STATEMENT

OF

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ON BEHALF OF

TAX EXECUTIVES INSTITUTE, INC.

ON

ATTRACTING TALENT AND DEVELOPING

AND RETAINING EMPLOYEES

BEFORE THE

IRS OVERSIGHT BOARD

FEBRUARY 19, 2008

As the preeminent association of business tax professionals, Tax Executives Institute is pleased to participate in today's hearing of the IRS Oversight Board.

BACKGROUND

Tax Executives Institute was established in 1944 to serve the professional needs of in-house tax practitioners. Today, the Institute has 54 chapters in the United States, Canada, Europe, and Asia. Our 7,000 members are accountants, attorneys, and other business professionals who work for 3,000 of the leading global companies; they are responsible for conducting the tax affairs of their companies and ensuring their compliance with the tax laws.

TEI represents the business community as a whole, and our members deal with the tax code in all its complexity, as well as with the Internal Revenue Service, on almost a daily basis. TEI is dedicated to the development and effective implementation of sound tax policy, to promoting the uniform and equitable enforcement of the tax laws, and to reducing the cost and burden of administration and compliance to the benefit of taxpayers and government alike.

The companies that employ TEI's members have almost without exception been assigned to the IRS's Large and Mid-Size Business (LMSB) Division. The largest 1,600 taxpayers within LMSB are subject to ongoing audits as part of the Coordinated Industry Cases (CIC) program. We are pleased to provide information on ways in which TEI members' companies attract talent and develop and retain key employees.

DISCUSSION

Effective recruitment and training remain high priorities for the IRS and, more particularly, LMSB. Two years ago, the Treasury Inspector General for Tax Administration (TIGTA) noted that more than 50 percent of LMSB's management and executive staff will be eligible for retirement by October 2008. According to TIGTA —

> The future success of the LMSB Division is dependent upon ongoing efforts to replenish the workforce, provide education and training, and provide work inventory more effectively. Additionally, communication of workforce plans to employees and stakeholders is essential to the success of the strategic management of human capital.

Michael R. Phillips, *Final Audit Report — The Large and Mid-Size Business Division Has Effectively Implemented Its Human Capital Initiatives* (Reference No.: 2006-30-099) (July 26, 2006). The report also noted that LMSB has initiated processes to address this issue.

More broadly, as recently as August 22, 2007, the IRS Oversight Board noted that "human capital issues represent a major strategic challenge to the IRS as its workforce ages and key talent retires from the agency." As former Board Chairman Paul Jones noted, "About 4,000 IRS employees a year for the next four years are expected to retire, taking with them years of experience and valuable skills. Maintaining and growing workforce skills during this period of change must be addressed in a strategic manner."

TEI commends the Oversight Board and the IRS for identifying human capital management as a major challenge in the 21st Century. We are pleased that at his January 29, 2008, confirmation hearing, Commissioner-nominee Douglas Shulman cited recruitment and retention as a top priority, noting:

> [L]ike other federal agencies, many experienced and knowledgeable IRS employees will be approaching retirement eligibility in the coming years. It is critical that the next Commissioner devotes significant attention to the recruitment, training and grooming of the next generation of IRS leaders.

TEI suggests that the key elements of a comprehensive recruitment and retention program must —

- Adopt a long-term approach. The program must be able to withstand the ups and downs of the government's budgeting process.

- Be collaborative. Buy-in is needed from all constituencies within the IRS: management, labor, Appeals, and Counsel. Accountability should be built into the process.

- Be comprehensive, affording development opportunities — technical and non-technical — for professionals at all levels of the IRS. TEI is pleased to have participated in classes for the IRS's Executive Development ("ExD") Program. We understand that the lessons learned from this training program have been adapted to train people at the more junior levels of the agency (an "Executive Readiness" ("ExR") program). In addition, TEI members have regularly participated in LMSB's Reaching Agreement classes, which provide excellent negotiating skills training. More such face-to-face classes across a range of topics should be established.

