter, who can't, by an exchange of data. Is that happening?

What other kinds of outreach efforts are going into, very specifically, reaching out to what I would suspect are the really more senior seniors.

Ms. OLSON. Right.

Ms. SCHWARTZ. That's just a suspicion on my part. If that's not correct, I would like to know it, too. But how can we actually reach them——

Ms. OLSON. Right.

Ms. SCHWARTZ [continuing]. So that they get the dollars we anticipated they—and get it soon enough. Because the idea of this was twofold: to help people who were struggling, economically; and two, it was to stimulate the economy. This is next year; that isn't what we meant. We really wanted this to get out in 3 months.

So, could you speak to those several issues?

Ms. OLSON. Yes.

Ms. SCHWARTZ. It would be very helpful.

Ms. OLSON. The first thing I want to make clear is that I am not in any way criticizing the cooperation between the Agency that has occurred to date or the IRS' outreach attempts to date, because I think they have done an extraordinary job. I said that in my testimony, and I honestly mean that.

My comments about the—you know, the data exchange, are really looking at it on a going forward basis. I don't know whether between now and October 15th, we can take the population that we know did not file a return in 2006 or 2007, and our own Social Security's and VA's rolls, and then just look and see whether any of them got Social Security or VA benefits, you know, up to—you know, over $3,000, and then just try to get them a payment somehow, not ask them to file the return.

Ms. SCHWARTZ. Right.

Ms. OLSON. I think that would require a legislative change. I was mainly making that point on the basis of going forward and writing different legislation, if we were to do this again.

Now, that might mean if we can identify those people, those are the ones that we're targeting for additional, person-to-person outreach, perhaps, you know, by the IRS, you know, folks like that.

Now, I do think that the biggest effort that we can make now between now and October 15th is to work locally, that we know how many people aren't—haven't filed in each state; we have some rough numbers of that—and that the IRS—as it has been doing, but even more so—with the Taxpayer Advocate Service and with Social Security and with low-income taxpayer clinics and other non-profit groups, go out to senior citizen centers——

Ms. SCHWARTZ. Right.

Ms. OLSON [continuing]. Go out to synagogues, churches, everywhere, and, person to person, you know, reach out to these folks.

Ms. SCHWARTZ. It's pretty labor intensive. I mean, but you're saying right now——

Ms. OLSON. It is labor intensive——

Ms. SCHWARTZ [continuing]. The way we passed it, we prohibited automatic——

Ms. OLSON. Yes.

Ms. SCHWARTZ. Doing that automatically?

Ms. OLSON. But I do think you can leverage——

Ms. SCHWARTZ. I think that is something we should definitely look at, going forward——

Ms. OLSON [continuing]. Your networks. The IRS knows a lot of organizations. My employees do 40 grass roots outreaches a year. If those 40 do a grass roots outreach themselves, you can really get out there. We just have to keep doing that.

We will never get all of them, though, for all the reasons I identified in my testimony.

Ms. SCHWARTZ. Again, I would just saying going forward I believe we ought to look at that. Again, I was not suggesting that either, you know, SSA or IRS have not done all that they could. But I think we are just—you know, we still are making it very labor intensive——

Ms. OLSON. I agree.

Ms. SCHWARTZ [continuing]. Very difficult to reach out to a not-so-easy population, necessarily——

Ms. OLSON. I agree.

Ms. SCHWARTZ [continuing]. To reach out to. Some of these numbers—that's not the purpose of this hearing—is that there are also many people under 65, or not on SSA, who haven't filed either, or haven't gotten it either.

Ms. OLSON. Yes.

Ms. SCHWARTZ. We know those people, we could write to them. We could make it simpler.

But, going forward, it seems that we have—we know who these people are. We have got to figure out a way to reach out to them and do it more automatically, be able to get, if not those checks, maybe automatic deposit to them.

So, I appreciate your recommendations going forward, and some of these questions would apply, I think, to the next panel as well. Thank you.

Chairman LEWIS. The other gentleman from New York, Mr. Crowley, is recognized.

Mr. CROWLEY. I thank the Chairman, and thank you. It's also good to see you again. Welcome back to the Committee.

Ms. OLSON. Thank you.

Mr. CROWLEY. I have appreciated the questions, so far, or the observations of the panel and your responses, as well.

I have done a good deal of outreach myself to my constituency in a number of ways, to try to elevate the attention to the rebate, the stimulus checks.

We have seen from the IRS data that has been presented to us that in New York State alone, some 440,000 New Yorkers have yet to file for their rebate check, like veterans retired and Social Secu-

rity recipients have not filed for those checks. I know the outreach that's been done by the IRS, as I say, and the private, but I would like to know from you, if you could comment, on what you think has been the most successful and what has not worked.

Has the AARP mailers been successful, in your view? Will the Super Saturdays—in my district, in parts of the Bronx, I know they were holding Super Saturdays to help catch the people we were hoping that would—they would get a hold of.

What do you recommend that take place, or to help get this big number? I mean, this is still——

Ms. OLSON. Right, yes. It's a big number, yes.

Mr. CROWLEY. Also, what could we, as Members of Congress——

Ms. OLSON. Right, right.

Mr. CROWLEY [continuing]. Be doing to help?

Ms. OLSON. Well, I think that the Super Saturdays were enormously successful. I think because it was a partnership with the IRS, with non-profit groups, with the congressional offices, you know, we really got attention on that, we brought people in.

I think, if anything, we need to do another Super Saturday. More importantly, we really need to think about how we bring this to the individual, because some of these folks are bed-ridden, not able to get to the site, but they can—they normally might get to a senior citizen center during the week.

You know, so can we do a Super Saturday or Super Wednesday at the senior citizens center in a community? I think the congressional offices can help sponsor some of those events, or publicize them, and also maybe overcome the concern that some people may have about the IRS doing it, because it's coming from the congressional office and it's in a site that the individual is familiar with, their senior center, you know, wherever.

I think that that is—the IRS does have employees who work those issues, and I think they need to just be given free reign and the funding to be able to do those kinds of events. My own employees are continuing to do those events throughout—until October 15th.

I am concerned we do have some of the VITA sites still open, the volunteer income tax centers, assistance centers, but there are not very many of them. There are only about 64 or so that are open between now and October 15th. In New York, for example, none of them are open in Manhattan or the Bronx, you know, so you've got this large population and we don't have the volunteers——

Mr. CROWLEY. So, the poorest populations in the city, as well.

Ms. OLSON. Yes. I fear that, you know, we really—we need to give support to these volunteers so that they will stay open.

Mr. CROWLEY. I say that because 8 out of 10—8 out of the top 100 zip codes——

Ms. OLSON. Yes.

Mr. CROWLEY [continuing]. Are in part or in whole in my district in Bronx and Queens.

Ms. OLSON. Yes.

Mr. CROWLEY. So, this is something we really want to tackle.

If I could just switch gears for a moment—I appreciate your response, and we're going to continue to work on this, and I would

suggest to my colleagues we all need to look at this in ways in which we can be helpful, in terms of getting this message out—if I could just go back to Mr. Pomeroy's question to some degree, and he talked about a different subject matter, in terms of abuse.

I just want to bring it back to—and see if you're hearing some of these same abuses that we're hearing about, and that includes we've heard reports of some abusive practices by private tax preparers overcharging, or gouging, on normal non-filers with high costs to get the rebate, including some charging some taxpayers up to $200 on a $300 rebate.

What, if anything, can be done to reign these practices, if they are going on, in? Is there something the IRS can do through regulation, or we, in Congress, can do through legislation?

Ms. OLSON. Well, I have—I think there is a multi-pronged approach to this. One is just the simple outreach that, you know, "You shouldn't be paying these fees. Look out for outrageous fees."

But I have recommended since 2001 that the—that Congress pass a bill to regulate return preparation, so that people who are return preparers are professionals, as opposed to just simply being in the business to get fees, you know, and sell products like refund anticipation loans, and things like that, that there is some professionalism put back into that.

Then, coupled with that, then, the IRS needs to go out and do these due diligence visits, and look at things that are disproportionate, in terms of fees. That's a very difficult issue, but the IRS needs to tackle that head on. I have been after the IRS for—ever since I've been on this job, and even before then, to get them to do this.

Mr. CROWLEY. Thank you, Ms. Olson. Thank you, Mr. Chairman.

Chairman LEWIS. The gentlewoman from Ohio is recognized.

Ms. TUBBS JONES. Everything is going off, okay, except economic stimulus, anyway.

Ms. Olson, talk to me for a moment about your own office, and your ability to handle the onslaught of work that comes as a result of these alleged stimulus checks, and the processing.

Ms. OLSON. Well, I can tell you that when people can't get through on the phone lines because of the level of service and the number of—the volume of calls that the IRS is just getting—and I'm not being critical of the IRS here, it's just a fact, a reality——

Ms. TUBBS JONES. We understand that. Just say what you want to say.

Ms. OLSON. But my people——

Ms. TUBBS JONES. You can be critical if you want to.

Ms. OLSON. I had a—yes, I know, believe me, I will be critical when I want to be critical, you know, when I need to be.

But I have a four-person office in West Virginia. On 1 day they got 86 economic stimulus calls. If you think about that, that's 20 calls a day per person, plus they have a workload of about 42 cases per person at any given time. So, no work is getting done in that office, if they're needing to talk through these concerns with individuals and reassure them and help them.

The calls are enormous to us, as well. We have gotten, since the beginning of the year, about—over 3,500—about 3,500 cases deal-

ing with economic stimulus. Just this past week we got 300 of them. So, they're—just since Monday we got 300 more cases in the Taxpayer Advocate Service dealing with problems with the economic stimulus—not calls, but cases.

So, it just comes on and on, and I think they're just some of the kind of things where things have gotten messed up, or people don't know where their payment is, or there is—maybe there is identity theft in them.

Some of them are injured spouse cases where there is a debt that one spouse owes, and we're going to grab one-half of the economic stimulus payment to pay back that debt, but the other half should go out to the other spouse, who is not a debtor on the debt. But the IRS systems aren't doing that consistently, so the taxpayer won't get their payment, and we have to get in there and get that payment.

Ms. TUBBS JONES. I will say this. If I had known then what I know now, using that as a step toward processing, what would you—give me two recommendations.

Ms. OLSON. Well, one would be I would really take the lessons that we have learned from this and come to terms with it's better to get the money out to as many people as we can who are entitled to it, and tolerate getting some of the money out to people who maybe, you know, they have debts to the IRS, or you know, to child support or something. Let's just get the money out there. Don't put so many exceptions into the rules, you know, things like that. Tolerate some payments to people that we wouldn't necessarily ordinarily give refunds to, but allow it so that we can get the money out there, if that's the goal.

Because I think the biggest problem with the economic stimulus payment is we have got this general statement saying, "Everybody is going to get their economic stimulus payment, except you and you and you and you and you and you and you, and then there are special rules for you, over here, and there are special rules for you, over here."

Ms. TUBBS JONES. Only time will tell us whether it has really been stimulus.

Ms. OLSON. That is just a disaster for——

Ms. TUBBS JONES. The dollars that we have expended in attempting to use it, to make it a stimulus, and in addition to which, dollars that could well have been put to use that might have made it better for Americans across the board versus throwing it so that we could spend it at Wal-Mart, K–Mart, or whatever-Mart.

But what else would you like to tell me, Ms. Olson, in terms of second thing that if you knew then what you know now?

Ms. OLSON. Well, I do think we should do what I have suggested before, which is try to figure out a way to get automatic payments out to the population that already isn't part of the IRS, the Social Security recipients, the Veterans Administration recipients, you know, who are not filing with the IRS.

Ms. TUBBS JONES. Would you have suggested, then, that that had been their responsibility, versus the IRS, or we should have——

Ms. OLSON. Well, again, I want that to be explored more, but I really view that the two agencies, between the two of them,

should be able to identify who in that population was eligible for the payment, and then we should have figured out a way to get it out to them, rather than asking them to file a return, you know, and come in, and do some affirmative act and get it.

I think that's a problem with that population. It's asking too much of them. So it doesn't surprise me that we're not getting the pick-up from that population, you know, that we might have hoped for.

Ms. TUBBS JONES. Then a lot of people said, "To heck with spending that money, I'm going to put it away, because I could use it for something more important to me than going to a store and buying some immediate piece of whatever," in terms of stimulus.

Ms. OLSON. I am just worried about getting the money out to them. I don't know what they're doing, once they get it.

Ms. TUBBS JONES. I feel you. Thank you. I yield back the balance of my time.

Chairman LEWIS. Mr. Kind is now recognized for his questioning.

Mr. KIND. Thank you, Mr. Chairman. I want to thank you for holding this important hearing. Ms. Olson, you have been very generous and very kind with your time here today.

I would agree with your last statement. I think the greatest obstacle that we have for the non-filers, those who we're trying to do our best to reach out to right now, is inertia, trying to get them to take some type of step so that they get into the system, and then qualify for the stimulus check.

But let me just redirect you on a different line of questioning. My pet peeve—and I expressed this earlier in the year, too, when we had an earlier hearing—was the tremendous amount of money that's being spent on not one, but two notifications to tax filers in the country. According to our calculations, it wasn't just one notice, pre-filing notice, but also a second notice that went out, close to $100 million in just those 2 notices.

So, $1 out of every $16 that's going out for stimulus is going out or being used for basic notification purposes, going to traditional filers, the vast majority of whom filed in the past, are going to file again, will get automatic stimulus checks, based on what they file. The vast majority of them aren't going to be contacting the IRS for additional information.

I understand the importance of outreach and notification, especially for the non-filers out there, and the job we have to do. I just don't want to be critical of the IRS or what we are giving the IRS direction to do, because I think they've been doing an incredible job, as far as turnaround time with not only the stimulus, but with AMT late last year—and hopefully we're going to be able to avoid a late AMT fix for the next fiscal year, and avoid that box.

Ms. OLSON. Thank you.

Mr. KIND. But I would like to, you know, in the future, with lessons learned with this latest stimulus, perhaps work with you and others——

Ms. OLSON. Right.

Mr. KIND [continuing]. To see if there is a way we can tighten up the notification——

Ms. OLSON. Right, right.

Mr. KIND [continuing]. For these stimulus measures, so it's not just a broad——

Ms. OLSON. Right, right.

Mr. KIND [continuing]. Overreach, and I think a lot of redundancy out there——

Ms. OLSON. Right, right.

