

TESTIMONY OF
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***Remarks as prepared for Delivery
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Chairman Baucus, Ranking Member Hatch and Members of the Committee,

I am honored to appear before you this morning as the nominee to be the next Commissioner of the Internal Revenue Service. This past May, when I was asked whether I would be willing to serve as the next Commissioner, I agreed because I believe that the successful operation of the Internal Revenue Service is vital for this country. The activities of the IRS touch virtually every American. The agency collects over \$2.5 trillion a year, over 90 percent of the revenues collected by the government. And this is a challenging time for the agency as it confronts new responsibilities while dealing with a budget that has declined substantially since 2010. And, of course, on top of all of that are the management problems that have shaken public trust in the agency.

I signed on to this challenge because I have had a longstanding commitment to public service and most of my career has been spent helping large organizations respond to significant financial and management challenges.

It all began when I came to Washington as a young man to work on the National Advisory Commission on Civil Disorders, established by President Johnson in 1967 to determine why riots and destruction had occurred in cities across the country and to provide recommendations for the future. After that, I represented New York City and Mayor John Lindsay, who was also the Vice Chairman of the Commission, here in Washington. I then continued my government career as Administrative Assistant to Senator Abraham Ribicoff of Connecticut, with responsibility for running his offices here and in Connecticut.

I subsequently took a 21-year sabbatical from government service, working for the Palmieri Company, ultimately as President and CEO. I helped to turn around large, troubled private sector organizations, including: the Penn Central Railroad, then the largest bankruptcy in history; Levitt and Sons, once the world's largest homebuilder; the Teamster's Pension Fund as part of the first major enforcement effort under the Employee Retirement Income Security Act (ERISA); and the Mutual Benefit Life Insurance Company, at the time the largest failed life insurance company in history.

I returned to government service in 1994 when I was confirmed by the Senate as Deputy Director for Management at the Office of Management and Budget (OMB). After OMB, I was asked by President Clinton to take responsibility for the government and the country's transition to the year 2000, (the "Y2K" issue). Subsequently, I became Deputy Mayor and City Administrator for the District of Columbia.

In what I thought would be my last job, I became President of the U.S. Soccer Foundation in 2004. My "retirement" in 2008 had lasted for about six weeks when I was asked by the Bush Administration to become Chairman of the Board of Freddie Mac when the FHFA became conservator that September of Freddie Mac and Fannie Mae. I left Freddie Mac in the spring of 2012 after reaching its mandatory retirement age.

As part of this confirmation process, in our meetings, many of you have asked what my plans are for the agency if I am confirmed as Commissioner. While I still have a lot to learn and thousands of employees yet to meet and listen to, it is clear that the responsibility of the Commissioner is to make sure that the agency fairly, efficiently and effectively collects the taxes owed by every businesses and individual, that the agency provides taxpayer services, in the form of easily understandable information and prompt answers to questions, to make it as simple as possible for people and firms to pay their taxes; and that the agency creates a working environment that allows employees to reach their full potential and generates an enthusiastic, energetic and high-performing work force. In every area of the IRS, taxpayers need to be confident that they will be treated fairly, no matter what their background or their affiliations. Public trust is the IRS' most important and valuable asset.

There are immediate challenges in each of these areas. To protect government revenues, the agency has to continue to increase its efforts to combat refund fraud. Taxpayer services need to be improved, particularly in the areas of tax exempt organization filings and operations. There are several investigations ongoing into the delays encountered by many of those seeking to establish themselves as tax-exempt 501(c) (4) social welfare organizations. The IRS also needs to continue its successful implementation of the Affordable Care Act. Its responsibilities at the front end of the process have been effectively implemented, thanks to long planning and a smooth IT implementation. The excellent work that the agency has done in this regard should serve it well as it continues in its implementation efforts.

The new Commissioner also needs to address employee morale. My experience is that the people in an organization who know the most about what is going on are the front line employees. The next Commissioner needs to listen to those employees and make sure they understand that they are seen as part of the solution, not part of the problem. The IRS is fortunate to have an experienced workforce committed to the mission of the agency. We

need to provide them with the leadership, systems and training to support them in their work.

My commitment, if confirmed as Commissioner, is that we will work to have no mistakes. But, with 95,000 employees and the range of challenges the agency faces, mistakes will happen. So the realistic goal is to find problems quickly, fix them promptly, make sure they stay fixed, and be transparent about the entire process.

To do this, we have to listen to not just employees but also others who are most likely to know about the challenges the agency faces. A government manager's best friends can be the Inspector General and the Government Accountability Office. They don't create the problems they highlight; they just help you know about them before they get bigger. In addition, the IRS benefits from the information and perspective generated by the Office of the Taxpayer Advocate and the Whistleblower office. And, another important source of information is Congressional inquiries. An individual complaint or question may be simply anecdotal. A series of them from various areas is a source of valuable information.

To make all of this happen and to protect the revenues coming into the government, we need to solve the funding problem of the IRS. This is not just my opinion. I have met with every IRS Commissioner from the past 20 years and the consensus was that a major challenge and constraint was the funding limitations they faced. This is a view shared today by the IRS Oversight Board, the Taxpayer Advocate and, most recently, the Treasury Inspector General for Tax Administration (TIGTA) and the Internal Revenue Service Advisory Council. As a TIGTA report this fall noted, the government has saved \$1 billion in cuts to the IRS budget and lost \$8 billion in compliance revenues.

I don't know any organization in my 20 years of experience in the private sector that has said "I think I'll take my revenue operation and starve it for funds to see how it does." The IRS will have 11,000 fewer people working during this upcoming filing season while processing the largest number of returns in its history. I don't care how efficient you become, that is not a recipe for success or improved compliance and taxpayer service.

This is not a new message. It has been delivered before. We often think that a discussion about a problem means we have dealt with it. Let me just say that we have not dealt with the problem and it is not going away. I look forward to working with you to find a solution.

Even with all the challenges the IRS faces, or, in fact, because of them, I am excited about the opportunity, if confirmed, to work with the employees of the agency as the IRS moves forward into the future. The IRS has a long and honored tradition of service to this country and is filled with a great number of true public servants who take pride in their work to help the IRS achieve its mission with integrity and fairness for all.

I appreciate the time you have each spent with me individually sharing your interests and concerns. If confirmed, I look forward to working with you and your staffs to help make the IRS the most effective, well run and admired agency in government.

Thank you.