

**PREPARED REMARKS OF
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BEFORE
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Thank you for that kind introduction and warm welcome...and it's a great honor to be addressing the AICPA again.

It was exactly a year ago that I spoke to you. And it's been a year that few of us will soon forget.

We had an historic presidential election held against the backdrop of an economic crisis the likes of which we hadn't seen since the Great Depression.

Our tax system was also put to the test. But the IRS proved its flexibility and mettle during this challenging time. And I'm very proud of our contributions to the recovery efforts.

We provided tangible relief to taxpayers when they needed it most... and helped to energize the economy through our implementation of the tax portions of the American Recovery and Reinvestment Act – the President's blueprint for rebuilding America.

What stood out in ARRA was the sheer number of tax-related provisions that the IRS had to administer, or provide guidance on, to assist both individuals and businesses in economic distress. In this regard, I want to acknowledge not only the work of the Service but also AICPA's members' efforts to provide timely assistance to the CPA community.

There was also a great sense of urgency to ARRA. With so many Americans facing difficult times, we had to get relief and guidance out in record time, such as the Making Work Pay credit.

And we didn't forget America's businesses struggling in the distressed economy. In March, IRS advised businesses with deductions exceeding their income in 2008 on how to use a new net operating loss tax provision to get an expedited refund, and then took steps to immediately implement the new provision and process these refunds. As some of you know from your own clients' experience, this was a lifeline to struggling businesses, providing them with a quick infusion of cash.

We've also been administering the expanded COBRA health care coverage provisions for employees who lost their jobs. And we implemented a number of new credits.

And as we implemented all these new procedures, we needed to recognize the potential for abuse. We put in place screens and filters to identify and address potential abuse. But we also had to ensure that our processes could still deliver these benefits intended by the Recovery Act to eligible taxpayers in a timely way.

Let's turn now to some other issues that are a focus for me and the IRS.

Before I get to some of our ongoing initiatives, let me briefly touch on corporate issues involving risk and transparency. There have been significant changes in this area recently. Accounting for uncertain tax positions is much more articulated now. Auditing firms are conducting much more extensive reviews of materials used to make decisions on tax reserves.

People are asking the IRS what we will and will not seek from the full range of what we may be legally entitled to obtain. This is an issue under review, and as we develop proposals, we will ensure that any approach is balanced and enhances overall corporate tax administration.

Let me turn to our decision to review how we oversee the tax preparation community.

I want to make a few quick observations about why this review is so important to you...the IRS... taxpayers...and the integrity of our tax system.

The simple answer is change. In recent years, there's been a huge change in the way most people and businesses prepare their taxes. Today, almost 9 out of 10 individual taxpayers use either a tax preparer or third-party software to complete their federal tax returns.

This is nothing less than a transformational shift...a sea change in tax administration.

And we at the IRS must not only recognize and embrace this enormous change but ensure the success of the tax preparation community, which has become an integral part of our tax system. Tax preparers and the associated industry must be supported and at the same time held accountable in the key role they play in preserving the integrity of the tax system.

The goals of this review are straightforward. We want to ensure that taxpayers who use a return preparer receive competent, professional and ethical service. And we want to make sure return preparers are part of the IRS' overall goal of seeing that taxpayers file accurate returns and pay what they owe.

When I first announced this review, I promised that it would be an open and transparent discussion of the issues and that we would welcome and seek input from all sectors of the preparer community. I believe we have delivered on that promise. And by the end of the year we plan to have completed our review and developed our recommendations.

So what did we learn from the public forums and meetings that we held? I believe there was widespread agreement, or consensus on several points.

First, the *status quo* is not optimal. Unethical and unqualified return preparers can inflict enormous harm on taxpayers and the integrity of the tax system.

Second, we need to find a way to ensure that return preparers demonstrate their competency. We received lot of thoughtful suggestions on how this could be done, including a lot of people

saying there should be a testing requirement for preparers, and we are sorting through the ideas to identify those that hold the most promise.

