PREPARED REMARKS OF
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I'm delighted to be here today, and I appreciate the opportunity to join you at your annual meeting.

This time last year I was still the new kid on the block, having started my term back in December of 2013. I've learned a lot over the past 14 months, and one of the things I discovered right away was the time pressure that the IRS Commissioner is under. That makes it hard for me to get out and speak to key stakeholders as often as I would like. But I wanted to come and talk to this group in particular, to let you know how much I value the longstanding partnership we have with your organization.

For more than six decades, the Section of Taxation has provided critical feedback to the IRS on a wide range of tax issues. You bring a perspective that we need, as we develop published guidance and assist taxpayers in understanding and complying with the tax law. Your support and advice is an important component in our ongoing efforts to improve tax administration. I look forward to maintaining our partnership during my term as Commissioner.

With that said, let me dive into some of the major challenges we face and initiatives we are working on, to give you an idea of what's ahead for the IRS this year and beyond.

No challenge facing the IRS today is more critical than our budget situation. Our funding has been reduced in each of the last five years. I've been telling people we seem to be heading for a new American record for the number of years in a row that an agency's budget has been cut.

In case you've missed the news coverage, the IRS budget for Fiscal Year 2015 was set at about $10.9 billion. That's $346 million less than 2014. But it really amounts to a total reduction of almost $600 million from last year, when you count another $250 million in mandated costs and inflation that we have to absorb.

But that's not all. The reduction I just described is on top of another $600 million cut we had already taken as a result of government-wide sequestration in 2013. Congress ended up reversing most of those cuts, so that every other major federal agency was restored to the pre-sequester level, except for one: the IRS. So as I've been telling people, the IRS is essentially two sequesters ahead of everyone else. The President' Fiscal Year 2016

Budget proposal requests $12.9 billion for the IRS, which would help reverse the decline in our funding over the last several years.

One of our main challenges going forward is to get people to understand that, at our current funding level, the IRS is going to have to do less with less. This means that both enforcement and taxpayer service will suffer. I should point out that if we're falling short in these areas, it's not because of any lack of effort from our workforce. On the contrary, I continue to be impressed by the high level of dedication and commitment of our employees in the face of so many challenges.

Rather, the problem is that our levels of staffing are insufficient to fully deliver on our mission. To cope with the budget cuts, since 75 percent of our budget is personnel, the IRS began to substantially cut hiring in 2010. As a result, we ended Fiscal Year 2014 with more than 13,000 fewer permanent full-time employees compared with 2010. We expect to lose another 3,000 to 4,000 through attrition by the end of this fiscal year.

I want to take a moment to specifically address the budget's impact on individual audits. While the budget has fallen by more than $1.2 billion in the last five years, we've seen a deeply disturbing drop in our individual audit rates.

Audits for individual taxpayers last year dropped to the lowest level in a decade. The IRS audited 1.2 million taxpayers in Fiscal 2014 -- that's 150,000 fewer than in 2013 and over 300,000 below 2010. Audits fell in virtually every individual category and across income levels. This continues a long-term trend that carries serious implications for our tax system and the nation.

The math is pretty simple. There are fewer audits because we have fewer auditors. The IRS lost more than 2,200 revenue agents since 2010. Last year alone, there were 600 fewer auditors, with the total falling to 11,600 - the lowest level in more than a decade.

The Administration's Fiscal 2016 budget would help stop the erosion we've been seeing in the enforcement area. The budget would allow us to increase compliance work in a number of key areas ranging from identity theft to offshore compliance. As part of this, the budget would add nearly 1,100 people to help with audit efforts. Keep in mind that, once fully trained, every IRS compliance employee generates about $1.2 million a year.

Along with enforcement, we are also concerned about how the reduction in our funding affects the services we provide. These cuts have a direct and noticeable impact on both taxpayers and their representatives. During this filing season, we expect taxpayers will continue to see longer wait times on the phone with the real possibility that fewer than half of taxpayers trying to call us will get through.

In that regard, I'm sorry to say that the Practitioner Priority Line is becoming something of an oxymoron. The waits for practitioners on this line are beginning to rival those for the regular taxpayer help lines, which of course is unacceptable to all of us. Tax practitioners interact with the IRS every day, and they need our assistance and expertise to properly represent their clients and help them correctly fulfill their tax obligations.

