

Interview

Understanding the IRS

An Interview with The Honorable Douglas Shulman,
Commissioner of Internal Revenue, Internal Revenue Service



The Hon. Douglas Shulman

EDITORS' NOTE In March of 2008, Douglas Shulman became the 47th Commissioner of Internal Revenue and began his five-year term. Prior to coming to the IRS, Shulman was Vice Chairman of the Financial Industry Regulatory Authority (FINRA). He served in the same role at the National Association of Securities Dealers (NASD) before its 2007 consolidation with New York Stock Exchange Member Regulation, which resulted in the formation of FINRA. Shulman was previously involved with several start-up organizations, was a Vice President of a private investment firm, and served as Senior Policy Advisor and then Chief of Staff of the National Commission on Restructuring the IRS. He holds a B.A. from Williams College, an M.P.A. from Harvard University's John F. Kennedy School of Government, and a J.D. from Georgetown University Law Center.

COMPANY BRIEF A bureau of the Department of Treasury, the IRS (www.irs.gov) is one of the world's most efficient tax administrators. The IRS helps America's taxpayers understand and meet their tax responsibilities and applies the tax law with integrity and fairness to all. The IRS has 100,000 employees, a \$12.5 billion budget, and collects approximately \$2.5 trillion per year in taxes.

When you look at the past 24 months and the economic challenges we've seen, how has the IRS evolved during that time, and

what is the role you played while many were concerned with the crisis?

We have a dual mission of taxpayer service and enforcement. This is not an either/or proposition; we must do both.

The vast majority of Americans respect the law, and are trying to wrestle with an incredibly complex tax code and get it right. Then, there are some trying to skirt the law.

For those compliant taxpayers, we want to provide quality customer service and different service channels and products that make it easier to file and pay your taxes. For those who flout the law, we have a vigorous enforcement program to make sure they pay what they owe. Taxpayers must believe that if they pay, their neighbor is paying his or her taxes too.

During the economic downturn, we placed a lot of focus on helping struggling taxpayers who were trying to make the hard choices between putting food on the table and paying their taxes, and helping struggling small businesses, who were trying to meet their tax obligation, but also stay in business.

There were things within our discretion that we could do to assist these taxpayers. For example, in the past if you missed an installment agreement payment, you defaulted and all your taxes were due. However, we allowed some missed payments, particularly for taxpayers who previously had a good payment history.

We also sent out 119 million stimulus checks in 2008, and our efforts did not end there. About one third of the Recovery Act ran through the tax system. That includes everything from the Making Work Pay credit that gave 95 percent of Americans a tax break, to the Net Operating Loss Carryback, a special law that allowed a small business to look back five years and get a refund for taxes you had paid if you had a loss this year. This enabled us to get billions of dollars out to small businesses when the credit markets were frozen.

Overall, we tried to focus on our obligation to the 140 million individual Americans and tens of millions of small businesses, making sure we were available to work with them, getting refunds out quickly, adjusting programs as we went forward, and on the enforcement side, maintaining a strong enforcement presence so everybody knew we were doing our job to fund the government in these unprecedented times.

Many talk about the challenges in understanding the complex tax code. Can it be simplified?

The tax code is complex because it's used for a number of reasons that go beyond the basic goal of collecting revenue. For example, there is a goal of progressivity, so lower-income folks pay less income tax as a percentage of their income so they have more disposable income to meet basic living expenses. And over time, the business part of the tax code has been changed to create special incentives for different economic sectors. Increasingly, the tax system has been viewed as an incredibly efficient distribution mechanism. The best example is the Earned Income Tax Credit, which is probably the single most successful federal government program to lift people out of poverty. We send out \$50 billion a year to low-income Americans through a refundable tax credit. So as long as policy makers use the tax code to achieve a number of different goals, it's hard to simplify it.

For the most part, this is an organization that is all about service, but perception of the IRS is not always favorable. Is it hard to get the message out about how much good you do?

The IRS often gets caught up in the heated political rhetoric of the day. It's easy for some to criticize the tax system by criticizing the IRS. However, that is a great disservice to the agency and the 100,000 dedicated public servants who work at the IRS.

Many people don't know we're also one of the world's biggest financial service institutions with an enormous portfolio of responsibilities. Approximately \$2.5 trillion flow through the IRS every year. We receive and process over three billion information documents a year. We issue \$300 billion in refunds during tax season every year, which generally increases retail sales. And we have all the challenges of a financial service organization around channel management. We must have Web-based service options. We must ensure our toll-free phone operators are equipped to assist taxpayers and answer their questions. We must also efficiently manage a large volume of paper correspondence. And we have walk-in sites for those who prefer to see an IRS representative face to face.

One of the initial focuses when you took the position was on increasing service. How did you get that message out, and has

the importance of this increase been understood by your people?

The first thing you need to do is empower your frontline workforce and give them as much responsibility as you can. Culturally, in government, it's a difficult thing to do. When the stakes get higher, people get a little gun shy and worried, especially since a lot of people are watching how we perform – and appropriately so.

My philosophy is that everybody at the IRS should try to walk in the taxpayers' shoes and understand their service needs. We also want to give our people the ability to resolve taxpayer issues quickly. One thing we are doing is finishing the modernization of our taxpayer database, which will give our employees access to taxpayer account data and the information they need to answer taxpayer questions. We are also doing things like reworking our call routing, so we can get taxpayers to the right person who can solve their problem faster than we could in the past.