THE ISSUE: A SHRINKING WORKFORCE

The government is not alone in its concerns about attracting and retaining talent. The enactment of the Sarbanes-Oxley Act of 2002, the creation of the Public Company Accounting Oversight Board, and the numerous changes to the accounting standards relating to accounting for income taxes, have placed a premium on qualified tax and accounting professionals. Corporations today face two major issues in hiring and retaining qualified personnel. First, the baby-boom generation is approaching retirement. In 2007, the U.S. Bureau of Labor Statistics estimated that 43 percent of the workforce will be eligible to retire within the next 10 years. This potential "brain drain" has captured the attention of corporations.

A recent survey by Ernst & Young revealed that the percentage of respondents saying that retaining key employees and maintaining intellectual capital are the human capital issues of most concern rose from 38 percent in 2006 to 68 percent in 2007.[1] It is not only senior management who is affected, but middle management as well.[2]

The workforce is also being squeezed at the other end: the identification and recruitment of new hires. According to the most recent labor statistics, although the number of workers 55 years of age and older is increasing, the number in the 16-24 year age bracket is declining.[3] The projected reduction in the latter group from 2006 to 2016 is 6.9 percent.

These demographics are all taking place in a labor market where the need for accounting professionals, in particular, is increasing. One recruiting firm predicts that positions that will see the greatest increases in 2008 include public accounting.[4] In addition, enrollments in the accounting and tax professions have decreased 20 percent in recent years.[5]

TRENDS IN CORPORATE HIRING AND RETENTION

How have corporations addressed these issues? Four years ago, TEI conducted a corporate tax department survey, inquiring about the rewards and recognition systems used by companies. The study found a wide variety of systems being used. The most common reward

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1 Ernst & Young LLP, *2007 Aging U.S. Workforce Study: Challenges and Responses — An Ongoing Review* 3 (October 2007).

2 *Id.* In 2006, 48 percent of respondents cited middle and senior management as most affected by the brain drain; in 2007, it was 70 percent.

3 U.S. Bureau of Labor Statistics, *Press Release on Employment Projections: 2006-16*, Table 10 (USDL07-1847) (Dec. 4, 2007), available at: http://www.bls.gov/news.release/pdf/ecopro.pdf.

4 Robert Half Finance & Accounting, *2008 Hiring and Salary Trends* (Jan. 17, 2008).

5 Michael McGoldrick, Anthony Santiago & Carolyn Colias, *Recruiting, Retaining and Developing Tax Personnel*, TEI Midyear Conference, Slide 11 (Mar. 20, 2007) (hereinafter cited as "*TEI Presentation*").

and recognition systems for all staff and management levels were bonuses, stock options, personal time-off, and flex-time. Cash bonuses were the most popular type of reward for the senior tax executive (89 percent), manager level (61 percent), senior level (42 percent), and staff level (35 percent). Stock options were identified as a top reward system being used for senior tax executives (55 percent) and management level personnel (30 percent). Flex-time and personal time-off were often reported as additional rewards for both the senior and staff levels. About one-third of the respondents said that they used these incentives for their senior level staff and other employees.[6]

Although salary may not be a fair measure of the IRS's ability to compete with the private sector for talent, money is not always the key to hiring and retaining talented employees. According to the Great Place to Work Institute — which conducts *Fortune* Magazine's annual survey of *The Best Companies to Work For* — "trust between managers and employees is the primary defining characteristic of the very best workplaces." Other commentators have predicted that "tax leaders and companies who consistently treat their people with respect will be the big winners" in the job market.[7]

More recently, a TEI member working for a Fortune 500 company credited his company's "benefit package, including health care, a very attractive 401(k) plan, and work/life balance (flexible scheduling)" as "the key drivers in attracting talent," adding that "we strive to find energetic people who have strong communication skills and are open minded when we

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[6] Tax Executives Institute, *2004-2005 Corporate Tax Department Survey* 64 (2005). The charts showing these data are attached as an appendix.