Mr. KIND [continuing]. And perhaps find some taxpayer savings at the end of the day, while still getting to that harder-to-reach community——

Ms. OLSON. Right.

Mr. KIND [continuing]. That we want to reach out to right now, who traditionally wouldn't file. That's where most of the focus has been.

I know the IRS has been inundated yet again from questions coming in. But my guess is that it's not the majority of those who are receiving notification, the traditional filers, and they basically have to do what they have always done in the past. So, maybe there is a way of being able to tighten that up, and with suggestions that you're offering today too, have a better outreach with those harder-to-reach individuals.

But, you know, I was never a great fan with the whole stimulus idea to begin with. The thought of borrowing $160 billion from China to give to people to fill up their gas tank and sending the dollars to—it didn't really seem like it was going to have much of a stimulus impact.

But this past week I have been back home, battling flood waters with many of my constituents and communities in southern Wisconsin, and I know that this, the timing of the stimulus, is going to be welcome, whether it's $600 or $1,200, whatever they get, in trying to help them get back on their feet. So, in that respect, I know a lot of people have been struggling to make ends meet right now. This little bit, as far as the stimulus measure, can go a long ways to helping that take place.

But if you have any ideas, as far as outreach and notification that might save us money and have a little more targeted version, we would be interested to know.

Ms. OLSON. Well, Sir, I think one thing that the IRS has to do is we have had a—if you look at this as a grand experiment, we have had a real opportunity to learn a lot about how to communicate with taxpayers as a whole, and with hard-to-reach populations, in particular. What we really need to do is not after this is over—you know, "over" in quotations—we have to sit down even now, and then on an ongoing basis, and say, "What have we learned, and what is better?"

I know that the IRS wanted to do those mailings in the first place, based on its experience with the last tax rebate in——

Mr. KIND. Right.

Ms. OLSON [continuing]. 2001, hoping to fend people away from the phones. But I think the complexity of the message was so great, and the contacts just generated so very early, and people—you know, the message was, "You're going to get your money," and people were like, "When can we get the money," and they were going to pick up the phone and call.

I think we just really have to study how we deliver a message like that, where we deliver it, who delivers it, and at what level, whether it's national or, you know, area, or local community, and what is the best way to get out what parts of the message. I think we've got lots of data in which to learn from this experience.

Mr. KIND. Right.

Ms. OLSON. I will certainly be studying it.

Mr. KIND. Right. Thank you very much. Thank you, Mr. Chairman.

Chairman LEWIS. Thank you. Mr. Neal is now recognized for his questioning. Congratulations, Mr. Neal, on Boston winning.

Mr. NEAL. I appreciate that.

Chairman LEWIS. I know you're not from Boston.

Mr. NEAL. I played——

Chairman LEWIS. I know you represent the home of——

Mr. NEAL. But I did play a heck of a game.

Chairman LEWIS. You represent the home of the beginning of basketball, Springfield, right?

Mr. NEAL. It's true. It's nice to return that trophy to where it belongs.

Paper correspondence. Crisis proportions yet?

Ms. OLSON. I think it is in crisis proportions. I think, you know, once we get through October 15th with the stimulus, we're going to be dealing with the fall-out from what has happened to the IRS in handling these calls into the next filing season.

Mr. NEAL. What does that mean to the taxpayer, Ms. Olson?

Ms. OLSON. Well, for the taxpayer, if someone writes in—gets a notice from the IRS—let's just give a simple example—saying, "We see that there is a 1099 on your return, a W2 that you forgot to list on your return," and that taxpayer is a victim of identity theft, it's somebody else's information, the taxpayer writes back saying, "No, no, no, this is not mine," if we don't get that correspondence to the person who is working that case, that person, that IRS employee, is not going to know that there is another explanation, and they're going to go ahead and assess the tax against that taxpayer, and the next thing the taxpayer knows is that they're either going to have to go to Tax Court, or request an audit reconsideration, or they may be in the collection arena.

Mr. NEAL. Thank you. Thank you very much, Mr. Chairman, for that skill in getting my question in and promoting the Celtics, and a reminder that that championship trophy, the Lawrence O'Brien Trophy, is named for a son of Springfield. Thank you, Mr. Chairman.

Chairman LEWIS. My pleasure, very delighted. Mr. White, Ms. Olson, I want to thank you for your testimony, for being here today. We look forward to working with you to reach taxpayers who have not filed a rebate check. Thank you for your good work.

The Committee will recess for a half-an-hour. We have a series of votes on the floor.

[Recess from 11:34 a.m. to 12:14 p.m.]

Mr. MCNULTY [presiding]. The hearing will come to order. Chairman Lewis has another commitment at the present time, and we hope and expect he will be back at some point during the testi-

mony of the second panel. In the meantime, he has asked me to reconvene the two Subcommittees.

I want to welcome both of the commissioners for being here, and for the tremendous job that they are doing for our constituents all over the country. I would remind both commissioners that your entire statement will appear in the record. We ask you to try to summarize, if possible, within 5 minutes, so that we can get as many questions as possible.

It is now my pleasure to introduce the commissioner of the Internal Revenue Service, Douglas Shulman.

STATEMENT OF DOUGLAS H. SHULMAN, COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. SHULMAN. Good morning, Chairman McNulty, Mr. Pascrell, Mr. Brady. This is my first appearance before Ways and Means. I am two-and-a-half months into a 5-year term. I have gotten to speak with a number of Members individually, and I am looking forward to working with all of you while I am here.

As you know, I am here today to discuss the economic stimulus legislation enacted by Congress last year. The responsibility for distributing this one-time payment to taxpayers was assigned to the IRS right in the middle of filing season, which is our busiest time of year. Nevertheless, we understood that the point of the economic stimulus was to provide a stimulus to the economy, and so we tried to balance getting the checks out as quickly as possible with some of the operational realities of doing so.

I would also just like—before I say a few words about the progress—just to recognize my colleagues from the Social Security Administration, the Department of Veterans' Affairs, as well as my colleagues at the Financial Management Service, who are responsible for actually distributing the checks, once we identified the amount, et cetera. The support in partnership was phenomenal. I think it's a model of how the Federal Government—at least I would hope—would work.

As of June 13th, we have distributed $63.8 billion in stimulus payments to over 76 million taxpayers. I am proud to report that the first stimulus payment was direct deposited into a taxpayer's account a mere 70 calendar days after the stimulus legislation was enacted. I will tell you I came in the middle of this, I started March 24th. I have 3 meetings a week with the 40 people most responsible for stimulus, from technology to operations to customer service to compliance, and it's really been a phenomenal job. I am quite proud of the people of the IRS who made this happen.

In addition, outreach was incredibly important. As a general matter, we tried to publicize that all you needed to do was file a tax return to get your stimulus payment. We also paid special attention to the potentially 20 million people who usually don't file a tax return, but needed to file a tax return this year to receive their economic stimulus payment.

We partnered with AARP and the United Way, just to name a few. We ran what you've already talked about, Super Saturday. We opened 320 of our sites and 400 partner sites to seniors, veterans, and low-income workers, to come in and get their stimulus pay-

ment—by filing their stimulus return. We worked very hard to spread the word.

As you know, as the nation's tax administrator, we did not start this process with a master list of those Social Security and veterans beneficiaries who are eligible for stimulus payments but usually don't file a return. Nonetheless, through our outreach, I am pleased to say that, as of now, we have accounted for 15 million out of the 20 million people who we thought might be eligible.

I do want to correct the record. I know a previous witness said that we had found seven million people. We have actually accounted for 15 million. They have either filed for themselves, or they're listed on somebody else's return.

While this is good progress, we also recognize that there is more work to be done. So we've planned an outreach campaign for this summer. We're going to entitle it, "It's Not Too Late to File."

Today, we are distributing to your offices and offices of other Members of Congress a packet that will give you detailed demographic information about who in your District might be eligible to file a return and hasn't yet filed. We would love to partner with Members of both Subcommittees to try to do outreach and get more people into the system.

We are also going to send another mailing. We're going to do more media. Just this afternoon, we have a conference call with 50 Spanish language media outlets to try to promote to people who haven't yet filed that they can still get a stimulus rebate.

Let me just give you a couple of on-the-ground observations from stimulus program. I have been visiting our taxpayer assistance centers, and our phone centers, during this time. Any undertaking that is this large and complex is certainly not going to be error free. We currently estimate, though, that over 99 percent of people eligible for stimulus who have filed their tax return are on schedule to get their stimulus payment on time with no issues and no problems.

To give you a sense of, when issues occur, how we're trying to attack them, let me just talk about the child tax credit issue that emerged. We found out about a month ago that there were taxpayers who didn't check the box correctly on their tax return, saying that they were eligible for child tax credit, and therefore, weren't getting their stimulus child tax credit.

We also found there were some software vendors who had a glitch in their program. When returns came in to us, they came in improperly, and so people weren't getting their child care—weren't getting credit for dependent children for their stimulus returns.

Under normal circumstances in tax administration, we would say either the taxpayer didn't do it right, or the software vendor didn't do it right, and so we would send it back to the taxpayer and we would say, "File correctly". They would need to file correctly to get their stimulus payment.

Because we know it's so important that we go the extra mile with these people—about 230,000—we actually now are correcting their return for them, correcting the error that either the software provider or the taxpayer made, running a batch of new stimulus checks, and in July those people will get the extra $300 per child that they were due under stimulus. That's the kind of thing we're

trying to do, is be creative and be very aggressive in making sure we fix problems as we see them.

I'd be happy to answer questions. As you know, our phones have gotten quite overloaded, and we have worked hard to manage our resources against those. We are using the same people to run the stimulus program as run filing season. We're doing the late AMT fixes to get ready for filing season. So, this hasn't been the easiest undertaking for the IRS, but I'm quite proud of the work we have done, and I'm happy to answer any questions.

[The prepared statement of Honorable Mr. Shulman follows:]

Statement of The Honorable Douglas H. Shulman, Commissioner of the Internal Revenue Service

WRITTEN TESTIMONY OF
DOUGLAS SHULMAN
COMMISSIONER OF
INTERNAL REVENUE
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT AND SUBCOMMITTEE ON SOCIAL SECURITY
ON
IMPLEMENTING THE ECONOMIC STIMULUS PAYMENT PROGRAM

JUNE 19, 2008

Introduction

Chairman Lewis, Chairman McNulty, Ranking Members Ramstad and Johnson, and Members of the Subcommittees, thank you for the opportunity to testify today on the IRS' implementation of the economic stimulus program approved by Congress last February.

I am pleased to be here today to discuss the IRS' implementation of the economic stimulus legislation enacted by Congress. This was a unique challenge for the IRS in that we do not routinely act as an administrative agency for government payments. In addition, this responsibility was assigned to the IRS concurrent to our traditional filing season – our busiest time of the year.

I am pleased to report that the first stimulus payment was directly deposited in a taxpayer's bank account a mere 70 days after the date of enactment of the stimulus legislation. This is a remarkable achievement and a credit to the hard work of thousands of employees throughout the IRS. Since then, through June 13th, stimulus payments have been made to over 76 million eligible Americans, totaling $63.8 billion.

This is also a credit to the hard work of the leaders and employees of the Financial Management Service (FMS) that had the responsibility of actually disbursing payments to recipients, as well as the Social Security Administration (SSA) and Veterans Administration (VA) which have worked closely with us in outreach to those that do not normally file an income tax return. We are grateful to our colleagues and partners at FMS, SSA, and the VA for their cooperation, support and professionalism.

This morning I will describe for you how we implemented the legislation once it was enacted. I will discuss our outreach efforts to taxpayers and our efforts to reach others

that were eligible for a stimulus payment, but who had no Federal income tax filing requirement. I will also discuss the current status of the stimulus payments as well as where we go from here, including a new outreach program that is designed to reach those who have not yet filed a 2007 Federal income tax return.

Implementing the Economic Stimulus Program

On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008. The Act was designed to be a robust economic growth package that puts money into the hands of American workers and businesses. Specifically, the Act provided stimulus payments to approximately 128 million American households. The payment eligibility and size were to be determined by the IRS based on each taxpayer's 2007 individual tax return. The Act envisioned stimulus payments being distributed through late spring and summer so as to help the economy as quickly as possible.

Under the legislation:

- Individuals and families were eligible to receive up to $600 for individuals and $1,200 for couples. A minimum of $300 per person and $600 per couple would be available to those with at least $3,000 of qualifying income. These payments would be available to everyone with adjusted gross income less than $75,000 for singles and $150,000 for married couples filing jointly. It will be phased out for taxpayers above those income thresholds. Taxpayers may qualify by filing a tax return for 2007 and including a valid Social Security number on their tax return.

- Everyone eligible for a stimulus payment would also receive an additional $300 per child. For example, this would mean up to $1,800 for an eligible couple with two children.

- Recipients of Social Security and certain veterans' benefits were also eligible for stimulus payments. Those who receive at least $3,000 from any combination of benefits from these programs will receive payments. The IRS and Treasury Department are working closely with the Department of Veterans Affairs and the Social Security Administration, along with beneficiary organizations, to ensure that all eligible individuals are able to receive their payments.

When this legislation was enacted, the IRS was in the midst of the 2008 filing season. The IRS normally processes over 135 million annual individual income tax returns during a typical filing season, but in addition to the enactment of the economic stimulus legislation, this filing season was complicated by late enactment of the legislative patch that prevented 23 million taxpayers from becoming subject to the Alternative Minimum Tax (AMT) in Tax Year 2007. In order to implement the AMT fix and not delay the start of the 2008 filing season, many of our systems personnel worked nights and weekends, including the holiday season.

Stimulus Outreach

Implementing the economic stimulus payments presented a significant challenge but, fortunately, it was one with which the IRS had some experience because Congress had enacted similar legislation in 2001. From its experience in 2001, the IRS learned a very important lesson. We wanted, as much as possible, to answer taxpayer questions about eligibility for a stimulus payment up front, and what actions, if any, taxpayers were required to take. We knew that this year's legislation was far more complicated than in 2001, so anything that we could do to address taxpayer questions up front would benefit the agency as well as taxpayers.

Our first step was to make as much information as possible available on our website – IRS.gov – a service that was not readily available in 2001. In less than a week after enactment, the IRS posted on its website a summary of the stimulus legislation, as well as a series of Frequently Asked Questions (FAQ). Shortly thereafter, a schedule was announced and published on the website providing the timing of check distribution based on the last two digits of the taxpayer's Social Security Number. In addition, the website provided a calculator for the taxpayer to determine the estimated size of his or her own stimulus payment based on the taxpayer's unique circumstances.