Another area of concern is information technology. Because of the restrictions on our funding, the IRS has been forced to delay critical projects in the IT area. To cite just one example, we're falling behind in upgrading hardware infrastructure. As a result, the IRS has a large and increasing amount of aged hardware, some of which is three to four times older than industry standards. This compromises the stability and reliability of our information systems, and leaves us open to more system failures and potential security breaches.

It is important to point out that the IRS is the world's largest financial accounting institution, and that is a tremendously risky operation to run with outdated equipment. Despite more than a decade of upgrades to the agency's core business systems, we still have very old technology running alongside our more modern systems. To me, that's like driving a Model T that has satellite radio and the latest GPS system. Even with all the bells and whistles, it's still a Model T.

This problem applies to our software as well. We still have applications that were running when John F. Kennedy was President. I give our IT employees a tremendous amount of credit. To keep things going in the face of these challenges is really a major accomplishment.

You can see that our budget situation leaves us with very difficult choices. We have been attempting to cope by protecting the core operations of the agency. We cannot hollow out the organization, and must identify the things that absolutely need to get done, and do them well. For example, we must always do our best to deliver a smooth filing season. We are obligated to implement congressional mandates such as the Affordable Care Act and the Foreign Account Tax Compliance Act. And in the legal area, our obligations include litigating cases at the U.S. Tax Court.

The priority guidance plan is another good example of a core function that we cannot abandon. Our Office of Chief Counsel continues to make every effort to issue guidance in a timely manner. However, we may be at the point where we need to scale back the guidance plan in order to better target the resources we spend on guidance.

The number of attorneys in Chief Counsel has declined approximately 10 percent since 2011 through attrition. Our continued hiring freeze means there are no plans at this time to increase those levels. This will have a negative impact on how quickly we can complete published guidance and issue private letter rulings, and on how much time we can spend talking informally with tax professionals about issues that arise. As we decide how to allocate the resources we have for guidance, we will need to focus on retail issues, involving individual and their 1040s. Unfortunately, the guidance sought for more highly specialized areas is something that may suffer as a result.

In discussing our budget, one of the most troubling things to me about these funding cuts is they may prevent us from fulfilling our concept for the tax filing experience of the future. We have begun to ask ourselves what that experience ought to look like three to five years down the road, and what it would take to make that a reality. Under this concept, 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.

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. This is not an unrealistic goal. We're not trying to go to the moon. We're simply saying that people ought to have the same experience dealing with the IRS as 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. In the future, the IRS could identify problems in tax returns shortly after a return is filed, and interact with taxpayers as soon as possible. That way, those issues could be corrected while tax records are available without costly follow-up contact or labor-intensive audits.

And it's not as if this would all be new. To the extent we've been able to, even within our budget constraints, we've already made some significant improvements in our technology to serve taxpayers.

For example, one of the most popular features on IRS.gov is the "Where's My Refund?" electronic tracking tool, which taxpayers have already used more than 100 million times this year. Now, of course that doesn't mean 100 million people have already filed their returns, just that some of them can't resist checking on their refund over and over.

Another good example is IRS Direct Pay, which provides taxpayer with a secure, free, quick and easy online option for making tax payments. Still another example is Get Transcript, a secure online system that allows taxpayers to view and print a record of their IRS account in a matter of minutes.

So while we already have a few of the building blocks in place, we still need to engage in a full court press in an organized way, to build further toward the future. With the budget constraints now, we've tried to preserve our ability to invest in the future to some modest extent, but it's clearly not possible to make all of the investments that we will need.

Aside from the budget, the biggest challenge for our agency each year is delivering a smooth and successful tax filing season. We're about five weeks into the current filing season, and so far everything appears to be going well. Through February 13th, the IRS received more than 39.6 million individual income tax returns and issued more than 30.9 million refunds for approximately $99.7 billion.

I was especially delighted that we were able to open the filing season on schedule. This is a stunning achievement by our employees. Along with normal filing season preparations, there was a significant amount of extra work to get ready for tax changes relating to the ACA and FATCA. We also had to update forms and instructions, and our systems, to reflect the passage of the tax extender legislation in December. And of course this has all been done under extremely tight budget constraints.

Much of our preparation for this year's filing season has focused on the ACA and the major tax provisions that went into effect last year. These provisions have in some cases changed what filers need to do at tax time. It's true that most people will only have to check a box on their Form 1040 return to indicate they had health coverage. But some filers will be claiming exemptions from coverage, and many others will need to reconcile advance payments of the premium tax credit.