[7] *TEI Presentation* at Slide 8.

interview candidates. Strong technical skills are not as important as being able to communicate and discuss tax issues in an open forum."

Among the best practices commonly used by companies are —

- *Flexible Work Schedules*. A look at the service providers included in *Fortune*'s *Best Companies to Work For in 2008* reveals that almost all offer job-sharing programs, a compressed work week, and telecommuting opportunities.[8] Indeed, 84 percent of the companies permit employees to telecommute or work at home at least 20 percent of the time. This practice benefits not only young workers with small children, but also baby boomers who may need to care for elderly parents.

- *Incentives for Internal Referrals*. Many companies offer bonuses for the referral of applicants who are eventually hired.

- *"Boomerang" Hiring*. The practice of hiring former employees is on the rise. Thus, corporations are targeting retirees, finalists who accepted another job (and may have realized they made a mistake), long-term consultants or contractors, and promising interns. Related to this effort is contracting with retired employees for specific assignments. Experienced corporate retirees may also be interested in part-time positions, perhaps in the IRS examination function, especially if they can build on prior government service for pension purposes

- *Training*. The country's best employers encourage employees to maintain or enhance their skills, not only on technical topics, but "soft" areas such as management training and interpersonal skills. One TEI member expressed his company philosophy on education, as follows —

  > We encourage our tax professionals to attend as many local tax training seminars (cost effectiveness and local networking) that they can and also allow them to attend one out-of-town seminar — basically, combining a training session and a little bit of time out of the office and away from home. We also encourage our professionals to take a soft skills course each year and to participate as much as possible in order to share best practices.

  Another company among *Fortune*'s Best Companies stated that its employees receive 110-120 hours of training per year. Although no one type of training works for everyone, many companies have found that face-to-face training works best, with on-line sessions limited to refresher courses.

[8] The list will hereinafter be cited as "*Fortune*'s Best Companies" or "*Fortune* Best Company." The list was published in the February 4, 2008, issue of *Fortune* Magazine (available online at http://money.cnn.com/magazines/fortune/bestcompanies/2008/full_list/index.html).

Training is also key to succession planning within companies because future leaders may well be promoted from within. For example, one company has a Management Development Steering Committee made up of senior and functional staff who develop and monitor employee development. The company also has a structured succession planning process: For each of the CEO's direct reports and their direct reports, the company has identified at least two possible successors and developed training programs for each one. Further, a management competency model is used that describes key skills required to be an effective manager; each skill has resources available for employees to develop those skills.

Some companies combine training with a mentoring system to introduce new hires to the corporate culture and assist in succession planning.

- *Empowerment.* Coupled with training is on-the-job experience. Some companies permit their more junior staff to interact with state auditors so that they can use this expertise in developing compliance initiatives that facilitate future audits. "Dealing hands-on with specific audit requests," one company notes, "facilitates efficiency and gives our compliance people satisfaction that they completed the full cycle of securing tax benefits (*i.e.,* understanding the planning process, monitoring accounting compliance, and defending the position taken)." Another company uses teams on major projects. Letting employees follow a project from start to finish makes them part of the the process, not just a piece of a larger puzzle. Placing a person in charge of the team also provides leadership development.

  This approach is consistent with the findings of a Deloitte & Touche study a few years ago that concluded "[t]he best way to develop critical talent is through the collaborative resolution of real-life issues ('action learning')."[9]

- *Wellness Programs.* Not limited to access to fitness centers, wellness programs that focus on screening and annual check-ups help to ensure a healthy workforce and limit the time off from work for routine tests. Flexible spending arrangements — which may include contributions by the employer — are also used.