While the website provided an important new tool to communicate with taxpayers about the stimulus payments, we knew we could not rely on it exclusively as the means to reach all taxpayers. As a result, in mid-March, the IRS mailed a notice to 140 million taxpayers, which was authorized by the stimulus legislation. The primary purpose of the notice was to communicate to taxpayers that they needed to do nothing more than file a 2007 tax return in order to receive a stimulus payment.

In addition, the notice had several other objectives: First, it was designed to explain the stimulus payments, educating the public on the purpose of the legislation and setting public expectations by describing how eligibility would be determined. Second, it was designed to maximize the benefits of the stimulus payments to the taxpayers. Specifically, an initial notice letting citizens know that stimulus payments would be coming in 2 to 4 months (depending on the sequencing of check issuance) would assist in expediting the behavioral effects of the stimulus legislation. The notice was also designed to reduce taxpayer calls. Our hope was that a well-crafted initial notice, with a simple and direct explanation, would eliminate millions of calls to the IRS prior to the April 15th income tax return filing deadline. This would be crucial to maintaining IRS service levels in responding to the normal surge of tax return and tax refund inquiries during the height of the filing season. In addition, the notice could steer taxpayers to informational websites in lieu of IRS call centers.

Another reason for the notice was to differentiate between refunds and stimulus payments. Since the economic stimulus payments overlapped with the normal tax refund season, the notice explained the differences in the purpose, timing, and amounts of the two payments.

Finally, the IRS hoped that the notice would encourage filing by certain taxpayers on the margin, such as seniors, who may be eligible for the stimulus payment, but who may not have planned on filing a tax return in 2007.

Reaching Seniors and Veterans

In addition to reaching individuals who normally file a tax return, the IRS also needed to reach out to millions of individuals who do not normally file tax returns, but who were eligible for an economic stimulus payment. This included recipients of Social Security and certain veterans' benefits. Those who received at least $3,000 from any combination of benefits from these programs are eligible to receive stimulus payments.

The IRS has worked closely with the Department of Veterans Affairs (VA) and the Social Security Administration (SSA), along with beneficiary organizations, such as the American Association of Retired Persons (AARP) to alert individuals that they may be eligible for the stimulus payment and that in order to receive it, they must file a 2007 tax return.

Using a list compiled by the SSA and the VA, the IRS sent in March a package of information to over 20 million individuals who had not filed a 2006 tax return. The 10-page tax package was designed to inform the recipient about the stimulus payments and provide all the information needed for the recipient to file a 2007 income tax return.

The IRS' outreach efforts took other forms as well. On March 29, 2008, the IRS held "Super Saturday," a day on which the IRS and scores of its partners opened hundreds of locations nationwide in an effort to reach those individuals who normally are not required to file an income tax return, but who were eligible for the economic stimulus payment.

On Super Saturday, approximately 320 IRS offices were open to prepare the simple Form 1040A for people who were filing a return solely to receive their stimulus payment. IRS partners such as AARP, United Way of America, and dozens of others also opened their offices and made other special efforts on Super Saturday to reach out to those who normally were not required to file a tax return.

Payment Distribution

The IRS began distribution of the economic stimulus payments on April 28, 2008, which was slightly ahead of schedule. Through June 13 2008, the IRS has processed payments to over 76 million taxpayers totaling almost $64 billion. In addition, over 14 million of the 20 million individuals on the list provided by SSA and VA who were eligible for the stimulus payments, but who normally do not file a return, filed a 2007 tax return. This is 70 percent of those individuals to whom the information packet was sent in March. Another one million persons did not meet the $3,000 income threshold that was necessary to qualify for the stimulus payment.

We expect to continue to process and distribute payments for those individuals who have already filed a 2007 income tax return. We also intend to do additional outreach to those remaining 5 million individuals on the SSA and VA lists who do not normally file an income tax return, who may be eligible for the stimulus payment.

Shortly after this hearing, we will send a second notice to those taxpayers from the SSA/VA lists who have not yet filed a return, reminding them they may be eligible for the stimulus payment and providing them everything they need, including instructions on how to file.

We also plan to employ an aggressive public relations campaign for which we need your support. The theme of the campaign will be: "It's Not Too Late to File!"

We expect to shortly provide each of your offices with the estimated number of qualifying nonfilers by county within (or partially within) your District. We also are going to have our field media specialists work with the local news outlets across the country and in your Districts to help get the word out.

We are also ready to keep IRS offices open on specific Saturdays, as needed, to provide assistance to those who want to file. In addition, we would be happy to work with you on special events within your District to get the word out.

I should caution, however, that the successful implementation of this stimulus effort has come at a cost. We have received millions of stimulus related calls in addition to the other levels of assistance that I discussed earlier in this statement. The IRS does not have the resources to handle this type of a response to an emergency program without diverting resources from other areas to meet the needs of the stimulus program.

Dealing with Glitches in Payment Distribution

As I mentioned earlier, we have distributed nearly $64 billion in stimulus payments to more than 76 million taxpayers through June 13, 2008. We estimate that we have been able to make over 99 percent of these payments without any significant problems or concerns. The method of distribution for each taxpayer was determined based on how the taxpayer chose to receive his or her 2007 income tax refund. Taxpayers who chose to have their refund deposited directly in their bank account will have their stimulus check treated the same way. Taxpayers who chose to have their refund check mailed directly to them will get the stimulus payment in the same manner. There is no cutoff date for direct deposits regardless of when the taxpayer filed, provided that there is no other restriction that would prevent direct deposit, such as owing a payment to a tax preparer.

The timing of the stimulus payment check was based on a schedule determined by the last two digits of the taxpayers Social Security Number. The schedule was published on IRS.gov along with a calculator for taxpayers to determine the size of their stimulus payment

This level of success has only been possible because of the enormous effort by a number of IRS employees who, upon completing the 2008 filing season, plowed headlong into the stimulus effort. I cannot tell you how proud I am of all of these employees and their stellar efforts for the past six months.

It is virtually impossible, however, to run a payment operation of this size without encountering some problems, and we have had a few in this case. I should also point out that we understand that no matter how high our success rate is overall, it is irrelevant to the taxpayer for whom something has gone wrong. For that taxpayer, the system did not work, and we must do everything we can to deal with that stimulus payment as quickly and efficiently as possible.

One of the challenges we have identified is related to the Child Tax Credit. More than 99 percent of the 36 million tax returns with child stimulus payments were completed accurately by taxpayers, tax professionals, and software providers.

However, there were some instances where the necessary information to determine eligibility under the Child Tax Credit was not available. The specific issue with the child stimulus payments involved the Child Tax Credit checkbox on line 6c, column (4) on Form 1040 and Form 1040A. For the stimulus payments, the IRS systems require the information from the checkbox to generate the $300 qualifying child stimulus payment. In some instances, taxpayers did not check the proper box to trigger the $300 child payment. In other instances, a few tax software products, primarily used by tax professionals, did not capture the proper information needed for issuing the child stimulus payment.

Normally in situations like this, we would return the income tax return to the taxpayer and ask that they revise it appropriately so as to claim the additional economic stimulus resulting from the Child Tax Credit. However, because we wanted to get the stimulus payments into the hands of every recipient as soon as possible, we made the necessary adjustment on each of these returns internally.

As a result, the IRS is sending affected families separate checks to cover their qualifying children. The IRS will mail out approximately 230,000 additional $300 or $600 economic stimulus payments to the affected taxpayers starting in early July 2008. These taxpayers also will receive a special adjustment letter explaining the payment amount for qualifying children that was not included in their original stimulus payment.

In early May of this year, we also identified a problem with 1,500 stimulus checks that were directly deposited into the wrong accounts. This was the result of a programming error that occurred during the initial computer payment run. We immediately corrected this problem, and no additional erroneous deposits have been made. All of the taxpayers who were affected by this problem have since been sent a paper check. We are also reviewing the data transmitted to determine if we need to provide the taxpayer with credit monitoring services since Personally Identifiable Information (PII) may have been transmitted to the wrong accounts along with the funds.

We also faced a problem created by a printing error at one of the vendors that we were using to mail confirmation letters to taxpayers explaining the calculation of their stimulus payment, the method of payment, and when it should arrive. We estimate that 22,000 of 66 million notices were sent in error. However, the IRS has received just over 200 inquiries thus far about this event.

We discovered that the problem was due to an error by the print vendor and was narrowed down to a single printer. Upon identifying the error, the vendor's CEO took immediate and decisive action, and made changes to the quality review process. As to corrective actions, the vendor will issue corrected notices with an explanation indicating that the issue was a printer error and is their responsibility. The IRS determined that no breach of personally identifiable information had occurred and sufficient action had been taken.

We have also received some complaints from taxpayers because they expected to receive their stimulus payment quickly via direct deposit, but instead they are scheduled to receive a paper check. This can be caused by taxpayers who entered into financial agreements with tax preparation companies, including major nationwide preparers, and others who received Refund Anticipation Loans (RALs), Refund Anticipation Checks (RACs), or similar loans while completing their tax return.

These agreements authorize the IRS to transmit tax *refunds* to these third party accounts, but not the stimulus payments. Therefore, these taxpayers will receive their stimulus payment via a paper check rather than direct deposit. In addition, taxpayers may receive paper checks because they used tax preparation software and they elected to pay the fee for the service out of their stimulus payment.

Identity Theft

I understand that an additional purpose of this hearing is to review IRS efforts relative to identity theft. Mr. Chairman, our overall goal for taxpayer service is that when a taxpayer contacts the IRS with an issue or concern, we have in place a seamless process that gets the issue resolved promptly.

From the perspective of an identity theft victim, that means that when taxpayers call the IRS, they reach someone who is knowledgeable on the issue and is able to take care of the problem quickly and completely.

In terms of the economic stimulus payments, the IRS has not observed, to date, any significant issues involving identity theft. Originally, there was concern that upon filing, some in this population would discover that someone else has been filing returns under their Social Security Number. However, we have not noticed such a pattern taking place. In an effort to be proactive due to our original concerns, we set up a specialized unit to analyze returns filed specifically for stimulus payments (typically filed via Form 1040A). In addition, we set up a referral process with our Criminal Investigation Unit to conduct

further analysis in instances when identity theft is suspected. We have reviewed over 38,000 potential duplicate returns, which can often be an indicator of identity theft, and have identified only 25 potential instances of identity theft.

However, we have recently been informed that the Federal Trade Commission, which maintains the national clearinghouse for identity theft complaints, has received approximately 150 identity theft complaints regarding economic stimulus payments. We are currently working with the FTC to obtain more information to research these complaints, eliminate duplication with those we have already identified, and determine if additional action is necessary.

In terms of the broader issue of identity theft and how it might affect tax administration, we have identified two ways in which taxpayers' interaction with the IRS might be affected. First, someone could steal another person's identity and use it to file a tax return in order to obtain a tax refund fraudulently. Generally, the identity theft perpetrator will use a stolen SSN to file a forged tax return and obtain a refund early in the filing season. The rightful owner of the SSN will be unaware that this has happened until the taxpayer files his or her return later in the filing season and we discover that two returns have been filed using the same SSN. We call this type of identity theft a refund-related crime.

The second way a person's stolen identity will affect his interaction with the IRS is if someone uses the stolen identity to obtain employment. This occurs in many instances when an employed individual uses someone else's SSN to get a job. In this instance, the IRS would receive a W-2 or a Form 1099 reporting income on the taxpayer's account, which the rightful owner of the SSN had not earned. Identity theft in this instance is referred to as an employment-related crime.

Recognizing that identity theft is a growing issue with the potential to affect tax administration significantly, the IRS has taken a number of steps to address the problem. These include:

- By this fall, specially trained personnel will be in place to assist taxpayers when they call to report that they are an identity theft victim.

- In January 2008, the IRS implemented a new service-wide identity theft indicator that is placed on a taxpayer's account upon the authentication of identity theft that has affected their account. All applicable IRS functions are now tracking tax fraud identity theft victims using the universal identity theft indicator. Since January, indicators have been placed on more than 10,800 accounts. This new process means that taxpayers should only have to provide identity theft authentication one time.

- Beginning in January 2009, returns filed using SSNs associated with accounts that are coded with a universal identity theft indicator will be filtered to distinguish legitimate returns from fraudulent ones. In this way, the universal identity theft

indicator will reduce taxpayer burden and inconvenience by expediting the process for identifying and processing the victim's return.

- Beginning this fall, taxpayers who can verify that their identities have been stolen can notify the IRS and have an indicator placed on their account even if the theft has not yet affected tax administration.

- The IRS has developed new standards for documentation required from taxpayers to validate the identity of the taxpayer and the fact of the identity theft. For example, taxpayers can now fax information to the IRS that verifies their identity rather than appearing in person at an IRS office. These documentation standards are consistent with those required by FTC and SSA.

- The IRS' website – IRS.gov – includes an email address, published jointly with the Treasury Inspector General for Tax Administration (TIGTA), to serve as a repository for the fraudulent emails so they could be tracked to the source and destroyed, and if appropriate referred for criminal action.

- In July 2007, the IRS created the office of Privacy, Information Protection, and Data Security (PIPDS) within the agency. The creation of this office recognized the importance of having an enterprise-wide approach to address identity theft problems consistently. The Director of PIPDS is a Senior Executive reporting directly to the Deputy Commissioner for Operations and Support. This allows PIPDS to reach across all IRS organizations and ensure that proper attention and discipline is given to privacy, identity theft, and security issues.

- IRS is also a member of the President's Identity Theft Task Force and is working with Treasury and OMB to comply with all directives regarding steps that needed to be taken to safeguard the privacy of individuals.

Conclusion

I am extremely proud of the effort made by IRS employees to make sure that the stimulus legislation is implemented as Congress intended and that every individual who is entitled to a stimulus payment gets one. The Members of this Committee can assist the IRS in this effort as we implement the "It's Not Too Late" program targeted at the remaining 5 million individuals who have not filed a 2007 return but are eligible for the stimulus payment.

Thank you again Chairman Lewis, Chairman McNulty, and Ranking Members Ramstad and Johnson for the opportunity to appear today. I will be happy to respond to any questions.

Mr. MCNULTY. Thank you, Commissioner Shulman.