In addition, we're building the technology platform that will allow us to vastly improve our Internet applications for taxpayers. We will be able to leapfrog over what we have today.

We are making progress. And one of our top line measures is the American Customer Satisfaction Index, a third-party survey of people based on their interactions with the IRS. Our index score is up at about 70 percent this year compared to 56 percent in 2000. We are making progress, but will need to keep innovating in the future.

With the increase in electronic filing, do you foresee a time where the people part of this business will be gone?

Even with the growth in electronic filing, you still need to answer the phones, perform audits, and build technology. But we have been consolidating our service centers and, as we get more electronic filing, we can process a tax return for under 20 cents versus nearly \$3 for a paper return. We're trying to save the American people money, be efficient in our operations, and invest in places that make sense going forward.

How has the globalization of tax administration affected the IRS?

Today, individuals and businesses operate in a global context and are part of the broader global capital markets. Sovereign governments, whose authority stops at the border, all have to wrestle with the issue of how we do our job with the taxpayer base that doesn't stop at the border.

We've done a few things including cracking down on U.S. taxpayers parking assets in offshore bank accounts, causing the government to lose billions of dollars in revenue each year. Our focus here is a matter of fundamental fairness, where wealthy people who hide their money offshore aren't paying the taxes they owe while schoolteachers and firemen who play by the rules are.

As for businesses operating in global context, we're making sure we recruit and train people who can match up with the legal and tax minds in multinational corporations. While a lot of tax planning is perfectly legal, there are also companies who push the envelope beyond acceptable bounds. We want to make sure that we are equipped to work with companies who are trying to get it right and ensure that everyone is paying the taxes they owe. We are also working on developing a protocol for joint audits with

other countries. If done correctly, it will be more efficient for a participating business because the business won't have the burden of two exam teams conducting two audits, and it will make sure both countries receive the same information.

A lot of times, if both countries are owed taxes, it can take years to adjudicate that through a process called Competent Authority. If we can understand what disagreements there might be right away and adjudicate them right away, it's much more efficient. So we're moving from just cooperation and sharing of information to some actual coordinated efforts among countries.

Would you talk about your role in the creation of the Workforce of Tomorrow taskforce?

First, I believe that if you have engaged employees who show up every day, feel challenged, are held accountable, are learning things, and are empowered to solve problems for your customers, a lot of good things fall into place. If we work with our employees to make this the best place to work in government, then we'll be in a good position to meet many of the long-term issues that we're going to face.

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I created the taskforce and we put together a whole framework of priority items – from speeding up hiring, to training people, to getting rid of managerial burden. We're very focused on workforce.

One of the most important things I can do during my term is to develop the men and women to lead this agency for the next 10 to 20 years. I'm personally involved in identifying and developing the next 100 leaders, and my top management team is personally involved in picking those folks, discussing with them their development, and giving them rotational and stretch assignments.

Is the message understood among young top talent about the opportunity for a career in this type of organization?

We try to be very clear about the value proposition. At the IRS, we work on some of the country's most difficult and interesting

problems. There is also a real opportunity to have an impact on people's lives. In addition, we pick good leaders and our philosophy is that we're going to challenge and grow people.

During the economic downturn, a lot of people started to think about other careers than they had in the past – including a career with the IRS. Generally, this isn't a boom and bust business – everyone will still need to pay taxes.

How critical has it been to mirror your diverse customer base and maintain a diverse workforce?

Incredibly important. We interact with every American, so we need to reflect the entire American population. For example, we have a whole Spanish language media section focused on reaching out to the Latino community and we have a Spanish language call center in Puerto Rico. We also have very robust disability and veterans hiring programs. If you're going to staff an organization with 100,000 people, you better not be knocking out any potential employment pools.

How challenging is it to budget your time as Commissioner, and how do you define the key focus for the role?

My role is to set strategic direction, to make sure key things get done, to pick a very good management team who can run the daily operations, and to manage an incredibly diverse constituency base. I think of it like a CEO position where you spend your proactive time focused on a handful of strategic priorities. Certainly, there's some reactive time, but I try to keep it to a minimum. The head of any organization needs to be focused, not get diverted, and know how to hold his top team accountable. Of course, you still must deal with the unexpected, such as the economic downturn, Congress passing and the President signing the Recovery Act, and putting \$300 billion into taxpayers' hands in two years.

In 2008, when the opportunity arose to serve in this role, did you know it was something you wanted, and has it been what you expected?

This is something I was asked to do. I was taught that if you're asked to serve your country and contribute to society, you should do it. This is a great institution that has huge impact on all Americans, and I'm inspired every day by the public servants of the IRS. Federal government employees get a really bad rap. There are great people throughout the federal government, including the IRS.

Saying that, I didn't expect the economic downturn to be so severe, but the agency rose to the occasion. However, we still need to continue to innovate in our enforcement programs and look for opportunities to leverage data and find points of leverage on our service programs within a budget that is responsible to meet the needs of 140 million Americans. But running a large and important financial service institution in the public spotlight has largely been what I expected.

Is it important that your people to serve the community separate from the business?

By its nature, a government agency is fulfilling a civic responsibility, so it's a little different paradigm than a private corporation. But our people are very focused on serving the American people at work every day, and many of them are also engaged in outside community service activities. ●