RALEIGH, (SGRToday.com) - On Wedneday, IRS Commissioner John Koskinen spoke to the National Press Club. He has been on the job for three months and is the former chairman of the Duke Board of Trustees.

Koskinen discussed tax issues as well as the IRS's role in the Affordable Care Act. Following are his prepared remarks, which can be found at irs.gov.

Thank you for that warm welcome. It’s an honor for me to be here today at the National Press Club for the first time as IRS Commissioner.

Now that we’ve turned the calendar to April, I know there are usually two things on peoples’ minds. The first is Spring and the second is taxes. Plus watching the Final Four this weekend. As a former Chairman of the Duke Board of Trustees, we had a moment of silence earlier in the tournament. But the loss to Mercer was part of a longer term-strategy to increase the Duke endowment in the hopes of a substantial contribution from an unnamed major investor in the United States, in recognition of the billion dollars we saved him by losing the game.

Moving on, if you came to this luncheon or tuned in expecting to hear about the state of affairs at the Internal Revenue Service, you’ve come to the right place.

I was sworn in as IRS Commissioner a little over three months ago, and I feel exactly the same way I did on Day One: Excited and proud to lead an agency that’s critical to the functioning of our government and one that touches virtually every American. These last three months I’ve traveled to 18 of the 25 largest IRS offices around the country. I have talked with and listened to about 8,000 employees so far and been delighted to see the professionalism, skills and dedication of our employees.

I am on this journey because, throughout my career, I have found that the people who know most about what’s going on in an organization are the front line employees. They have important insights into the opportunities and challenges an organization faces.

In light of all that has happened to Federal employees in the last four years, and IRS employees in particular – no pay raises for four years, government shutdowns, furloughs and the negative publicity about the IRS the last year – you might have expected that I would have heard a lot of grumbling from employees about not being paid enough or having to work too hard. Instead, the consistent response I have heard is a concern that we do not have enough employees to provide the level of taxpayer services our employees want to provide and feel taxpayers deserve.

I also have heard at every stop – even in the 18th city last Friday – interesting observations and suggestions about how we can improve the day-to-day operations of the agency. And I have explained in town halls with front line workers and meetings with managers at each office that one of my goals is to foster an environment where information flows easily from the bottom up in the agency as well as from the top down.

This is critical, not only for us to get the benefit of observations and suggestions from employees, but also to learn as quickly as possible about problems or challenges. I have noted that it is illusory to think that we'll never have a problem or make a mistake. We have 90,000 employees administering the world's most complicated tax code and dealing with millions of taxpayers. Instead, my goal is for us to find problems quickly, fix them promptly, make sure they stay fixed, and be transparent about the entire process. I've told our employees that if there's a problem anywhere in the organization, it's my problem and we'll fix it together. If an employee makes an honest mistake, it's my mistake as well, and we'll work together to remedy the situation. And if there's a problem that I don't know about, that's my fault, because it would mean we haven't built a culture that encourages information to flow up from the front lines through the organization.

As I tell the employees, my theory is that "bad news is good news," since the only problem we can't solve is one we don't know about. And, as a corollary, employees need to know that we don't shoot messengers, we thank them.

In moving the IRS forward, one of the most important things we have to do is restore public trust in the agency, which was shaken by the management problems that came to light last year with regard to the determination process used for applicants to become tax exempt social welfare organizations under section 501(c)(4) of the IRS code. Organizations that have 501(c)(4) status can be everything from garden clubs to homeowners associations, but the focus for the last year has been on advocacy groups that spend part of their time and money on political campaigns.

As a result of the inappropriate use of an organization's name alone as the criterion for setting its application aside for special treatment, doubt has been cast by some on the independence of the IRS. This is an important issue that deserves our attention. But it is also important to put this issue into the proper perspective. The IRS has about 800 employees in its Exempt Organizations Division, and only a small subset of those folks work on processing applications for tax-exempt status for social welfare organizations. Meanwhile, there about 89,000 other IRS employees in offices all across the country who are also doing critical work for our tax system and for the nation in other areas.

Nonetheless, taxpayers need to be confident that the IRS will treat them fairly. It doesn't make any difference who they are, what organizations they belong to, or whom they voted for in the last election. None of that matters to us at the IRS. We will do about one million audits of individual taxpayers this year. Some who get audited may be Democrats, some may be Republicans, and others may be something else altogether. But they will all have one thing in common: They're being contacted by us because there was something on their tax returns that needed follow up. Perhaps we just need a clarification. Maybe there was a mathematical error. Or there could be something seriously wrong with the return. But the return alone is the reason for our inquiry. And anyone else with the same issue would receive the same treatment from the IRS.

