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**OUTGOING COMMISSIONER ASSESSES STATE OF IRS;
NEW BOARD CHAIRPERSON NAMED**

(Washington, DC) The IRS Oversight Board is releasing a report by outgoing IRS Commissioner Charles O. Rossotti who says that the IRS is “winning the battle, but losing the war” regarding tax compliance.

“Beyond the simple increase in number of taxpayers and revenue dollars, the majority of tax revenues now come from sources that are more subject to manipulation by those who wish to pay less than the law requires and much more difficult and time consuming for our agents to uncover. Meanwhile, the size of the IRS declined, not just relatively but in absolute terms, because of budget constraints,” the Commissioner stated in the report, which he prepared at the Board’s request. Commissioner Rossotti’s term heading the IRS ends on November 12.

The Commissioner stated that an increase in the number of trained personnel, adequate increases for computer modernization programs, internal productivity improvements, and effective management of the IRS can solve the IRS’ problems. The Board plans to send the report to all Members of Congress.

“This report underscores the importance of fairness to honest taxpayers. The IRS has taken great strides in the past five years under Commissioner Rossotti’s leadership. But unless it is able to meet the public’s growing demand to provide service, protect taxpayers’ rights, and enforce the tax code, the tax administration system is inherently unfair to those who file their returns and pay their fair share,” said Nancy Killefer, who was named Chairperson of the Board at its September 19 meeting.

Ms. Killefer is a senior partner with McKinsey & Co. Larry R. Levitan, Chairman of the IRS Oversight Board since its creation in September 2000, did not seek another term.

“Ms. Killefer has extensive knowledge of the IRS, is actively involved in guiding its modernization efforts, and is an expert in change management. Under her leadership, the Board will continue to do all it can to help the IRS improve both its efforts to enforce the tax code and provide service to all taxpayers,” said Mr. Levitan.

Chairperson Killefer stated, “I look forward to serving the Board as chairperson. It is imperative that the IRS stays on track by continuing to modernize its technology, streamline its business processes, and allocate resources appropriately. This is a crucial

point in the IRS' future, and the Board will play an active role in helping the IRS succeed.”

At its meeting, the Board also heard updates on a number of IRS initiatives. The Board heard a presentation on the IRS Large and Mid-Sized Business Operating Division's strategies to crack down on abusive corporate tax shelters, which are yielding encouraging results. The Board also heard a presentation on the progress of the Small Business/Self-Employed Division K-1 Matching program, which systematically matches return information, including Schedule K-1 forms, against third-party data. Joseph Brinacombe, IRS Deputy Director, Compliance Policy, Small Business/Self-Employed Operating Division, reported that the program stopped issuing notices in August to review and improve its process. The division made a commitment to the Board to actively engage stakeholders in improving its K-1 matching initiative.

Other presentations to the Board included:

- IRS FY2003 and 2004 Budget, led by Todd Grams, IRS Chief Financial Officer.
- Technology Modernization, led by John Reece, IRS Chief Information Officer and Fred Forman, Associate Commissioner of Business Systems Modernization.
- IRS Workforce Survey Follow-up, led by Todd Grams.
- Large and Mid-Sized Business (LMSB) Resource Allocation for FY2003 and 2004, led by Larry Langdon, IRS Commissioner, LMSB Division.
- IRS Security, led by John Reece.
- Filing Season Plans, by John Dalrymple, IRS Commissioner, Wage & Investment Division.
- Filing and Payment Compliance System, led by Brady Bennett, IRS Enterprise Process Owner.

The Board's next meeting will be December 9 and 10 in Washington, DC.