I’m delighted to be here this afternoon, and honored to deliver the James E. Webb lecture.

When most people hear the name James Webb, they probably think first of the moon landing, since he led NASA during the Gemini and Apollo years, and was instrumental in carrying out John F. Kennedy’s goal of sending an American to the moon during the 1960s. But just as important for public administrators is Mr. Webb’s entire body of work in public service over more than 35 years, beginning in 1932 as an aide to a member of Congress. I’m also inspired by the courageous way he dealt with adversity during his career, especially the Apollo explosion in 1967. To bring the space program back from that tragedy to reach the moon less than three years later speaks volumes about his abilities and his character.

The theme of this year’s NAPA conference – how public administration will change between now and 2025 – is an important one for all of government, and certainly is for my agency, the IRS. We’re kind of a test case in that regard, because positioning the IRS for the next decade is something we’ve been giving a lot of thought to lately. So I’m happy to have the opportunity to give you some insight into where the IRS is right now and where we’re trying to go in the near future.

I want to begin by noting that public service and the work of public administrators is something I’ve always admired, although my “checkered” employment career has taken me back and forth between the public and private sectors over the years. Last December I flunked retirement for the second time and came to work for the IRS. Having earlier agreed to become the Chairman of Freddie Mac at the start of the financial meltdown, I think it’s safe to call me a recidivist. I have decided the only answer for me when I finish my term at the IRS is either to get counseling -- or join the Witness Protection Program.

But for now let me make it clear that I am honored and proud to be the IRS Commissioner, because the agency plays such a critical role in our government. It touches virtually every American and generates more than 90 percent of the funding that supports the government’s operations. In fact, it’s been noted that the federal deficit was down significantly in Fiscal Year 2014, in large part because of the significant additional revenues collected by the IRS.

But collecting revenue and enforcing the tax laws is only part of the IRS mission. One of the things I was surprised to learn about the agency is how much time, effort and resources we spend trying to help taxpayers determine the amount they owe and how to pay it. I have often said that, while it may not be easy to convince the average taxpayer that “we’re from the IRS and we’re
here to help you,” we really do work hard to make it as easy as possible for people to file their taxes. If you are trying to become compliant, you don’t have to hire someone off of late-night T.V. to contact us. We’ll be happy to hear from you directly and work with you to solve whatever problem you have. On the other hand, if you are unwilling to pay, we are also happy to chase as long and as far as we necessary to get you to pay what you owe.

One of the most pleasant things I learned after starting this job is that the IRS has an extremely talented and experienced workforce. When I became Commissioner I decided to get out and visit our offices around the country, because I’ve always believed that the people who know the most about an organization are the frontline employees and their managers. So I advised my staff that I wanted to visit all of the IRS offices. I was advised that there are more than 500 of them. So I said I would like to visit “some” of the offices.

Thus far, I’ve been to 35 of the largest IRS offices, and I’ve talked to and listened to more than 12,000 employees in town halls with front line employees and separate town halls with managers. What’s impressed me the most is the commitment to public service that’s evident wherever I go.

You would think that in my travels I would hear a lot of grumbling or expressions of dismay, which would be understandable, in light of all that has happened to Federal employees in the last few years, and IRS employees in particular. That includes pay freezes, furloughs, government shutdowns, the budget sequester, and the background noise generated by the agency management problems that came to light last year. Instead, it’s been refreshing, and to some extent amazing, to see the level of enthusiasm and energy that our employees continue to have. The biggest concern they express to me is not that they’re paid too little or are working too hard, but that the agency lacks the resources to provide the level of taxpayer service that our employees want to offer and feel taxpayers deserve. But more on resources in a moment.

The IRS is also benefitting from the suggestions from employees about how to improve our services and become more efficient. I have received over 400 separate suggestions in my meetings and another 500 in a special e-mail box established in my name. We are reviewing them all and, on occasion, I update employees on the suggestions of theirs that we are able to implement.