For that last group, we've been trying to get the word out that, before they can file, they will need the information from the Form 1095-A that they receive from the Health Insurance Marketplace. We're expecting a lot of questions on the ACA, so we've been encouraging everyone to go to IRS.gov, where there is a wealth of information on the ACA tax provisions, organized in a user-friendly Q&A format.

Moving on, I'd like to take a moment to talk about FATCA, since I realize it is a major topic for this group. FATCA's enactment has had a dramatic impact on the global financial system, as financial intermediaries all around the world have had to modify their systems and processes to carry out what FATCA calls for.

More than 150,000 Foreign Financial Institutions have registered under FATCA. In January we achieved a major milestone when we opened the International Data Exchange Service, or IDES. Financial institutions and host country tax authorities will use IDES to supply the IRS with information about Americans holding accounts overseas. The IRS will use IDES to supply Model 1A Intergovernmental Agreement partners with information regarding their account holders in United States banks.

One thing that has surprised me about FATCA has been its acceptance by tax administrators all over the world. I discovered this back in October when I attended the Forum on Tax Administration meeting in Dublin. I had expected to hear a lot of negative feedback, with administrators viewing FATCA mainly as a U.S.-generated issue that was causing them to do a lot of work. Instead, I found uniform enthusiasm among the FTA's member countries for the system of reporting that FATCA calls for. This system has been largely adopted by Global Forum members who are lining up to participate in the Common Reporting Standard, or CRS.

Increasingly, governments are cooperating to ensure that taxpayers comply with the tax obligations of their home jurisdictions. The cornerstone of these cooperative efforts is the exchange of information. In that context, FATCA is being viewed not as an end in itself but as a beginning – the first universal platform designed for information exchange.

Although this is a positive development from the standpoint of tax administration, it also poses serious challenges for U.S. multinational companies and their tax advisors. Many tax administrators are shifting away from a concern about double taxation to a concern about nontaxation in regard to multinational companies that operate within their borders. This concern is reflected in the policies we see emerging from the OECD and the G-20 governments. These policies will likely lead to an increase in activity on the part of some tax administrators against cross-border tax avoidance, with potentially a significant increase in cases of double taxation.

I want to assure everyone that the IRS will continue its efforts to make clear the need to avoid double taxation in order for companies to operate effectively in the global economy. Indeed, my team is leading an effort in the FTA that is designed to improve the mutual agreement procedures, or MAP, that are used by Competent Authorities to resolve cases of double taxation. Our effort, known as the MAP Forum, is already making good progress toward the goal of ensuring stronger and more effective MAP programs. So I am confident that the growing spirit of cooperation I mentioned a moment ago will result in governments working together to resolve any double taxation impact of the new policies of the OECD and G-20.

Before I conclude, I want to touch on one other area in need of improvement, and that is audits of large partnerships. This has become a very challenging area for the IRS, in part because the number and complexity of partnerships has grown significantly over the last several years. A related challenge involves the application of the partnership audit rules contained in the Tax Equity and Fiscal Responsibility Act of 1982.

The procedures set up under TEFRA were designed to improve tax administration by making it possible for the IRS to conduct audits at the partnership level, instead of auditing each individual partner. But TEFRA was enacted when partnerships generally were smaller than they are today, and before they had complicated tiered structures. These days, having to follow the TEFRA procedures is more of a burden for us than a help. Many partnerships have thousands of partners. TEFRA requires us to notify each of them at the start of an audit and to push down through the partnership to each partner any resulting adjustment. This means thousands of amended K-1's and amended returns.

Part of the solution would be additional funding so we could increase the number of specialized examiners available to conduct TEFRA audits. But we would also be helped by legislative changes. One proposal that has been offered by the administration would mandate certain streamlined audit and adjustment procedures for any partnership that has 100 or more direct partners; or that has at least one direct partner that is a pass-through entity. Under the streamlined procedures, only direct partners would receive audit adjustments, and any direct partner that was itself a pass-through entity would be responsible for paying the resulting tax.

The administration proposal would help achieve significant simplification. This would be especially true for multi-tiered partnerships with many owners that are themselves partnerships. I hope that Congress will move quickly to develop and act on partnership audit legislation that would make the audit process much more manageable for partners, partnerships, and the IRS.

It’s now time for me to listen to what you have to say. Thank you for allowing me to spend this time with you, and I’ll be happy to take your questions in the time we have left.