To make sure that this problem does not recur, we've done a number of things. We have accepted all nine of the recommendations from the Inspector General for Tax Administration. It was his report last May that found applications for 501(c)(4) status were being screened using inappropriate criteria in the determinations process.

Since then, for the last several months the IRS has been cooperating with the investigations into this matter that were launched last summer. There are six ongoing investigations, four conducted by Congressional committees, one by the Department of Justice and one by the IG.

We were asked by members of Congress to quantify the work we've done and how much it has cost. The answer is that more than 250 IRS employees have spent over 100,000 hours working directly on complying with the investigations. This work has cost more than $14 million, which includes adding capacity for our computer systems to make sure we are protecting taxpayer information while processing and producing these materials.

In letters to Congressional Committees two weeks ago and in my testimony before the House Oversight and Government Reform Committee last week, I was pleased to report that we now have provided all the documents we have identified as being related to the determinations process – which was the focus of the IG's report last May. We have provided the tax writing committees, our primary oversight committees, with almost 700,000 pages of documents. We are still redacting taxpayer information from the last of those documents before they can be shared with the Committees that do not have authority to see taxpayer information.

As a result, my hope is that at least some of the six pending investigations will be concluded and reports issued in the near future. I have made it clear that we will respond appropriately to the facts and recommendations of those reports and move the agency forward.

Our production of materials has proceeded according to priorities set with all of the investigating committees and, as we have now completed our production of documents related to the determinations process, we are prepared to work with the committees on any new avenues they may want to pursue.

You may have noticed that, during my three-hour hearing last week before the House Oversight and Government Reform Committee, some members of the Committee expressed unhappiness with the rate at which we are producing redacted information for them. As I tried to make clear, we never indicated that we would not respond to the very broad subpoena for documents we received in mid-February. Indeed, we have produced documents responsive to each of the subpoena's categories. In the private sector, a court would require these requests to be reduced to those relevant to the inquiry. Unfortunately, the subpoena contains no such limitations, so the volume of materials requested means we could be at this for a long time.

Another recommendation by the IG was that the Treasury Department and the IRS should provide clearer guidance on how to assess the permissibility of 501(c)(4) social welfare organizations' activities. So last November, Treasury and the IRS issued proposed regulations that are designed to clarify the extent to which a 501(c)(4) organization can engage in political activity without endangering its tax-exempt status.

While I was not involved in the issuance of this draft proposal, because it happened before I was confirmed as Commissioner, I believe it is extremely important to make this area of regulation as clear as possible. Not only does that help the IRS properly enforce the law, but clearer regulations will also give a better roadmap to applicants, and will help those that already

have 501(c)(4) status properly administer their organizations without unnecessary fears of losing their tax-exempt status.

During the comment period, which ended in February, we received more than 150,000 comments. That's a record for an IRS rulemaking comment period. In fact, if you take all the comments on all Treasury and IRS draft proposals over the last seven years and double that number, you come close to the number of comments we are now beginning to review and analyze. It's going to take us a while to sort through all those comments, hold a public hearing, possibly repropose a draft regulation and get more public comments. This means that it is unlikely we will be able to complete this process before the end of the year.

Before leaving this topic, I want to note one other thing. Last month, former IRS Commissioner Randolph Thrower passed away at the age of 100. Commissioner Thrower led the IRS from 1969 to 1971, during the early years of the Nixon Administration, which turned out to be a challenging time for the agency. Commissioner Thrower held firm against attempts being made at that time to politicize the agency. The White House eventually fired him for his principled stance.

I'm sure if Commissioner Thrower were here today, he would say he was only doing his job. But he was doing much more. His refusal to let politics compromise the IRS is an important reminder to all IRS Commissioners now and in the future of what our mission is. I intend to follow his example. I want to reassure everyone listening to me today that the IRS is an agency of career civil servants who are dedicated to serving the American taxpayer in a fair and impartial manner. That's how it's always been, and that's how it will stay on my watch.

We have other important challenges to face. One example of this is insuring that the tax filing season goes smoothly. When I started in December, I told our employees that I wanted to help with the filing season and, as the new kid on the block, the best thing I could probably do was to stay out of the way. I've been very successful at that and, at least partially as a result, the filing season has gone very well thus far.

Through the end of March, we've received more than 90 million tax returns and issued more than 73 million refunds, for approximately $207 billion.

As we get closer to the April 15th deadline for filing returns, I think it's important to realize what a tremendous accomplishment it is for the agency to process 150 million individual taxpayer

returns every year. This doesn't happen by accident and it doesn't happen automatically. It happens because thousands of dedicated and experienced employees work for months planning for the next filing season and then administering it.

