

Prepared remarks from the IRS Electronic Tax Administration Advisory Committee

Chairman, thank you for holding today's hearing on how the IRS can help small businesses. The 28 million small businesses in America are a cornerstone to our economy. According to the Small Business Administration and the IRS, small businesses account for over half of all US sales and 55% of all jobs. They pay significant amounts of income, employment, and excise taxes to the US Treasury.

Helping small businesses easily file and pay their taxes is a critical mission of the IRS Electronic Tax Administration Advisory Committee, or ETAAC. ETAAC was formed by law in 1998 to make strategic recommendations to Congress on how to improve tax administration and better serve taxpayers – including small business taxpayers – through electronic means. In short, we are objective digital strategy consultants to the IRS. Recently, the committee has sharpened its focus on how the IRS could make the tax system less reactive and intrusive by providing taxpayers with digital access to their tax information and a better understanding of their compliance requirements.

The committee believes that modernizing the IRS taxpayer service platform is an urgent, strategic priority for the IRS. In the 2015 tax season, the IRS was in its fourth consecutive year of budget reductions, and IRS service levels plummeted. The IRS answered only 38% of its calls from taxpayers. The IRS has been unable to modernize its taxpayer-service platform to move away from traditional paper and phone interactions. The current phone and paper taxpayer-service platform is also not the preferred choice of the IRS or the many taxpayers who expect secure online services.

Aligned with this issue is a lack of transparency with the IRS. For most taxpayers, the information the IRS has about them is a mystery. It's not easy for taxpayers to access and understand their tax information on file with the IRS, their previous tax-related interactions or their tax compliance obligations. For small-business taxpayers, this issue is even more critical, because small businesses are more likely to complete multiple year-round transactions with the IRS. In many cases, when there is a compliance issue, small-business taxpayers find out with a surprising IRS notice after they file, or – even more stressful – an audit that can take months or years to resolve. For all types of taxpayers, accessing and using their tax information to proactively comply is almost entirely out of the question in the current system.

The committee believes that a key solution these problems is a more digitally enabled, modernized IRS that better equips taxpayers with information on how they can proactively comply, rather than solely focusing on detecting and enforcing compliance.

In the past three years, ETAAC has provided recommendations based on a simple vision of how the IRS should serve taxpayers. This vision allows taxpayers to:

- Fully understand their tax obligations,
- Have transparent access to their tax information and status with the IRS, and
- Effectively and securely interact with their tax administrator in the way that they want to be served

The end state is a tax system that is less burdensome. It is a tax system that relies less on reactive measures, such as audits, and more on preventative and educational measures for taxpayers to remain proactively compliant.

There are two challenges the IRS faces to achieving this vision:

- First, the current tax system is designed to be reactive, and does not leverage tax information to help taxpayers meet their tax obligations, and
- Second, the IRS cannot quickly develop and implement its digital roadmap, including online accounts, to address the needs and preferences of taxpayers.

Our last two reports to Congress explain this dilemma and provide recommendations to overcome these challenges.

In ETAAC's 2015 report to Congress, we recommended that the IRS accelerate its digital taxpayer-service strategy – that is, develop secure online accounts for **all business and individual** taxpayers. Taxpayers should have secure digital access to their tax information, and they should be equipped with comprehensive tools to interact effectively with the IRS online.

In the report, we directly addressed key problems in the IRS strategy that affect small businesses, and we advocated for an expedited release of online accounts and tools for businesses – still not a stated IRS priority.

Additionally, we know that businesses are much more likely to use a tax professional for tax filing and compliance needs. Online accounts for these tax professionals should be a priority. In the current IRS digital plan, online accounts for business taxpayers and their tax professionals arrive much later. ETAAC advocates for the IRS to commit to quickly developing online accounts for business taxpayers and the tax professionals who serve them, and we encourage this committee to do the same.

In our most recent 2016 report, ETAAC addresses the “look-back” tax system that centers on post-filing programs that detect and correct noncompliance. We challenge Congress and the IRS to move to a system that verifies taxpayer identities and tax return information before accepting a return.

A system that uses information statements, such as Forms 1099 and W-2, to verify taxpayers and their tax return information is essential to fighting fraud and reducing taxpayer burden. The IRS should support taxpayers in filing accurate returns by giving them full electronic access to their tax account information at the time of filing. This proactive system would verify accuracy upfront and reduce audits, particularly those on small-business taxpayers.

ETAAC has been pleased with the IRS' first steps in its digital service plans. The IRS released an initial draft of its Future State Initiative in January of this year. The initiative specifically contemplates small-business taxpayers and their needs. However, the delivery date of these digital capabilities is unknown.

Many of ETAAC's recommendations from the past three years are incorporated into the IRS Future State Initiative's digital plans. ETAAC endorses the digital-service components of the IRS' Future State plan, and we have advocated to Congress that the IRS should accelerate these plans. Our recommendations clearly identify the urgent needs of small businesses. The IRS needs to accelerate online accounts for businesses and tax professionals.

On behalf of the entire ETAAC, thank you for inviting us to testify on this important topic.

For more information on ETAAC's recommendations to the IRS, and those impacting small businesses, please see the committee's recent reports at <https://www.irs.gov/uac/electronic-tax-administration-advisory-committee-etaac-annual-reports>.