Third, return preparers must maintain their competency through ongoing education programs, along the lines of CPE courses that many of you in this room are quite familiar with.

And finally, we have also learned that some of the possible outcomes of the effort could represent a big shift in the tax return preparer community. This will be a significant change and effort for us and depending upon where we come out, we might need to phase in some of the pieces over a number of years.

Before I leave this topic, I would like to thank the AICPA for its valuable input in this review. We have received comments from you and others that those enrolled under Circular 230 are already held to a high standard of conduct, and should not be subject to any new test requirements, if we were to require testing of return preparers. Let me just say that I have heard your concerns, and have some sympathy for them.

This brings me to another important development ... a game changing trendthe globalization of tax administration.

There's compelling evidence that more and more Americans are part of the international investment pool. For example, in just six years, the Foreign Tax Credit dollars claimed against U.S. tax by individuals has more than doubled – from \$6 billion dollars in 2001 to \$15.4 billion in 2007.

In the IRS' case, we're focused on international tax issues from two distinct angles. First, in the business context, how do we ensure that taxpayers do not use the international capital markets and tax code complexities to push tax planning beyond acceptable bounds? Second, how can we better ensure that U.S. taxpayers with overseas assets pay what they owe?

Rooting out individuals hiding their money in foreign jurisdictions, is very different from the IRS and Treasury creating ground rules for multinational corporations operating in a global environment. It's no secret that multinational corporations engage in sophisticated tax planning and there are plenty of international tax strategies that are perfectly legal. However, we also recognize that some businesses use the complexity of the tax code and international capital markets to push the envelope too far.

Now, for individuals with overseas income and assets, it's straightforward. If you are a U.S. individual holding overseas assets, you must report and pay your taxes or we will be increasingly focused on finding you.

A week or so ago, I announced that over 7,500 people came in under our special offshore voluntary compliance program that ended earlier this month. It's too early to say how much money will come in from this effort. However, I can tell you that account sizes ranged from just over \$10,000 to over \$100 million. As importantly, these taxpayers are now back in the U.S. tax system and will be paying taxes on their offshore income in the years to come.

A key aspect of our future international offshore work will be mining the voluntary disclosure information from people who have come forward. We will be scouring this information to identify financial institutions, advisors, and others who promoted or otherwise helped U.S. taxpayers hide assets and income offshore and skirt their tax responsibilities at home.

In addition, we're increasing our scrutiny of annual FBARs or foreign bank and financial account reports. Current law requires that U.S. taxpayers file an FBAR if their foreign financial accounts total more than \$10,000. But current rules make it difficult to catch all of those who do not. Tough, anti-international tax abuse legislation proposed by the President would tighten these rules and impose tougher penalties on undisclosed foreign accounts.

Aside from the legislation, there is an active project working to update definitions and instructions under the current FBAR rules. We're also working with Treasury and Congress in following up on other related Administration Green Book proposals.

Our future offshore efforts will also be focused on multiple points around the globe, including funds flowing out from Europe to Asia, Central America and the Caribbean. To this end, the IRS is opening international Criminal Investigation offices in several new locations around the world – in Beijing, Panama City and Sydney, in addition to existing offices, such as Hong Kong and Barbados. The new locations will put the IRS closer to key locations around the globe for international tax administration purposes.

The last topic I want to discuss with you is our recent formation of a Global High Wealth Industry group housed in our Large and Mid-Size Business operating division.

While we are in the early stages of this work, this new unit will centralize and focus IRS compliance expertise involving high-wealth individuals and their related entities – which can often have an international component. Tax agencies around the world, including those in Japan, Germany, the UK, Canada and Australia, have also formed high wealth groups.

Now, high wealth individuals are not your typical Form 1040 filers with a W-2, some 1099 income, and maybe a Schedule C enclosed with their return. And you cannot assess compliance among the nation's wealthiest individuals by looking only at their 1040s. Their tax picture is much more complicated than this.