I am now pleased to welcome Social Security's Deputy Commissioner for Operations, Linda McMahon.

STATEMENT OF LINDA S. McMAHON, DEPUTY COMMISSIONER FOR OPERATIONS, SOCIAL SECURITY ADMINISTRATION

Ms. MCMAHON. Thank you, Mr. Chairman and Members. On behalf of Commissioner Astrue, I appreciate the opportunity to testify before you regarding the Social Security Administration's (SSA) efforts to help implement the Economic Stimulus Act of 2008. I would like to explain what we have done in support of IRS to provide stimulus payments, including our substantial outreach efforts, and how we have used the funding that Congress provided for this purpose.

The President and Congress took swift action to provide targeted, immediate financial assistance to individuals and families across the country. It was with that same sense of urgency that SSA worked closely with IRS to develop a process that would ensure prompt delivery of stimulus payments to eligible Social Security beneficiaries.

Our initial challenge was to provide IRS with the data they needed to inform Social Security and the Department of Veteran Affairs (VA) beneficiaries that they had to file a tax return in 2007 if they hadn't filed one in 2006, in order to receive the stimulus payments. We already had systems in place to deliver Social Security data to IRS, but the VA lacked the systems capacity to match its beneficiaries against IRS records.

To work around this problem, SSA added the 2.6 million VA names to our own listing of Social Security beneficiaries, eliminated most duplicates, and then forwarded a single file of 55.5 million names and addresses of VA and Social Security beneficiaries to IRS.

We also worked with IRS to develop a simplified packet of information that would be understandable for our beneficiaries, and provide step-by-step instructions on how to file a return and qualify for the stimulus payment. The packet included instructions, forms, and even a postage-paid return envelope.

IRS matched the names that we sent them against their files, identifying approximately 21 million VA and Social Security beneficiaries in the United States who did not file a tax return in 2006, and mailed the informative stimulus packets to them. We understand from IRS that—and I think you've heard it here—that this streamline process is leading to a significant response rate. Everybody wants 100 percent, but believe me, in these kinds of programs, 75 percent is outstanding.

The targeted mailing was a vital step in ensuring our beneficiaries received information about their eligibility for a stimulus payment.

But we didn't stop there. We placed a prominent link on both our English and Spanish Internet homepages, directing individuals to the IRS website, and the information there on the stimulus payment.

We utilized e-mail, sending a message about the stimulus payments to nearly 800,000 individuals who are signed up to receive Social Security-related news.

We worked with IRS to create a stimulus payment flyer that specifically targeted Social Security beneficiaries. We then printed more than 1.6 million of these flyers in English and in Spanish for our field offices to distribute to visitors.

We worked with advocacy groups at the national level and in local communities, sharing copies of the flyer with them.

Across the country, in hundreds of speeches and other Social Security-related events, SSA employees have provided information and answered questions about the stimulus payment.

In addition, our Regional Communications staff has joined IRS professionals in outreach events.

Also, every caller to our National toll-free 800 number receives an up front message about the stimulus payment. Our toll-free number has received nearly 27 million calls since that message was placed online, and every one of those calls presents another opportunity to tell people about eligibility for the stimulus payment.

Turning to budget issues, as a part of the Economic Stimulus Act, Congress provided SSA with an appropriation of $31 million. So, far, we have obligated $18 million of those funds. We have spent about $6.4 million on printing and postage—actually, for the notice that IRS sent out to our beneficiaries—approximately $10 million answering beneficiary inquiries and providing replacement 1099s, and $1.4 million on training and required systems work.

We were actually able to reduce some of the anticipated costs by working with IRS on a simplified method of processing stimulus payment tax returns. For example, at our suggestion, IRS ruled that individuals could estimate the amount of Social Security benefits received, reducing the need for SSA to replace 1099s.

While many Social Security beneficiaries have already filed the necessary forms to receive a stimulus payment, we know there are still some individuals who have not responded to the first mailing. We will continue our efforts to reach these individuals through the means that I have already described, and working with IRS.

In conclusion, I thank you for the opportunity to share what we have done, in collaboration with other Agencies, under the leadership of the IRS, to facilitate the economic stimulus payments. Together we have made great strides, and I am especially pleased that, so far, we have been able to make this progress in a manner that has not threatened SSA's core workloads.

I also will be glad to answer any questions.

[The prepared statement of Ms. McMahon follows:]

Statement of Linda McMahon, Social Security Administration Deputy Commissioner for Operations

The Status of the Economic Stimulus Payments

Statement of

Linda S. McMahon
Deputy Commissioner for Operations
Social Security Administration

Before the

House Committee on Ways and Means

Subcommittee on Oversight
and
Subcommittee on Social Security

June 19, 2008

Chairmen and Members of the Subcommittees:

On behalf of Commissioner Astrue, I appreciate the opportunity to testify before the Subcommittees regarding the Social Security Administration's (SSA's) efforts to help implement the Economic Stimulus Act of 2008.

Due to our well-known role in administering Social Security programs, many Americans see SSA as the face of the Federal government. We take great pride in our administration of the nation's primary social insurance programs, but beyond our traditional core work, we are at times called upon to address unique challenges. Assisting the Internal Revenue Service (IRS) to implement the payments authorized under the economic stimulus legislation presented just such a challenge.

In today's testimony, I would like to explain: first, what we have done to support the IRS in providing stimulus payments; second, the substantial outreach efforts we have undertaken to inform our beneficiaries about the stimulus legislation; and third, how we have used funding provided by Congress to facilitate the stimulus payment process.

SSA's Role in Economic Stimulus Program

The President and Congress took swift action to provide targeted, immediate assistance to businesses and families across the country. The resulting legislation, the Economic Stimulus Act of 2008, provided business tax incentives and stimulus payments for individuals, including Social Security beneficiaries.

With this same sense of urgency, we worked closely with the IRS and other Treasury Department divisions, and the Department of Veterans Affairs (VA) to develop a process that would ensure that the IRS could deliver stimulus payments to eligible Social Security beneficiaries.

Structurally, Congress charged the IRS with the lead role in informing qualified recipients of the stimulus program. Our support mainly involved providing beneficiary data so that IRS could notify

potentially eligible individuals of the stimulus and provide them with the necessary materials to apply for the payment.

Our initial challenge was to provide IRS with the information needed to let Social Security and VA beneficiaries know to file tax returns – even if under normal circumstances they would not be required to do so – because tax return filing is necessary in order to receive the stimulus payment. We worked with IRS to develop a simplified packet of information that would be understandable for our beneficiaries and would provide step-by-step instructions on how to file a return and qualify for the stimulus payment. IRS developed a very informative packet that included instructions, forms, and even a postage-paid return envelope for SSA beneficiaries to use to file for the payment.

Our decades of experience with outreach to beneficiaries has taught us that the cleanest and most streamlined approach is frequently the most effective, and we believe the packet mailed by IRS met these requirements. We commend IRS for the accuracy and simplicity of the mailing they sent to all Social Security beneficiaries, and for their spirit of cooperation and flexibility in working with us to develop a packet that would be understandable to our beneficiaries.

Regarding the data transfer process, SSA was already providing IRS with information to verify individual names and Social Security number matches, so we had systems in place to deliver data. But the VA lacked the systems capacity to match its beneficiaries against IRS records. To facilitate payments to VA beneficiaries, SSA incorporated 2.6 million VA records with those of Social Security beneficiaries, eliminated most duplicates, and then forwarded a single file of 55.5 million records to the IRS. Thus, we were able to provide names and addresses of both Social Security and VA beneficiaries.

Using this information, IRS mailed approximately 21 million packets to all Social Security and VA beneficiaries in the United States who did not file a tax return in 2006 and would need to file a tax return for 2007 to qualify for the payment. We understand that this streamlined process is leading to a significant response rate.

In a separate records match, we also provided IRS with data on approximately 800,000 Social Security beneficiaries living in U.S. possessions and territories. This allowed for the mailing of informational packets to these individuals, as well.

Outreach Efforts

The targeted mailing was a vital step in ensuring that Social Security beneficiaries received information about their eligibility for a stimulus payment, but it was only one of many steps our field offices, teleservice centers and communications divisions took to reach out to our beneficiaries.

We placed a prominent link to both our English and Spanish Internet homepages directing individuals to the IRS web site and the information on the stimulus payment (www.socialsecurity.gov and www.segurosocial.gov, respectively). This link is now even more prominent as the result of a recent redesign of our website. In addition, we placed three "FAQs" or frequently asked questions on our site regarding stimulus payments. Through early June, these questions have been viewed more than 85,000 times.

We also utilized email, sending a message about the stimulus payments to nearly 800,000 individuals who are signed up to receive Social Security-related news.

In addition, we worked with IRS to create a stimulus payment flyer that specifically targeted Social Security beneficiaries. We then printed and distributed more than 1.6 million of these flyers to our field offices, including more than 1.1 million in English and more than 500,000 in Spanish. Copies of the flyers were also distributed electronically to thousands of Social Security advocates.

We continue outreach with advocacy groups at the national level and in local communities. Across the country, in hundreds of speeches and other Social Security-related events, our Public Affairs Specialists and Field Office managers have provided information and answered questions about the stimulus payments. In addition, our Regional Communications staffs have joined IRS professionals in outreach events to inform Social Security

beneficiaries about the steps needed to file for the stimulus payments.

Also, every caller to our national toll-free 800 number receives an upfront message about the stimulus payment, explaining eligibility and filing opportunities. Our toll-free number receives more than one million calls a week, and every one of those calls presents another opportunity to spread the message about eligibility for the stimulus payment. Our records show that nearly 27 million callers have heard the economic stimulus message, and 2.6 million callers have hung up the phone after the upfront message, meaning that those individuals were specifically calling us for stimulus payment information.

In other outreach, Commissioner Astrue discussed the stimulus payments during an on-camera interview for a new AARP show called "Inside E Street," which aired in March. While explaining that most people had to do nothing except file their 2007 tax return, the Commissioner also explained that Social Security and VA beneficiaries who normally do not file a tax return would need to do so this year to receive the stimulus payment.

All of the efforts described were made to assist IRS in reaching the maximum number of Social Security beneficiaries eligible for a stimulus payment. Our efforts were designed to be effective, but also to minimize the effects on the core work of the Agency.

As a result, the stimulus payment outreach has not affected individuals applying for benefits or awaiting a disability hearing. Our field offices have not been inundated with stimulus payment questions. Because the information provided by IRS was clear, concise, and complete, individuals did not have to turn to us for assistance in filing for the payments. We appreciate IRS' work in designing a mailer that minimized follow-up inquiries.

Stimulus Budget

As a part of the Economic Stimulus Act, Congress provided SSA with an appropriation of $31 million for activities required to facilitate stimulus payments.

So far, we have obligated nearly $18 million of those funds. Around $6.4 million was spent on printing and postage – primarily the postage for the mailers sent by IRS. In addition, we have spent approximately $10 million answering beneficiary inquiries.

We were able to reduce some anticipated costs by working with IRS on a simplified method of processing stimulus payment tax returns. For example, IRS ruled that individuals need not report the precise amount on the 1099 form but could estimate the level of Social Security benefits from the amount of the current month benefit. We believe this dramatically reduced the number of requests for replacement 1099 forms from SSA. Although many individuals have requested such replacement 1099 forms, many more are using the simplified method and avoiding this additional administrative cost.

Additional Outreach

While many Social Security beneficiaries have already filed the necessary forms, ensuring that they will receive a stimulus payment, we understand through IRS that there are still some individuals who have not responded to the first mailing. We are currently working with IRS to determine additional steps needed to reach these individuals.

Support of FY 2009 budget

In recent appearances before the Senate Finance Committee and the Senate Special Committee on Aging, the GAO described SSA's current situation as "extremely fragile," due to "the stress of expanding workloads and staffing constraints." For this reason, your timely support of the President's FY 2009 budget is also essential.

We appreciate the support Congress provided us to assist IRS in implementing the stimulus payments. Your trust in SSA is an acknowledgement of our ability to get the job done.

Regarding our core work, your support of the President's FY 2009 budget is as crucial as ever. We appreciate your unfailing support for SSA funding in FY 2008 and know that you understand our

current environment of disability hearings backlogs, increasing workloads, and limited resources. As you also know, continuing resolutions make our job that much harder, since we must restrict our activities at the beginning of fiscal years because of uncertain funding. Your continued support of our budget ensures that we can carry out our important work and provide the service the public and Congress expects.

Conclusion

In conclusion, I thank the Subcommittees for the opportunity to share what we have done in collaboration with other Agencies, under the leadership of the IRS, to facilitate the economic stimulus payments. We appreciate the work of our colleagues at VA, Treasury, and the IRS, as we continue to move forward. Together we have made great strides, and I am especially pleased that so far we have been able to make this progress in a manner that has not affected our ability to provide service to the American people who rely on Social Security. Thank you for the opportunity to discuss our role in this very important process.

Mr. MCNULTY. I thank both of you for your testimony. I thank you for the job that you have done so far, under the difficult circumstances, especially in the middle of the tax season.

But we still have five million people to get to. That's a lot of people. We want to get as close to 100 percent as we possibly can. So, I want to commend you for the outreach efforts you have made so far, and the renewed efforts that you talked about today.

We are going to try to help with that. Chairman Lewis and I, along with Ranking Members Ramstad and Johnson are sending a letter to all Members of the House of Representatives, asking them to include in their newsletters, press releases, press statements, press events, and so on back in their home district, information about how to get the proper paperwork filed so that we can help you along with getting the word out and getting these checks to as many people as possible.

The one question I would like—issue I would like an update on is, you know, when you do the outreach, a lot of times you increase the number of phone calls that come in, and I know that has been overwhelming. We might need a little bit more help with that.

There was some talk, I believe, between both of the agencies about getting GSA involved to help with that. Could you give me an update on where we are on that?

Mr. SHULMAN. Sure. As you know, we have had a chance to visit—we have had an unprecedented number of phone calls. Just to give Members of the Committee a sense, in 2007 we had 19 million phone calls in the month of May come into the IRS. It was kind of clean-up for the tax season. In May of this year we had 72 million phone calls come into the IRS. So the numbers are staggering.

I reached out a couple of weeks ago to Commissioner Astrue, he said, "Okay, I'm thinking about who else had large phone operations," and said, "Does Social Security have capacity?" So that is, I think, what started this conversation to give us some assistance, because the phone calls keep coming in a little longer than we had thought.