ADAPTING CORPORATE BEST PRACTICES TO GOVERNMENT SERVICE

In our view, the IRS should focus on emphasizing the benefits and rewards of government service. Properly framed, the IRS should be very competitive in recruitment of

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9 Deloitte Research, *It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work* 7 (2004) (hereinafter cited as "*Deloitte Research*").

talent. Although it may not be able to compete on purely "cash" terms, the IRS can compete very effectively in a key area appealing to younger employees: work/life balance.[10] The government has generally been the trailblazer in providing flexible working arrangements, including compressed work weeks and flex-time. In addition, one member company remarked that younger applicants would generally prefer one dollar in benefits rather than one dollar in salary. Another major U.S. company reported providing its tax staff with more vacation time than the rest of the employees. The government excels in offering such benefits, especially in health care (including retiree health care).[11]

Older employees caring for elderly relatives will also benefit from flexible working arrangements. Last month the IRS joined a consortium of businesses working with the AARP to offer employment — full-time, part-time, and seasonal — to older workers. The AARP website publicizes the benefits of a government employer, stating "[p]erhaps most appealing for 50+ workers are the generous health and life insurance plans, and the retirement plan that allows new employees to roll-over qualifying IRA's into the government-wide Thrift Savings Plan (TSP)."[12]

In addition, in an uncertain economy, job security becomes a huge selling point. One Fortune 100 Best Company attributes its being so highly rated as a good place to work to its

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[10] One expert identifies attitudes toward work/life balance as the greatest gap between the young and old in today's workforce. He notes that a former editor of *The New York Times* once shouted "if you want a family, you shouldn't be working here" — an attitude he referred to as "geezer talk." Warren Bennis, *The Leadership Traits of Geeks and Geezers*, EXECUTIVE UPDATE (Aug. 2003).

[11] A recent survey found the gap between public and private sector workers widening, with state and local employees earning more on average, primarily because of the cost of benefits. U.S. Bureau of Labor Statistics, *National Compensation Survey* (Dec.11, 2007), available at http://www.bls.gov/news.release/pdf/ecec.pdf.

[12] *See* http://www.aarp.org/money/careers/findingajob/featuredemployers/internal_revenue_service.html.

never having had a layoff. Although government agencies may be subject to reductions in force (RIFs), they are much less likely to occur than in the private sector.

Another key to hiring and retention is to match new hires with the right job. Approximately 35 percent of new hires will leave within the first six months.[13] In one company's view, realistic expectations on the part of the new employee will cure 50 percent of the turnover rate.[14] The company also suggested that the IRS take a cue from the military services — which encourage their personnel to re-enlist on a regular basis — by establishing a procedure to focus on retaining existing staff and allocating more time to understanding the needs and wants of key team members.

In addition, the IRS should conduct performance evaluations on a periodic basis, not just once a year, to ensure employees are meeting their objectives. According to one management consultant, lack of feedback is the number-one reason for performance problems —

> We know that many managers just give feedback once a year — at performance appraisal time, which is like a basketball coach telling his players at the beginning of the season, "You're going to go out and play 30 games, and at the end of the season, I'll evaluate your performance."[15]

Finally, the training needs of IRS employees should be given a higher priority. Invariably, when the IRS budget is decreased, the first item to be cut is training. This is a critical mistake, because it not only adversely affects job satisfaction, but also limits the agency's pool

[13] Leigh Branham, *The Seven Hidden Reasons Employees Leave*, EXECUTIVE UPDATE (Feb. 2005) (hereinafter cited as the "*Branham Article*").

[14] *See also Deloitte Research* at 9 ("Firms such as SAS and Microsoft go to great lengths to help their talent find the right niche — redeploying people each year, if necessary.").

[15] *Branham Article.*

of qualified people for succession planning purposes. But even in the absence of training dollars, a mentoring (or career adviser) program — linking senior employees with new hires, for example — can be implemented. Especially among Gen Yers, relationships with supervisors and co-workers are very important. Cross or rotational training — which will keep an employee engaged when a promotion may not be available — should also be considered. The ExD and ExR training programs include mentors, and we understand that the IRS will soon roll out a wider pilot "coaching" program using outside vendors to help it identify the next level of management. This is a good start and accountability for employee development should be built into management performance reviews.

