National Treasury Employees Union

Testimony
Of
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"NTEU Views on Investing in the IRS Workforce"

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Chairwoman Killefer, Members of the Board, and other distinguished guests, my name is Colleen Kelley and I am the National President of the National Treasury Employees Union (NTEU). As you know, NTEU represents l50, 000 federal employees in 29 federal agencies and departments, including the men and women who work at the Internal Revenue Service. I appreciate you giving me the opportunity today to present recommendations for investing in the IRS workforce.

First, I would like to commend the IRS Oversight Board for making recommendations to the IRS that will help to eliminate the waste experienced by the contractor led Business System Modernization efforts. The Modernization has suffered serious setbacks with cost overruns into the hundreds of millions of dollars with most of its projects experiencing extensive delays. As IRS is facing a budget below the President's request in fiscal year '04 from Congress and anticipates an equally tightfisted budget for FY '05, it is critical for the IRS to place an emphasis on savings within Modernization so that its human resources aren't neglected.

While NTEU agrees with IRS' goal of enhancing tax compliance and enforcement, we don't agree with the approach of eliminating front-line employees in order to pay for additional compliance efforts. As the number of tax returns continues to grow, the number of IRS employees continues to shrink. As the Oversight Board pointed out in its 2003 Annual Report, IRS workload has increased by 16 percent while at the same time the number of full time equivalent employees has decreased by 16 percent from 1999 to 2002. This is caused by a number of circumstances, including an increasingly complex tax code and an increasing number of tax returns—paper as well as electronic returns. This has led to a serious decline in the size of the IRS workforce as a way to cope with increasing budgetary demands.

NTEU is disappointed with Congress' impending appropriation of nearly $200 million below the President's IRS request for FY '04 and the additional $60 million reduction facing IRS due to Congress' across the board cut in government spending. NTEU is also disappointed that IRS has been forced to run its agency for nearly one-third of its fiscal year on a continuing resolution with stagnant funding levels.

While NTEU would strongly support a 4.8% IRS budget increase for fiscal year '05 as announced by the Treasury Department, I would encourage lawmakers to scrutinize Treasury's dubious cost-saving measures for FY '05 and set a budget that is commensurate with the changes in tax law and increasing complexity in tax administration.

I would also encourage IRS to work with Congress to anticipate such events and budget accordingly. This did not happen last year. For instance, NTEU encouraged the IRS to make a supplemental funding request for administering last summer's child tax credit refunds to taxpayers. To our dismay, the request was not made and IRS was forced to do more work without any additional resources. This places a great burden on the IRS workforce that is expected to provide business results while improving customer service. This is unrealistic and unfair. Improving customer service, enhancing tax return processing and increasing tax compliance will only occur if Congress and the Administration support increased funding for staffing, advanced technology and equipment, and better training.

There is a need for better training throughout the IRS. In particular, the employees affected by the RIFs I will discuss in further detail momentarily, ought to be retrained to do other jobs within the IRS. The IRS should devote more resources toward training their employees.

It is unfortunate that IRS is using the excuse of bolstering compliance to justify a recently announced reduction in force (RIF) of roughly 1,600 IRS Case Processing and Insolvency support employees in 92 locations across the country—only to turn around and hire 1,200 new employees to do the same work in four consolidated IRS Service Centers sites. NTEU opposes the RIF and urges the IRS to keep its employees in the field, serving the local taxpayers.

Presumably, IRS intends to save money and increase efficiency with this move, but there is no evidence of cost savings and IRS' business case assumptions are faulty. IRS has failed to provide information on the cost of hiring and training new employees when the current employees already know how to do the job.

In responding to the announcement of the RIFs, former IRS commissioner Donald Alexander was recently quoted as saying, "Centralization is not always more efficient, especially when it moves support people away from those they are supporting."

As one of the rationales for the current centralization, the IRS indicates that Case Processing had not been reorganized since the 1970's. However, several attempts have been made to centralize Case Processing over the years, but have failed and this function has remained in the field. In fact, Case Processing functions were located in Service Centers until the IRS reorganized 25 years ago to locate these functions closer to the employees who perform collection and exam work. Reorganizing for the sake of reorganization is a waste of time and money, neither of which the IRS can afford to squander.

