

**Testimony of Larry R. Levitan**  
**Chairman**  
**IRS Oversight Board**  
**Before the Joint Committee on Taxation**

**May 8, 2001**

Chairman Thomas, members of the Committee, I appreciate the opportunity to appear before you today and I am proud to represent the IRS Oversight Board and discuss our role in improving the operations of the IRS. As you know, the IRS Oversight Board was established by the IRS Restructuring and Reform Act of 1998.

In the fall of last year, the Senate confirmed the seven private citizen members of the Board. We held our first meeting in September of 2000 and meet for two days every two months. While we are still a new organization and still have a lot to learn, we believe that we have gained a good understanding of many of the issues and challenges that the IRS faces.

Mr. Chairman, one obvious but powerful way to summarize the challenges the IRS faces is to tell you what the IRS is failing to do. The IRS is not meeting any of the three strategic goals and objectives defined in its own Strategic Plan:

The IRS does not “*provide top-quality service to each taxpayer in every interaction*” - for example, phone calls frequently go unanswered and notices to taxpayers are often difficult to understand.

The IRS does not “*provide top-quality service to all taxpayers through fair and uniform application of the law*” – for example, the level of audits and other enforcement activities have fallen to an unreasonably low level.

The IRS does not “*Provide productivity through a quality work environment*” – because of outdated technology, the work environment is completely inconsistent with efficient and modern practices.

These problems are well understood by Congress, by Treasury, and by the IRS. They were the subject of congressional hearings and led directly to the IRS Restructuring Commission and the passage of the IRS Restructuring and Reform Act of 1998. The passage of RRA '98 was landmark legislation that pointed the IRS in a new, long-overdue direction. The IRS Oversight Board believes that with this legislation in place, with new management on the job, with a modernization program back on track, the IRS is now on the right course. But much work still remains in order to turn around years of neglect, mismanagement, and spotty “feast or famine” funding and oversight.

To give the Committee an idea of how we have spent much of our time since being appointed this past September, let me take a few minutes to describe our analysis and recommendations on the IRS budget for 2002. As you know, one of our statutory responsibilities is to review and approve the IRS budget each year. The statute requires the Board to submit its own budget proposal, which rides in tandem with the President's budget submission to Congress. Our early meetings were focused on reviewing and approving the IRS Strategic Plan and putting together a budget that supports the goals and objectives outlined by Congress.

Mr. Chairman, our conclusion is that the President's Fiscal Year 2002 budget does not adequately support the IRS Strategic Plan and fails to provide enough funding for technology modernization and other vital operations. The Administration claims that their budget provides a 6.6% increase over 2001. While this statement is technically accurate, the Board believes that it is misleading since the IRS had an additional \$256 million of available funds in 2001 in ITIA carryover from previous years. Therefore, the real (spendable) increase in the President's budget is 3.4%, not 6.6%.

The IRS Oversight Board reviewed the budget recommended by the President very carefully. We applied our collective business and professional expertise, drawn from years of managing major corporations, small businesses, and information technology programs. Let me just emphasize that we did not accept every argument offered by the IRS. We believe that it was the intention of the Congress and the President and in the interest of America's taxpayers that we operate as an independent voice in this process, that we apply our own metrics and common sense, and provide both the Congress and the President with our best, most carefully considered opinion on what we believe the IRS needs to meet its obligations to you and to America's taxpayers.

To illustrate our budget recommendation, let me quickly outline the major differences between the budget for the IRS recommended by the Board and the President's budget:

- The Board recommends full funding of the STABLE program that will end a decade long reduction of IRS personnel and provide approximately 3,800 new employees to improve service and enforcement capabilities. The Administration also claims to fully fund STABLE. This statement is also technically accurate but misleading. While the STABLE line item in the budget is fully funded, the President's budget eliminates funding for \$137 million of real costs that the IRS will have to fund by eliminating approximately 1,300 STABLE positions.
- The Board recommends an expenditure of \$54 million to start to replace out-of-date laptop and desktop computers that will not support new software that will improve security and make IRS employees more effective. The President's budget provides no funding for this program. It makes no sense to the Oversight Board to spend hundreds of millions of dollars on new software and then not provide the necessary computer equipment to run the software.
- The Board recommends funding the Information Technology Investment Account with \$450 million during 2002 to continue the critically important technology modernization program.

This amount is based on a carefully developed plan that the Board has reviewed and strongly supports. The President's budget recommends funding the investment account at \$397 million. The impact of this gap between the President's budget and our recommendation will be to slow down a critical program that is already taking far too long to complete.

- Further, the Board recommends providing ITIA with an additional year of expenditures, \$550 million for 2003, to insure that projects that cross fiscal years will not have to experience inefficient delays and slowdowns. This multi-year funding of the investment account was part of the original strategy for the fund and this will be the first year since the fund was set up that it will drop to a zero balance. The President's budget does not recognize the importance of multi-year funding for ITIA, which the Board believes is a critically important concept as the IRS moves forward in developing and implementing these highly complex information systems over multiple years.

The Oversight Board believes the IRS is at a critical juncture. The IRS has begun an aggressive program of modernization that has the first real chance in many years to create a new and greatly improved system of tax administration and an agency that can finally provide the kind of service and responsiveness America's taxpayers deserve.

Mr. Chairman, I have submitted to the Committee as part of my testimony a formal report on the IRS Strategic Plan and our 2002 budget recommendation. This paper provides additional background on my remarks and I would ask that it be included in the official record as part of my testimony.

In closing, one obvious problem faced by the IRS and America's taxpayers is one I know the Congress continues to struggle with. While this problem is clearly outside the scope of the Board's responsibility, we believe the complexity of the tax code continues to create burdens to sound tax administration. As long as the tax code is as complex as it is today, the operations of the IRS and the service it provides to taxpayers will be negatively impacted.

Mr. Chairman, thank you for the opportunity to be here today. The newly restructured and modernized IRS is very much a work in progress. The IRS Oversight Board is proud of its important role in this process, providing oversight and guidance as the IRS moves toward the goal of meeting its strategic objectives, creating an IRS which truly provides top-quality service to America's taxpayers. I appreciate this opportunity to report on our activities and our views on these critical matters and would be pleased to answer any questions that you may have.