

AMERICAN PAYROLL ASSOCIATION

February 9, 2018

The Honorable Lynn Jenkins
Chair, Ways and Means Oversight Subcommittee
U.S. House of Representatives
<http://waysandmeans.house.gov>

Re: Improvements to the IRS's Administration of the U.S. Tax System

Dear Representative Jenkins:

Thank you for the opportunity to provide the U.S. House of Representatives with information regarding improving the IRS's administration of the U.S. tax system. The American Payroll Association (APA) is a professional organization serving the interests of more than 20,000 payroll professionals nationwide. Our primary mission is to educate members about the laws and regulations that impact payroll operations, including tax administration. Our advocacy goals center on reduced administrative burden for government, employers, and individuals workers. With 68.5 percent of tax collections coming from wage withholding and employer taxes, the IRS's implementation of U.S. tax policy is extremely important to APA.

APA's recommendations are based on two overarching approaches for Congress to consider. First, APA suggests that Congress require the IRS to develop an agency-wide business plan and that funds be allocated specific to that plan with regularly scheduled reports to Congress on plan implementation measures. Second, the IRS should have a multiyear investment strategy for infrastructure projects.

Historically, in the budget process and in proposed bills, funds have been allocated to pay for specific tasks or projects. The desire to do this comes from an interest in ensuring that the IRS acts in the best interest of taxpayers by spending money on taxpayer services and preventing the agency from spending on undesirable activities. The difficulty with this process is that it causes the IRS to shift its focus each time a new budget passes, which stymies the agency from providing long term, quality taxpayer services.

A business plan would clearly define the goals of the IRS and include specific, measurable opportunities to successfully accomplish those goals, identify the current team of employees and hiring needs, as well as provide financial forecasting. Some of this information is already available as part of the IRS's existing activities. Specific measures can emphasize the taxpayer bill of rights without the negative impact of blocking agency enforcement action or spending on failed systems and services. The plan can be adjusted over time to the extent of shifts in Congressionally established tax policy, technology changes, and taxpayer service needs.

To date, testimony and reports provided to Congress have focused on whether the IRS is following federally-established guidelines regarding technology. This communication among federal agencies is part of the problem. The IRS is limited in its ability to accept stakeholder recommendations because the agency cannot deviate from already established notions about risk and accuracy. Even if the IRS is able to modernize its systems, without flexibility even these modernized systems will be antiquated in a few years and the cycle will continue. APA recommends that Congress review the federal guidelines to determine whether they make sense and whether they can be flexible.

APA also believes that Congress should change its focus regarding individual taxpayer services. Most of the revenue collected by the IRS comes from employers and tax practitioners, yet the IRS is pushed to design and implement electronic systems and procedures first for individual taxpayers and then employers and tax practitioners. The result is technology systems and processes that do not always operate well.

For example, when the IRS developed an authentication process for its e-services following the guidelines established by the National Institute of Standards and Technology, user identity involved a mobile phone in the name of the individual user. This process for authentication was then required for employers only to discover that employer-provided mobile phones were not registered in the name of individuals (e.g., the payroll professional managing tax filing is given a mobile phone registered to the company through its IT department). Some employers will not allow employees to use their own mobile phones for company business. Therefore, the authentication process is difficult to use.

To address this shortcoming, the IRS created a number of work-arounds involving a combination of telephone service, trips to tax centers, and 10-day mail service. For payroll professionals performing services for multiple employers (i.e., payroll service companies, tax practitioners), authentication requires proof of identity and power to provide the services to customers, a much more complicated authentication process. This complication expands when an employee leaves a company and the employer needs to remove them from IRS e-services and allow access by another employee. If the IRS was able to design and implement authentication focusing on employers and practitioners first, APA believes significant administrative burden would have been avoided.

The same type of problem exists for the updated IRS website, in which the design and information provided are based on the needs of individual taxpayers, while payroll professionals are wondering how to find the information they need to comply with the tax code. APA believes that systems and services designed for employers also will work for individuals.

In fairness to the IRS, political pressure to focus technology on individual taxpayers and then businesses comes from political leaders. This can be seen in the patchwork of proposed bills put before the Ways and Means Oversight Subcommittee for consideration. Congress has the unique ability to move the IRS into a business plan based on the greatest percentage of collections. Individual taxpayers are extremely important to tax administration, but edge cases and legislative band aids should not drive the agency.

For example, a call-back service sounds like a great idea to be more responsive to all taxpayers. However, implementation is not so simple. This type of service requires modern hardware and software systems, including an authentication process to protect against identity theft and tax fraud. Rather than separate legislation, Congress should ask the IRS to determine the feasibility of a call-back service as part of the agency's investment plan for infrastructure projects.

To create and implement a business plan and significantly improve technology requires adequate agency funding. For this reason, APA urges Congress to increase the IRS's budget. While we have criticized the agency's logic, the IRS plays a critical role in enforcing federal tax law to secure financing for a myriad of federal programs, including national defense, highway building and maintenance, veterans' benefits, medical research, and disaster relief. A healthy dialogue on improving tax administration does not diminish, but increases, the value of the IRS and the vital role it plays.

APA is encouraging Congress to allow an even greater role for stakeholders in working with the IRS to create and implement a business plan and improve technology for all taxpayers. We urge you to take the necessary steps to provide flexibility and funding for this purpose.

Sincerely,

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