Case processing support employees assist Revenue Agents and Revenue Officers in resolving issues related to overdue taxes. One of the more important duties performed includes releasing liens on property once overdue taxes are paid so that a taxpayer can secure a loan and calculate interest penalty abatements.

Insolvency employees are responsible for monitoring tax compliance throughout the life of the bankruptcy, including trust fund taxes and pyramiding of business taxes. Insolvency employees must adhere to strict deadlines in order to avoid violations of the automatic stay and possible sanctions. Failure to take timely and appropriate actions could result in the IRS being sued for damages and/or attorney fees. Centralizing Insolvency work means that the new employees will need to know the local rules and standing orders of the various bankruptcy courts that take precedence under the Bankruptcy Code. It is unreasonable to expect employees to be able to follow the rules of dozens of different states and courts, likely resulting in delays and errors and a greater cost to the IRS.

The IRS has failed to provide information on how local taxpayers will be affected by its plan. Despite a lack of information from the IRS on the affect on taxpayers, NETU believes that this RIF will indeed affect taxpayers nationwide.

Federal-State disclosure agreements—and the statutes that govern these agreements—differ by state. Centralizing the Insolvency work will mean that employees in the centralized sites will need to be responsible for knowing and adhering to all 50 variations. It will take longer for cases to close if they have to be shipped to a centralized site and this could hurt the taxpayer who is waiting for her case to be closed.

Currently, if a taxpayer has a question about the process, she can find one of the Case Processing employees locally and get her question answered. If these jobs are shipped out of state, it will be much more difficult for the taxpayer to get her question answered, or for the cases to be resolved in a timely and complete manner.

Finally, this removes accountability at the local level. If a member of Congress is contacted by a taxpayer constituent with an IRS case processing problem, that member will be directed to some out of state Service Center where the new employee has no comprehension of the region, much less the local personnel involved in closing a case, or the member of Congress making the inquiry.

NTEU agrees with the IRS that there is a great need to bolster enforcement efforts, but this RIF does not guarantee new or enhanced enforcement positions. Once again, this is a waste of time and money for the IRS. This is unfair to the current employees who are trained and successfully performing the Case Processing and Insolvency work; this is unfair to the taxpayers who rely on the services provided by their local Case Processing workers.

IRS also has plans for a RIF of approximately 2,200 employees at the Memphis Submission Processing Center. NTEU strongly disagrees with the IRS=s decision to conduct this RIF. The IRS claims that it is taking this action because there has been an increase in electronic filing of tax returns, and it no longer needs employees to process paper returns. However, according to the General Accounting Office (GAO-02-205), the IRS has fallen far short of meting its electronic filing goals. IRS is using unrealistic, optimistic assumptions to project the increase in electronic tax return filing and then using these assumptions to justify the RIF.

I commend the House of Representatives Appropriators who recognize the risks of reducing IRS staffing of manual submission processing. In House Committee Report 108-243, they have asked IRS to report back prior to *"initiating any premature and ill considered reductions in force…"* (see House-Rept. 108-243, <u>IRS MANUAL SUBMISSIONS PROCESSING</u>).

NTEU recognizes that electronic filing will eventually become a reality of IRS' modernization efforts. But we strongly believe that any resulting reorganizations should occur when there is a genuine need for a shift to an e-filing workforce and every effort should be made to avoid a RIF by retraining and placement of current employees.

The greatest barrier to making cost-effective investment in the IRS workforce is the agency's increased attempts to outsource the IRS' inherently government functions to private contractors. The greatest and most egregious example of divesting the IRS workforce is the agency's plan to privatize tax collection services.

The Treasury Department's fiscal year 2005 budget proposal to allow the IRS to use private collection agencies to collect federal income taxes is risky, costly, and unnecessary. Let me be clear: NTEU opposes this plan, with or without a proposal to offer a 25% commission to the private collectors. This proposal would risk exposing sensitive taxpayer information, would subject taxpayers to the abusive tactics of private debt collectors, and would cost U.S. citizens much more money than if IRS employees did the job.