We are in the process, just like that phone call, of exploring a variety of options. There are actually some limitations in going outside of our building to answer phone calls. As you heard earlier, and you've seen in my written testimony, we have diverted some personnel to answer phones from other duties. We have also kept overtime workers on to answer phone calls.

One of the major problems is people outside of the IRS can answer simple questions like, "How do I fill out the form, where do I send it?" Anyone who has a specific issue, which a lot of the taxpayers who call do, have to actually get into their tax records, 6103 implications.

So, we are exploring all options, and looking outside the Agency, but we're also going to keep our head down, and make sure we do everything we can inside of the IRS.

Ms. MCMAHON. Mr. Chairman, I want to thank you very much for your earlier comments today, recognizing the constraints that SSA is under, and the problems that we're dealing with, just handling our core work.

We want to be as helpful as we can, and we are in a position, because of the funding that we were given by Congress, to actually provide some funding to IRS to help with either a contract with USA Services, or to assist with the next mailing they do, those kinds of things, and we're going to do that.

Our problem is we don't have actual capacity. We are working maximum overtime now. Anything we do on this is something that we're not doing on our core work. It's not a question of if we have people who can come in on overtime and do some other work. It's a question of if they come in on overtime, instead of doing our work, they will do the other work. We would prefer not to go there, if we can avoid it.

Mr. MCNULTY. Thank you very much. Mr. Ramstad may inquire.

Mr. RAMSTAD. Thank you, Mr. Chairman. Thank you, Commissioner and Deputy Commissioner, for your testimony, and also for your important work on behalf of taxpayers and Social Security recipients.

Mr. Shulman, you really had to hit the ground running when you became the commissioner in March. I know you arrived in the middle of a hectic filing season, and had to, at the same time, oversee the massive economic stimulus project we are discussing today. I want to congratulate you for doing a tough job very well.

I would also like to ask you two questions on two different topics.

First, with respect to our brave—the spouses of our brave soldiers, sailors, airmen and Marines, I know in order for married couples to qualify for the full rebate, that both spouses must have valid Social Security numbers. Just this week, as I'm sure you know, the President signed the Heroes Earnings Assistance and Relief Tax Act, which waives this rule for spouses in military families.

How will the IRS determine which returns are affected by the new rule?

My second question, is the IRS working with the Department of Defense to do a military outreach, to do outreach to military families on the new law?

Mr. SHULMAN. Yes, we obviously agreed with the law, and have been tracking it.

But, initially, we actually talked to this Committee and others, and told them that we wouldn't be able to true this up until next filing season, a year from now. As it passed, and as we've tried to do with all things stimulus-related, we've said, "Let's get creative, let's push very hard."

I am pleased to report that the current plan is some time around mid-October, when all the returns get in, we will run a match and aim to distribute checks no later than November to these families who weren't eligible under the first run. We will do another run once we have a full complement. So, we can't identify them, and we plan to get them out later this year.

We have done a lot of outreach to many communities, and we will definitely reach out to the Defense Department, and make sure people understand, really, that they don't need to do anything, as long as they have already put their—Social Security number on

there of a spouse or someone who doesn't, that we will get this out to them.

Mr. RAMSTAD. Well, thank you, Commissioner, for that response, because you can obviously—or you obviously do see the significance of this. I mean, of all taxpayers, we—there are so many military families who are hurting right now, financially and otherwise. I think this is—I am glad to see the Service giving this such a top priority, and I appreciate your leadership and your creative creativity, in terms of getting this done.

The other questions I had concern the refund anticipation loans and taxpayer refunds. Earlier today—I know you were here, and you heard Mr. Pomeroy say that a number of taxpayers signed up for refund anticipation loans when they went to paid preparers. Some preparers did not indicate the bank accounts listed on the returns—did not indicate that the bank accounts listed were temporary refund anticipation loan accounts, and not a permanent account of the taxpayer.

I know I have had a couple of constituents broach this problem with me. In the cases in which the IRS sent a payment to a temporary account, how did the IRS or the bank work to correct the problem? Is that—are you on top of that? Were the payments returned to the IRS? Were banks able to forward the payments to the rightful recipients? I would like you to address both those questions, please.

Mr. SHULMAN. Sure. Well, the way this works is when you get a refund anticipation loan in the normal filing season—any taxpayer—the service provider who gave the loan, files the return. They actually disperse money ahead of time to the taxpayer, and they receive the refund. When they file with the IRS, they're required to put a RAL indicator on the account, so it will indicate that they have an account.

So, what we did was we didn't actually send them to those accounts. What happened was anyone who had a RAL indicator, we knew that wasn't their account, and that was the account of the service provider. So, we were sending it to the taxpayer. So, those people never got a direct deposit. It was rerouted, and they were sent a check.

There was one vendor that we found who actually hadn't put a RAL indicator on accounts. We talked to them very early. We put RAL indicators in and sent checks.

So, the real issue and confusion that I think some constituents have had is around that they got a refund anticipation loan direct deposited to an account of theirs, or a RAC. They assumed they were in the direct deposit stream for stimulus, and they weren't, because again, we didn't know that they had accounts.

So, there was a lot less—we haven't heard of, or at least I'm not aware of ones that accidentally went to an account we had to get back because of a refund anticipation loan. The bigger issue has been there is a lot of people who thought they were going to get the direct deposit, which came quicker in May, and they're actually getting checks now, and through the week of July 11th.

Mr. RAMSTAD. Well, thank you very much, Commissioner. I yield back.

Mr. MCNULTY. Mr. Pascrell may inquire.

Mr. PASCRELL. Thank you, Mr. Chairman. Commissioner Shulman, thank you for doing a great job in a very short period of time. You have, I believe, the tiger by the tail. But there is a tremendous amount of work ahead of you. I want to get into that work.

I want to thank you, Commissioner McMahon, for all your service to your country through the position with the Social Security Administration.

My first question is this, Commissioner Shulman. We have payments going to 76 million Americans, payments of a total of $63.8 billion. That is 70 percent of what we are trying to target. Is that correct or incorrect?

Mr. SHULMAN. We—I think, if you're asking about—let me presume what you're asking, and you can tell me if I'm right. I think you're asking about the targeted population that we're doing extra outreach to?

Mr. PASCRELL. How far do we have to go——

Mr. SHULMAN. Yes. It's—so the $63 billion that has gone out is part of the total $100 billion economic stimulus payments. So, those are numbers for the entire population——

Mr. PASCRELL. Right.

Mr. SHULMAN [continuing]. Regular filers, and people who normally wouldn't need to file. And——

Mr. PASCRELL. So, what percentage do we have to go after, approximately, and how much more money needs to be sent in checks to those individuals?

Mr. SHULMAN. Well, we're on target for the original projections.

Mr. PASCRELL. Right.

Mr. SHULMAN. So, by the week of July 11th, when the first wave of checks would go out to anyone who filed on time, we will have $95 billion distributed to about 110 million households.

Mr. PASCRELL. That's how we come up with the five million that we're having——

Mr. SHULMAN. No, that's totally different numbers.

Mr. PASCRELL. Totally different?

Mr. SHULMAN. Yes.

Mr. PASCRELL. How do we get to that number?

Mr. SHULMAN. That number, the 5 million, we estimated with Social Security and Veterans' Affairs Department, that—we thought—there was a special population of about 20 million people who were eligible for stimulus, but normally wouldn't file. Those——

Mr. PASCRELL. So, in other words——

Mr. SHULMAN [continuing]. We have hit about 74 percent.

Mr. PASCRELL. Is it safe to say that the majority of those people that still have to get their stimulus check are veterans or non-Social Security recipients?

Mr. SHULMAN. I don't think it is.

Mr. PASCRELL. You don't think it is?

Mr. SHULMAN. Yes. I think—we—separate population. There are a lot of Social Security recipients and veterans——

Mr. PASCRELL. Right.

Mr. SHULMAN [continuing]. Who have gotten the check. There are also folks who needed to file regularly. So, we are really break-

ing it down into everyone who is going to file anyway, and get a stimulus payment——

Mr. PASCRELL. So, between the last numbers that you provided, $63 billion, and $120 billion, which should be out by July 11th, that's a lot of checks to have to go out.

Mr. SHULMAN. The total number by the end of the year will be about 100 billion.

Mr. PASCRELL. 100 billion.

Mr. SHULMAN. Yes, Sir, yes.

Mr. PASCRELL. Not 120; 100.

Mr. SHULMAN. Yes.

Mr. PASCRELL. Okay.

Mr. SHULMAN. There is real—we basically identified everyone, or they self-identified by filing a tax return, except for that five million who, as we've talked about, we're going to make an extra effort to go find.

Mr. PASCRELL. Just a quick question, and then I want to get into my second series. What is the status of the paper inventories?

Mr. SHULMAN. Yes. One of the consequences of having so much overload on our phone, there are temporary employees we bring on every filing season. They answer phones and they workpaper inventory. They usually would roll off of the phones near the end of May, and start working down a paper inventory.

Right now, we have a lot of extra paper inventory. The numbers, we've got about two million pieces of paper inventory to work through.

Mr. PASCRELL. Right.

Mr. SHULMAN. Usually, we would have about 1.3 million at this time of year, so it's not an absolute number.

Mr. PASCRELL. It's 700,000, 800,000 more.

Mr. SHULMAN. Yes, it's significantly more. That's one of the issues we're going to need to work through this year.

Mr. PASCRELL. Do you have the resources to respond to that?

Mr. SHULMAN. If we can keep our temporary employees later, we——

Mr. PASCRELL. What does that mean, though? You have money that's allocated. Do you have enough money that's allocated, so you can keep them?

Mr. SHULMAN. We are in the process of actually talking with different Committees in Congress. The money has been appropriated, we just need some authority to move it between different accounts. If we do, we will be able to staff up and work down that inventory.

Mr. PASCRELL. There are many complaints that I get in my office up in Patterson, New Jersey, in the same building that conveniently, or inconveniently, is the IRS and Social Security.

Several of my constituents have complained that they are not able to get assistance from IRS. You talk about this phone overload. There is a toll number that you can, you know, dial up. They can't get the—the same thing happens on the rebate line.

Can you address that? Is that a common problem throughout the country?

Mr. SHULMAN. Yes, it is—we have an 800 number. I gave you a few stats, you know, 72 million calls in May versus 19 million last year.

Mr. PASCRELL. Right.

Mr. SHULMAN. Another interesting statistic, in 2001, when there was another stimulus program, we got 42 million calls during the 15 months of that program. Again——

Mr. PASCRELL. You're up about 52 million calls from what you usually have.

Mr. SHULMAN. What's that?

Mr. PASCRELL. You're up about——

Mr. SHULMAN. Yes. So——

Mr. PASCRELL. How do you handle it?

Mr. SHULMAN. So, here is what's happening on the phones. You call the IRS phones, we have been very clear on the message that you don't need to talk to us if you filed a tax return. So we encourage you to, if you filed a tax return, be patient, you will get your stimulus payment on time. We encourage people to go to our website.

We also tell people there is heavy call volumes now, so they're going to have to wait longer than normal. Normally, people wait a few minutes, our target is under 6 minutes now. In the month of May it was up to about 13 minutes, average.

So, people can get through. They might have to call a couple of times. Some people get to automated service, some people hang up when they hear there's a wait time. Again, this is where we'd like not to be, but it's a fact of doing stimulus in the middle of filing season.

Mr. PASCRELL. But, Commissioner, the people that you want to go to your website are the very people who can't get to your website. The very people that are the majority of individuals who—and I don't care what the program is, what we're talking about, whether it's EITC or AMT, or whether, in this case, the stimulus checks. You know, we've got to find another way to get to them, because they have no way of getting on to the website. They may be in homes, they may be——

Mr. SHULMAN. Yes.

Mr. PASCRELL. You know, I just have one other quick question, if I may?

Mr. MCNULTY. Yes.

Mr. PASCRELL. You said in your testimony that one of the major problems was differentiating between the refunds and stimulus payments, because they came at the same time, correct? Tax refunds, right?

Mr. SHULMAN. In the same——

Mr. PASCRELL. On page three you address that. The economic stimulus payments, you wrote, overlap with the normal tax refund season.

Just very briefly, tell us what that convoluted system—you know, how did it result? What was the outcome?

Mr. SHULMAN. Oh. It's as I said in my oral testimony, when Congress passed the bill——

Mr. PASCRELL. Bad timing.

Mr. SHULMAN [continuing]. For stimulus, and the President signed it, the goal was to get the money out as quick as possible.

Mr. PASCRELL. Right.

Mr. SHULMAN. The reason we started in May is because we didn't want to endanger tax filing season in April. The numbers are pretty compelling. This year we sent out $241 billion in refunds. So we were trying to stimulate the economy, we thought it was quite important to get the refunds out, as well.

So, this was just a fact. We basically moved the stimulus payments to a place which was as quick as possible, yet being prudent, acknowledging the——

Mr. PASCRELL. So, the——

Mr. SHULMAN [continuing]. The filing season.

Mr. PASCRELL [continuing]. The refund total was a greater stimulus package than the stimulus package?

Mr. SHULMAN. The refunds were $241 billion.

Mr. PASCRELL. Thank you, Mr. Chairman. Thank you, Commissioner.

Mr. MCNULTY. Mr. Brady may inquire.

Mr. BRADY. Thank you, Mr. Chairman. I don't raise the fuel price issue to make anyone in this chamber uncomfortable, it's just that the price of fuel is making so many of our families uncomfortable, especially seniors, who are on fixed income. When you take—when they have to deal with paying $536 more this year than last year on gas, plus increased Medicare premiums and they're on a fixed income, they've got a problem.

I visited with a senior the other day at a gas station in Bridge City, Texas, who was upset because she could no longer attend church on Wednesday night because she needs the gas to take her husband to all of his doctor visits during the week. So, seniors on a fixed income are really getting hurt by these fuel prices. A number of them are eligible for stimulus checks.

I really appreciate the job both of you are doing in reach out to them. We have a long way to go.

But in Texas, we have a number of retirees who are not covered by Social Security. They are in a Social Security substitute like the Texas Teacher Retirement system. They have asked us a question about whether their pension benefits would make them eligible for the stimulus payments.

As you may recall, Social Security benefits, certain railroad retirement benefits, and certain payments to service men were specified as counting toward income levels needed to make someone eligible for the stimulus payment, but there was no mention of pension income counting, such as from non-covered employment.