Another top priority of ours: taxpayer service. This filing season, as we do every year, the IRS provides services to taxpayers to help them fulfill their tax obligations.

Taxpayers want and need more online tax information and services, and we're working to meet that demand by making improvements to our website, IRS.gov. Last year alone, taxpayers viewed IRS.gov web pages more than 450 million times, to get forms and publications, find answers to their tax questions and check the status of their refunds.

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.

This year we have several new digital applications that will expand what taxpayers can do online. One of these applications is IRS Direct Pay, which provides taxpayers with a secure, free, quick and easy online option for making tax payments. 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. We are also in the final stages of revamping the IRS Online Payment Agreement, which allows taxpayers to apply for an installment agreement online.

To provide better service, the IRS is also expanding the methods it uses to communicate information to taxpayers. We have moved beyond traditional media, like newspapers and TV news to also take advantage of social media, such as YouTube, Twitter and Tumblr.

During my three months on the job, I have been surprised to learn how much time, effort and resources we provide trying to help taxpayers determine the amount they owe and how to pay it. As I have said, it may take me a while to convince the average taxpayer that "we're from the IRS and we're here to help you," but we really do work hard to make it as easy as possible to file your taxes.

Along with taxpayer service, another high priority for the IRS is maintaining a robust tax compliance program and building on the work that's been done to improve compliance in a number of areas. One of the most important of these is the battle against refund fraud,

especially fraud caused by identity theft. I say “battle” because we really do have a fight on our hands against identity thieves who steal peoples’ information outside the tax system and use that information to file a tax return claiming a refund.

We’re doing a much better job of stopping suspicious returns before they can be processed compared to a couple of years ago, and our criminal investigators are making great progress in helping the Justice Department find these criminals and put them behind bars. Last year we protected $17.8 billion from refund fraud, we initiated 1,400 investigations, and we obtained over 1,000 indictments and 400 convictions. We’re also doing a lot better at helping identity theft victims clear up their IRS accounts after they have been victimized. The time for resolving a new case has been reduced from over 300 days to roughly 120 days. But there’s still room for improvement, and we intend to do even better.

Perhaps our most intense challenge is fulfilling the responsibility Congress has given us to implement tax-related provisions of enacted legislation, including the Affordable Care Act. We have a lot of work to complete if we are going to be prepared for major ACA provisions that go into effect this year, including the premium tax credit and the individual shared responsibility provision. As I have told our employees, the significant challenge of implementing the Affordable Care Act provides us with a major opportunity to demonstrate the skill, dedication and competence of the IRS. After the difficulties experienced last fall with the rollout of ACA, if we can have a smooth filing season next year including the appropriate review of the returns of taxpayers who took or were eligible for the advanced premium tax credit, the public and the Congress will have to say, “That’s some organization with an amazing work force.”

Along with the ACA, another important piece of legislation we’re in the process of implementing is the Foreign Account Tax Compliance Act, which is more commonly known as FATCA. This law is important because it requires foreign financial institutions to tell us about accounts owned by U.S. citizens. With this information, we can do a much better job of combatting offshore tax evasion. Our goal is to make it more and more difficult for Americans to hide their money in a tax haven to avoid paying taxes.

The importance of FATCA is not just that we’ll be collecting more money. It is also important because the average taxpayer has to be confident that, while they are paying their taxes, the very wealthy, with fancy lawyers and accountants, are no longer able to hide their money in foreign countries and avoid paying their fair share to support the operations of the government.

When I became Deputy Mayor of Washington, the city's theory of snow removal had been that "the sun will come up tomorrow." So, when I began, we had a "snow summit" and I told the leadership team that, whatever else we were going to do, we were going to get the snow off the streets. That's my feeling today at the IRS. Whatever else we are going to do, we are going to implement the non-discretionary legislative mandates we have been given: the Affordable Care Act and FATCA.

This brings me to what I believe is the biggest challenge facing the IRS today, the substantial decline in our funding, which puts significant strain on our ability to provide adequate services to taxpayers and to maintain strong service and enforcement levels to ensure the integrity of our voluntary compliance system.

For the IRS to keep making progress in all the areas I've just mentioned, it is critical for us to receive adequate resources. The agency continues to be in a very difficult budget environment since we are the only major agency functioning basically at the post-sequester level rather than having been moved back toward the pre-sequester level of funding. Since Fiscal 2010, IRS appropriations have been cut by about $900 million and we have 10,000 fewer employees even as our responsibilities continue to expand.