Along these lines, we have just completed our review of the Employee Viewpoint Survey managed by OPM. “Employee Engagement” is an issue most Federal agencies are focused on and discussing. My concern is that, if you think about it only as “engagement”, you’ll create an engagement project off to the side and otherwise continue to manage the organization the same way. That’s why I have encouraged our senior managers to think about how to increase employee “involvement” by doing things such as asking employees for their suggestions, listening to what they have to say and taking advantage of the good ideas they put forth. I think it’s important for all public agencies as we look toward the future to encourage as much employee involvement as possible in the actions and decisions of the organization. If we are successful at that, employee engagement will inevitably follow.
Even with this can-do attitude of our workforce, it’s still hard for the IRS, as I’m sure it is for most agencies, to take the long view and plan for the future, given the many short-term challenges we all face, and the need to keep our operations running smoothly on a day-to-day basis.

At the IRS, we have approximately 90,000 employees administering the world’s most complex tax code. Year in and year out, no challenge is more critical than delivering a smooth filing season. I think it’s important to realize what a tremendous accomplishment it is for the agency to process about 150 million tax returns every year. This doesn’t happen automatically or by accident. It happens because thousands of talented and experienced IRS employees work for months planning for the next filing season – as they are doing right now – and then administering it.

But things are about to get more difficult. The IRS is going into what may be one of the most complicated return filing seasons in our history. A big part of this challenge has to do with the Affordable Care Act. The 2015 filing season will be the first one with a Form 1040 that reflects two major ACA provisions, the premium tax credit and the individual shared responsibility provision. The IRS has spent years in planning and preparation for these provisions, with hundreds of employees from all across the agency involved in this effort.

Although about 80 percent of filers won’t have to do anything more than check a box on their return showing they have health coverage, there will still be a lot of moving parts at tax time. For example, return filers who claim an exemption from health coverage will have to attach a schedule to their return identifying which of the allowable exemptions they qualify for. And filers who claim the premium tax credit will need to reconcile any advance payments of the credit with the final amount they ended up qualifying for.

The Affordable Care Act is not the only statute we are charged with implementing this filing season. The Foreign Account Tax Compliance Act, or “FATCA” as it’s usually called, has caused over 100,000 foreign financial institutions to register with us and, come January, they will start to supply us with information about Americans with accounts overseas. The importance of this Act is not just the additional revenues we will be collecting, although voluntary filing is already up significantly once people know we have the information. The implementation of the Act is important because it reassures the average tax payer, when they pay their taxes each year, that those with fancy lawyers or accountants are no longer able to hide their assets abroad and avoid paying their fair share to support the government.

All of this would be complicated and challenging enough, but the IRS is also facing the possibility of late tax legislation which, from a tax administration standpoint, is a big worry. Congress has been working on a bill to extend a group of major tax provisions that expired at the end of 2013, but it has not completed action yet. I have urged the congressional tax committees not to let this uncertainty drag on, and we hope for a clear policy direction on the extender legislation before the end of this month.

But, if the uncertainty continues into December, the IRS could be forced to postpone the opening of the 2015 tax filing season. This would delay the start of processing of tax refunds for millions
of taxpayers, since over 70 percent of taxpayers receive a refund each year. That’s not our only worry. There’s also the possibility that Congress could enact policy changes to the existing extenders or even add new tax provisions. Either scenario would mean the IRS would need to reprogram systems and make processing changes, which would result in longer delays.

The ability of the IRS to meet these and other challenges needs to be seen in the context of our budget situation, which affects everything we do to administer the tax system and help taxpayers. Over the last several years, the IRS has experienced reductions in funding that are creating serious obstacles to our ability to fulfill our mission. In the past, the IRS has received cuts in its budget and then proceeded to execute a successful filing season, often at the expense of other activities below the radar screen.

Therefore, one major thing we’ve been trying to accomplish this year has been to get greater public and Congressional recognition of the agency’s need for funding. I have spent the past year telling members of Congress that you get what you pay for, and also showing them what you don’t get if you don’t pay for it. That’s been my mantra, and I’ve probably worn out my welcome a little on the Hill by reminding people of it every chance I get.