Others have said since these pensions are taxable, recipients would qualify for a payment, because they have a net income tax liability which is greater than zero.

Commissioner Shulman, would you set the record straight for me on this issue? What is the right answer for them?

Mr. SHULMAN. The right answer—and I would go back to our technical folks as well—but is if they have tax liability for any income, then that makes them eligible.

In general, pension payments are not, unless they are taxable pension payments. So—but all of this is us just executing the law as it was written.

Mr. BRADY. So, as I understand it, seniors would be eligible, in this case, if they had $3,000 of earned income, or at least $1 in income tax liability. That would trigger them, correct?

Mr. SHULMAN. I believe the answer is yes, but let me get just the details of your question and come back to you afterward, so I don't get the record wrong.

Mr. BRADY. Here is my worry. Retired teachers, especially those who retired from many years ago who had low salaries, and therefore very low retirement benefits, if they don't get enough in Texas Teacher Retirement to trigger tax liability, my understanding is they would be left out of a stimulus check.

Mr. SHULMAN. Well, my understanding is, in reading the law and administering it, that the law was written very specifically, that you had to have $3,000 in taxable income, unless you were part of an exempted category.

So, you know, if the law was written that way, that's probably correct.

Mr. BRADY. So, the Social Security benefits don't qualify them, because they don't get them. If they don't reach the tax liability trigger, they don't move in—they aren't eligible under that category. I am——

Mr. SHULMAN. Well, I think Social Security was exempted under the law, and that was the design.

Mr. BRADY. Right.

Mr. SHULMAN. So, Social Security counts, pension benefits count——

Mr. BRADY. Right, but if they don't receive Social Security because they're in a substitute, and those substitute payments aren't enough to trigger even a dollar of liability, they wouldn't receive a stimulus check?

Mr. SHULMAN. I believe that is correct, under the law.

Mr. BRADY. Okay. That is a worry, because we do have a number of teachers in that situation in Texas. Again, you know, while those with modern-day retirements, I think, would trigger into it, because the liability—those who, again, thankfully taught back when wages for teachers were just intolerably low, their benefits, I'm afraid, won't move them in the trigger yet.

I think they are probably some of the group that we most need to reach with these stimulus payments. Chairman, thank you very much.

Mr. MCNULTY. Thank you, Mr. Brady. On behalf of Chairman Lewis and Ranking Members Ramstad and Johnson, I want to thank both commissioners for being here today for your good work, and for your testimony.

I want to compliment you again on the job that has benne done so far, but reiterate the fact that five million people are still out there and eligible, and we need to get to them. So, I commend you for the outreach efforts which you are undertaking.

Jim and I just signed letters that are going to be signed by Sam Johnson and John Lewis to every single Member of the House of

Representatives to reinforce that message all across the country. So, I hope we can help in that regard.

Also, I would like, obviously, both agencies to keep in close contact with us, to let us know any other ways in which we can be helpful.

With that, this hearing is adjourned.

[Whereupon, at 12:51 p.m., the Subcommittees were adjourned.]

[Submissions for the Record]

AARP, Statement

FOR THE RECORD

TESTIMONY FOR THE HEARING RECORD

OF THE

OVERSIGHT and SOCIAL SECURITY SUBCOMMITTEES

OF THE

HOUSE WAYS AND MEANS COMMITTEE

ON

ECONOMIC STIMULUS PAYMENTS

June 19, 2008

WASHINGTON, D. C.

For further information, contact:

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Mr. Chairmen, Ranking Members, and Subcommittee Members, we wish to thank you for the opportunity to discuss AARP's collaboration with the Internal Revenue Service (IRS) and Social Security Administration (SSA) with respect to the Economic Stimulus Payment (ESP) and to express our concerns regarding the implementation of the ESP and the impact it has had upon many IRS taxpayer assistance programs. AARP is a nonprofit, nonpartisan membership organization that helps people age 50+ maintain independence, choice, and control in ways that are beneficial and affordable to them and to society as a whole. With over 39 million members, AARP is the largest organization representing the interests of Americans age 50 and older and their families.

The AARP Foundation has spearheaded much of our organization's outreach efforts since the enactment of the stimulus bill. The foundation manages a volunteer-based tax assistance program, AARP Tax-Aide, which serves seniors and low income Americans. The AARP Tax-Aide program provides vital tax assistance to struggling families, saving taxpayers millions of dollars and serving communities across America.

This free and confidential service is available to low-income and moderate taxpayers of all ages with special attention to those age 60 and older. IRS certified volunteers are trained to assist in filing basic tax forms. A variety of service options were available at over 6,687 locations nationwide, including one-on-one on-site tax assistance, from February 1st to April 15th, and via Internet all year.

AARP Tax-Aide began in 1968 with only four volunteers who served about 100 people in that tax season. Today the AARP Tax-Aide program has attracted more than 32,000 volunteers and has helped over 47 million people file their tax returns over the past 40 years. Since 1980, the program has operated under a cooperative agreement with the U.S. Internal Revenue Service (IRS) as part of its Tax Counseling for the Elderly (TCE) program.

AARP Tax-Aide has been and continues to be a model volunteer-based tax preparation assistance program. Over 88 percent of the returns prepared by AARP Tax-Aide are e-filed and the average cost to the IRS is only $2.07 per return.

AARP Tax-Aide volunteers prepared 34 percent of the total "VITA-type" e-filed Earned Income Tax Credit returns prepared by all IRS volunteer programs. This year alone, AARP Tax-Aide helped nearly four hundred thousand families get much-needed assistance, including $98 million dollars in Child tax claims and another $186 million in Earned Income Tax Credit claims. AARP Tax-Aide receives no federal funding for serving VITA clients.

AARP Tax-Aide is also saving low- and moderate-income taxpayers the cost of tax preparation which many need for essentials. Based on the approximately 60 percent of our clients who state they would have gone to a paid preparer if not for AARP Tax-Aide, we estimate having saved these taxpayers approximately $130 million.

On February 1, AARP Tax-Aide sites opened to assist individuals with filing their taxes. In total, Tax-Aide volunteers have assisted well over 2.7 million taxpayers with standard tax returns and stimulus assistance at sites in third party locations across the country. The inclusion of Social Security and Veterans Administration benefits as eligible earnings added 20 million traditionally non-filing people to the pool of "taxpayers" who must file a return to the IRS to receive their Stimulus Payment.

Preliminary reports show that our volunteers assisted more than 400,000 individuals with stimulus return preparation across the country. Tax-Aide volunteers also participated in many stimulus outreach activities.

With the enactment of the stimulus legislation, AARP Tax-Aide and AARP communications staff began working with senior-level IRS officials to support the information and service needs of this traditionally non-filing group of mostly older Americans.

AARP launched a comprehensive outreach campaign in mid-March which drew upon virtually all AARP and AARP Foundation offices nationwide.
We published a series of stimulus articles in AARP The Magazine (July/August edition – sent to 39 million members), AARP Bulletin (March, April, May and June editions – also sent to 39 members) and our Spanish language publication, Segunda Juventud (summer issue – 1.6 million members). We also posted these articles, and stimulus-related stories from other newspapers and news organizations on the AARP.org and Bulletin Today websites and created advertisements, flyers and sample op-ed pieces for insertion in local papers.

Since March, the main stimulus page has been the most popular, or among the 5 most popular, on our AARP.org website. In May, the page received nearly 380,000 page views or an average of 12,000 per day; in April, the page received more than 212,000 page views or an average of 7,000 per day.

We also issued audio and video news releases, conducted a radio media tour, and placed English and Spanish newspaper articles through more than 1200 stations and papers with a reach of over 38 million listeners, viewers and readers.

Our state offices distributed stimulus packages in English and Spanish, containing print, audio and video materials to community, cultural and social service organizations, held stimulus events and press conferences, and otherwise generated countless earned media and op-ed placements. Not only did we communicate with our members - AARP Foundation and AARP staff leveraged their networks and shared stimulus information with countless other non-profits and interested third parties.

In mid-March, we sent each Congressional office an ESP tool kit with an easy–to- read fact sheet and a step-by-step guide to filling out the return, among other items.

AARP Tax-Aide helped the IRS test its stimulus instruction booklet. Based on our strong reservations about the length of the initial draft and that test, the main text of the booklet was reduced from 10 pages to two and ½ pages.

AARP Tax-Aide also recommended and secured the issuance of a Revenue Procedure by IRS that enabled taxpayer assistance volunteers nationwide to e-file the stimulus return by simply entering zero income on the return. The entire tax return preparer community, both paid and volunteer, benefited from this procedure change.

AARP Tax-Aide also developed materials, tools and focused messaging that will not only be used by the program, but by the rest of the AARP and AARP Foundation, as well as our external partners. One such item was an on-line tool for use on aarp.org that will allow seniors, family members, and even agency personnel working with seniors to help the traditionally non-filing individuals file to get their stimulus payment. The tool is simplified for the majority of situations – it asks a short series of questions and pre-populates the IRS form. As of early June, more than 20,000 people have used the web tool. We worked in collaboration with the National Council on Aging on this project. We are hoping that our materials, including this web tool, will help many older Americans and those who interface with them regularly.

AARP Tax-Aide will also be hosting a "webinar" late in June to reach community agencies such as housing, Meals on Wheels, Area Agencies on Aging, and others working with this population to continue promoting the simple tool. We believe these groups are well situated to assist a large part of the older population who have not yet filed and want to make it easy for them to assist them.

AARP Tax-Aide continues to have regular meetings (weekly or bi-weekly) with the IRS and other critical external partners, including the National Disability Institute, the National Council on Aging, Catholic Charities, the Center on Budget and Policy Priorities, the National Community Tax Coalition, and others, to coordinate messages and develop outreach strategies.

In sum, our organization, both volunteers and staff, have been out in force to help ensure as many older individuals who are eligible get what is due them. We believe we have made significant progress, but know there is much to do to reach anyone eligible who has yet to file a stimulus return. We are sincerely grateful to the IRS and SSA for allowing us to help them - both agencies have been exceedingly cooperative and appear to have gone the extra mile to keep us abreast of information we need for our outreach efforts as it became available.

Knowing this, we are somewhat frustrated by the delay of the IRS, SSA and VA to provide the essential demographic and geographic profiles for "traditionally" non-filers who have yet to file for the ESP. AARP's biggest lesson learned from a recent national outreach effort to a similar population, on prescription drug benefits, was that targeting at the local level was the most effective approach. Hence, the most critical next step continues to be localized targeting with information that only these agencies can provide. AARP Tax-Aide staff will be attending an IRS meeting in Atlanta this week to receive the geographic and demographic breakout of eligible seniors and veterans. But we are disappointed it has taken this long.

Our polling strongly suggests that this population would behave precisely as the Congress and the President intended with the extra cash – they would spend it. An AARP Bulletin survey taken in late March tested how Americans would use the stimulus payment if they received it. Forty-one percent of those above 50 years of age who were interviewed said they would spend it all; only 29 percent of those under 50 said they would spend every bit of any stimulus payment they might receive.

We are also concerned about the number of individuals reporting to us that they filed a tax return but have not received any payment or have received the wrong amount. Many of our members and those non-members who have posted comments on our stimulus website have told us that the waiting times on calls for information were intolerable or said that they couldn't understand the guidance that the IRS and others have provided to them.

Lastly, while we believe many of these latter concerns will be satisfactorily addressed as we move towards the close of the stimulus program, they underscore the need for increased attention by Congress and the Administration to the needs of seniors, veterans and low-income Americans in the design, implementation and funding for tax assistance programs.

While most taxpayers eligible for the ESP were able to file electronically from the convenience of their homes, we know all too well many older Americans are not computer literate and many do not even own a computer. As such, the rush to enact the stimulus bill, combined with the "digital divide" facing many of those

eligible, resulted in an even greater burden upon already under-funded federal tax assistance program grantees.

The recent funding and performance history for the IRS Tax Counseling for the Elderly (TCE) program clearly shows that funding for this taxpayer assistance program is going in the wrong direction as the demand for services has increased dramatically. In 2001, TCE was funded at $ 3.95 million; for FY 2008, TCE is funded at $4.04 million. AARP Tax-Aide, TCE's primary grantee, increased the number of people helped each year from 1.644 million to over 2.7 million, or about 64 percent, from 2000 to 2008. Moreover, Tax-Aide increased the number of returns e-filed to the IRS by about 1.4 million returns over the number of e-filed returns in 2000. This increase in e-filing saves the IRS nearly $2.37 per return or approximately $3.3 million annually.

In sum, we strongly urge this Committee, the Congress and the Administration to fully fund an appropriate share of the costs to administer these highly cost-effective volunteer-based tax assistance programs.

On behalf of AARP's more than 39 million members, and especially those most directly affected by the economic stimulus payment, we again thank you for this opportunity to provide hearing testimony. We look forward to working with the Congress and the Administration to complete the remaining work to be done to ensure that anyone eligible will have an opportunity to file for the economic stimulus payment.

Morrison Affairs Public Group, Statement

FOR THE RECORD

MORRISON PUBLIC AFFAIRS GROUP
6004 Onondaga Road
Bethesda, MD 20816

Bruce A. Morrison, Chairman
Member of Congress, 1983-1991
Chairman, Federal Housing
Finance Board, 1995-2000

To: House Committee on Ways and Means, Subcommittee on Oversight
Re: Submission for the record of June 19 Hearing on Stimulus Rebate Package

ReformtheRebate.com is a coalition organized to change the tax rebate rules that discriminate against legal immigrants. We believe that Congress over-reached when US citizens and legal immigrants whose spouses or children are not "illegal" but who do not have Social Security Numbers due to SSA policies were barred from the stimulus rebate if they file jointly, as married taxpayers are authorized to do. We urge the Congress to extend to such civilian families the same consideration that was recently applied to military families, and for the same reasons: those who obey immigration law should not be penalized in the name of fighting illegal immigration.

If this cannot be accomplished, the legal spouse should be able to receive the rebate without losing the benefit of joint filing this year and in the future as the price of getting a rebate.

We suggest the following questions:

1) The IRS has never been put into the position of enforcing immigration law. To avoid requiring the IRS to determine that a spouse is here legally without a Social Security Number, Congress has directed that when someone in the military files a joint return with a valid SSN, the couple is eligible for the stimulus rebate.

Isn't that the fair way to treat civilian couples, as well?

