STATEMENT

of

Phillip L. Mann

on behalf of the

AMERICAN BAR ASSOCIATION SECTION OF TAXATION

before the

IRS OVERSIGHT BOARD

of the

DEPARTMENT OF TREASURY

at its

PUBLIC MEETING

March 20, 2001

Good morning. I am Phillip L. Mann, former Chair of the American Bar Association, Section of Taxation on whose behalf I appear before you today. We appreciate the invitation to share our views on this important topic.

As you know, the Section of Taxation is the national voice of the country’s tax lawyers, representing about 19,000 members who are in private tax practice, businesses, charities, academia, and the public sector. We have extensive cumulative experience with the Internal Revenue Service at all levels, in all geographic areas, and in all subject matters. One of our primary goals is to serve as counsel to the tax system, working to make our tax system fairer, simpler, and easier to administer.

We have written to the Commissioner, Charles O. Rossotti, commending the Service on the release of its Strategic Plan for fiscal 2000-2005. What I would like to do this morning is to summarize that letter for you, and amplify it in a couple of respects.

In general, we are strong supporters of the measures set forth in the Strategic Plan to transform the Service into an efficient, modern, and responsive agency. We endorse making it easier for taxpayers to comply with their responsibilities, and at the same time increasing all taxpayers’ confidence that the taxes imposed by our laws are being collected fairly and efficiently.

We also agree that the Strategic Plan correctly identifies two external factors that have a significant impact on the Service’s ability to reach the goals of the Plan. The first external factor
that hinders efforts to restructure the agency is the frequency of complex changes to the Internal Revenue Code. Understandable rules and procedures which can be followed by taxpayers and the Service alike cannot be expected to flow from a frequently changing tax law. In recent years we have become ever more convinced that American taxpayers have lost the ability to understand and comply with much of the complexity of the tax law, at least without the expenditure of inordinate resources for expert help. This cannot help but reduce compliance levels, increase the cost and complexity of the Service’s job in administering the tax system, and over time, undermine the public’s confidence in their government.

The second external factor that hinders efforts to restructure the agency relates to the annual budget process. We have long advocated multi-year funding of the Service’s requirements for modernization because we know first-hand the detrimental impact of stop and start programming. We intend to continue to advocate adequate funding for the Service in the current budget process, particularly in the modernization area, but also in the area of increasing the number and capabilities of its personnel.

As I said, we generally support the strategies identified in the Strategic Plan, but we would like to single out three for particular emphasis.

One, we agree that it is critical for the Service to develop reliable, up-to-date, cost-effective measures of compliance. We are concerned that the lack of such reliable data has possibly led to a misallocation of compliance resources with the result being a reduction in the public’s confidence in the fairness of the tax system.

Two, we believe that it is imperative that the Service be able to recruit, develop, and retain, a quality workforce. In addition to increasing budgets for personnel, we urge the Service to take maximum advantage of the flexibility in this area established by the 1998 Restructuring Act.

Three, we commend the Service’s effort to focus information technology investments in a manner that is intended to allow the Service to accomplish its mission more efficiently and effectively. As you probably know, there are areas in which we believe audit activity should be increased, and we will support efforts reasonably calculated to assure taxpayers that the laws are fully and fairly administered. We also understand that compliance improvements can be achieved through technological improvements that reduce the need for traditional audit activities and resources. In this regard, we strongly support the Service’s programs to improve compliance efficiently and effectively through return matching and other similar means. While these processes may not be as eye-catching as the current, relatively low audit rates for the general public, they are now an integral part of making our voluntary compliance system workable.

We look forward to working with the Oversight Board to make our tax system fairer, simpler, and easier to administer.