In case you’ve missed this discussion, to give you an idea of where we stand, the IRS budget for Fiscal Year 2014 was set at just under $11.3 billion, which is about $850 million below 2010. Going into Fiscal Year 2015 we’re essentially at the same level, since we are under a continuing resolution, while Congress determines where to set our funding level for the full year. So we’re still operating with a budget that is approximately 7 percent below 2010, while the taxpaying public increased by seven million taxpayers, over the same time period.

Plus, the agency now has 13,000 fewer permanent full-time employees than it did in 2010, even as our responsibilities have continued to expand with the Affordable Care Act and FATCA. Whatever else the IRS does, it must continue implementing these and other statutory mandates. But doing so within our budget constraints creates challenges for our customer service and enforcement efforts, and for our ability to make critical information technology improvements.

A moment ago I mentioned that the federal deficit declined last year because IRS collections increased. But we are very concerned that increase will turn into a decline because of resource constraints. Between 2010 and 2014, we’re down 5,000 key enforcement personnel: that includes revenue officers, revenue agents and criminal investigators. This is forcing the agency to reduce the number of audits and collection activities. As a result, billions of dollars in enforcement revenue are not being taken in. Essentially, the government is losing billions to achieve budget savings of a few hundred million dollars, since the IRS estimates that, for every $1 invested in the IRS budget, it produces $4 in revenue.

Our ability to deliver quality service to taxpayers within the limits of our budget is also a major concern, especially in regard to the level of service on our toll-free help lines. We’re expecting a sharp increase in the number of people calling with questions during the upcoming filing season, because of the new ACA provisions I mentioned a moment ago. Passage of extender legislation would also cause an increase in calls.
If the IRS does not receive adequate funding for Fiscal Year 2015 and we can’t do the hiring needed to handle the call volume we expect, we estimate our level of phone service for the year would drop to 53 percent. That’s far below the estimated level for 2014 of 60.5 percent. Even that level is unacceptable, since it means nearly 40 percent of taxpayers did not get through to a live assistor last fiscal year.

In making the case for appropriate levels of funding for the IRS, I also continue to emphasize that the IRS is the world’s largest financial accounting institution, and that’s a tremendously risky operation to run with outdated equipment. We are running what I fondly refer to as a Model T information technology system. It’s got a nifty GPS, a resonant sound system and a rebuilt engine. But it’s still a Model T. Despite more than a decade of upgrades to the agency’s core business systems, we have some applications that were running when John F. Kennedy was President. When I was coordinating the country’s transition to the year 2000, we worried about the shortage of Cobol programmers. Some of our systems use an even older language. Training people to learn assembler language is like asking someone to learn antique Latin so that they can translate one book.

But in talking about our resource situation, there’s also a deeper issue to consider. Any marked deterioration in taxpayer services and enforcement creates long-term risk for the U.S. tax system, which is based on voluntary compliance. If people think that their chances of ever hearing from the IRS are diminishing significantly, or if they just can’t find the information they need and get discouraged, the impact is actually going to be on the compliance rate. And if the compliance rate goes down by one percent, it costs the government $30 billion a year. That’s almost three times the size of the entire IRS budget for the year.

In making the case for additional funding for the IRS, I want to emphasize that we take very seriously the need to be careful stewards of the resources we receive. Our cost-cutting measures have saved nearly $1 billion since 2010. One of my responsibilities is to ensure that we are minimizing risks and quickly solving management and operational problems that may arise, so that taxpayers can be confident that when we request additional funding, the money will be used wisely. But these efforts do not compensate for the massive deficit left by reduced appropriations in recent years, and we will continue to find it difficult to fulfill our goals for both service and enforcement as long as we do not receive adequate funding.

In order to ensure that the IRS can fulfill its mission over the long term, it’s vital that we solve this budget problem, and I will continue working with Congress until we do. I hope that one of the legacies of my time as IRS Commissioner will be that we put the agency’s funding on a more solid and sustainable footing.