2) If the Congress directed the IRS to determine the immigration status of a spouse who does not have a SSN when there is a joint return where the other spouse has a valid SSN, would that impose a substantial administrative burden on the IRS?

3) Whether or not someone is working here legally, the law requires that they pay taxes on their income. Because many, if not most illegal workers have taxes withheld by their employers, the IRS acknowledges that illegal workers who file returns receive refunds based on their withholding just like anyone else.

Does the IRS have an estimate for the total amount of taxes that are refunded on returns with no SSN or an invalid SSNs each year?

4) Does the IRS accept tax returns without a SSN or ITIN? If so, are refunds paid if due on such returns? What if more than one return uses a single SSN? How are payments and refunds processed? Isn't it true that sometimes taxpayers receive deficiency notices due to other individuals' earning wages on their account which are reported on W-2s?

5) Does the IRS verify the validity of an SSN before processing a return? Does the IRS identify duplicate filings on a single SSN? How does the IRS sort out

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the situations of multiple W-2s on a single SSN when some may reflect multiple jobs and others may reflect identity theft?

6) There are many thousands of cases, beyond the military, where a US citizen or legal permanent resident is married and files jointly with a spouse without an SSN. Does the IRS have an estimate for the total amount of the stimulus rebates these families would be eligible for if the Congress applied the same fair standard as to the military?

7) The IRS has a difficult job to do in the best of times. Were Congress to clarify the intent of the stimulus package to be fair to the US citizens and legal permanent residents married to those who lawfully file joint returns with only one SSN, would a credit on next year's taxes equal to the amount of the stimulus rebate be the most efficient use of IRS resources in correcting this unfair and unintended slap at legal immigrants?

National Council on Aging, Statement

The National Council on Aging (NCOA) thanks the Chairman Lewis, Chairman McNulty, and Committee Members for the opportunity to submit testimony about our work to assure that all eligible seniors get an Economic Stimulus Payment and to make recommendations to you based upon our experience with the stimulus payments to date.

NCOA is the oldest nonprofit organization dedicated to improving the lives of older adults, with a special focus on ensuring that low-income seniors are able to access the benefits that will improve their lives. When the economic stimulus payments were being discussed by Congress, NCOA immediately recognized the importance of also including the many millions of Social Security beneficiaries and veterans who receive disability benefits, but who no longer file tax returns in the economic stimulus package. NCOA and other organizations encouraged Congress to include these populations in the final economic stimulus package.

Upon passage of the economic stimulus package we went to work on a special outreach campaign to reach out to seniors who do not normally file tax returns. We developed and posted economic stimulus payment resources for seniors and the aging network to the National Council on Aging Web site www.ncoa.org For our partners in the aging network we developed a new page on the My Medicare Community, our online community at www.MyMedicareCommunity.org, as a central repository of information about the program for benefits counselors who work with seniors. There have been over 2,000 views of this page. We have also worked directly with the IRS and many new and old partners to assure that all seniors receive their stimulus payment.

As Social Security and IRS matched data to identify 20.5 million seniors and veterans who do not usually have to file tax returns, it became apparent that lack of familiarity with even the simplest tax return could prevent many from filing for their stimulus payment. NCOA worked quickly with AARP Tax-Aide to develop a user-friendly online tool to assist in the completion of IRS 1040A forms.

The Web based tool does not look like a tax form; it asks seven simple questions and then pre-populates the required 1040A tax return. Moreover, the tool offers simple, easy-to-understand directions to assist individuals in completing and printing the IRS 1040A form. The tool provides personalized instructions on where to mail the completed form and prints a second completed 1040A for individuals to retain for their records. The tool makes it easy for stimulus payment filers, family members, caregivers, and benefits counselors to take the necessary steps to file for the stimulus payment.

Since its launch in March 2008, more than 25,000 people have used the Stimulus Payment Tool, and traffic to the tool continues to grow. This tool can be accessed either at NCOA's www.BenefitsCheckUp.org or through AARP's Web site at www.aarp.org/stimulus help

NCOA commends the IRS and SSA for their efforts thus far and congratulates them on reaching over 70 percent of this special population, but continued efforts are now urgently required to engage the individuals who have not yet filed a 1040A. Based on our prior experience reaching out to low-income seniors, and our intensive work to get stimulus payments into the hands of this population, we make the following recommendations:

National Council on Aging Recommendations

1. We are impressed with the extensive database IRS has shared with the Congress and with national partners that shows where the remaining 5.2 million seniors and veterans live. We believe the data can be used to drive an energetic outreach campaign to reach this cohort that has not yet filed. In order to assure the widest and most effective use of the data to target outreach, education and tax filing, we have committed to post the database to our Web site so that community-based organizations within the Aging Network can have easy access in order to plan outreach and filing campaigns. Further refinements to this and other similar databases of seniors with limited income and resources have the potential to provide critical information in promoting efforts to find and enroll this hard-to-reach population in benefits they are eligible for, but still not receiving.
2. We fully and enthusiastically support the IRS in its decision to send a second letter to reach out to the 5.2 million seniors and veterans who have not yet filed for their stimulus payment.

NCOA is disappointed, however, that the IRS has determined not to include prepopulated 1040A tax returns with each letter. IRS has a significant amount of data from which to pre-populate tax returns for this population. Due to the data ex-

change between IRS and the Social Security Administration, we believe IRS has sufficient information to pre-populate tax returns for this hard-to-reach population with minimal risk to IRS error rates. Pre-populated forms would alleviate the anxiety and fear of complexity that many people who have not had to deal with the IRS in many years feel about filing tax forms. Additionally, removing many data entry elements would encourage more individuals to apply for the stimulus payment to which they are entitled. The population that subsists solely on disability and/or Social Security payments could truly benefit from the stimulus payments. Pre-populating forms would ensure that more people receive their payments.

Next, NCOA very much appreciated the opportunity we were given to comment on the draft of the second IRS mailing. We recommended to the IRS concise text and a call to action designed to motivate the specific hard-to-reach cohort of 5.2 million seniors and disabled veterans. We urged clear, plain language in order to encourage individuals to take the action needed, with language and format to accommodate possibly low literacy levels of many within the remaining 5.2 million.

We would also suggest customizing a message and design for the envelope in order to motivate those who receive it to open and read the important message contained within it.

3. We encourage the IRS to continue its very productive partnership with national organizations, like NCOA, that have experience reaching out to low income older adults. NCOA successfully reached the much of the elderly population during the introduction of the Medicare Part D benefit and provided personalized assistance to many seniors to enroll in the low income subsidies (Extra Help). Collaborating with local partners and organizations across the country has proven to be effective in the past and NCOA proposes that the IRS work closely with local organizations that the remaining 5.2 million individuals already know and trust. These organizations can readily use the Economic Stimulus Tool to file tax returns for their clients, so they can get the stimulus payments that are so important especially in light of rising food and fuel prices.
4. We encourage congressional offices to use the Economic Stimulus tool developed by AARP Tax Aide and National Council on Aging and found at *www.BenefitscheckUp.org and www.aarp.org/stimulus help* to promote its use and to enable constituents who are unfamiliar with IRS forms to easily file for their stimulus payments.
5. We urge the Committee to do all it can to ensure that the Social Security Administration and the Veterans Administration make a more robust effort to reach out to those among their constituents who have yet to file in order to get their stimulus payments.

Thank you for the opportunity to provide our input. We look forward to working with the Congress and the Executive Branch agencies to ensure that all eligible individuals file for the economic stimulus payment.

For more information, please contact Howard Bedlin, Vice-President of Public Policy & Advocacy at *howard.bedlin@ncoa.org*.

Paul Donnelly, Statement

ReformtheRebate.com is a coalition organized to change the tax rebate rules that discriminate against legal immigrants. We believe that Congress over-reached when U.S. citizens and legal immigrants whose spouses or children are not "illegal" but who do not have Social Security Numbers due to SSA policies were barred from the stimulus rebate if they file jointly, as married taxpayers are authorized to do. We urge the Congress to extend to such civilian families the same consideration that was recently applied to military families, and for the same reasons: those who obey immigration law should not be penalized in the name of fighting illegal immigration.

If this cannot be accomplished, the legal spouse should be able to receive the rebate without losing the benefit of joint filing this year and in the future as the price of getting a rebate.

We suggest the following questions:

1) The IRS has never been put into the position of enforcing immigration law. To avoid requiring the IRS to determine that a spouse is here legally without a Social Security Number, Congress has directed that when someone in the mili-

tary files a joint return with a valid SSN, the couple is eligible for the stimulus rebate.

Isn't that the fair way to treat civilian couples, as well?

2) If the Congress directed the IRS to determine the immigration status of a spouse who does not have a SSN when there is a joint return where the other spouse has a valid SSN, would that impose a substantial administrative burden on the IRS?
3) Whether or not someone is working here legally, the law requires that they pay taxes on their income. Because many, if not most illegal workers have taxes withheld by their employers, the IRS acknowledges that illegal workers who file returns receive refunds based on their withholding just like anyone else.

   Does the IRS have an estimate for the total amount of taxes that are refunded on returns with no SSN or an invalid SSNs each year?
4) Does the IRS accept tax returns without a SSN or ITIN? If so, are refunds paid if due on such returns? What if more than one return uses a single SSN? How are payments and refunds processed? Isn't it true that sometimes taxpayers receive deficiency notices due to other individuals' earning wages on their account which are reported on W–2s?
5) Does the IRS verify the validity of an SSN before processing a return? Does the IRS identify duplicate filings on a single SSN? How does the IRS sort out the situations of multiple W–2s on a single SSN when some may reflect multiple jobs and others may reflect identity theft?
6) There are many thousands of cases, beyond the military, where a U.S. citizen or legal permanent resident is married and files jointly with a spouse without an SSN. Does the IRS have an estimate for the total amount of the stimulus rebates these families would be eligible for if the Congress applied the same fair standard as to the military?
7) The IRS has a difficult job to do in the best of times. Were Congress to clarify the intent of the stimulus package to be fair to the U.S. citizens and legal permanent residents married to those who lawfully file joint returns with only one SSN, would a credit on next year's taxes equal to the amount of the stimulus rebate be the most efficient use of IRS resources in correcting this unfair and unintended slap at legal immigrants?

Santa Barbara Bank & Trust, Statement

Dear Mr. Chairmen and Ranking Members:

We are submitting this statement for the written record of the joint hearing held by the Oversight and Social Security Subcommittees on Thursday, June 19, 2008, to examine the status of the economic stimulus payments (ESP) provided for in the "Economic Stimulus Act of 2008" signed into law by the President on February 13, 2008 (P.L. 110–185).

Santa Barbara Bank & Trust (SBB&T), a brand of Pacific Capital Bank, N.A., is one of the nation's largest providers of tax-refund related bank products—refund anticipation loans (RALs) and non-loan refund anticipation checks (RACs). We are particularly concerned about comments made during the hearing which inferred that the RAL industry was somehow responsible for the fact that ESPs were delayed up to eight and a half weeks for taxpayers who elected this year to use RALs or RACs in order to more quickly receive funds in anticipation of their tax refunds.

In her written testimony, Nina Olson, the National Taxpayer Advocate, highlighted as a major concern the fact that more than 20 million taxpayers who obtained RALs and RACs during the 2008 filing season were ineligible to receive their stimulus payments quickly via direct deposit and had to wait up to eight and a half weeks longer to receive their checks by mail. Ms. Olson noted that the delays were not caused by IRS error, but failed to provide any other contextual background as to why the IRS decided to mail checks to these particular taxpayers, rather than provide ESP quickly by direct deposit.

On February 15, 2008, the IRS issued a press release (IRS Press Release 2008–21) announcing that ESPs would be made by paper check to any taxpayer who received RALs or RACs in this year's filing season. There were very good reasons for the IRS's decision to deliver ESPs to these taxpayers by paper check. Taxpayers who utilize RALs to more quickly obtain funds in anticipation of their tax refunds generally receive payment (minus fees for tax preparation, filing, financing or processing) within 24 hours after application. In the case of RACs, taxpayers receive the

net proceeds of their refunds (minus tax preparation and account set-up fees) when the refunds are received from the IRS (on average, 11 days after filing). The lending institution that provides the RAL or RAC opens temporary bank accounts for its customers into which the tax refunds are deposited. These temporary accounts are closed after delivery of a RAC to the taxpayer or satisfaction of the taxpayer's RAL.

More important, a large percentage of taxpayers who utilize RALs or RACs to more quickly obtain funds in anticipation of their tax refunds do not maintain regular bank accounts at a financial institution. As the National Taxpayer Advocate's 2007 Objectives Report to the Congress noted:

"It is estimated that approximately ten percent of American households do not have an account at a financial institution. These unbanked taxpayers have fewer refund delivery choices. They can request that the IRS mail a paper refund check on either an e-filed or paper return. However, these options generally entail high check cashing fees and take up to six weeks to actually deliver the refund. For taxpayers unwilling to wait four to six weeks for a check, the only real option is to buy a bank product, which typically involves high fees." [1]

More recent data indicates as many as 28 million Americans are "unbanked." [2] "Forty-six percent (46%) of African Americans and thirty-four percent (34%) of Hispanic Americans do not have an account at a federally-insured financial institution." [3] Those without mainstream banking relationships cannot take advantage of IRS direct deposit of their refunds. RALs and RTs bridge the potential eight-week gap that many taxpayers who need quick access to funds would otherwise have to wait to receive a paper check from the IRS. Thus, a very large percentage of the taxpayers affected by the IRS's February 15th guidance would have received their ESPs by paper check regardless of whether they elected to obtain a RAL or RAC.

Ms. Olson's testimony also failed to note that all taxpayers who elected direct deposits of their income tax refunds into multiple bank accounts (by filing IRS Form 8888), or who failed to elect direct deposit of their refunds (approximately 30% of all filers [4] were required to receive ESPs by paper check, not simply those taxpayers who chose to obtain RALs and RACs.

Several Subcommittee Members were understandably concerned by Ms. Olson's testimony pointing out the delays in delivering ESPs to taxpayers who obtained RALs and RACs in this filing season. Rep. Earl Pomeroy (D–ND) asserted that the RAL industry should have done more to notify taxpayers before they elected RALs or RACs that doing so would delay their ESPs. The fact is that responsible tax return preparers **did** notify RAL and RAC customers as soon as they received notice of the IRS guidance of the potential delays in receiving their ESPs. However, the vast majority of taxpayers who utilize RALs and RACs generally do so very early in the tax filing season. In SBB&T's case, 75 percent of our RAL/RAC customers in the 2008 filing season had already made their decision to obtain RALs/RACs before the IRS's press release was issued on February 15th.