We recognize the need to become more efficient, no matter what happens to our funding level. Since 2010, the IRS has cut annual spending on professional and technical service contracts by $200 million. We generated $60 million in annual printing and postage savings by eliminating the printing and mailing of certain tax packages and publications, and by transitioning to paperless employee pay statements.

Real estate is another area where we have found major savings. In 2012 the IRS began a sweeping space-reduction initiative that is projected to reduce rent costs by more than $40 million and reduce total IRS office space by more than 1.3 million square feet by the end of this fiscal year. Taken together, we're spending $300 million a year less in these areas.

We will continue our efforts to find savings and efficiencies wherever we can. And we will continue to carry out our core responsibilities and work toward preserving the public's faith in the essential fairness and integrity of our tax system. But these budgetary constraints will pose serious challenges to our efforts to enforce the tax laws and provide excellent customer service.

Essentially, the federal government is losing billions in revenue collection to achieve budget

savings of a few hundred millions dollars, since the IRS estimates that, for every $1 invested in the IRS budget, it produces $4 in revenue.

As I said during my confirmation hearing, I didn't find a single organization in my 20 years of private-sector experience that said, "Let's take our revenue operation and starve it for funds and see how it does."

So far this filing season, we have been fortunate that the volume of phone calls to our toll-free lines is actually down a bit compared to this time last year. One factor is the lack of major tax changes in 2013, which means fewer questions from taxpayers. Our improved website and its applications also have helped provide taxpayers with important support without requiring a phone call.

As a result, for now, we're maintaining a level of phone service around 72 percent. That's much better than last year's overall average of 60.5 percent. But we expect that for the year we will drop well below 70 percent and end up closer to last year's 60.5 percent. That would mean more than 30 percent of taxpayers trying to reach us on the phone couldn't get through. It wasn't that long ago, with proper funding, that our level of service was 88 percent.

Along with phone service, we're also concerned about the amount of time it takes for people to get help in person when they go to one of our Taxpayer Assistance Centers. We've had reports from field staff in offices across the country of taxpayers lining up outside our centers well before the centers open in the morning to make sure they receive service the same day, sometimes waiting up to three hours to be served after they enter the office. Expanding our online offerings can only go so far to ameliorate these problems. As Forbes magazine noted earlier this year, when you punish the IRS you punish taxpayers.

Our information technology operation is still another area that the IRS has always been focused on. Our use of IT helps us do a better job of stopping potentially fraudulent returns before they are processed and allows us to keep making improvements to our operations and our website. Our 2014 budget had $330 million for IT work related to implementing ACA. None of that money was provided. Since we are mandated by statute to implement ACA, that has meant that other vital IT projects have had to be shelved.

The solution to the budget problem that we face starts with the Administration's Fiscal Year 2015 budget proposal, which was released last month. The Administration proposes a funding level of approximately $12.5 billion for the IRS for Fiscal 2015, which would reverse the erosion in our budget over the last several years.

I think it's fair to ask what value the American taxpayer would get for that extra billion or so dollars that the Administration is proposing. It would help taxpayers get the service they need and strengthen compliance efforts in key areas, especially the two I mentioned earlier – refund fraud and offshore tax evasion. The budget proposal halts the declines in key enforcement personnel we've had and allows the IRS to again invest in necessary basic infrastructure.

Ultimately, it's in everyone's best interests to have an IRS that can do its job. We don't believe that any member of Congress wants their constituents – be they taxpayers, tax preparers or financial advisors – to go through the aggravation of not getting the help they need from the IRS. They don't want their constituents waiting in line for hours at a taxpayer assistance center or having trouble getting through on our toll free lines.

So my hope is that once we get beyond the issues surrounding the 501(c)(4) application process, and once the major tax-related provisions of the Affordable Care Act that I mentioned earlier are up and running, we can have a more normal discussion about our budget. I look forward to working with Congress to solve this budget problem. 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.

There's another way in which Congress can help the IRS improve the work it does to assist taxpayers and ensure compliance with the tax laws, and that is to simplify the tax code. Congressman Dave Camp, Chairman of the House Ways and Means Committee, put it well when he introduced his tax reform proposal a few weeks ago. He said that the tax code is ten times the size of the Bible, without the good news. The IRS Taxpayer Advocate has estimated that individuals and businesses spend about 6.1 billion hours a year complying with the filing requirements of the tax code. All in an effort to determine and pay the right amount of taxes.

We can do better than that. And, while tax policy is the domain of the Treasury Department, the Administration and the Congress, those of us involved in tax administration are anxious to do whatever we can to assist in the process.

Thank you very much for letting me spend this time with you. With that, I'd be happy to take some questions.