For a variety of reasons – including valid business reasons – many high wealth individuals make use of sophisticated financial, business, and investment arrangements with complicated legal structures and tax consequences. Many of these arrangements are entirely above board. Others mask aggressive tax strategies.

And let me give you a flavor of these complex financial arrangements. They may include trusts, real estate investments, royalty and licensing agreements, revenue-based or equity-sharing arrangements, private foundations, privately-held companies, and partnerships and other flow-through entities that require looking at the entire, and often huge, spectrum of transactions and entities. A single high wealth individual may have actual or beneficial ownership of numerous

related entities, sometimes alone and sometimes along with other family members or business associates.

And there are other tax considerations regarding high wealth individuals, including international sourcing of income and tax residency, and offshore structures and bank accounts, to name just a few.

So who are we talking about? We've looked at what other countries have done. Some countries have defined high wealth individual based on assets, wealth or income amounts under their control, such as through privately-held corporations, partnerships, trusts, and family members. Some have looked at other factors as well, including the complexity of their financial affairs and their relationships with a large number of related entities.

The OECD also has been working to define high wealth individual and its work thus far suggests that something in the neighborhood of \$30 million of assets may be a reasonable dividing line for many countries. Of course, each country sets its own criteria taking into account its demographics, economy and other factors. At least initially, we will be looking at individuals with tens of millions of dollars of assets or income.

So here's our game plan. Going forward, we will take a unified look at the entire web of business entities controlled by a high wealth individual, which will enable us to better assess the risk such arrangements pose to tax compliance and the integrity of our tax system. Our goal is to better understand the entire economic picture of the enterprise controlled by the wealthy individual and to assess the tax compliance of that overall enterprise. We cannot do this by continuing to approach each tax return in the enterprise as a single and separate entity. We must understand and analyze the entire picture.

We have begun hiring some agents and specialists, such as flow-through specialists and international examiners, who will begin conducting examinations of high wealth individuals and their related enterprises.

Among our first steps will be a small number of examinations of these high wealth individuals that will use this integrated, or enterprise, approach. What we learn from these initial enterprise examinations will help us define the scope of our future work and build compliance tools going forward.

Over time we will grow the new unit by adding examination agents and individuals with specialized skills and expertise, such as economists to identify economic trends, appraisal experts to advise on valuation issues, and technical advisors to provide industry or specialized tax expertise. We will also build new risk assessment techniques to identify high-income and high-wealth individuals and their related enterprises that should be reviewed holistically.

Let me stress that just as our international initiatives touch upon and involve every IRS Business Operating Division, so does the Global High Wealth Industry initiative. Even though the program is housed in the Large and Mid-Size Business operation division, we will be dealing, for example, with private foundations and retirement plan assets which fall under Tax Exempt and

Government Entities, and flow-through entities that are part of our Small Business/Self-Employed Division. We are talking about small businesses...medium-size businesses... large businesses...private companies...and very wealthy individuals who may have a myriad of holdings and sources of income beyond the obvious ones. There are income tax as well as estate and gift tax issues.

Let me look beyond enforcement for a moment. Although many high wealth individuals rely on tax advisors to help them in their tax planning, there might be areas where additional guidance is needed in order for them to comply with the tax laws. When we see unresolved issues, we will try to provide guidance and resolution. And I recognize the important role that you play as professional tax and financial advisors for many of these individuals and their enterprises. We will be looking to you for your input as we move forward in this area.

Of course, this is a story that continues to be written. Practitioners representing all kinds and sizes of clients need to stay informed and see where it affects them. And the IRS will help you find your way through this evolving world.

Well, that wraps it up from here. And I hope that we can continue to strengthen the bonds between the IRS, AICPA and the practitioner community. Together, we can improve compliance and integrity of the tax system. That's a win-win for both of us ... and most of all, for America's taxpayers. Thank you and I would be happy to take a few questions.