In order to prevent additional ESP delivery delays, RAL lenders proactively worked with the IRS before the first ESPs were scheduled to be direct deposited to prevent ESPs from being deposited to the temporary accounts established to facilitate RALs and RACs. In fact, SBB&T alerted the IRS to an error in a large tax practitioner's software that would have caused over 500,000 ESPs to be erroneously deposited had the error not been corrected. The bank also provided the IRS with the solution to fix the error. According to IRS policy, in the handful of cases where the IRS inadvertently deposited ESPs into a temporary account, SBB&T immediately sent a check to the affected taxpayer without charge.

It is somewhat ironic that critics of the RAL industry are concerned about the impact on taxpayers of the delays in delivering ESPs, yet seem to dismiss the very real value that RALs provide to taxpayers by giving them quick access to much needed funds early in the tax filing season. Particularly for many low-income taxpayers eligible for the earned income tax credit, their annual tax refund represents the largest sum of money they will receive at one time in the entire year, and it comes at a critical time of the year after many families become overextended during the holiday season.

In her 2007 Annual Report to Congress, the National Taxpayer Advocate stressed the negative impact to low-income taxpayers of delays in receiving their tax refunds:

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[1] National Taxpayer Advocate, 2007 Objectives Report to Congress, Volume II, p. 14 (July 2006).

[2] Remarks of FDIC Vice Chairman on June 21, 2007, to FDIC's Alliance for Economic Inclusion.

[3] *Id.*

[4] See http://www.irs.gov.pub/irs-soi/07ifss13.xls.

Tax refunds are particularly important to low-income taxpayers—A taxpayer for whom the refund is so significant often makes financial plans based on when he or she anticipates receiving the refund and may view the refund as a lifeline. For some taxpayers, a delay of two to four weeks in receiving the refund could mean eviction, inability to pay the high heating bills that arise during winter, or defaulting on credit card bills from the holiday season.[5]

The Taxpayer Advocate was specifically addressing the delays in this year's filing season resulting from the fact that Congress did not pass legislation to address the so-called alternative minimum tax "patch" until December 2007. However, the same considerations apply to RALs as well. If the ability to receive the proceeds of one's tax refund two to eight weeks earlier than the IRS can deliver it means the difference between paying for housing or being evicted, paying for heat or enduring the cold, or paying off credit card debt or defaulting, paying a reasonable fee to obtain a RAL is a sensible decision.

It is important to recognize that fees charged by SBB&T are indeed reasonable. Critics often use Annual Percentage Rate (APR) measurements of RAL costs to justify the argument that RALs are high cost loans that take advantage of taxpayers. However, the use of APR calculations to measure the cost of RALs is very misleading. Due to the short-term nature of a RAL, APR calculations create an inflated representation of their true cost. In its 2006 Report to Congress on the Debt Indicator, the IRS contended that the APR is an inappropriate measure of the cost of a RAL:

"Unlike loans of one year or longer, APR calculations for loans not based on simple interest rates add multiples of costs that borrowers will never pay. [When calculating APRs for RALs], finance charges are assumed to be paid 36.5 times over the course of the year, when in fact they are paid only once, no matter how long it takes to pay back the loan—The reason this is important information is because some critics of RALs cite the APR as the real interest rate that taxpayers are charged."[6]

The average RAL funded by SBB&T during this filing season was $3,200, for which the bank charged an account set-up fee of $31 and a finance charge of 2.5% of the loan amount, or $80. This equates to a total cost of about 3.5% of the total loan amount. These fees remains fixed regardless of how long a RAL is outstanding. SBB&T does not impose late charges or additional interest charges, even if a RAL is never repaid. Nevertheless, we are required by federal banking laws to calculate an APR on a RAL loan using an 11-day repayment period. Under the example cited above, this transforms our fees of 3.5% of the loan amount to an APR of 115%, even though the total cost to the taxpayer remains at $111.

RALs (when not viewed in the context of an APR) cost less than other common financial transactions that are entered into on a daily basis. For example, Western Union charges consumers $145 to send $3,000 within the United States via wire transfer.[7] Unlike RALs, a wire transfer is a completely risk-free transaction. Fees for credit card advances can range from three to four percent of the advanced amount, plus interest charges—or $96 to $128, plus interest, on a $3,200 advance. Payday loans, without taking into account the even greater interests costs when rolled over, range from $15-$20 per $100 borrowed. By comparison, the average SBB&T RAL costs consumers $3.50 per $100 borrowed. When viewed in proper context of the relatively few choices that many RAL borrowers actually have to obtain credit, the cost of a RAL is comparatively inexpensive.

We appreciate having this opportunity to provide Members of the Subcommittees with this additional background information explaining the reasons for the delays in delivering ESPs to taxpayers who obtained RALs and RACs, and request that you include our statement in the written record for the hearing.

Sincerely,

Joe Sica
SVP—National Government Relations Director
Santa Barbara Bank & Trust
70 Oberlin Drive
San Diego, California 92121

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[5] National Taxpayer Advocate's 2007 Annual Report to Congress, December 31, 2007, Volume I, p. 5.

[6] IRS Report to Congress on the Debt Indicator, June 2006

[7] See www.WesternUnion.com for Western Union's charge for its "Money in Minutes" wire transfer program to send $2,999 (their maximum) anywhere in the United States.

The Honorable J. Russell George, Statement

Chairman Lewis, Chairman McNulty, Ranking Member Ramstad, Ranking Member Johnson, and Members of the Subcommittees, thank you for the opportunity to submit testimony for this hearing. My comments will focus on the Treasury Inspector General for Tax Administration's (TIGTA) audit and investigative actions pertaining to the Economic Stimulus Act of 2008.

The Economic Stimulus Act of 2008, signed on February 13, 2008, was enacted to energize the national economy. For most individuals, the amount of the stimulus payment received is dependant on their net income tax liability. Single taxpayers will generally receive the greater of $300 or their actual tax liability up to $600 and couples will generally receive the greater of $600 or their actual tax liability up to $1,200. Anyone with qualifying children will also receive an additional $300 per child. IRS began issuing stimulus payments on May 2, 2008.

The stimulus payments are being estimated using information reported on 2007 tax returns, so that individuals can benefit from the payments as soon as possible. Individuals who qualify for a larger payment as a result of changes between their 2007 and 2008 tax returns will receive the additional payment when they file their 2008 return (generally between January and April 2009). Individuals who receive more than they would have if the payment had been calculated using information from their 2008 return will not be asked to pay the excess back.

Due to the time-sensitive nature of these payments, we have been advising the IRS of our concerns as soon as we have identified them, to allow the IRS to take immediate corrective action when possible. In August 2008, we plan to issue the final report of this phase of our work on the Internal Revenue Service's (IRS) efforts to implement the stimulus payments.

Status of the Stimulus Payment Program:

- The IRS issued approximately 76.5 million stimulus payments as of June 13, 2008, totaling approximately $63.9 billion.
- The IRS has made progress on resolving the back-log of stimulus-only tax returns. The IRS had processed 94 percent of the 7.7 million stimulus-only returns received as of June 7, 2008.
- The IRS plans to issue stimulus payments through December 2008 for those tax returns filed by October 15th.

Audit Status:

We have reviewed approximately 102.7 million[1] stimulus payments generated from returns processed as of May 30, 2008. We determined that theIRS is correctly calculating the stimulus payment for approximately 99.6 percent of the returns. Correct calculation includes ensuring that payments are not issued to individuals without a valid Social Security Number, individuals who do not meet gross income and net tax liability tests, and individuals who exceed income limitations. However, we have identified approximately 385,000 stimulus payments in which our calculation of the payment does not agree with the IRS's payment calculation.Preliminary review of these payments found that the differences resulted from:

- Programming that did not include qualified self-employment losses in the determination of eligibility. The IRS, with the Department of the Treasury's concurrence, is using a percentage of the self-employment tax reported on *Self-Employment Tax* (Schedule SE) in the computation of the stimulus payment instead of the actual self-employment income or loss reported on various tax schedules. The IRS and the Department of the Treasury indicated they were aware that this methodology did not address *Profit or Loss from Business* (Schedule C) and *Profit or Loss from Farm* (Schedule F) losses. However, the Treasury Department chose to use the Schedule SE percentage because it would have been too complex to program the payment for every possible self-employment scenario, given the time available. The Treasury Department indicated that the Schedule SE percentage would result in a correct payment for most individuals. As of May 30, 2008, TIGTA had identified approximately 104,000 returns with approximately $55 million in stimulus payments that should not have been paid to individuals with Schedule C and Schedule F losses.
- Programming did not include all qualified self-employment income in the determination of eligibility. As of May 30, 2008, TIGTA had identified approximately 25,000 returns for which the stimulus payment was not allowed. In these cases, we believe that taxpayers were entitled to an additional $16.5 million. These

[1] This figure differs from the number issued by the IRS because our review includes payments that have not yet posted to taxpayer accounts.

errors affected clergy and other individuals whose income is not subject to the self-employment tax. TIGTA plans to review the IRS's programming of the stimulus payments for Tax Year 2008 to ensure these individuals will receive the payments they are entitled to when they file their 2008 return.

- Taxpayers were not receiving the child portion of the stimulus payment because they did not check the Child Tax Credit qualifying box on the tax return.When TIGTA raised this concern, the IRS initially responded that it could not allow the child portion of the stimulus payment in these instances because eligibility for the Child Tax Credit could not be determined from the information on the tax return. The IRS subsequently announced that it will issue the additional child portion of the stimulus payment to approximately 350,000 households in July. TIGTA is in the process of quantifying the number of individuals that might be affected.

Other Items of Interest:

- TIGTA has initiated a review to evaluate the effectiveness of the Criminal Investigation (CI) Division's actions to prevent the issuance of stimulus payments to individuals whose tax returns claimed false income tax refunds or who filed false stimulus-only returns. To date, we have obtained data extracts to be used in our assessment of whether the CI Division implemented controls as indicated and whether the controls are functioning as intended. We also plan to select samples to determine if the appropriate freeze was placed on accounts previously identified as fraudulent to ensure that a stimulus payment is not issued and to ensure that controls designed to stop stimulus payments for fraudulent returns are working as intended.
- On May 22, 2008, Congress passed H.R. 6081, the "Heroes Earnings Assistance and Relief Tax Act of 2008," to amend the Economic Stimulus Act of 2008 to allow thousands of military personnel to receive a stimulus payment, regardless of whether they or their spouse, or their children have a valid Social Security Number.The Joint Committee on Taxation estimates that this provision will cost $14 million in Fiscal Year 2009. It is anticipated that the President will sign this legislation. The IRS is currently working on identifying affected military personnel. If this legislation is enacted, TIGTA will review the IRS's implementation

Additionally, TIGTA is monitoring the following issues:

- As of June 7, 2008, the IRS identified 246,079 duplicate paper-filed stimulus-only returns. These stimulus-only returns were filed using the same Social Security Number as another tax return. The IRS has consolidated the processing of these returns at its Andover, Mass., facility to expedite their processing and minimize the delay in issuing the stimulus payment. The IRS has resolved 55,852 of these returns. We are in the process of evaluating the procedures for forwarding these returns to Andover, as well as the procedures that will be used to resolve the duplicate filing conditions. Our review of a random sample of50of these returns showed that 39 (78 percent) were duplicate returns filed by the same taxpayer, which indicates these cases did not involve identity theft. To date, 31 of 50 have had the rebate issued. No rebate has been issued for the remaining 19.
- The IRS has determined that between 18,000 and 22,000 Understanding Your Economic Stimulus Payment Notice (Notice 1378) were issued to the wrong individuals. This was the result of a vendor error, and the problem has been corrected.
- The IRS identified a programming error that resulted in approximately 1,500 payments being directly deposited into the wrong individual's bank account. These payments totaled approximately $1.4 million. The IRS has since corrected the error and is in the process of reissuing payments to the entitled individuals. IRS is working with the banks to recover the incorrect deposits.
- The IRS reiterated that it will issue a paper stimulus-only check to anyone who 1) used a Refund Anticipation Loan (RAL), 2) split the direct deposit refund among more than one bank account, or 3) had tax preparation and other fees deducted from the refund (refund anticipation check (RAC)). This process was established to ensure that the individual received the stimulus payment instead of the financial institution or tax preparer that provided the RAL or RAC. As of April 17, 2008, 9.9 million taxpayers had used a RAL and 10.3 million had used a RAC to receive their refunds. For split refunds, the IRS decided to issue a paper check because it did not know which account the taxpayer wanted the stimulus payment deposited in. As of June 2, approximately 225,867 taxpayers

had split their direct deposit refund among more than one bank account. Not all of these individuals may qualify for an economic stimulus payment.

- IRS officials stated that on May 28, 2008, they had been notified by a tax preparation firm that approximately 450,000 tax returns had been submitted to the IRS without the RAL indicator. The IRS, aided by the firm, was able to identify these accounts before the stimulus payments were issued. Payments for these accounts are being correctly issued via paper check consistent with IRS's decision to issue paper checks on accounts having a RAL. The media incorrectly reported that these payments were being deposited into RAL accounts.
- As of May 30, 2008, TIGTA identified approximately 8,800 individuals (0.15 percent) who filed a stimulus-only return had a balance due on their tax accounts. Some of the balance-due conditions are the result of IRS input errors or taxpayers entering information on the wrong line of their tax return. The IRS is aware of this condition and has taken steps to resolve these accounts.

Office of Investigations:

TIGTA has initiated 12 complaints involving economic stimulus payments. The allegations are as follows:

- One case involves an alleged return preparer scheme that was reported to IRS–CID in Bogota, Colombia. CID referred the case to TIGTA;
- Two cases involve allegations of false impersonators requesting bank information via the telephone;
- Nine cases involve phishing emails, most of which direct victims to follow an Internet link purportedly associated with the recipient's economic stimulus refund.

In closing, I would like to emphasize that TIGTA will continue to closely monitor the issuance of the economic stimulus payments and to promptly alert the IRS of any problems or emerging issues. Mr. Chairman and Members of both Subcommittees, thank you for the opportunity to provide TIGTA's assessment of the IRS's implementation of the Economic Stimulus Act of 2008. I would be pleased to respond in writing to any questions you may have.