But I also recognize that we’re not the only Federal agency struggling with funding shortfalls. While we’re the only major agency operating at the post-sequester level,

So that gives you an idea of where the IRS is today. I’d also like to talk about the work we have been doing to develop and implement a longer-term vision for the future of tax administration. We have begun to ask ourselves what the tax filing experience ought to look like for a taxpayer several years down the road, and what it would take to make that vision a reality.
We have already started down this path by working to provide more online tax information that taxpayers want and need, and many of our efforts have centered on improving our website, IRS.gov. Last year alone, taxpayers viewed IRS.gov web pages more than a billion times. A lot of this involves getting forms and publications and finding answers to tax questions. But there are more interactive tools as well.

For example, one of the most popular features on IRS.gov is the “Where’s My Refund?” electronic tracking tool, which taxpayers used more than 200 million times last year. Now that doesn’t mean, of course, that there are 200 million taxpayers. Some of them just can’t resist checking over and over to see how their refund is doing. Another innovation, Get Transcript, is a secure online system that allows taxpayers to view and print a record of their IRS account, also known as a transcript, in a matter of minutes. Besides helping taxpayers, these and other innovations help the IRS better manage its limited resources by moving millions of people off the phones and onto our website.

But even with these and other recent innovations in online taxpayer services, which have been very helpful, the IRS is still far from providing the type of access that people need for a more robust online experience. While taxpayers are using the online channel more and more, we never lose sight of the fact that millions of people still call us on the phone, go to our walk-in sites and correspond with us through the mails, all in order to do the right thing and voluntarily comply with their tax obligations.

I say this because while we always strive to provide quality service, we realize that the experience for the taxpayer isn’t always the most efficient. Millions of taxpayers and continue to wait on the phones, wait in lines outside IRS offices around the country, or wait for correspondence from us – simply because there’s no good option online.

So in this context, one of the things we’ve begun to do is try to define what a more complete online filing experience should be. In this future vision, most things that taxpayers do to fulfill their tax obligations could be done virtually, and there would be much less need for in-person help or for calling the IRS.

It’s important to remember we now have a much different taxpaying public than we did 25 or 30 years ago. Back then, filing your return on paper was the norm. Those of us who have been around a while remember when post offices stayed open until midnight on April 15th to accommodate the crunch of last-minute filers. But now, the vast majority of taxpayers file their returns electronically. The latest generation of filers sees electronic filing as the norm, not an innovation, and will expect a great deal more from the IRS in terms of online services, electronic communications, and mobile apps.

So the online experience should give taxpayers confidence in knowing they can take care of their tax obligations in a fast, secure, transparent and consistent manner. We are not talking about going to the moon with a new system. What we are saying is that people ought to have the same experience dealing with the IRS sometime in the future that they have now with their financial institution, whether it’s a bank, brokerage or mortgage company. The idea is that taxpayers
would have an account at the IRS where they can log in securely, get all the information about their account, and interact with the IRS as needed.

Improving service to taxpayers in this way can also help us on the compliance side of the equation. Under this future vision, the IRS could identify anomalies in tax returns shortly after a return is filed, and interact with taxpayers as soon as possible so that those anomalies could be corrected without costly follow-up contact or labor-intensive audits – and without trying to remember where you filed your records from last year or the year before.

Imagine, for example, if we could simply send a message to a taxpayer saying, “We just received your return and notice that you forgot this schedule,” and they could respond, by promptly uploading that schedule to their account. There would be no need for phone calls or correspondence to iron out such a minor problem.

I want to point out that this online experience as we envision it needs to be expanded at some point to include business taxpayers. Everyone ought to be able to interact with the IRS in this way. It would make everyone’s tax experience easier, with taxpayers saving time and the IRS saving resources.

This vision I’m describing is not an approach that we will be ready to implement this year or even next, but we want to make it a reality in the future, some years from now. Of course, how quickly we can deliver on this vision will depend on future levels of agency funding.