There is no magic bullet for addressing the IRS's employment needs. The slogan "putting people first," while sometimes hackneyed, is nonetheless the key to the recruitment and retention of qualified personnel. People management skills are the most important attribute of effective leadership. As one commentator stated —

> Success comes from successfully implementing strategy, not just from having one. This implementation capability derives, in large measure, from the organization's people, how they are treated, their skills and competencies, and their efforts on behalf of the organization.[16]

Four years ago, the Board called the lack of adequate training "a dominant issue" within the IRS, with stakeholders describing "an expanding training gap at the IRS, where employees often lack the expertise and skills to handle difficult, complex or problem cases." It challenged the IRS to develop a strategic human capital plan to refresh its workforce, preserve invaluable

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[16] Jeffrey Pfeffer, *The Human Equation, Building Profits by Putting People First* (1998).

knowledge, and institute succession planning throughout the agency.[17] Since that time, the IRS has revamped and coordinated several training programs, initiated a tuition reimbursement program for its personnel, launched a pilot "coaching" program, and entered into arrangements with other organizations to recruit and train mid-level and senior managers. Although continued emphasis on recruitment and retention remains paramount, TEI believes the IRS is on the right track.

CONCLUSION

Tax Executives Institute commends the IRS Oversight Board for holding this public hearing. TEI looks forward to working with the Board and the IRS itself to improve tax administration.

TAX EXECUTIVES INSTITUTE, INC.

By:

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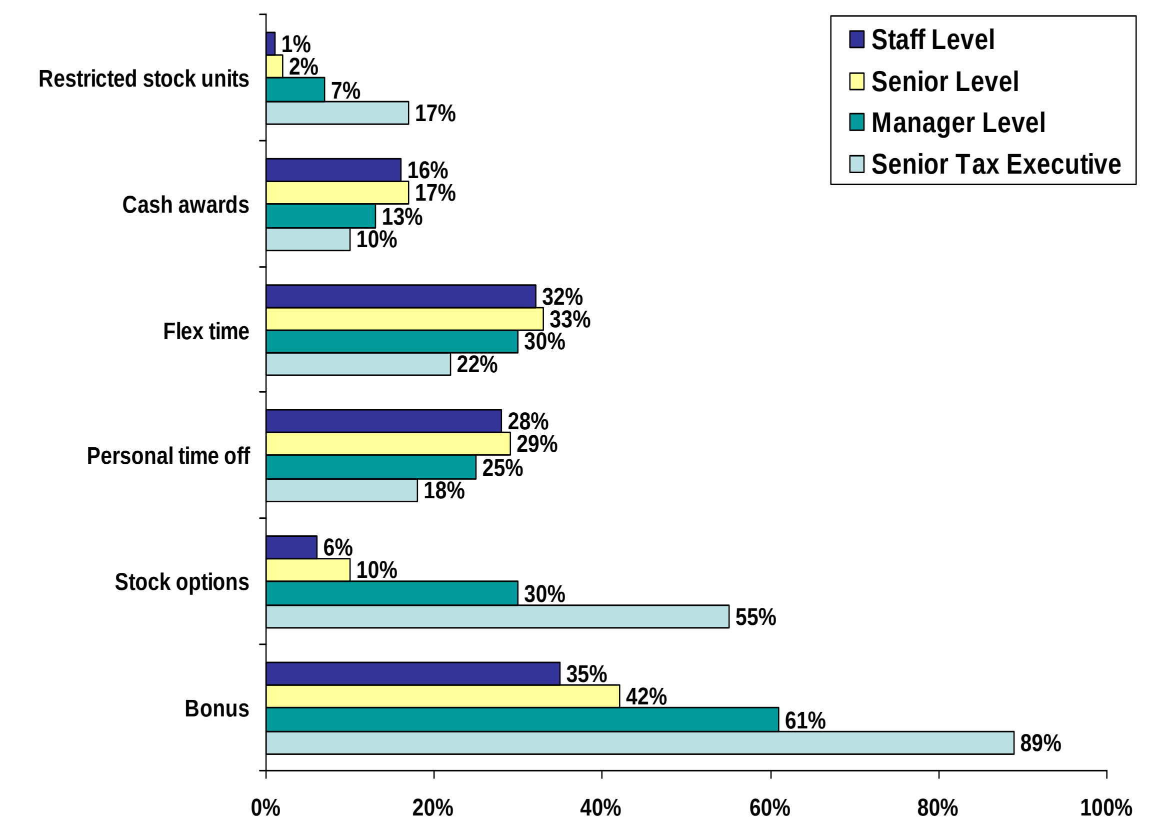
[17] IRS Oversight Board, *Annual Report 2004* at 22-23.