IRS employees are – by far – the most reliable, cost-effective means for collecting federal income taxes. IRS employees can collect outstanding debt more cheaply than private contractors. With an appropriation of $296 million for compliance, the IRS could collect an additional $9.47 billion in revenue per year. That's a $31 return per dollar spent, compared to only $3 revenue per dollar spent for private collection agencies. Furthermore, there is the potential for abusive treatment from private debt collectors. There is a very real risk of exposing sensitive taxpayer information. In this era of identity theft, I do not believe the federal government should engage in practices that could needlessly expose confidential taxpayer information.

I remind the Board of a February 2003 Treasury Inspector General for Taxpayer Administration (TIGTA) report which faulted the IRS for failing to conduct background checks on more than 2,100 private contract employees working in offices in Maryland who had access to sensitive information. I don't imagine I need to further remind the Board of the Congressionally authorized 1996 and 1997 tax year pilots to test private tax collection. The 1996 program resulted in such egregious abuses by private debt collectors that the 1997 program was cancelled. According to an IRS Internal Audit Report (Ref. No. 080805, 12/19/97), the private debt collectors under contract to the federal government committed hundreds of violations of the Fair Debt Collection Practices Act – including calling a taxpayer at 4:19 a.m.

There is widespread opposition to privatization of tax collection. Several taxpayer advocacy groups: the Tax Executives Institute; the National Association of Enrolled Agents; Citizens for Tax Justice; Consumer Federation of America; Consumers Union; National Consumer Law Center; National Consumers League; and large segments of the taxpaying public oppose the privatization of collection duties. Specifically, Global Strategy Group, Inc. conducted a poll last year that found 66 percent of respondents disapprove of allowing the Internal Revenue Service (IRS) to hire private debt collection companies. When details of the IRS's plan were provided, the number in opposition rose to 79 percent. The results of this poll strongly indicate that Americans across all political, geographic and income lines oppose this proposal.

While the IRS is liable for damages caused by an IRS employee's misuse of sensitive taxpayer information, taxpayers would not have proper redress with the federal government for misuse of their confidential information by contractors. Instead, taxpayers would be left to seek damages against the private collection agency. It is plain and simple. This plan to privatize tax collection at the IRS will hurt U.S. taxpayers and will hurt IRS workers.

Having cited these failed attempts for private tax collection, I am greatly disappointed and in complete disagreement with the Board's endorsement of proposals to allow private collection agencies to collect tax debt. Aside from disagreeing with your action, I am surprised and disappointed that you did not seek NTEU's views on this controversial issue prior to your endorsement. I respectfully request that you reconsider your endorsement of this ill-conceived plan.

The final obstacle to investing in the IRS workforce that I wish to identify today is Section 1203 of the IRS Restructuring and Reform Act of 1998. More commonly known as the “10 Deadly Sins,” Section 1203 outlines infractions for which IRS employees must be fired. Without question, Section 1203 impedes the ability of the IRS to perform its mission. According to GAO survey results (GAO-03-394), IRS employees fear the threat of being fired under Section 1203. This in turn has had a chilling effect on the ability of IRS employees to do their jobs. Employees specifically attribute the decrease in recommending a seizure of taxpayer’s assets to Section 1203. Clearly, Section 1203 impedes IRS’ enforcement mission and is unfair to the IRS employees who must work under the constant threat of losing their jobs.

NTEU is appreciative of the efforts of the IRS Oversight Board in supporting changes to Section 1203 and we hope we can count on your continued support.

It is indisputable that the IRS workforce is getting mixed signals regarding its value to the mission of the Service and the level of workforce investment the Service is willing to make. Without a doubt, the frontline employees are committed to working with management to increase efficiency and customer satisfaction. NTEU is committed to striking a balance between taxpayer satisfaction, business results and employee satisfaction. I invite IRS management to join us in this endeavor.

I thank you for holding this important hearing today. NTEU is willing to assist you in your mission to invest in the IRS workforce.