Moving the IRS into the future also means expanding the methods by which the agency communicates with taxpayers. Going beyond traditional media, such as newspapers and broadcast news, the IRS continues to employ new technologies and social media, such as YouTube, Twitter and Tumblr, to reach more taxpayers and provide important service and compliance messages to them – anywhere, anytime, and on any device. All of these efforts are reflective of how we’re trying to position the agency for millenials and other young people.

One great example of what we’re doing in this area is our smartphone application, IRS2Go, that allows taxpayers to check the status of their refund, request tax records, and get tax news updates on their mobile devices. To date, there have been more than 3.5 million downloads of the application since its inception in 2011.

So that gives you an idea of where we are going in modernizing taxpayer service and compliance. Implementing this vision will be a major challenge for the agency, and we are excited to be on this journey.

If you look at what the IRS is doing, we are in a sense playing catch up. As I mentioned, we want to be able to interact with the taxpayer in an online channel in the same way that they can do now with their financial institution. They have an expectation of a level of service, and it’s our job to provide it, so we are catching up with the experience they have already had for a while with their other financial transactions.

I believe the challenge for all of government in looking 10 years down the road is to determine what kind of catch-up is needed. We in the public sector need to do a better job, not of trying to
be on the cutting edge, but, as our outstanding IT director Terry Mulholland says, we need to be “fast followers.” In fact, we probably shouldn’t be at the cutting edge because of the risks involved.

When I was the Y2K Czar, the most difficult challenge we faced within the Federal Government was the necessary update of the FAA’s air traffic control system. They were the very last people using old IBM mainframes and, just as I started, I got a copy of a letter to the FAA from IBM noting that the system would not work in the year 2000 and could not be fixed. As the FAA designed its new system, I asked why they were focusing on an already established technology solution that was going to be out of date sooner than the most modern systems. They noted that “we can’t afford to Beta test any technology while planes are in the air.”

And that’s our situation at the IRS as well, although moving employees from Windows XP to Windows 7, which we’re doing right now, is probably not what Terry would define as being a “fast follower.” But within the context of being “fast followers,” we need to be aware of the changes that are going on around us and take advantage of those changes, in order to bring public administration into the next decade.

Take teleworking, for example. In the public workforce, telework is growing, much as it has already done in the private sector. Increasing the opportunities for telework makes us more efficient and reduces our need for office space which, in a time of budget constraints, is an important benefit to an agency like the IRS.

Telework has grown to include not only working at home, but also satellite offices, and concepts like office hoteling. We can expect this to continue to morph and change, as more and more people across the economy are going to end up in a situation we’re in right now, where no one cares where you are. You can be in your office, at home or on the road. You could be anywhere. All anyone cares about is being able to communicate with you when they need to.

In terms of keeping up, one thing we know is that between now and 2025, all of us are going to be increasingly out of touch with what’s going on with the 20-year-olds. Any organization, whether it’s in the public or private sector, tends to be run by leaders who by definition have moved through the ranks and built their careers, and therefore are 20 or 30 years older than the people who are new to the system, whether as employees or customers.

That’s a true generation gap that always makes it a challenge for leaders to be open to new ideas and approaches. And it’s a challenge for government agencies to figure out how to effectively move forward to meet the expectations of what the public assumes would be an appropriate way to interact and communicate. As I’ve illustrated, that’s exactly what the IRS is grappling with right now.

The bottom line is that technology is changing so quickly, there’s no way to guarantee or even know what the world is going to look like in 2025. That of course makes it difficult for any organization to have a concrete plan at this moment of where it will be 10 years from now. Organizations can, however, still develop effective approaches for continuing to identify and make needed changes. In that way, they can effectively and appropriately respond and adapt
when technology changes, when economies change, and when expectations change. And that, I believe, is how an organization can remain viable in 2025 and beyond.

Thank you, and I would be happy to take questions in the time we have left.