APPENDIX
TEI'S 2004-2005 CORPORATE TAX DEPARTMENT SURVEY



Q57. What reward and recognition systems are used to encourage performance for Tax Department staff?
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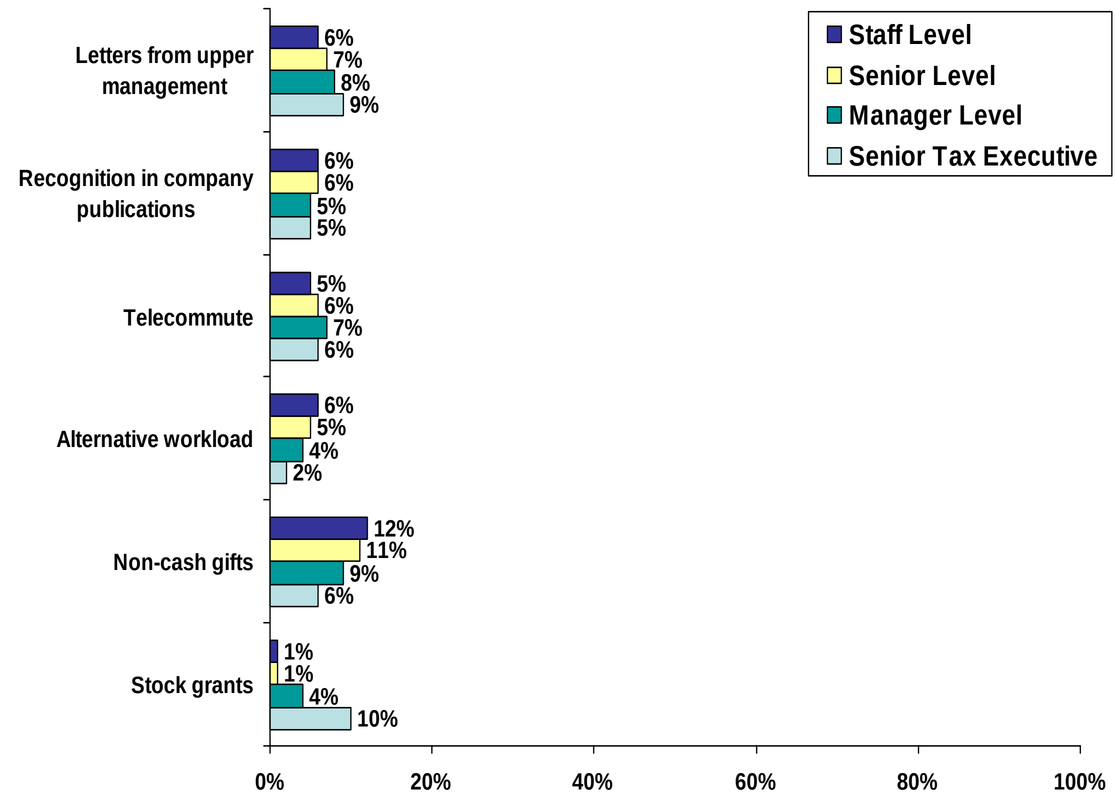

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